PanAust Limited
For the year ended 31 December 2012
(Previous corresponding period: Year ended 31 December 2011)
Results for Announcement to the Market

APPENDIX 4E
Preliminary Final Report
31 December 2012

PanAust Limited
ABN 17 011 065 160

				US$'000
Sales revenue from ordinary activities *(Appendix 4E item 2.1)*	Up	24%	to	712,696
Sales revenue, derivative gains and other income	Up	18%	to	706,320
Profit after income tax *(Appendix 4E item 2.2)*	Up	8%	to	158,655
Profit after income tax for the period attributable to members *(Appendix 4E item 2.3)*	Up	8%	to	142,273
Operating result - EBITDA*	Up	15%	to	331,472

Dividends / distributions *(Appendix 4E item 2.4)*	**Amount per security**	**Franked amount per security**
Interim dividend per share (Australian cents)	**3.00**	**-**
Final dividend per share (Australian cents)	**4.00**	**-**
Total dividend per share (Australian cents)	**7.00**	**-**

Key Ratios	**31 December 2012**	31 December 2011
Basic earnings per share (cents)	**24.03**	22.47
Net tangible assets backing per ordinary share ($)	**1.67**	1.48

The accompanying financial report which has been audited, comprises the balance sheet as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and cash flow statement for the period ended on that date, a summary of accounting policies, other notes and directors' report.

* **Operating results – EBITDA** are an adjusted measure of earnings before interest, taxes, depreciation and amortisation (EBITDA). This measurement basis equals net profit before tax excluding the effects of profit or loss items such as depreciation, amortisation, impairment, interest revenue and interest expense. This measurement also excludes the effects of equity-settled share-based payments, exploration costs expensed and the provision for rehabilitation expensed (refer to note 4 of the consolidated financial statements).

Final Dividend

The Board of Directors resolved today to pay a final dividend for the year of 4.00 cents (Australian) per share (unfranked). The dividend is to be paid on 5 April 2013 to shareholders on the register as at 7:00pm (AEDT) on 14 March 2013 (the Record Date). The final dividend will be paid from conduit foreign income and will be exempt from Australian withholding tax. The financial impact of this final dividend has not been recognised in the financial statements for the year ended 31 December 2012 and will be recognised in subsequent financial statements.

The details in relation to the final dividend are set out below:

Final Dividend

Franked amount per share	Nil
Record date for determining entitlement to dividend	7:00pm (AEDT) 14 March 2013
Dividend payment date	5 April 2013

The **Dividend Reinvestment Plan (DRP)** will apply in relation to the final dividend. The DRP provides eligible shareholders with the option of reinvesting all or part of their dividends in additional PanAust shares without paying any brokerage or other entry costs. Participation in the DRP is voluntary. The market price for the purposes of the DRP will be the arithmetic average of the daily volume weighted average price of Shares traded on the Australian Securities Exchange during each of the five trading days commencing on the second trading day after the Record Date. No discount will apply to shares issued under the DRP with respect to the final dividend. Eligible shareholders who have not previously elected to participate in the DRP have until 7:00pm (AEDT) on 14 March 2013 to elect to participate in the DRP by contacting the Company's Share Registry. The rules of the DRP are detailed on the Company's website at www.panaust.com.au.

Commentary on results for the period:

Operating results:

- EBITDA* (as defined in the table above as an adjusted measure of earnings before interest, tax, depreciation and amortisation) for the year ended 31 December 2012 were US$331.5 million and profit before tax was US$212.4 million (for further details, refer to Note 4 of the Annual Report for the year ended 31 December 2012);
- Phu Kham Copper-Gold Operation produced 267,383 tonnes (t) of concentrate containing 63,285t of copper, 59,516 ounces (oz) of gold and 469,945oz of silver, at an average cash cost of US$1.11 per pound (lb) of payable copper produced, net of gold and silver by-product credits (C1, Brook Hunt Convention)[1];
- The first gold-silver doré was poured at the Ban Houayxai Gold-Silver Operation on 1 May 2012; commercial production was declared from 1 June 2012. Construction of Operation was completed for a capital cost of US$208 million which was within 5% of budget;
- Ban Houayxai Gold-Silver Operation produced (poured) 76,449oz of gold and 146,742oz of silver. The average C1 cash cost for the period from 1 June 2012, the commencement of commercial production, to 31 December 2012 was US$537/oz of gold net of the credit from silver.

Significant growth projects and developments:

- Successful completion of the Ban Houayxai and Phu Kham Upgrade projects in 2012 together with the Increased Recovery Project (below) scheduled for implementation in 2013 are the platform for a pipeline of pre-development and exploration projects that should maintain a strong growth profile for the Company over the medium to long term;

[1] Brook Hunt convention for the report of direct cash costs comprising: mine site, production, transportation and freight, treatment and refining charges and marketing costs, and based on payable metal content after by-product credits.

- The Ban Houayxai Gold-Silver Project commenced commercial production on 1 June 2012 and ramp-up to full capacity was achieved during the September 2012 quarter. During the December 2012 quarter the mill throughput rate exceeded nominal design capacity by 12%, on treatment of relatively soft oxide ore feed;
- Commissioning of the Phu Kham Upgrade Project (Laos) commenced in June 2012 and Phu Kham was operating at the expanded processing rates by the end of the September quarter. The benefits of the Phu Kham Upgrade were reflected in several monthly and quarterly production rate records being achieved in the December quarter, including a quarterly record for ore milled equivalent to an annualised rate of 18 million tonnes and, well in excess of the design capacity of 16 million tonnes per annum. The Upgrade was completed within the US$95 million capital budget;
- Phu Kham Increased Recovery Project (Laos) received PanAust Board approval and construction activities commenced during the September quarter 2012. At year end the Project was 62% complete, tracking several months ahead of schedule and within the US$45 million budget. The Project is now expected to be commissioned during the June quarter 2013;
- Inca de Oro Copper-Gold Project (Chile) feasibility study on the sulphide mineral resources was completed and concluded that the Project would not provide a sufficient return at a copper price of US$3.00/lb. The study scope has been extended to incorporate the processing of Inca de Oro oxide mineralisation and detailed assessment of the mineral resource potential of the nearby Carmen (PanAust 100%) and Artemisa (part of the Inca de Oro joint venture) deposits, where drilling had commenced by year end;
- A pre-feasibility study commenced at the Phonsavan Copper-Gold Project in the June quarter 2012 with completion scheduled for the June quarter 2013. Phonsavan is potentially the next green-field development in Laos; and
- Continued exploration and evaluation activities in Laos and Chile with ongoing drilling at high priority targets within the Company's contract area in Laos. A particular focus is the Phu Kham district incorporating the Long Chieng Track (LCT) where an initial gold-copper mineral resource was established approximately six kilometres northwest of Phu Kham, and Nam San, a high-grade copper-gold discovery adjacent to Phu Kham.

PanAust Limited

ABN 17 011 065 160

Annual report for the year ended 31 December 2012

PanAust Limited ABN 17 011 065 160
Annual report - 31 December 2012

Contents | Page

Directors' report

Your Directors present their report on the consolidated entity of PanAust Limited (referred to hereafter as the 'Company', 'Group' or 'PanAust') consisting of PanAust Limited and the entities it controlled at the end of, or during, the year ended 31 December 2012 (the "reporting period").

Principal activities

PanAust Limited is an Australian-based mining company. The principal activities of the Group during the financial year were:

(a) Production and sale of copper-gold concentrate from the Phu Kham Copper-Gold Operation, Laos;
(b) Completion and commissioning of the Phu Kham Upgrade Project;
(c) Site development work for the Phu Kham Increased Recovery Project;
(d) Completion of the construction and commissioning of the Ban Houayxai Gold-Silver Project, Laos;
(e) Production and sale of gold-silver doré from the Ban Houayxai Gold-Silver Operation, Laos; and
(f) Exploration and evaluation of projects in Laos and Chile.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year and to the date of this report were as follows:

- The Ban Houayxai Gold-Silver Operation in Laos achieved practical completion in mid-April 2012. The operation was officially opened by H.E. Deputy Prime Minister Somsavat Lengsavad on 20 April 2012. First gold-silver doré was poured on 1 May 2012, and commercial production was declared from 1 June 2012. Following the ramp-up period mill throughput has exceeded nominal design capacity;

- 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 by the Government of Laos and Pan Mekong Exploration Pty Ltd. Under the agreement, the Government of Laos acquired its 10% shareholding interest in Phu Bia Mining Limited. The interest has been recognised by the Company in its accounts since the Government of Laos exercised its option;

- On 10 August 2012, 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 for US$8 million. The tenements are wholly owned by PanAust and an evaluation of the deposit will be integrated into the feasibility study for the Inca de Oro Project;

- In October 2012, the Company completed the ramp up of the Phu Kham Upgrade Project. The Phu Kham Upgrade Project is designed to increase ore processing rates from 12Mtpa to 16Mtpa and improve metal recoveries through an increase in grinding and flotation capacity. The project was completed within the US$95 million capital budget;

- The Phu Kham Increased Recovery Project (Laos) received PanAust Board approval. Construction commenced in the December quarter of 2012 and is scheduled to be completed in the June quarter of 2013; and

- On 22 January 2013, Phu Bia Mining Limited, a subsidiary of the Group, 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.

Dividends

On 23 August 2012, the PanAust Board of Directors declared an interim unfranked dividend of A$0.03 per share. The dividend was paid on 25 October 2012.

A Dividend Reinvestment Plan (DRP) was approved by shareholders at the Annual General Meeting on 18 May 2012. The DRP provides eligible shareholders with the option of reinvesting all or part of their dividends in additional PanAust shares without paying any brokerage or other entry costs. Participation in the DRP is voluntary. In October 2012, 9.3% of shareholders elected to participate in the DRP with regard to the maiden interim dividend.

On 21 February 2013, the PanAust Board of Directors declared an unfranked dividend of A$0.04 per share in respect of the year ended 31 December 2012. The dividend amount has not been provided for in the financial report for the year ended 31 December 2012.

Review of operations and results

Key financial data (all figures 100%)	2012 US$000	2011 US$000	Change $	Change %
Sales revenue	712,696	575,678	137,018	24%
Operating results - EBITDA (i) (iv)	331,472	288,212	43,260	15%
Profit before income tax	212,383	203,816	8,567	4%
Profit after income tax	158,655	146,562	12,093	8%
Profit after income tax attributable to the owners of PanAust	142,273	132,121	10,152	8%
Basic earnings per share US$ cents/share	24.03	22.47	1.56	7%
Operating cash flow	198,388	239,142	(40,754)	-17%
Capital expenditure	(203,770)	(231,184)	27,414	-12%
Exploration and evaluation expenditure	(67,872)	(41,633)	(34,239)	82%
Cash and cash equivalent	125,029	155,525	(30,496)	-20%
Bank loans	(84,269)	(43,036)	(41,233)	96%
Lease liabilities	(80,473)	(63,944)	(16,529)	26%
Gearing (%) (ii)	14%	11%	-	3%
Average price after realised hedging (iv)				
Copper US$/lb	3.64	3.98	(0.34)	-9%
Gold US$/oz (iii)	1,674	1,596	78	5%
Silver US$/oz	32.11	35.07	(2.96)	-8%

(i) Operating results – EBITDA are an adjusted measure of earnings before interest, taxes, depreciation and amortisation (EBITDA). This measurement basis equals net profit before tax excluding the effects of profit or loss items such as depreciation, amortisation, impairment, interest revenue and interest expense. This measurement also excludes the effects of equity-settled share-based payments, exploration costs expensed and the provision for rehabilitation expensed (refer to note 4 of the consolidated financial statements).

(ii) Gearing is calculated as net debt to net debt and equity.

(iii) Average gold price excludes the profit and loss impact of gold forwards closed out in 2010 (refer to note 5 in the financial statements).

(iv) This is a non-IFRS financial definition and has not been subject to audit by the Company's external auditor.

Review of operations and results (continued)

Successful completion of the Ban Houayxai and Phu Kham Upgrade Projects in 2012 have had a positive impact on the Company's overall results.

PanAust's cash balance, supported by a significant cash flow from both the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation, as well as existing undrawn debt facilities, places the Company in a strong position to meet its anticipated major cash commitments over the first half of 2013. Those cash commitments include the balance of project expenditure for the Phu Kham Increased Recovery Project of $US34 million with an estimated net tax payment of approximately US$23.6 million due to the Government of Laos for the 2012 tax year.

Sales revenue

PanAust Group sales revenue in 2012 increased year-on-year by 24% to US$712.7 million. The majority of this increase was associated with commencement of gold-silver doré sales from the Ban Houayxai Gold-Silver Operation which started commercial production from 1 June 2012. Ban Houayxai contributed US$125.9 million (see Note 5), representing 18% of Group sales revenue. Phu Kham contributed US$591.1 million (before derivative gains/losses), a gain of 1.5% over the previous year, with higher copper and gold sales volumes together with a higher average realised price for gold being largely offset by lower average realised copper and silver prices and lower silver sales volumes.

EBITDA*

EBITDA* (as defined above) increased US$43.3 million (15%) year-on-year to US$331.5 million. Higher sales revenue and favourable non cash adjustments for increases in stockpiles and deferred waste were partially offset by an increase in operating costs in absolute terms.

Total operation costs increased US$54.8 million to US$210.5 million reflecting the commencement of Ban Houayxai Operations (US$40.3 million) together with increased tonnes mined and processed at Phu Kham (US$28.7 million). The increase in absolute costs at Phu Kham was primarily due to a 19% increase in total material mined and 15% increase in ore processed.

Employee benefits expense increased year-on-year by 40% to US$80.6 million largely as a consequence of the commencement of operations at Ban Houayxai and the transfer of employees from construction and pre-operating duties (where the cost of their benefits was capitalised) to post-completion operational duties (where costs are expensed). Total Group employees (including those employed on construction projects) declined slightly to 3,320.

Changes in value of inventories during 2012 resulted in a year-on-year increase in the value (at cost) of stockpiles on hand at 31 December 2012 of US$21.2 million, comprising gold doré and gold in circuit valued at US$7.1 million, copper concentrate valued at US$4.7 million and stockpiles of low-grade gold-silver ore at Ban Houayxai valued at US$10.2 million.

Profit after income tax

Profit after income tax increased 8% year-on-year to US$158.7 million. The higher EBITDA of 15% described above was offset by higher depreciation, amortisation and impairment charges which increased year-on-year by US$30 million, mostly due to the commencement of depreciation on Ban Houayxai assets that totalled US$28.3 million. Depreciation and amortisation for Phu Kham assets increased by US$3.4 million year-on-year as a result of the commencement of depreciation on the Phu Kham Upgrade assets from 1 November 2012. Impairment of exploration assets was US$5.0 million in 2012, down from US$7.4 million in 2011.

Interest and finance charges, including put option premium expense, increased $2.8 million year-on-year to US$19.5 million, in line with additional funds drawn under debt and lease facilities during 2012.

Other expenses increased by US$6.9 million year-on-year to US$15.6 million, primarily due to an increase in provision for rehabilitation relating to areas disturbed during 2012 of US$5.0 million and US$1.8 million for general exploration which were excluded from EBITDA.

Review of operations and results (continued)

Operating cash flow

Operating cash flow decreased 17% year-on-year to US$198.4 million in 2012 despite increased sales volumes for both copper and gold. The decrease is largely a reflection of lower copper prices received coupled with a year-on-year build-up in stores inventory on hand at year-end of US$34.5 million (for the new Ban Houayxai Operation and Phu Kham, post upgrade). Income tax paid increased by US$18.5 million year-on-year with US$31.9 million paid during 2012 in relation to 2011 profits, and a further US$23.1 million paid via Lao VAT during 2012 that is able to be offset against final 2012 tax payable in 2013.

Capital expenditures

Property Plant and Equipment expenditure decreased 3% year-on-year to US$35.4m with less spent on mining fleet (under finance lease) during 2012. Construction costs for Tailings Storage Facilities (TSF) increased US$11.5 million year-on-year to US$34.3 million, in part due to costs also incurred on the Ban Houayxai TSF following commencement of commercial production, and increased work on the Phu Kham TSF to meet the needs of increased tailings deposition rates resulting from the Upgrade Project.

Greenfields development costs associated with the construction of the Ban Houayxai Gold-Silver Operation decreased by US$77.2 million year-on-year to US$62.8 million. Brownfields development costs associated with the Phu Kham Upgrade Project and the Increased Recovery Project in 2012 increased by US$38.3 million year-on-year to US$71.3 million.

Exploration and evaluation expenditure in Laos increased 65% year-on-year to US$43.3 million, predominantly driven by expenditure on the Phonsavan Copper-Gold Project (US$15.2 million) and resource development drilling (at the Nam San and LCT deposits (US$15.4 million), and resource development drilling at Ban Houayxai (US$4.5 million). Exploration and evaluation expenditure in Chile increased US$9.3 million year-on-year to US$24.6 million, which included the Inca de Oro feasibility study costs, resource drilling at the Artemisa and Carmen deposits. On 10 August 2012, the Company completed the acquisition of the balance of the Carmen tenements for US$8 million. The tenements are wholly owned by PanAust.

Review of operations and results (continued)

To ensure the optimal structure for a rapidly growing and geographically diverse business, PanAust is structured into three business units: PanAust Asia, PanAust South America, and Project Development. Corporate functions provide support to the three business units, in particular financial control; strategic direction: management of Group-wide geological activities (including exploration); and, the oversight of the corporate governance function.

The following sections report on operations, exploration and Project Development activity within the PanAust Asia and the PanAust South America business units.

PanAust Asia

Key operational data	Measure	2012	2011	Change	Change %
Phu Kham Copper –Gold Operation					
Ore mined	t	13,909,428	12,223,401	1,686,027	14%
Waste mined	t	21,297,275	17,404,454	3,892,821	22%
Total material mined	t	35,206,703	29,627,855	5,578,848	19%
Total material milled	t	15,151,624	13,119,382	2,032,242	15%
Concentrate produced	dmt	267,383	250,154	17,229	7%
Copper produced	t	63,285	59,897	3,388	6%
Gold produced	oz	59,516	53,590	5,926	11%
Silver produced	oz	469,945	538,123	(68,178)	-13%
Average C1 cash cost (i) (iv)	US$/lb copper	1.11	1.01	0.10	10%
Payable copper in concentrate sold	t	59,357	57,858	1,499	3%
Payable gold in concentrate sold	oz	59,480	53,582	5,898	11%
Payable silver in concentrate sold	oz	424,001	479,983	(55,982)	-12%
Ban Houayxai Gold-Silver Operation (ii)					
Ore mined	t	3,932,150	-		
Waste mined	t	2,932,899	-		
Total material mined	t	6,865,049	-		
Total material milled	t	2,663,737	-		
Gold poured	oz	76,449	-		
Silver poured	oz	146,742	-		
Average C1 cash cost (iii) (iv)	US$/oz gold	537	-		
Payable gold in doré sold	oz	72,557	-		
Payable silver in doré sold	oz	131,178	-		

(i) Average C1 cash cost is per pound of payable copper produced, net of gold and silver byproduct credits (C1, Brook Hunt Convention).

(ii) The first gold-silver doré was poured at the Ban Houayxai Gold-Silver Operation on 1 May 2012; commercial production was declared from 1 June 2012.

(iii) Average C1 cash cost is per ounce of gold produced, net of silver byproduct credits (C1, Brook Hunt Convention).

(iv) C1 Cash Costs is a non-IFRS financial definition and has not been subject to audit by the Company's external auditor.

Review of operations and results (continued)

PanAust Asia (continued)

Phu Kham Copper-Gold Operation, Laos

Phu Kham finished the year strongly with several production records achieved during the December quarter. The benefits of the recently completed and commissioned Phu Kham Upgrade project were reflected in those records. The operation achieved an annualised rate of nearly 18Mt of ore milled and a copper recovery of 73.5% in the December quarter despite a planned SAG mill reline in November.

Phu Kham Upgrade Project

Construction work and ramp up for the plant upgrade was completed in October 2012 and the Project was completed within the US$95 million capital budget.

The Phu Kham Upgrade Project was designed to increase ore processing rates from 12Mtpa to 16Mtpa and improve metal recoveries through an increase in grinding and flotation capacity. This increase in mill throughput added to copper production capacity while timed to compensate for a scheduled fall in head grade as the open pit moves from predominantly enriched transitional ore to predominantly lower grade primary ore.

Phu Kham Increased Recovery Project

The Phu Kham Increased Recovery Project was approved by the Board of Directors in February 2012. Construction commenced in the fourth quarter of 2012 and should be completed in the June quarter of 2013 ahead of the original schedule. It is expected to increase the average metallurgical recovery for copper from 75% to over 80% and the average metallurgical recovery for gold from 45% to over 50% while reducing C1 cash operating costs by 5% to 7% as the quantum of increased metal production more than offsets the relatively modest increase in unit process costs.

The Project stems from a two-year evaluation of various methods to improve metallurgical recoveries at Phu Kham. Plant-scale test work (four separate trials) confirmed that by incorporating a strategy of less selective rougher flotation in combination with additional regrind and cleaner flotation capacity life-of-mine recovery rates for both copper and gold could be significantly increased.

The capital cost of the Project is estimated to be US$45 million. The project remains within budget.

Ban Houayxai Gold-Silver Operation, Laos

The Ban Houayxai gold-silver deposit is located approximately 25 kilometres west of Phu Kham and comprises an open pit mine feeding ore to a conventional 4Mtpa Carbon in Leach (CIL) process plant.

The operation achieved practical completion in mid-April and the first gold-silver doré was poured on 1 May 2012. Commercial production was declared from 1 June 2012. The pre-operating capital cost of the project was US$208 million.

The Project ramp-up to full capacity was achieved during the September 2012 quarter. During the December 2012 quarter the mill throughput rate exceeded nominal design capacity by 12%, on treatment of relatively soft oxide ore feed. The oxide ore mined in the first 12-months of operation is partly silver depleted and resulted in initial silver production being below the life of mine average.

Review of operations and results (continued)

PanAust Asia (continued)

Phu Kham district, Laos

The Phu Kham district is a high priority target for exploration and resource development. Several exploration targets have been identified in a corridor that stretches at least six kilometres from Phu Kham northwest to the Long Chieng Track (LCT) deposit and beyond to the Nam Ve prospect which is seven kilometres northwest of LCT.

In January 2013, the Company announced the initial mineral resource estimate for LCT. The deposit outcrops and extends over a strike length of approximately 450 metres on a northeast-southwest trend. The deposit comprises several mineralised zones. Drilling is continuing with the aim of extending the limits of known mineralisation and converting the largely Inferred Mineral Resource to Measured and Indicated categories.

The initial phase of resource definition and exploration drilling concluded at Nam San in early January 2013. The mineralisation coincides with a deep geophysical target and is contained within a sequence of volcanic rocks similar to those which host the Phu Kham ore body. A strategy for further evaluation will be formulated once the final results of the drill program have been evaluated and may include further drilling from surface and/or development of an access decline to continue drilling from underground. Results from the initial resource definition drilling program will be incorporated into an initial mineral resource estimate scheduled for completion in the March quarter 2013.

A program of scout drilling was completed during the December quarter of 2012 at the Nam Ve gold prospect and intersected high-grade gold mineralisation. Further drilling is planned.

Phonsavan Copper-Gold Project, Laos

Phonsavan is potentially the next green-field development in Laos. The Project is focused on the KTL copper-gold deposit which lies close to existing road and power infrastructure.

A pre-feasibility study is underway and is expected to be reported on in the September quarter 2013. The scope of the study is for the development of an open pit mining operation at the KTL copper-gold deposit feeding ore to a conventional milling and flotation process plant with annual processing capacity of seven million tonnes and output of approximately 25,000t copper and 20,000oz of gold in concentrate per annum over a mine life of approximately 10 years.

Regional Exploration, Laos

In addition to the exploration initiatives referred to above, PanAust is undertaking regional exploration activities at several identified prospects within the Company's 2,600 square kilometre Contract Area in Laos. The Contract Area remains under-explored and is prospective for copper and gold, offering excellent potential for the discovery of significant new resources as the basis for organic growth of the business.

Puthep Copper Project, Thailand

PanAust has commenced a trade sale process for the Puthep Copper Project in conjunction with its joint venture partner, Padaeng Industry Public Company Limited (Padaeng). PanAust holds a 49% beneficial interest in the Project. In mid-2012, an Information Memorandum on the Puthep Copper Project was compiled for the benefit of potential interested parties. As at the end of 2012, there were interested parties still partaking in the potential sale process. With liaison and due diligence ongoing, the outcome of the potential sale process will be known in the near future.

Review of operations and results (continued)

PanAust South America

Inca de Oro Copper-Gold Project (joint venture with Codelco), Chile

The feasibility study on the Inca de Oro sulphide deposit, which was completed in the June quarter 2012, concluded that the cost profile after the first five years of production needed to be improved for the Inca De Oro Project to be economically robust.

The joint venture partners agreed that there was significant potential to improve the project economics through incorporation of higher value mineralisation from nearby deposits into the development plan and the processing of Inca de Oro oxide mineralisation.

Drilling is in progress at the Artemisa copper-gold prospect, five kilometres north of Inca de Oro and part of the Inca de Oro joint venture, where previous drilling by Codelco intersected broad zones of copper-gold mineralisation. The objective of drilling at Artemisa is to establish an initial resource estimate for that deposit.

The studies required to assess the opportunities for enhancing the Project economics coupled with discussions to secure a life-of-mine power tariff for the Project are expected to be completed in late 2013.

Carmen Copper-Gold Deposit, Chile

On 10 August 2012, the Company completed the acquisition of the balance of the Carmen tenements for US$8 million. The tenements are wholly owned by PanAust.

Carmen is a near-surface iron oxide copper-gold (IOCG) mineralised system located approximately 14 kilometres southwest of Inca de Oro, which, subject to a feasibility study, may support a low strip ratio satellite open pit to augment Inca de Oro mill feed.

A program of drilling was commenced during the December quarter of 2012. The Company strategy is to demonstrate that the incorporation into the mining schedule of higher value (through a higher contained metal and potentially lower strip ratio and process costs) mineralisation from Carmen will materially improve the operating cost profile identified in the feasibility study for the Inca de Oro Project described above and thereby improve the robustness of that project.

Borrowings

On 22 January 2013, Phu Bia Mining Limited entered into amended and restated facilities agreements for debt facilities totalling US$275 million. The facilities comprise a US$250 million revolving debt facility with a syndicate of seven banks, and a US$25 million working capital facility. The revolving debt facility replaces the previous US$120 million facilities entered into in 2010 which were scheduled to mature in 2013.

The new four- year facility has an interest rate of US LIBOR plus 3.5% (plus political risk insurance) and is also secured by the Group’s assets in Laos. Funds will be used for general corporate purposes including the funding of working capital and operating expenses, and to fund capital expenditure on growth projects in Laos. Improved terms include a reduced margin and the absence of the requirement for mandatory long term hedging.

More information on borrowings can be found in note 18 in the financial statements.

Likely developments and expected results of operations

During the next two years milling rates at Phu Kham are expected to continue to exceed the 16Mtpa nameplate capacity of the upgraded process facility on a blend of moderate and hard ores. During the December quarter 2012, a zone of geotechnical instability developed along the northern extent of the interim west wall of the open pit. The mining schedule has been adjusted to prioritise the mining of material above that zone. The instability does not present a risk to the ultimate open-pit design but access to an area of relatively high-grade copper ore, originally scheduled to be mined throughout 2013, will be deferred into the following year. The average copper head grade in 2013 is now scheduled to be below the average Ore Reserve grade of approximately 0.5%, for copper in concentrate production between 62,000t and 65,000t in 2013. The new schedule impacts first half production in 2013 with second half copper production expected to climb to an annualised rate of over 65,000t.

In 2013, the first full year of Ban Houayxai Gold-Silver Operation is expected to produce approximately 100,000 oz of gold.

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.

Resource development at the Phonsavan Copper-Gold Project and the brown field successes in the Phu Kham district have the potential to secure further growth in the medium to longer term.

Sustainability and safety

PanAust recognises that sustainable business development is essential for its ongoing success particularly as a Company with a significant presence in a developing country such as Laos. The Company has an important role to play in improving the standard of living of current and future generations through meeting the global demand for copper and precious metals in a responsible way.

PanAust's approach to sustainability is derived from a strong ethical foundation outlined in its Vision and Values, and high standards of corporate governance. The Company has a well-established sustainability framework that fosters an environment to continually improve its performance. The sustainability framework includes an overarching Sustainability Policy and support systems including an integrated Enterprise Risk Management system to identify material risks, and ensure control measures are in place to reduce risks to as low as reasonably practical.

The Sustainability Committee, a committee of the PanAust Board, provides oversight for sustainability. Measurable objectives form part of the Company's strategy and each executive's critical tasks.

Fourteen Sustainability Standards - relating to leadership, legal requirements, planning, risk, health and hygiene, environment, community, training, communication, supplier management, incident management, crisis and emergency response, auditing, and stakeholder engagement - have been developed to ensure consistent implementation of sustainability outcomes across the Group.

PanAust measures its sustainability performance against the International Finance Corporation's (IFC) Performance Standards on Social and Environmental Sustainability for operational activities. External standards, systems and principles provided by the ASX, the Minerals Council of Australia, the International Council on Mining and Metals, and the International Cyanide Management Institute are also applied by the Company. As a minimum, the Company is committed to complying with applicable legal requirements in host countries as well as voluntary commitments such as the Mineral Council of Australia's Enduring Value Framework.

PanAust is committed to reporting transparently to the Global Reporting Initiative (GRI) and in 2012 achieved an A+ limited assurance against the ISAE 3000 and AA1000 Assurance Standard for its 2011 Annual Sustainability Report (compared to a B+ rating in 2010.). The process assesses the accuracy, materiality, completeness and responsiveness of the information and data contained in the Company's report. Further detail on the Company's sustainability performance is provided in the Company's Annual Sustainability Reports, with the 2012 Sustainability Report due to be released in the second quarter of 2013.

Sustainability and safety (continued)

Contribution in the local Community

PanAust supports community development in villages affected by the Company's mining operations, exploration activities and haulage routes through dedicated community development funds. The goal of these programmes is to reduce poverty, improve living conditions, and promote livelihood improvements that are sustainable beyond the life of the mine. Community development activities are in five main areas: education, health, agriculture, infrastructure, and microfinance. The programmes are identified, prioritised and implemented with participation from local communities and in close coordination with local and national government authorities.

In 2012, in excess of US$500,000 was spent on community development projects in Laos. A total of 68 new projects were initiated in 48 rural communities associated with Company operations at Phu Kham, Ban Houayxai, Phonsavan and remote exploration sites.

The Company continues to promote income generating opportunities for local communities, mainly through supply of food produce to mining camps. At Phu Kham, local small-holders sold an average of 10 tonnes of vegetables per month during 2012, netting a total cash income of A$140,000. Not only does the scheme provide a significant cash income to 150 participating farmers, it is also promoting gender empowerment (most of the farmers are women) and improving nutrition and dietary intake for families involved.

The Company's community programs have been recognised internationally through four sustainability awards in 2010 and 2011.

There were no significant community incidents (Level 4 or 5 incidents as detailed in the Sustainability Report*) during the year ended 31 December 2012 (2011: nil).

**PanAust defines materiality using PanAust Enterprise Risk Management (ERM) consequence table. The ERM process provides the basis for selecting information disclosed in the report - refer to PanAust 2011 Sustainability report pages 84 and 85 for more detailed information.*

Safety

In 2012, PanAust's safety performance continued to be a strong focus of the Company.

PanAust's 2012 Total Recordable Injury Frequency Rate (TRIFR) of 2.15 represented a 23 per cent year-on-year improvement from the Company's 2011 TRIFR of 2.80.

The Company's 2012 Lost Time Injury Rate (LTIFR) was 0.15 (2011 LTIFR: 0.06).

Environment

The key environmental risks for PanAust's operations in Laos are water management, sediment control, acid rock drainage (ARD) at Phu Kham and cyanide management at Ban Houayxai. PanAust's ARD management has been recognised internationally as industry leading practice. PanAust has also achieved pre-operational certification with the International Cyanide Management Code and it is anticipated that full operational certification will be achieved in early 2013.

There were no significant environmental incidents (Level 4 or 5 incidents as detailed in the 2012 Sustainability Report) during the year ended 31 December 2012 (2011: nil).

Water management measures at both the Phu Kham Copper-Gold and the Ban Houayxai Gold-Silver Operations resulted in good performance over the 2012 wet season. Both sites undertook controlled discharges, monitored by the Company and officials from the Government of Laos. The quality of water discharged is measured for compliance with IFC water-quality guidelines, and Lao ambient water-quality.

Sustainability and safety (continued)

Environment (continued)

Under the Corporations Act 2001, the Company is required to report on its performance in relation to Australian environmental regulations. The Company owns a non-controlling interest in the Darlot South Joint Venture in Western Australia. The Darlot South Joint Venture is subject to the environmental laws of Western Australia and the Commonwealth of Australia. Barrick (Darlot) N.L., part of the Barrick Gold Corporation, is the operator of the Darlot South Joint Venture. The Company is not aware of any breach of any environmental laws by the operator and has fully complied with its obligations as a non-controlling holder of tenements.

Group employees

The Group had 3,320 permanent employees, including staff on fixed term contracts, as at 31 December 2012 (2011: 3,368 employees).

Group legal structure

Corporate Structure in Laos

PanAust owns a 90% interest in the Lao registered company, Phu Bia Mining Limited (Phu Bia Mining), through the Company's wholly owned subsidiary, Pan Mekong Exploration Pty Limited. Phu Bia Mining has a Mineral Exploration and Production Agreement (MEPA) with the Government of Laos. This agreement regulates exploration and mining within a contract area of 2,600 square kilometres in Laos.

The Government of Laos exercised its option to acquire a 10% interest in Phu Bia Mining Limited and will pay for it via forgoing dividends under the terms of the agreement.

Corporate Structure in Thailand

PanAust holds a shareholding interest of 49% in the Thai registered company, Puthep Co., Limited (Puthep), through the Company's wholly owned subsidiary, PNA (Puthep) Pty Limited. Padaeng Industry Public Company Limited (Padaeng) owns the other 51% interest in Puthep. Puthep has a concession agreement with the Government of Thailand. The concession covers the two deposits (the PUT1 and PUT2 deposits) that comprise the Puthep Copper Project.

Corporate Structure in Chile

During the March quarter of 2011, the Company completed the acquisition of a majority interest in Inca de Oro S.A., the owner of the Inca de Oro Project in Chile. PanAust's interest in Inca de Oro S.A. is held through PanAust Minera IDO Limitada giving PanAust a 91.2% (2011 - 90%) beneficial interest. The remaining 8.8% beneficial interest in PanAust Minera IDO Limitada is held by an independent private company. PanAust Minera IDO Limitada holds a 66% interest in Inca de Oro S.A. (giving PanAust a 60.2% beneficial interest) with Codelco retaining the remaining 34% interest.

Information on directors

Garry Hounsell B.Bus. (Accounting) FCA CPA FAICD. (Chairman, Non-Executive Director). Age 58.
Mr Hounsell is an accountant with significant experience as a director of large listed public companies. He is a Fellow of The Institute of Chartered Accountants in Australia and a Fellow of The Australian Institute of Company Directors. Prior to accepting positions as a public company director, Mr Hounsell was a senior partner of Ernst & Young and Country Managing Partner and Chief Executive Officer of Arthur Andersen. He was the 'signing partner' for the audit of BHP Billiton Limited from 2000 to 2002. From 2005 to 2007, he was an executive of Investec Bank (Australia) Limited.

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

- Qantas Airways Limited*
- Orica Limited
- Dulux Group Limited*
- Nufarm Limited
- Mitchell Communications Group Limited
- Treasury Wine Estates Ltd*

** denotes current directorship*

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

Interests in shares and options
Mr Hounsell has a direct interest in 190,535 ordinary shares in PanAust.

Gary Stafford B.Sc. (Hons, Mining Engineering) MAusIMM. (Managing Director). Age 52.
Mr Stafford is a mining engineer with 31 years experience in the mining industry, initially in engineering and management positions at coal and gold mines with CRA, BHP and Barrack Mine Management before moving into company management with Saracen Minerals Limited (a subsidiary of Crusader Limited) and then PanAust. Gary Stafford has been Managing Director since 7 March 1996 and has presided over the Company's growth from a junior exploration company to an S&P/ASX 100 mining company.

Mr Stafford is also a member of the Nominations Committee.

Interests in shares and options
Mr Stafford's interest in PanAust securities comprises: a direct interest in 2,316,506 ordinary shares; 2,640,000 vested executive options; and, 4,051,953 shares issued under the PanAust Long Term Share Plan (held in trust until vesting) of which 1,430,500 have vested at 31 December 2012. Mr Stafford also has an indirect interest in PanAust of 925,723 ordinary shares held by The Spellbrook Superannuation Fund of which Mr Stafford is a beneficiary.

Nerolie Withnall BA, LLB. FAICD. (Non-Executive Director). Age 68.
Mrs Withnall is a former commercial lawyer with specialist skills in the areas of corporate advice, capital raisings, securities and corporate trusts. Mrs Withnall is a former partner of the national law firm Minter Ellison. Mrs Withnall has previously served as a member of the Takeovers Panel and the Corporations and Markets Advisory Committee. Mrs Withnall is also a former member of the Senate of the University of Queensland.

During the past three years, Mrs Withnall has also served as a Director of the following ASX listed companies:

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

** denotes current directorship*

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

Information on directors (continued)

Interests in shares and options
Mrs Withnall has a direct interest in 76,720 ordinary shares in PanAust.

Geoff Handley BSc (Hons, Geology and Chemistry) MAusIMM FAICD. Acc. Dir. (Non-Executive Director). Age 63.
Mr Handley is a geologist with over 30 years experience in the mining industry. Mr Handley worked as a geologist for BHP Exploration Ltd., as a chemist and geologist for Placer Exploration Ltd. and as an analyst for the AMP Society. In 1981, he joined Placer Pacific Ltd. as a senior geologist and was responsible for the exploration and feasibility work at the Porgera, Granny Smith, Osborne and Big Bell mines. Most recently, Mr Handley was Executive Vice President, Strategic Development with Placer Dome where he was responsible for global exploration, acquisitions, research and development and strategic planning.

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

- Eldorado Gold Corp.* (listed on the TSX and NYSE)
- Endeavour Silver Corp.* (Chairman) (listed on the TSX and the NYSE)
- Mirabela Nickel Limited* (Chairman) (listed on the ASX and the TSX)

** denotes current directorship*

Appointed Director on 29 September 2006, Mr Handley is also the Chairman of the Remuneration Committee and is a member of the Nominations Committee.

Interests in shares and options
Mr Handley's spouse, a related party of the Company for the purposes of the Corporations Act 2001, holds 54,202 ordinary shares in PanAust.

Geoff Billard B.Econ, B.Com. (Hons, Economics) FCPA FAICD. (Non-Executive Director). Age 68.
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.

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

Interests in shares and options
At the date of this report, Mr Billard has an indirect interest in 25,027 ordinary shares through a Macquarie Investment Management Limited fund.

Zezhong Li M.Laws, M.Public Administration International Development (Non-Executive Director). Age 42.
Mr Zezhong Li is the Vice President of Guangdong Rising Assets Management (GRAM), a position which he has held since November 2008. Mr Zezhong Li is GRAM's nominee Director on the Board of PanAust. GRAM is a cornerstone investor in PanAust. Mr Zezhong Li joined the Board following the completion of the share placement to GRAM in September 2009.

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

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

- Shenzhen Zhongjin Lingnan Nonferrous Metal Co.*

** denotes current directorship*

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

Information on directors (continued)

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

John Crofts B.Bus (Transport, Economics & Accounting) (Non-Executive Director). Age 48.
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.

Appointed Director on 17 September 2010, Mr Crofts is also the Chairman of the Sustainability Committee.

Interests in shares and options
At the date of this report, Mr Crofts has an indirect interest in 31,739 ordinary shares through a BT Funds Management Limited fund.

Ken Pickering B.A. Science (Mineral Engineering) (Non-Executive Director). Age 65.
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.

Mr Pickering currently serves as a non-executive Director of the following listed companies:

- Enaex S.A * (listed on the SSE)
- THEMAC Resources Group Ltd.* (listed on the TSX)
- Endeavour Silver Corp* (listed on the TSX)

** denotes current directorship*

Appointed Director of PanAust on 28 October 2011, Mr Pickering is also a member of the Sustainability and Remuneration Committees.

Interests in shares and options
At the date of this report, Mr Pickering has a direct interest in 5,000 ordinary shares in PanAust.

Information on directors (continued)

Annabelle Chaplain BA, MBA FAICD. (Non-Executive Director). Age 55.
Ms Chaplain is a former investment banker who has over 22 years' financial services experience having worked with Citibank, Standard Chartered and ABN AMRO in various roles. Ms Chaplain brings to PanAust a wealth of finance and banking experience which will be invaluable given PanAust's exciting pipeline of growth projects. In addition, Ms Chaplain has experience as a Non-Executive Director on the boards of large publicly listed companies, public sector corporations and private companies.

During the past three years, Ms Chaplain has also served as a non-executive Director of the following listed companies:

- Downer EDI Limited *
- Coal & Allied Industries Limited

* *denotes current directorship*

Appointed Director of PanAust on 1 July 2012, Ms Chaplain is also a member of the Audit Committee.

Interests in shares and options
At the date of this report, Ms Chaplain has 18,250 shares as an indirect interest in PanAust held by WWSC Pty Ltd as trustee for the Willem A Willink Superannuation Fund of which Ms Chaplain is a beneficiary.

Andrew Daley BSc (Hons, Mining Engineering) FAusIMM. (Non-Executive Director). Age 64.
Mr Daley is a Chartered Engineer (UK), a Fellow of the Aus.IMM and a Member of IOM3.
Mr Daley commenced his career on the Zambian Copperbelt with Anglo American and subsequently worked with Rio Tinto and Conoco Minerals in Africa, before relocating to Australia with Fluor Australia in early 1981. Since late 1983, Mr Daley has primarily worked in the resource finance sector, initially with National Australia Bank, then Chase Manhattan and as a director of Barclays Capital mining team in London and Sydney. Returning to Australia in early 2003, Mr Daley became a director of Investor Resources Finance Pty Ltd, a company based in Melbourne that provided financial and corporate advisory services to the global resource industry.

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

- Kentor Gold Limited* (listed on the ASX)
- Dragon Mining Ltd
- Minerva Resources plc
- Uranex NL

* *denotes current directorship*

Appointed Director on 3 August 2004, Mr Daley was a member of the Audit Committee until his retirement as a Director on 18 May 2012.

Interests in shares and options
Mr Daley had, at the date of retirement, an indirect interest in 121,681 ordinary shares in PanAust held by The Motherlode Superannuation Fund of which Mr Daley was a beneficiary.

Company secretary

Paul Martin Scarr B.Com, LLB (Hons), Grad. Dip. App. Corp. Gov., ACIS.
Mr Scarr is a Chartered Secretary and associate member of the Chartered Secretaries Institute of Australia. He has over 20 years experience as a lawyer. Prior to joining PanAust, he worked in private practice with both Allens Arthur Robinson and Mallesons Stephen Jacques. During that period, he advised publicly listed companies in relation to their obligations under the Corporations Act and the ASX Listing Rules. He has particular expertise in advising clients in the mining industry in Australia, Papua New Guinea and Southeast Asia. Mr Scarr is responsible for the company secretarial function, corporate governance issues and the legal function of the Company.

Appointed Company Secretary on 23 February 2007.

Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 31 December 2012, and the numbers of meetings attended by each Director were:

	Full meetings of directors		Meetings of committees							
			Nominations		Remuneration		Sustainability		Audit	
	A	B	A	B	A	B	A	B	A	B
Garry Hounsell	6	6	2	2	7	7	*	*	4	4
Gary Stafford	6	6	2	2	*	*	*	*	*	*
Nerolie Withnall	6	6	2	2	7	7	*	*	4	4
Geoff Handley	6	6	*	*	3	3	*	*	*	*
Geoff Billard	6	6	*	*	4	4	3	3	3	3
Zezhong Li	6	6	*	*	*	*	3	3	*	*
John Crofts	6	6	*	*	*	*	3	3	*	*
Ken Pickering	6	6	*	*	7	7	3	3	*	*
Annabelle Chaplain (D)	2	2	*	*	*	*	*	*	1	1
Andrew Daley (C)	3	3	*	*	*	*	*	*	2	2

A - Number of meetings attended
B - Number of meetings held during the time the Director held office or was a member of the committee during the year
C - retired 18 May 2012
D - appointed 1 July 2012
* Not a member of the relevant committee

There were changes during the year as follows:

- Geoff Handley ceased being Chairman of the Sustainability Committee and was appointed as Chairman of the Remuneration Committee on 21 April 2012. Mr Handley was also appointed as a member of the Nominations Committee on 7 December 2012.
- Geoff Billard ceased being a member of the Remuneration Committee and was appointed as a member of the Audit Committee on 21 April 2012.
- John Crofts was appointed as Chairman of the Sustainability Committee on 21 April 2012.
- Annabelle Chaplain was appointed as a member of the Audit Committee on 23 August 2012.

Remuneration report

This remuneration report outlines the overall remuneration strategy, framework and practices adopted by PanAust. It has been prepared in accordance with section 300A of the Corporations Act 2001. Details of remuneration are disclosed for Directors and for other Key Management Personnel (collectively referred to as 'KMP'). In addition to the Directors, the executive KMP had the authority and responsibility for planning, directing and controlling the activities of the PanAust Group, directly or indirectly, during the year ended 31 December 2012.

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

A	Remuneration overview
B	Role of the Remuneration Committee
C	Non-executive Directors' remuneration
D	Managing Director and other executive KMP remuneration
E	Relationship of incentives to PanAust operating and financial performance
F	Service agreements
G	Details of remuneration
H	Share-based grants held by the Managing Director and other executives
I	Additional information

The format of this remuneration report has been modified from previous years to improve readability and to facilitate shareholder understanding. In particular:

- A "question and answer" format has been adopted. This provides a mechanism by which the Company can answer questions which have been asked previously by shareholders and other stakeholders.
- Remuneration information for KMP has been reported in A$ and US$ (the Company's reporting currency). Given all but one of the KMP are paid in A$, this comparison is intended to assist shareholders and other stakeholders to analyse remuneration changes from year to year without the need to adjust for currency fluctuations.

A. Remuneration overview

PanAust's remuneration philosophy is articulated in PanAust's Employee Policy (available on the Company's website) which provides that PanAust will:

- *Cultivate a performance based culture whereby competitive remuneration, benefits and rewards are aligned with PanAust's objectives and where merit forms the basis of performance based pay and promotion; and*
- *Attract, engage and retain high-calibre employees to meet PanAust's current and future business needs.*

In implementing this philosophy, PanAust considers such matters as:

- the remuneration paid by the Company's peers (by reference to industry and market capitalisation);
- the Company's performance over the relevant period;
- how to link remuneration to successful implementation of the Company's strategy, including the annual targets which need to be achieved to implement that strategy;
- internal relativities and differentiation of pay based on performance;
- the size, scale, location and complexity of the operations of the Group; and
- market developments in remuneration practices.

PanAust has received strong shareholder support for its approach to remuneration. In the last three years, PanAust has achieved votes of greater than 95% in favour of adoption of its remuneration report. For the year ended 31 December 2011, 99.19% of lodged proxies were in favour of adoption of the remuneration report (2010: 98.52% and 2009: 95.15%).

Key changes to remuneration structure in 2012

The key changes that were made to remuneration structure in 2012 were as follows:

- The Long Term Incentive (LTI) Cash Bonus was not offered to executives in 2012.
- For the shares issued under the Long Term Share Plan to executive KMP, the vesting conditions provide for only one testing date. In previous years (2010 and 2011), there were four testing dates.

B. Role of the Remuneration Committee

The Remuneration Committee of the Board is responsible for reviewing and making recommendations to the Board in relation to a number of remuneration related matters, including the:

- remuneration arrangements and contract terms for the Managing Director and other executive KMP;
- terms and conditions of long term incentives and short term incentives for executive KMP, including performance targets and vesting conditions;
- terms and conditions of employee incentive schemes; and
- remuneration to be paid to non-executive Directors.

The Charter for the Remuneration Committee is available on PanAust's website. In accordance with best practice, the Remuneration Committee is comprised solely of independent non-executive Directors. It is chaired by a non-executive Director other than the Chairman. The membership is detailed on page 16 of the Directors' Report.

Remuneration Consultants

For each annual remuneration review cycle, the Remuneration Committee considers whether to appoint a remuneration consultant and, if so, their scope of work. The table below provides details with respect to the remuneration consultant who provided remuneration recommendations and other remuneration related advice in relation to the remuneration outcomes detailed in this remuneration report.

Did a remuneration consultant provide a remuneration recommendation in relation to any of the KMP for the financial year?	Deloitte provided remuneration recommendations and remuneration related advice to the Remuneration Committee, including in relation to: the structure of remuneration packages, the proportion of different components of remuneration, benchmarking against the Company's peers, the maximum aggregate fee pool for non-executive Directors, valuation of long term incentives and advice on market trends relating to remuneration practices. Subsequently, with effect from April 2012, the remuneration section of Deloitte joined Towers Watson. Deloitte then ceased providing remuneration recommendations and remuneration related advice to the Company. Towers Watson provided remuneration recommendations and remuneration related advice to the Company in relation to the review of non-executive Director fees which took effect on and from 1 July 2012. The Remuneration Consultants have advised that there was no undue influence from any KMP on any of their work during the year.
What was the remuneration consultant paid by the Company for remuneration related services?	Deloitte was paid a total of A$208,955. Towers Watson was paid a total of A$25,000.
Did the remuneration consultant provide any other advice to the Company?	Deloitte provided other advice (non-remuneration related) to the Company. This advice was provided by a different division of Deloitte and related to general corporate structuring advice.
What was the remuneration consultant paid by the Company for other advice (not related to remuneration)?	Deloitte was paid a total of A$222,631 for non-remuneration related services during the period when Deloitte was providing remuneration related services in relation to KMP for the financial year.
What arrangements did the Company make to ensure that the making of the remuneration recommendation would be free from undue influence by the KMP?	The Company made the following arrangements: • The Company implemented a protocol to govern the procedure for procuring advice relating to KMP remuneration. The protocol contained a summary of the process for the engagement of remuneration consultants, the provision of information to the remuneration consultant, and the communication of remuneration recommendations.

Remuneration report (continued)

	• The remuneration consultant agreed to adhere to the protocol procedures and was required to advise the Remuneration Committee whether or not it had been subjected to undue influence.
Is the Board satisfied that the remuneration recommendation was free from any such undue influence? What are the reasons for the Board being so satisfied?	Yes, the Board is so satisfied. The reasons are as follows: • The protocol with respect to the procurement of remuneration related advice was adhered to, including with respect to engagement of the remuneration consultant, the provision of information to the remuneration consultant and the communication of remuneration recommendations. • At appropriate times, the remuneration consultant provided written confirmation that it had not been subjected to any undue influence. • The Remuneration Committee met on several occasions with the remuneration consultant in the absence of executive KMP. There were no concerns raised by the remuneration consultant with respect to any undue influence being exerted by the executive KMP. • The Remuneration Committee did not observe any evidence that undue influence had been applied.

C. Non-executive Directors' remuneration

Objective
The objective is to set remuneration at a level which attracts and retains non-executive Directors of the requisite expertise and experience at a cost acceptable to shareholders.

Structure
The maximum aggregate remuneration of non-executive Directors is determined by the shareholders at a general meeting. At the 2012 annual general meeting, shareholders approved an increase to the maximum aggregate fee pool from A$1.2 million to A$1.6 million (98.97% of the directed proxies lodged for the meeting were in favour).

The Chairman is paid an all-inclusive fee which includes remuneration for serving on Board committees. Other non-executive Directors are paid a base fee and an additional fee for serving on Board committees (whether as chairman or member). A greater fee is payable for chairing a committee because the workload is greater.

On appointment to the Board, all non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment which details remuneration arrangements.

Fees

Following shareholder approval to increase the fee pool, a review was conducted. This led to an increase in fees which took effect from 1 July 2012. Annualised fees for the relevant periods were as follows:

	From 1 July 2012	**From 1 January 2011 to 30 June 2012**
Position		
Chairman	A$360,000	A$260,000
Other non-executive Directors	A$140,000	A$110,000
Committee fees		
Committee chairman	A$25,000	A$20,000
Committee member	A$15,000	A$10,000

The total remuneration paid to each non-executive Director for the year ended 31 December 2012 is detailed in section G of this report.

The table below provides further information in relation to fees paid to non-executive Directors.

Why was the maximum aggregate fee pool increased from A$1.2 million to A$1.6 million?	The previous aggregate fee pool had been determined in May 2010. Since then, the Company had graduated into the S&P/ASX100 Index, expanded into South America, commissioned its second mine (the Ban Houayxai Gold Silver Mine) and continued to advance a number of growth projects, including the Phu Kham expansion. In addition, the Board had appointed a further two non-executive Directors. The previous cap of A$1.2 million left little room for a review of non-executive Director fees.

Remuneration report (continued)

Why was an increase in the fees paid to non-executive Directors considered appropriate?	The previous increase in non-executive Director fees occurred in 2010. The Company received advice that the fees paid to the Chairman and the non-executive Directors were below the Company's industry and market peer group. In order to meet the Company's objective of attracting and retaining non-executive Directors of the requisite expertise and experience at a cost acceptable to shareholders, an increase was considered necessary.
How did the Company determine the size of the increase in fees?	The Company obtained external advice from a remuneration consultant, Towers Watson, in relation to the increase. The Board considered the fees paid by the Company's industry and market peer group. The Board also considered the fees paid to non-executive directors of that group of listed public companies with directors having the skill set which the Company may seek to attract in the future.
Why did the Chairman's fee increase by more than the base fee for non-executive Directors?	The Chairman's fee is an all-inclusive fee. If it is assumed that a non-executive Director serves as Chairman of a Board Committee and as a member of another Board Committee, then that non-executive Director will earn total fees of A$180,000. This means that the Chairman's fee is twice that of the non-executive Director's fees. McDonald & Company's "Resources Industry Non-Executive Directors' Remuneration Report – December 2012" states the average ratio of Chairman remuneration to non-executive Director remuneration is in the order of 2:1.
Are the non-executive Directors paid any incentive or equity based payments or termination/ retirement benefits?	No. The non-executive Directors are not paid any short term incentives, long term incentives, equity based remuneration or termination/retirement benefits.
If non-executive Directors are paid additional fees, how are these additional fees calculated?	From time to time, non-executive Directors may be requested to provide additional non-executive related Director services. This could include serving on a due diligence committee or on the Board of a Group subsidiary. In any such case, the additional fee paid to the non-executive Director is determined by reference to the Board's committee fee structure. In particular, the Board considers whether the workload is comparable to that of a committee chairman or a committee member. During the year, only one such payment was made to a non-executive Director (Mr John Crofts) for serving as a non-executive resident director on the boards of the Group's Singaporean subsidiaries.
Are non-executive Directors' fees going to increase in 2013?	No. Advice from Towers Watson indicates that the increases in 2012 brought the fees into line with the market.

D. Managing Director and other executive KMP remuneration

Objective
As indicated on page 17, PanAust's objective in structuring its remuneration for executive KMP is to cultivate a performance based culture where competitive remuneration, benefits and rewards are aligned with PanAust's objectives and where merit forms the basis of performance based pay and promotion. In addition, PanAust seeks to attract, engage and retain high-calibre employees to meet the Company's current and future business needs.

Structure
Remuneration consists of the following key elements:

I. Fixed Remuneration (FR);
II. Short Term Incentive (STI); and
III. Long Term Incentive (LTI).

The amount and relative proportion of Fixed Remuneration (which includes superannuation contributions), STI and LTI is established for each executive following consideration by the Remuneration Committee of market levels of remuneration for comparable executive roles and the internal relativities between executive roles.

For the annual remuneration review which resulted in the outcomes detailed in this remuneration report, the Remuneration Committee received expert advice from its external remuneration consultant, Deloitte. The Company also participated in and subscribed to the McDonald Gold & General Mining Industry Remuneration Survey and supplementary CEO Report.

Remuneration report (continued)

The following table shows the Board approved annual Fixed Remuneration (FR) and the STI and LTI shown as a percentage of FR for the Managing Director and other executive KMP during the year ended 31 December 2012 as compared to the year ended 31 December 2011. A detailed total remuneration break down is shown in section G of this report.

Name	Currency	2012 FR $	2011 FR $	2012 STI Opportunity* % of FR	2011 STI Opportunity* % of FR	2012 LTI % of FR	2011 LTI % of FR
Gary Stafford, Managing Director	AUD$	1,012,000	954,000	70	70	136	133
Fred Hess, Executive General Manager (EGM), Project Development & Op Improvement	AUD$	505,600	476,986	60	60	66	58
Rob Usher, EGM, PanAust Asia	AUD$	489,700	462,000	60	60	66	58
David Hairsine, Chief Financial Officer	AUD$	449,800	412,630	48	50	59.5	58
Francisco Tomic, EGM, PanAust South America	USD$	400,500	383,250	60	60	58	58

* STI Opportunity is the full amount of STI that could be awarded in a given year before the Business Factor is considered. The Business Factor can modify the STI opportunity by 80% - 120% taking into consideration the executive's performance and the overall financial performance of the Company.

I. Fixed Remuneration

At PanAust, the purpose of Fixed Remuneration is to provide a base level of remuneration which is market competitive and appropriate. Fixed Remuneration is inclusive of superannuation. Executive KMP are given the opportunity to receive their Fixed Remuneration as either base salary (if based overseas) or base salary and superannuation.

Fixed Remuneration is reviewed annually. Any adjustments to the Fixed Remuneration for the Managing Director and executive KMP must be approved by the Board which considers the recommendations of the Remuneration Committee.

II. Short Term Incentives (STI)

The table below contains a summary of key features of the STI plan.

What is the STI?	The STI is the annual cash component of the "at-risk" reward opportunity, based predominantly on a mix of Company, business unit, functional, operational and individual targets. The purpose is to link the achievement of the Company's annual targets with the remuneration received by the responsible executive KMP.
When is the STI grant paid?	The STI amount is payable in February 2013 to all eligible participants who satisfy specific performance measures and hurdles set for the 2012 calendar year.
How does the Company's STI structure support achievement of the Company's strategy?	At-risk remuneration strengthens the link between pay and performance. Annual targets are established by reference to the Company's strategy of: growth through discovery, acquisition and development, operations that meet performance targets, optimisation of return on capital and adherence to core values.
How are the performance conditions determined?	At the beginning of each financial year, a number of critical tasks linked to the Company's strategy, including financial and non-financial measures of performance, are identified. The extent that those targets are achieved determines the amount of STI paid. The Board then applies a "Business Factor" adjustment to the STI of between 80% and 120%. The "Business Factor" takes into consideration the executive's performance and the overall financial performance of the Company.

Remuneration report (continued)

Is a portion of STI deferred? Has the Board considered proposing claw-back provisions?	No. At this stage, the Board does not consider it appropriate to defer a portion of the STI. This is because key performance indicators are largely objective (production, cost, EBITDA, sustainability outcomes, commissioning of new projects). However, the matter is considered on an annual basis. For similar reasons, the Board has thus far considered it unnecessary to include any claw-back arrangements.
What were the performance conditions under the STI for executive KMP in 2012?	The STI performance hurdles (and weighting %) for 2012 were: **Managing Director** • Sustainability: Total Recordable Injury Frequency Rate (TRIFR), safety lead indicators and environment (20%); • Commissioning and performance of new projects: Ban Houayxai; Phu Kham Upgrade; and Phu Kham Upgrade capex as scheduled (25%); • Panaust Asia Operations: Phu Kham copper production and operating costs; Ban Houayxai gold production and operating costs (30%); • PanAust EBITDA and financing success (15%); and • Discretionary (10%). **Executive General Manager – Project Development and Operational Improvement** • Sustainability: TRIFR, safety lead indicators and environment (20%); • Commissioning of new projects: Ban Houayxai and Phu Kham Upgrade as scheduled (60%); • Feasibility studies and operational improvement initiatives (10%); and • Discretionary (10%). **Executive General Manager – PanAust Asia** • Sustainability: TRIFR, safety lead indicators and environment (25%); • PanAust Asia performance: Ban Houayxai and Phu Kham production and operating costs as scheduled (65%); and • Discretionary (10%). **Executive General Manager – PanAust South America and Chief Financial Officer** • Sustainability: TRIFR, safety lead indicators and environment (20%); and • Performance against annual achievement plan (80%) (as there are currently no operational activities in PanAust South America, the production, cost and safety targets that apply to other business unit heads are not applicable).
How are actual results measured against the performance hurdles?	For each performance hurdle there are three targets: 'Threshold', 'Budget' and 'Stretch'. 'Threshold' is the minimum target to trigger a STI payment for that hurdle. The amounts paid for each hurdle varied between 60% for 'Threshold' and 100% for 'Stretch' of the total amount payable for that hurdle. Where achievement is below 'Threshold' no payment is made. Further information is provided in the table on pages 32 and 33.
How do the STI targets promote the sustainable operation of the Company?	The importance of sustainability performance is emphasised by the following: • Any controlled activity incurring a fatality during the year causes the STI attributable to safety to be forfeited; and • Any environmental incident during the year involving a controlled activity, which was categorised under the Company's Risk Consequence Table as a Level 4# (or above) high consequence environmental incident, results in the forfeiture of the STI attributable to the environment KPI. There were no such fatalities or level 4 environmental incidents during 2012.
How is sustainability performance measured?	• Sustainability performance relating to safety was measured by reference to total recordable injuries, lead indicator performance and year on year improvement in safety audit scores. • Environmental performance was measured by reference to the number and consequence of Level 3# reportable environmental incidents and year on year improvement in environmental audit scores.

The PanAust Risk Consequence Table is provided in full detail on page 84 of the Sustainability Report 2011 and is available on the Company's website.

III. Long Term Incentives (LTI)

The LTI is the equity component of the at-risk reward opportunity of total remuneration. The objective of the LTI is three-fold. First, the LTI provides an incentive to executive KMP which promotes both the long-term performance and growth of the Company. Second, the LTI aligns the reward of executive KMP with returns to shareholders. Third, the LTI promotes the retention of the Company's executives. PanAust continues to weight executive KMP's variable pay towards LTI. For 2012, the Company provided the LTI to executive KMP through the Long Term Share Plan (LTSP).

The tables in section H provide details of LTI grants to executive KMP. The tables also detail the value, vesting periods and lapses under the LTSP. The table below summarises the key features of the LTI issued to the executive KMP for the year ended 31 December 2012.

What is the LTSP?	Introduced in 2010, the LTSP is a loan backed share plan where the Company issues shares, or a trustee transfers shares, to the executive at market value. The purchase price of each share is funded by a loan from the Company. The 2012 issue of shares and the advance of a loan to the Managing Director were approved by the shareholders at the 2012 Annual General Meeting.
How does the LTSP align the interests of shareholders and executives?	• The LTSP links rewards for executives to the Company's strategy which drives the creation of long term shareholder wealth – the greater the share price and dividends, the greater the return to the executives; and • Vesting of shares only occurs if PanAust performs in the top 50 per cent of its peer group by reference to total shareholder return – the more that PanAust outperforms its peers, the more the potential reward for executives.
How does the LTSP support the retention of executives?	An objective of offering shares under the LTSP is to promote retention. At any one time, an executive KMP will have three unvested issues. If an executive resigns (other than for retirement), they would forfeit the benefit of those unvested rewards. This provides a valuable incentive to stay with the Company so long as the shares are seen by the executive KMP as likely to vest at the end of the performance period with the share price being above the issue price.
How is the market price of the share determined?	The market price is determined by reference to the volume weighted average price of shares traded on the ASX over a nominated period (typically five trading days).
What are the principal terms of the issue made under the LTSP in 2012?	• Subject to the performance conditions, the vesting date for the shares is three years from the commencement of the performance period. • The measure of performance is Total Shareholder Return ("TSR"). TSR is the total return achieved by a shareholder in relation to shares, including any increase in share price and dividends paid. The TSR of the Company is compared to the Comparator Group. The table below provides the matrix of outcomes:

TSR Ranking	Percentage of Shares that Vest
Less than or at 50th percentile	Nil
Between the 51st percentile and the 75th percentile	50% increasing linearly to 100% at the 75th percentile
At or above the 75th percentile	100%

- If the hurdles are not achieved during the performance period 1 January 2012 - 31 December 2014, then the shares lapse. There is no retesting.
- The loan is equal to the market price of each share multiplied by the number of shares. The term of the loan is five years from the commencement of the performance period and the loan is interest free. The loan is limited recourse so in no circumstances will the executive KMP be liable for an amount in excess of the market value of vested shares.
- The loan must be repaid within five years or prior to the sale of any shares or arrangements entered into with the Company such that the proceeds of any sale are applied in repayment of the loan.
- Shares are held in trust by the trustee of the LTSP until vesting and repayment of the loan.

Remuneration report (continued)

Does the executive obtain the benefit of dividends paid on shares issued under the LTSP?	The after tax benefit of any dividend (based on the top Australian marginal tax rate and the Medicare levy) is applied in repayment of the loan.
Which companies form the comparator group?	For the 2011 and 2012 performance periods, a “bespoke” comparator group of companies was used. The following companies are the constituents of the comparator group for 2012. These companies were selected on the basis that the companies were all mining companies with operating assets: Newcrest Mining Alumina Paladin Energy Mount Gibson Iron Kingsgate Consolidated Independence Group Mirabela Nickel Oceanagold Resolute Mining Fortescue Metals Group Iluka Resources Atlas Iron Medusa Mining Western Areas Regis Resources Grange Resources Allied Gold Mining Eldorado Gold Oz Minerals Aquarius Platinum Perseus Mining Sandfire Resources Gindalbie Metals St Barbara OM Holdings
What were the changes in the comparator group between 2011 and 2012?	Some companies in the 2011 comparator group were delisted or merged with other entities prior to the 2012 issue so were not included in the 2012 comparator group. These were: Equinox Minerals, MacArthur Coal, Minara Resources and Anvil Mining. The following companies were added to the comparator group in 2012: Paladin Energy, Mirabela Nickel, Allied Gold Mining, Sandfire Resources, St Barbara, OM Holdings, Fortescue Metals Group, and Resolute Mining.
In what circumstances would the LTSP entitlements be forfeited?	Where the employment of the participant is terminated other than for retirement, retrenchment or death, any shares subject to conditions which have not been satisfied (including performance conditions) are forfeited. In the case of retirement, retrenchment, or death, shares which have not vested and are still subject to conditions are forfeited unless the Board exercises its discretion to the contrary.
What happens to LTI entitlements upon a change of control in the Group?	Upon the happening of a "Control Event" (for example, a takeover or demerger), all shares subject to conditions will vest. The loan must still be repaid. The Board is aware of the view of some stakeholders that there should be pro rata vesting in the event of a change in control. Having carefully considered this view, the Board considers that, in a change of control scenario, it is important that the interests of executives and shareholders are fully aligned.
Do shares granted under the LTSP dilute existing shareholders’ equity?	The issue of shares can have a small dilutionary impact upon other shareholders. However, the number of shares issued under the LTSP must not exceed 5% of the total shares on issue at the time an offer to a participant is made.
Are the shares issued under the LTSP bought on market?	No. The Company issues new shares for the LTSP, it does not buy shares on market. Shares which are forfeited are available for future issues under the LTSP.
What other rights does the holder of the shares have?	Subject to the conditions and restrictions attaching to the shares, the holder of the shares has the same rights as any other holder of shares. This includes voting rights, a right to dividends, bonus shares and capital distributions.
Does the Company have Executive Share Ownership Guidelines?	The Company does not have a formal policy requiring executives to own shares. However, a significant component of each executive’s remuneration consists of grants under an employee share plan. Hence, at any given time, after an executive has been with the Company for more than three years, the executive typically has three unvested equity grants which are subject to performance conditions. As at the date of this report, all executives who have been with the Company for longer than three years have shares in the Company which have fully vested.
Can executive KMP hedge to ensure that they obtain a benefit from unvested LTI’s?	No. All executive KMP have been advised that under section 206J of the Corporations Act it is an offence for them to hedge unvested grants made under the LTSP.

Remuneration report (continued)

LTI Cash Bonus:

During 2011 only, executives were invited to participate in the LTI cash bonus plan provided certain conditions are met as at 31 December 2013. The conditions and associated weighting relate to copper production (40%), gold production (30%) and approval of a further project/acquisition of superior value (30%).

Executives Option Plan ('EOP') and the Share Rights Plan ('SRP'):

Prior to 2010 and the implementation of the LTSP, the Managing Director and all other senior executives were offered a choice between options issued under the EOP or shares rights issued under the SRP.

Details of these previous LTI plans can be obtained by referring to previous Annual Reports available on PanAust's website.

E. Relationship of incentives to PanAust's operating and financial performance

The fundamental aim of PanAust is to benefit shareholders by out-performing its peers through growth of production from relatively low capital and operating cost operations. The Company is equally committed to: achieving excellence in sustainability practices; ensuring the safety, health and wellbeing of its employees; and responsibly managing the impacts to the communities and the environment within which it operates. Accordingly, remuneration is linked to sustainability performance at all levels of the organisation to reinforce sustainability as a core value.

In terms of PanAust's performance over the course of 2012, the following is noted:

- PanAust's share price increased over the course of 2012, ending the year at A$3.34 per share.
- PanAust paid its maiden dividend of A$0.03 per ordinary share.
- PanAust successfully commissioned its second mine, the Ban Houayxai Gold-Silver Operation.
- PanAust successfully completed commissioning of the Phu Kham Upgrade.
- PanAust has outperformed its peer group over the three year period from 1 January 2010 to 31 December 2012. PanAust also performed at the 81st percentile of the S&P/ASX 300 Metals and Mining Index.
- Positive trends in full TRI and TRIFR performance over the last five years.

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

Year	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12
A$ per share	0.425	2.825	4.45	3.20	3.34
A$ market capitalisation	122,405,770	1,656,873,935	2,630,107,369	1,900,774,992	2,023,914,155
Dividends (A$)	-	-	-	-	0.03
Basic Earnings/Loss Per Share (EPS) (US$)*	(0.133)	0.43	0.245	0.225	0.240
US$ profit/(loss) ('000)	(39,959)	23,171	160,097	146,562	158,655

* Basic EPS is calculated as net profit after tax and non-controlling interests (statutory profit) divided by the weighted average number of ordinary shares (excluding treasury shares).

The consolidation of shares on a 1 for 5 basis was approved by the shareholders at the Annual General Meeting held on 21 May 2011. The comparative value per share has been restated to ensure like for like comparison.

Remuneration report (continued)

F. Service agreements

Remuneration and other key terms of employment for the Managing Director and other executive KMP are formalised in a service agreement. The table below provides a high level overview of conditions relating to the term of the contract, the notice period to terminate and the termination benefit.

Name and Title	Term of Agreement	Notice Period by Either Party	Termination Benefit
Gary Stafford, Managing Director	Open	3 months	12 months Total Remuneration
Fred Hess, EGM Project Development & Operational Improvement	Open	3 months	6 months Fixed Remuneration
Rob Usher, EGM PanAust Asia	Open	3 months	6 months Fixed Remuneration
David Hairsine, Chief Financial Officer	Open	3 months	6 months Total Remuneration
Francisco Tomic, EGM PanAust South America	Open	3 months	6 months Fixed Remuneration

Terms of agreement and associated benefits were agreed at the time the executive KMP commenced with PanAust or upon promotion.

Remuneration report (continued)

G. Details of remuneration

Details of the nature and amount of each major element of the remuneration of each KMP stated in US$ is as follows:

Name		Short-term employee benefits			Sub-total	Non-cash benefits accrued		
		Directors' Fees / Base Salary US$ (1)	Short Term Incentive US$ (1)	Retirement benefits / Superannu -ation US$ (1)	Cash benefits received US$ (1)	Long service leave / Termination benefits US$ (1)/(2)	Long Term Incentives US$ (1)/(3)	Total remune-ration US$ (1)
Non-executive Directors								
Garry Hounsell	**2012**	**302,260**	**-**	**19,622**	**321,882**	**-**	**-**	**321,882**
	2011	245,240	-	22,072	267,312	-	-	267,312
Nerolie Withnall	**2012**	**164,258**	**-**	**14,783**	**179,041**	**-**	**-**	**179,041**
	2011	135,945	-	12,235	148,180	-	-	148,180
Andrew Daley	**2012**	**61,376**	**-**	**-**	**61,376**	**-**	**-**	**61,376**
(retired 18 May 2012)	2011	123,440	-	-	123,440	-	-	123,440
Geoff Handley	**2012**	**128,451**	**-**	**24,620**	**153,071**	**-**	**-**	**153,071**
	2011	93,975	-	39,680	133,655	-	-	133,655
Geoff Billard	**2012**	**135,724**	**-**	**19,970**	**155,694**	**-**	**-**	**155,694**
	2011	108,554	-	33,024	141,578	-	-	141,578
Zezhong Li	**2012**	**142,708**	**-**	**-**	**142,708**	**-**	**-**	**142,708**
	2011	142,063	-	-	142,063	-	-	142,063
John Crofts *	**2012**	**171,303**	**-**	**-**	**171,303**	**-**	**-**	**171,303**
	2011	155,221	-	-	155,221	-	-	155,221
Ken Pickering	**2012**	**155,694**	**-**	**-**	**155,694**	**-**	**-**	**155,694**
(appointed 28 October 2011)	2011	23,159	-	-	23,159	-	-	23,159
Annabelle Chaplain	**2012**	**81,332**	**-**	**-**	**81,332**	**-**	**-**	**81,332**
(appointed 1 July 2012)	2011	-	-	-	-	-	-	-
Sub-total non-exec. Directors	**2012**	**1,343,106**	**-**	**78,995**	**1,422,101**	**-**	**-**	**1,422,101**
	2011	1,027,597	-	107,011	1,134,608	-	-	1,134,608
Managing Director								
Gary Stafford	**2012**	**1,007,732**	**641,640**	**38,730**	**1,688,102**	**137,074**	**1,102,387**	**2,927,563**
	2011	920,079	452,759	51,123	1,423,961	144,941	1,112,577	2,681,479
Other executive KMP								
Fred Hess	**2012**	**484,086**	**286,647**	**38,731**	**809,464**	**19,615**	**325,322**	**1,154,401**
	2011	419,939	229,596	64,130	713,665	15,630	274,767	1,004,062
Rob Usher **	**2012**	**507,834**	**260,005**	**-**	**767,839**	**-**	**300,433**	**1,068,272**
	2011	508,863	212,009	-	720,872	-	194,038	914,910
David Hairsine	**2012**	**425,063**	**227,378**	**40,047**	**692,488**	**20,598**	**273,691**	**986,777**
	2011	372,594	183,186	48,253	604,033	16,431	228,507	848,971
Francisco Tomic	**2012**	**392,422**	**173,016**	**8,078**	**573,516**	**-**	**246,360**	**819,876**
	2011	375,723	151,767	7,527	535,017	-	59,798	594,815
Total	**2012**	**4,160,243**	**1,588,686**	**204,581**	**5,953,510**	**177,287**	**2,248,193**	**8,378,990**
	2011	3,624,795	1,229,317	278,044	5,132,156	177,002	1,869,687	7,178,845

*Mr John Crofts' remuneration included a fee for providing non-executive director services for the Company's Singaporean subsidiaries.

**Mr Rob Usher's remuneration for 2011 included a one off annual leave payout of US$27,443.

Remuneration report (continued)

Details of the nature and amount of each major element of the remuneration of each KMP stated in AUD is as follows:

Name		Short-term employee benefits			Sub-total	Non-cash benefits accrued		
		Directors' Fees / Base Salary AUD (1)	Short Term Incentive AUD (1)	Retirement benefits / Superannu-ation AUD (1)	Cash benefits received AUD (1)	Long service leave / Termination benefits AUD (1)/(2)	Long Term Incentives AUD (1)/(3)	Total remune-ration AUD (1)
Non-executive Directors								
Garry Hounsell	**2012**	**291,031**	**-**	**18,969**	**310,000**	**-**	**-**	**310,000**
	2011	238,532	-	21,468	260,000	-	-	260,000
Nerolie Withnall	**2012**	**158,257**	**-**	**14,243**	**172,500**	**-**	**-**	**172,500**
	2011	132,263	-	11,904	144,167	-	-	144,167
Andrew Daley	**2012**	**60,000**	**-**	**-**	**60,000**	**-**	**-**	**60,000**
(retired 18 May 2012)	2011	132,263	-	-	132,263	-	-	132,263
Geoff Handley	**2012**	**123,688**	**-**	**23,812**	**147,500**	**-**	**-**	**147,500**
	2011	91,318	-	38,682	130,000	-	-	130,000
Geoff Billard	**2012**	**130,867**	**-**	**19,133**	**150,000**	**-**	**-**	**150,000**
	2011	105,170	-	32,330	137,500	-	-	137,500
Zezhong Li	**2012**	**137,500**	**-**	**-**	**137,500**	**-**	**-**	**137,500**
	2011	138,750	-	-	138,750	-	-	138,750
John Crofts *	**2012**	**165,000**	**-**	**-**	**165,000**	**-**	**-**	**165,000**
	2011	151,284	-	-	151,284	-	-	151,284
Ken Pickering	**2012**	**150,000**	**-**	**-**	**150,000**	**-**	**-**	**150,000**
(appointed 28 October 2011)	2011	22,962	-	-	22,962	-	-	22,962
Annabelle Chaplain	**2012**	**77,500**	**-**	**-**	**77,500**	**-**	**-**	**77,500**
(appointed 1 July 2012)	2011	-	-	-	-	-	-	-
Sub-total non-exec. Directors	**2012**	**1,293,843**	**-**	**76,157**	**1,370,000**	**-**	**-**	**1,370,000**
	2011	1,012,542	-	104,384	1,116,926	-	-	1,116,926
Managing Director								
Gary Stafford	**2012**	**974,501**	**611,226**	**37,499**	**1,623,226**	**107,438**	**1,077,586**	**2,808,250**
	2011	904,000	444,908	50,000	1,398,908	98,883	1,078,363	2,576,154
Other executive KMP								
Fred Hess	**2012**	**468,100**	**273,060**	**37,500**	**778,660**	**17,513**	**318,253**	**1,114,426**
	2011	414,719	225,615	62,267	702,601	16,095	265,973	984,669
Rob Usher **	**2012**	**489,700**	**247,681**	**-**	**737,381**	**-**	**293,968**	**1,031,349**
	2011	489,003	208,333	-	697,336	-	187,873	885,209
David Hairsine	**2012**	**410,939**	**216,600**	**38,861**	**666,400**	**18,444**	**267,795**	**952,639**
	2011	365,459	180,010	47,171	592,640	16,014	221,198	829,852
Francisco Tomic	**2012**	**375,297**	**164,815**	**7,725**	**547,837**	**-**	**241,902**	**789,739**
	2011	369,207	149,135	7,396	525,738	-	58,071	583,809
Total	**2012**	**4,012,380**	**1,513,382**	**197,742**	**5,723,504**	**143,395**	**2,199,504**	**8,066,403**
	2011	3,554,930	1,208,001	271,218	5,034,149	130,992	1,811,478	6,976,619

*Mr John Crofts' remuneration included a fee for providing non-executive director services for the Company's Singaporean subsidiaries.

**Mr Rob Usher's remuneration for 2011 included a one off annual leave payout of AUD27,003.

Remuneration report (continued)

Notes to previous tables:

(1) Payments to the non-executive Directors, the Managing Director and other senior executives are paid in Australian dollars, other than Francisco Tomic who is paid in United States dollars. The Australian values are converted using the exchange rate closest to date of payment.

(2) Long service leave and termination benefits represent amounts provided for long service leave and termination entitlements during the year ended 31 December 2012. Termination benefits are those referred to under Section F Service Agreements of this Remuneration Report. Termination benefits payable when an executive KMP leaves the employment of the Company (other than for gross misconduct) are included in the table.

(3) The value for Long Term Incentives presented in the tables above is calculated in accordance with AASB 2 Share Based Payments and represents securities issued under the LTI equity plans that have been expensed during the current year. Refer to the tables on pages 28 for full details of the fair A$ value at the grant date for long term incentive securities issued by the Company to the executive KMP in this, previous or future reporting periods and the number of securities issued to those senior executives during the reporting period. The fair values of long term incentives have been calculated by an independent third party. More information can be found in section H of this report.

The table below shows the proportion of the total actual remuneration that is linked to performance and the proportion that is fixed:

	Fixed remuneration		**At risk - STI**		**LTI and accrued benefits**	
Name	**2012 %**	2011 %	**2012 %**	2011 %	**2012 %**	2011 %
Managing Director						
Gary Stafford	**36**	36	**22**	17	**42**	47
Other executive KMP						
Fred Hess	**45**	48	**25**	23	**30**	29
Rob Usher	**48**	56	**24**	23	**28**	21
David Hairsine	**47**	49	**23**	22	**30**	29
Francisco Tomic	**49**	53	**21**	26	**30**	21

Remuneration report (continued)

H. Share-based compensation grants held by Managing Director and other executives

The table below highlights the movement in rights for the Managing Director and other executives in 2012.

			Movement during the year					As at 31 December 2012		
	Grant Date	**Type**	**Balance at 1 January 2012**	**Rights granted (ii)/(v)**	**Rights exercised (i)/(iii)**	**Rights lapsed (iv)**	**Balance at 31 December 2012**	**Vested and Exercisable**	**Unvested**	**Loan Amount $A**
Gary Stafford	21 May 2012	LTSP	-	2,120,141	-	-	2,120,141	-	2,120,141	5,891,236
	23 May 2011	LTSP	501,312	-	-	-	501,312	-	501,312	1,892,453
	21 May 2010	LTSP	1,430,500	-	-	-	1,430,500	1,430,500	-	3,642,768
	22 May 2009	EOP	3,440,000	-	(800,000)	-	2,640,000	2,640,000	-	-
	23 May 2008	EOP	788,480	-	-	(788,480)	-	-	-	-
	29 May 2007	EOP	490,000	-	(490,000)	-	-	-	-	-
Total number			**6,650,292**	**2,120,141**	**(1,290,000)**	**(788,480)**	**6,691,953**	**4,070,500**	**2,621,453**	**11,426,457**
Total value				**1,280,339**	**1,224,255**	**-**				
Fred Hess	2 Mar 2012	LTSP	-	514,211	-	-	514,211	-	514,211	1,851,160
	18 Feb 2011	LTSP	109,306	-	-	-	109,306	-	109,306	468,322
	21 May 2010	LTSP	298,020	-	-	-	298,020	298,020	-	758,908
	27 Apr 2009	SRP	400,000	-	(400,000)	-	-	-	-	-
Total number			**807,326**	**514,211**	**(400,000)**	**-**	**921,537**	**298,020**	**623,517**	**3,078,390**
Total value				**485,907**	**977,834**	**-**				
Rob Usher	2 Mar 2012	LTSP	-	498,080	-	-	498,080	-	498,080	1,793,088
	18 Feb 2011	LTSP	105,872	-	-	-	105,872	-	105,872	453,609
	21 May 2010	LTSP	226,500	-	-	-	226,500	226,500	-	576,782
	27 Apr 2009	EOP	580,000	-	-	-	580,000	580,000	-	-
Total number			**912,372**	**498,080**	**-**	**-**	**1,410,452**	**806,500**	**603,952**	**2,823,479**
Total value				**470,664**	**-**	**-**				
David Hairsine	2 Mar 2012	LTSP	-	411,738	-	-	411,738	-	411,738	1,482,257
	18 Feb 2011	LTSP	94,558	-	-	-	94,558	-	94,558	405,134
	21 May 2010	LTSP	262,260	-	-	-	262,260	262,260	-	667,845
	27 Apr 2009	SRP	320,000	-	(320,000)	-	-	-	-	-
Total number			**676,818**	**411,738**	**(320,000)**	**-**	**768,556**	**262,260**	**506,296**	**2,555,236**
Total Value				**389,074**	**782,267**					
Francisco Tomic	2 Mar 2012	LTSP	-	356,890	-	-	356,890	-	356,890	1,284,804
	18 Feb 2011	LTSP	139,932	-	-	-	139,932	-	139,932	599,539
Total number			**139,932**	**356,890**	**-**	**-**	**496,822**	**-**	**496,822**	**1,884,343**
Total value				**337,245**	**-**	**-**				
Joe Walsh *	2 Mar 2012	LTSP	-	375,480	-	-	375,480	-	375,480	1,351,728
	18 Feb 2011	LTSP	91,088	-	-	-	91,088	-	91,088	390,267
	21 May 2010	LTSP	262,260	-	-	-	262,260	262,260	-	667,845
	27 Apr 2009	SRP	320,000	-	(320,000)	-	-	-	-	-
	23 Mar 2007	EOP	260,000	-	(260,000)	-	-	-	-	-
Total number			**933,348**	**375,480**	**(580,000)**	**-**	**728,828**	**262,260**	**466,568**	**2,409,840**

*Section 300(1) of the Corporations Act 2001 (Cth) requires additional disclosure for the five most highly remunerated executives. Joe Walsh is not a KMP but is one of the five most highly remunerated executives.

Remuneration report (continued)

(i) No amounts are unpaid on any shares issued on the exercise of options.
(ii) The value at grant date reflects the fair value of the right multiplied by the number of rights granted during the period converted using the rate at the date of grant.
(iii) The value at exercise date of the securities that were granted as part of remuneration and were exercised during the year, being the value of the share at the date of exercise less the exercise price and less the fair value of the right at grant date multiplied by the number of rights exercised converted using the rate at the date of exercise.
(iv) The value at lapse date of the securities that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied.
(v) The fair values of long term incentives have been calculated by an independent third party. This table summarises the details of the grants and assumptions that were used in determining the fair value of LTSP, options and rights on the grant date.

Type	LTSP	LTSP	LTSP	LTSP	LTSP	EOP	EOP	SRP	EOP	EOP	EOP
Grant date	21 May 2012	2 Mar 2012	23 May 2011	18 Feb 2011	21 May 2010	22 May 2009	27 Apr 2009	27 Apr 2009	23 May 2008	29 May 2007	23 Mar 2007
Date vested and exercisable	31 Dec 2014	31 Dec 2014	31 Dec 2013	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2011	31 Dec 2011	31 Dec 2010	1 Apr 2010	1 Apr 2010
Expiry date	N/A	N/A	N/A	N/A	N/A	31 Dec 2013	31 Dec 2013	31 Dec 2018	31 Dec 2012	29 Feb 2012	29 Feb 2012
Loan expiry date	31 Dec 2016	31 Dec 2016	31 Dec 2015	31 Dec 2015	21 May 2015	N/A	N/A	N/A	N/A	N/A	N/A
Fair value per share at grant date A$	0.614	0.878	1.124	1.375	0.600	0.470	0.425	1.020	1.490	0.405	0.405
Share price at grant date A$	2.760	3.570	3.750	4.200	2.175	1.800	1.475	1.475	5.850	2.900	2.000
Exercise price A$/ Loan value per share A$	2.779	3.600	3.775	4.285	2.547	2.106	1.525	nil	4.400	1.900	1.900
% Vested	nil	nil	nil	nil	100%	100% **	100% **	100% **	89.6%*	100%	100%
Dividend yield	1.25%	1.25%	nil	nil	nil	nil	nil	nil	nil	nil	nil
Risk-free interest rate	2.4%	3.8%	5.1%	5.4%	5.03%	3.80% - 4.40%		2.75% - 5.10%	6.15% – 6.70%	6.5%	6.5%
Estimated volatility	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Staff turnover	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	16.70%	16.70%	16.70%

* Given PanAust's total shareholder return over the performance period for securities issued under the EOP and SRP in 2008, 89.6% of securities vested. This is because the Company performed at the 70th percentile in comparison to the comparator group for the performance period ending on 31 December 2010. The balance of the securities (10.4%) lapsed. All of the options issued under the EOP lapsed unexercised because the exercise price of $4.40 exceeded the market price of PanAust shares for the entirety of the exercise period.

** In relation to securities issued under the EOP and SRP in 2009, PanAust performed at the 94th percentile in comparison to the comparator group for the relevant performance period. Accordingly, 100% of the securities vested.

Remuneration report (continued)

I. Additional information

This section of the remuneration report details matters required to be reported by the Corporations Act 2011 which have not been dealt with elsewhere in this report and provides further disclosure in the interests of transparency.

Name	Year granted	STI Opportunity - % Paid	LTSP Securities		
			Financial years in which securities may vest	Minimum total value of grant yet to vest US$ (1)	Maximum total value of grant yet to vest as at 31 December 2012 US$ (2)
Managing Director					
Gary Stafford	**2012**	**86%**	**2014**	**nil**	**1,033,142**
	2011	67%	2013	nil	223,572
	2010	94%	2012	nil	nil
Other executive KMP					
Fred Hess	**2012**	**90%**	**2014**	**nil**	**330,607**
	2011	79%	2013	nil	54,352
	2010	96%	2012	nil	nil
Rob Usher	**2012**	**84%**	**2014**	**nil**	**320,235**
	2011	75%	2013	nil	52,644
	2010	99%	2012	nil	nil
David Hairsine	**2012**	**100%**	**2014**	**nil**	**264,723**
	2011	87%	2013	nil	47,019
	2010	99%	2012	nil	nil
Francisco Tomic	**2012**	**72%**	**2014**	**nil**	**229,459**
	2011	66%	2013	nil	69,581
	2010	81%	2012	n/a	n/a

1) The LTSP securities vest after three years provided the vesting conditions are met. No LTSP securities will vest if the conditions are not satisfied, hence the minimum value of the LTSP securities yet to vest is nil.
2) The maximum value of the LTSP securities yet to vest is calculated by taking the fair value of the securities as at the grant date and deducting that component of the fair value of the LTSP securities which has already been expensed.

The following two tables provide additional commentary on the STI outcomes for executive KMP for the year ended 31 December 2012.

Gary Stafford's (Managing Director) STI targets and highlights of results as at 31 December 2012 (STI opportunity paid was 86%):

Targets	FY2012 assessment highlights
Sustainability	TRIFR was better than the stretch target. Risk management and audit processes are now well embedded.
Financial Performance	Achieved guidance in relation to EBITDA.
PanAust Asia Performance	Ban Houaxyai operating cost performance was better (lower) than the stretch target.
New Projects	Capital expenditure for Phu Kham Upgrade was better (lower) than the stretch target. Phu Kham Upgrade project performance hurdles were better than the stretch targets in terms of meeting design expectations. Ban Houayxai project performance hurdles achieved threshold target for design expectations.

Remuneration report (continued)

STI targets and highlights of results for other executive KMP:

Executive / Targets	**FY2012 assessment against KPIs (highlights only)**
Fred Hess (EGM, Project Development & Opportunity Improvement): STI opportunity paid was 90%	
Sustainability	As per Managing Director's above.
New Projects	As per Managing Director's above.
Feasibility studies and operational improvement initiatives	Feasibility studies progressed as scheduled.
Rob Usher (EGM, PanAust Asia): STI opportunity paid was 84.3%	
Sustainability	TRIFR performance achieved was just below the stretch target.
PanAust Asia Performance	Successful operational ramp-up of the Phu Kham Upgrade and Ban Houayxai Projects. Achieved operational readiness at both Ban Houayxai and Phu Kham sites post commissioning.
Francisco Tomic (EGM, PanAust South America): STI opportunity paid was 72%	
Sustainability	As per Managing Director's above.
Performance against annual achievement plan	Expected performance was reached against achievement plan.
David Hairsine (Chief Financial Officer): STI opportunity paid was 100%	
Sustainability	As per Managing Director's above.
Performance against annual achievement plan	Stretch performance was reached against achievement plan.

Indemnity and insurance of officers

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

Deeds of access, insurance and indemnity have been executed by the Company, consistent with the Company's constitution, in favour of each Director. The Company has agreed to indemnify each Director against any liability incurred by the Director as an officer of the Company other than a liability for a pecuniary penalty order or compensation order under the Corporations Act 2001, a liability owed to a Group company or a liability specifically excluded by the Company's constitution as noted in the above paragraph. Consistent with the Company's constitution the indemnity extends to legal costs subject to certain exclusions.

During the financial year, the Company paid an annual premium of US$291,451 (2011: US$276,919) to insure the Directors, company secretary, and other officers of the Company and its subsidiaries (each an “Insured Party”). The liabilities insured are the loss suffered by the Insured Party and any amount payable by the Company in accordance with the indemnity together with defence costs in respect of a claim. The insurance policy does not cover liability arising out of conduct by an Insured Party referred to in section 199B of the Corporations Act 2001 and other customary exclusions including personal injury, fines and penalties and property damage. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the Company

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

Auditor independence and non-audit services

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

The Board of Directors considered the issue of auditor independence and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor (refer to Note 28 Remuneration of auditors in the financial statements) did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is attached on page 36.

Risk management products

The Company's securities trading policy applies to shares and also to debt securities and financial products issued or created over its share rights or options by third parties and associated products which executives or directors or employees may procure to limit the risk of a holding in the Company. Under section 206J of the Corporations Act 2001, PanAust's key management personnel are not permitted to enter into arrangements which would have the effect of limiting the exposure of the person to risk relating to unvested remuneration or vested remuneration subject to a holding lock.

Corporate governance statement

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

Rounding of amounts

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

Auditor

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

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

Garry Hounsell
Director

Gary Stafford
Director

Melbourne
21 February 2013

pwc

Auditor's Independence Declaration

As lead auditor for the audit of PanAust Limited for the year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

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

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

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

D.G. Smith

Debbie Smith
Partner
PricewaterhouseCoopers

Brisbane
21 February 2013

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Corporate governance statement

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

In accordance with Listing Rule 4.10.3, this statement discloses the extent to which the Company has followed the recommendations (the "Recommendations") made by the ASX Corporate Governance Council (the "Council"). The relevant Recommendations are considered under each of the corporate governance principles identified by the Council. It should be noted that the Council recognises that not all of the Recommendations will be suitable for all companies at all times in their corporate development.

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

Principle 1: Lay solid foundations for management and oversight

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

The Company has in place a Financial Delegated Authorities Manual which clearly sets out the authorities delegated to each level of management and staff. This Financial Delegated Authorities Manual is approved by the Board and promulgated throughout the PanAust Group and makes clear to every employee what is or is not within the scope of their authority. This is supplemented with a Projects Delegated Authorities Manual which deals with specific issues arising in the context of major projects. The manuals are reviewed by the Board on an annual basis.

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

The performance of senior executives is evaluated on an annual basis. Senior executives prepare annual achievement plans which reflect their role and the strategy of the Company. Senior executives are also expected to meet a number of "key behavioural indicators". Performance against these annual achievement plans and key behavioural indicators is assessed by the Managing Director with oversight provided by the Remuneration Committee. The process has been completed for the 2012 year.

The Chairman and the Remuneration Committee consider the performance of the Managing Director. Again, the assessment of performance is made against an annual plan prepared in the context of the Company's strategy. This review has also been completed for the 2012 year.

The outcomes of the performance reviews of the Managing Director and the other senior executives are considered in the annual remuneration review process. The Remuneration Committee makes recommendations for the consideration of the Board. Further information is contained in the Remuneration Report.

Principle 2: Structure the board to add value

The structure of the Board fully complies with the Recommendations. A majority of the Board are independent non-executive Directors. The Chairman is an independent non-executive Director. The roles of the Chairman and the Managing Director are not exercised by the same person.

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

Principle 2: Structure the board to add value (continued)

On the basis of these principles, the following Directors are considered to be independent: Garry Hounsell (Chairman), Nerolie Withnall, Andrew Daley (who retired from the Board effective 18 May 2012), Geoff Handley, Geoff Billard, John Crofts, Ken Pickering and Annabelle Chaplain. The only two Directors who are not considered independent are Gary Stafford, the Managing Director of the Company, and Zezhong Li who is the non-executive Director nominated by Guangdong Rising Assets Management (GRAM) (a cornerstone investor in the Company). The placement agreement entered into with GRAM provides that the Board of the Company must have a majority of independent non-executive Directors and an independent Chairman.

In accordance with the Recommendations, the Company has a Nominations Committee with a majority of independent non-executive Directors; namely, Garry Hounsell as Chairman, Nerolie Withnall and Geoff Handley (who was appointed to the Nominations Committee in December 2012). The Managing Director is also a member of the Nominations Committee. The charter for the Nominations Committee is available on the Company's website. Its responsibilities include the duties listed in the Recommendations. Details of the number of meetings of the Nominations Committee (and other Committees) and attendance by members are provided in the Directors' report.

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 as follows: 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; experience managing large capital projects; 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 skills, expertise and date of appointment of all Directors are detailed in the Directors' report.

The Board has also considered the issue of diversity at a Board level. In 2011, the Board 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. Further discussion is provided below under Principle 3.

The Chairman annually reviews the performance of all Directors. The Board has a programme 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 the 2012 year, 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.

The Company has an induction kit to assist new Directors to familiarise themselves with the Company. This is updated on a regular basis. Feedback is obtained from each new Director as to whether or not the induction kit has met its purpose and whether or not 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.

Principle 3: Promote ethical and responsible decision making

PanAust has a "Vision and Values" statement which provides that PanAust's business affairs are to be conducted legally and ethically with integrity. The statement is available on the Company's website. In addition, the Company is a signatory to the "Enduring Values" framework developed by the International Council on Mining and Metals in 2003.

The Company has a Code of Conduct that meets the requirements of the Recommendations. It provides a lynchpin between the "Vision and Values" statement of the Company and the other more detailed practices and procedures in place in the Company. The Code of Conduct is available on the Company's website. In 2012, the Company implemented an externally facilitated whistleblower service. To facilitate access, special arrangements were put in place to ensure that issues could be raised in the Lao language.

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

PanAust externally assured it 2011 Annual Sustainability Report to the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines. PanAust achieved an A+ limited assurance rating against the ISAE 3000 and AA1000 Assurance Standard. The process assessed the accuracy, materiality, completeness and responsiveness of the information and data contained in the PanAust Sustainability Report 2011. The Company's rating improved to A+ limited assurance from the B+ limited assurance rating achieved for the Company's 2010 report. The 2011 external assurance statement can be found on the Company's website at www.panaust.com.au/reports.

The Company has an Employee Policy which provides that PanAust will implement diversity strategies to maximise the talent pool available to the PanAust Group and the retention of a diverse workforce free from discrimination. Merit is the basis of performance based pay and remuneration.

In 2011, the Company adopted a Diversity Standard. The Diversity Standard sets out the processes to ensure equal opportunity and non-discrimination according to gender, age, religion and ethnicity. The Diversity Standard complies in all respects with the Recommendations. Both the Employee Policy and the Diversity Standard are available on the Company's website.

In accordance with the Diversity Standard, the Board adopted a number of measurable objectives, including objectives for the year ending 31 December 2012. All of these objectives have been achieved, including:

- Rollout of the Diversity Education Programme in Brisbane and Laos.
- Adoption of parental leave standards for each country in which PanAust operates.
- Recruitment monitoring commenced on 1 January 2012. Recruitment advertisements and assignments include a diversity statement. In all recruitment actions, PanAust interviewed at least one woman who met the key minimum selection criteria for the position.
- The Cultural Awareness Programs were reviewed and updated.
- A diversity survey was undertaken across a cross section of employees of the PanAust Group. A total of 85% of those surveyed believed that the PanAust Group has a culture which supports diversity. The survey provides invaluable benchmarking data.
- The operation of the Diversity Committee which monitored the performance of the PanAust Group with respect to diversity and discharged its responsibility to implement the objectives adopted by the Board and to generate new initiatives for consideration. Through 2012, the Diversity Committee had a diverse membership by reference to gender and ethnicity.
- In the Lao context:
    - the adoption of localisation plans for each department;
    - continued provision of technical trades training, scholarships and graduate programmes for Lao (with applications from Lao women encouraged for the 2012 intake);
    - all Lao women employees at stratum level 2 (manager / principal / superintendent /senior advisor level) completed or commenced the PanAust Asia Leadership programme by 31 December 2012 (the target for 2012 was 20%).

Principle 3: Promote ethical and responsible decision making (continue)

The following measurable objectives have been set for the 2013 year:

- Continue with the successful objective from 2012 to interview at least one woman applicant who meets the requisite key minimum selection criteria for all recruitment assignments.
- Maintain at least two women non-executive Directors on the Board of PanAust.
- Undertake an analysis of remuneration by gender, based on position classification levels to be reported to the Remuneration Committee by 31 December 2013.
- In the Lao context:
    - implement a formal mentoring program for future Lao senior company leaders;
    - at least half of Lao women employees at stratum level 1F (senior offices, superintendents or senior advisers) to have completed PanAust Asia leadership programmes by 31 December 2013;
    - structured training plans to be established to assist for those roles identified for localisation to ensure target dates under the PanAust Asia Localisation strategy are met;
    - continued provision of technical trades training, scholarship and graduate programmes and establish a new entry-level programme targeting career pathways for Lao women school leavers.
    - the Diversity Committee will review the contents of the current Diversity Education Programme and oversee all diversity policies and standards being made available in all relevant languages of the countries in which the Company operates.

The current proportion (and number) of women at various levels in the organisation is as follows: Board level: 22.22% (two), senior executive team: nil, manager/principal/superintendent/senior advisor: 11% (twenty-eight) and throughout the entire Company: 16% (529). In relation to ethnicity, 85% of the workforce of the Company's Lao operating subsidiary, Phu Bia Mining, are Lao. This includes representation from each of the three Lao ethnic groups (Lao Loum, Hmong and Khmu). Further information will be provided in the Company's Sustainability Report for 2012.

The Company has a policy relating to the trading of securities by Directors, senior executives, employees, consultants and contractors which fully complies with ASX Listing Rule 12.12. A copy of the policy is available on the Company's website.

Principle 4: Safeguard integrity in financial reporting

The Company has an Audit Committee comprising four independent non-executive Directors (Nerolie Withnall, Geoff Billard, Annabelle Chaplain and Garry Hounsell). The qualifications of the members of the Audit Committee are contained in the Directors' Report. There is a different chairman for the Audit Committee and the Company. Accordingly, the Audit Committee is constituted in accordance with the ASX Listing Rules and the Recommendations. The Audit Committee has a formal charter which is available on the Company's website. The number of meetings of the Audit Committee is detailed in the Directors' Report.

Principle 5: Make timely and balanced disclosure

PanAust complies with its continuous disclosure obligations in accordance with the requirements of the ASX Listing Rules and the Corporations Act. The Managing Director has primary responsibility for ensuring the market is properly informed. The Company has a Continuous Disclosure Policy which complies with the Recommendations. The policy provides details of the information required to be disclosed, the policy of the Company with respect to disclosure and the procedures in place to ensure compliance with the Company's continuous disclosure obligations. A copy of the policy is available on the Company's website.

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

Principle 6: Respect the rights of shareholders

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

The Company has a Shareholders' Communication Policy which complies with the Recommendations. The policy provides that the Company will be fair, honest and transparent in its dealings with shareholders. The policy details the arrangements to maximise the participation of shareholders at the annual general meeting. It also specifies the information to be made available on the Company's website, including presentations given by PanAust to meetings of shareholders, investors and at conferences over the previous three years. A copy of the policy is available on the Company's website.

Principle 7: Recognise and manage risk

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

PanAust has an Enterprise Risk Management Policy which provides details of the Company's policy, procedures, responsibilities and authorities. A copy of the policy is available on the Company's website. This policy is supported by a detailed internal procedure.

PanAust deploys a risk management system based on ISO - AS/NZS 31000. The scope of the system addresses both financial and non-financial risk issues. The system integrates risk management principles into PanAust's policies, organisational culture, governance, management and reporting processes. Risk assessments are used to inform decision making processes at both a corporate and operational level. PanAust utilises the ALARP ("as low as reasonably practical") method of appropriately treating risk. PanAust has risk registers in place across the business developed utilising common tools. Identification of risk utilises a risk evaluation process which incorporates the application of a common consequence and likelihood table and evaluation matrix. Further information is provided in PanAust's Sustainability Report for 2011 which is available on the Company's website.

The Board, the Audit Committee and the Sustainability Committee receive reports from management with respect to the effectiveness of management of the Company's material business risks with presentations being regularly made by senior management. Once a year, the Board has a meeting with a particular focus on the issue of risk management.

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

Principle 8: Remunerate fairly and responsibly

PanAust has a Remuneration Committee which comprises four independent non-executive Directors; namely, Geoff Handley as Chairman, Nerolie Withnall, Garry Hounsell and Ken Pickering. The Chairman of the Remuneration Committee is different from the Chairman of the Board of Directors. The structure of the Remuneration Committee fully complies with the Recommendations and the ASX Listing Rules. The charter of the Remuneration Committee is available on the Company's website. The Remuneration Report provides details with respect to the Company's remuneration policies and practices.

The Employee Policy of the Company prohibits any difference in remuneration based on gender.

There is a clear distinction made between the structure of remuneration paid to non-executive Directors and the structure of remuneration paid to the Managing Director and other senior executives. The non-executive Directors do not receive short term or long term incentives, equity based remuneration or retirement benefits (other than superannuation).

At the last annual general meeting of the Company, the Company's Remuneration Report for 2011 was overwhelmingly supported by the Company's shareholders (99.19% of all lodged proxies were in favour of adopting the report).

PanAust Limited ABN 17 011 065 160
Annual report - 31 December 2012

Contents

These financial statements are the consolidated financial statements of the consolidated entity consisting of PanAust Limited and its subsidiaries collectively referred to as the "Group". The financial statements are presented in United States dollars, which is the parent entity's functional and presentation currency.

PanAust Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

PanAust Limited
Level 1
15 James Street
Fortitude Valley, Queensland, AUSTRALIA 4006

Telephone: +61 (0) 7 3117 2000

Postal Address is:
PO Box 2297
Fortitude Valley Business Centre, Queensland, AUSTRALIA 4006

The financial statements were authorised for issue by the Directors on 21 February 2013. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, the Company has ensured that the Company's corporate reporting is timely and complete. All press releases, financial reports and other information are available at its Investor Centre on its website: www.panaust.com.au

PanAust Limited
Consolidated statement of comprehensive income
For the year ended 31 December 2012

	Notes	**31 December 2012 $'000**	31 December 2011 $'000
Sales revenue	5	**712,696**	575,678
Derivative gains/(losses)	5	**(9,271)**	20,144
Other income	5	**2,895**	2,176
Changes in inventories of finished goods and work in progress		**21,178**	(2,587)
Mining operations costs		**(210,466)**	(155,628)
Employee benefits expense		**(80,557)**	(57,310)
Royalties		**(40,206)**	(33,904)
Copper concentrate haulage		**(26,063)**	(26,994)
Treatment and refining charges		**(19,992)**	(15,391)
Marketing, realisation and freight costs		**(14,327)**	(12,987)
Other expenses	6	**(15,573)**	(8,635)
		320,314	284,562
Interest and finance charges	6	**(17,654)**	(13,808)
Depreciation, amortisation expense, and impairment	6	**(88,413)**	(58,453)
Put option premium expense		**(1,864)**	(2,955)
Share based payment expense from acquisition	6	**-**	(5,530)
Profit before income tax		**212,383**	203,816
Income tax expense	7	**(53,728)**	(57,254)
Profit after income tax		**158,655**	146,562
Other comprehensive income			
Cash flow hedges, net of tax		**4,341**	14,248
Total comprehensive income for the year		**162,996**	160,810
Profit after income tax is attributable to:			
Owners of PanAust Limited		**142,273**	132,121
Non-controlling interests		**16,382**	14,441
		158,655	146,562
Total comprehensive income for the year is attributable to:			
Owners of PanAust Limited		**146,698**	144,944
Non-controlling interests		**16,298**	15,866
		162,996	160,810
		Cents	**Cents**
Earnings per share attributable to the ordinary equity holders of the Company:			
Basic earnings per share	23	**24.03**	22.47
Diluted earnings per share	23	**23.91**	22.28

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

PanAust Limited
Consolidated balance sheet
As at 31 December 2012

	Notes	**31 December 2012 $'000**	31 December 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**125,029**	155,525
Receivables and other assets	10	**20,103**	15,672
Inventories	11	**111,890**	56,279
Derivative financial instruments	12	**486**	4,248
Total current assets		**257,508**	231,724
Non-current assets			
Receivables and other assets	10	**21,537**	53,449
Investments accounted for using the equity method	13	**23,414**	23,151
Property, plant and equipment	14	**903,910**	525,264
Exploration, evaluation, and mine development	15	**183,333**	342,871
Intangible assets	16	**13,965**	13,965
Derivative financial instruments	12	**158**	2,431
Total non-current assets		**1,146,317**	961,131
Total assets		**1,403,825**	1,192,855
LIABILITIES			
Current liabilities			
Trade and other payables	17	**87,958**	84,495
Borrowings	18	**113,130**	14,961
Current tax liabilities	7	**23,591**	30,418
Provisions	19	**14,651**	13,564
Total current liabilities		**239,330**	143,438
Non-current liabilities			
Trade and other payables	17	**1,466**	3,334
Borrowings	18	**51,612**	92,019
Deferred tax liabilities	7	**32,049**	25,649
Provisions	19	**52,700**	34,426
Derivative financial instruments	12	**2,590**	-
Total non-current liabilities		**140,417**	155,428
Total liabilities		**379,747**	298,866
Net assets		**1,024,078**	893,989
EQUITY			
Contributed equity	20	**548,029**	542,617
Reserves	21(a)	**30,738**	21,941
Retained earnings	21(c)	**336,753**	213,119
Capital and reserves attributable to owners of PanAust Limited		**915,520**	777,677
Non-controlling interests	22	**108,558**	116,312
Total equity		**1,024,078**	893,989

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

PanAust Limited
Consolidated statement of changes in equity
For the year ended 31 December 2012

Consolidated entity	Notes	Attributable to owners of PanAust Limited: Contributed equity $'000	Other reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2011		**541,232**	**5,134**	**80,998**	**627,364**	**50,457**	**677,821**
Profit for the year		-	-	132,121	132,121	14,441	146,562
Changes in fair value of cash flow hedges, net of tax		-	12,823	-	12,823	1,425	14,248
Total comprehensive income for the year		**-**	**12,823**	**132,121**	**144,944**	**15,866**	**160,810**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs		1,385	-	-	1,385	-	1,385
Total changes in non-controlling interests		-	-	-	-	20,375	20,375
Non-controlling interest from acquisition		-	-	-	-	24,084	24,084
Share based payment expense from acquisition		-	-	-	-	5,530	5,530
Employee share based payments		-	3,984	-	3,984	-	3,984
		1,385	3,984	-	5,369	49,989	55,358
Balance at 31 December 2011		**542,617**	**21,941**	**213,119**	**777,677**	**116,312**	**893,989**
Balance at 1 January 2012		**542,617**	**21,941**	**213,119**	**777,677**	**116,312**	**893,989**
Profit for the year		-	-	142,273	142,273	16,382	158,655
Changes in fair value of cash flow hedges, net of tax		-	4,425	-	4,425	(84)	4,341
Total comprehensive income for the year		**-**	**4,425**	**142,273**	**146,698**	**16,298**	**162,996**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	20	5,412	-	-	5,412	-	5,412
Total changes in non-controlling interests		-	-	-	-	(19,904)	(19,904)
Dividends provided for or paid		-	-	(18,639)	(18,639)	(4,148)	(22,787)
Employee share based payments	24	-	4,372	-	4,372	-	4,372
		5,412	**4,372**	**(18,639)**	**(8,855)**	**(24,052)**	**(32,907)**
Balance at 31 December 2012		**548,029**	**30,738**	**336,753**	**915,520**	**108,558**	**1,024,078**

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

PanAust Limited
Consolidated statement of cash flows
For the year ended 31 December 2012

	Notes	**31 December 2012 $'000**	31 December 2011 $'000
Cash flows from operating activities			
Receipts from customers		**707,047**	583,521
Payments to suppliers and employees (inclusive of goods and services tax)		**(436,102)**	(304,753)
Receipts (payments) for derivatives		**(646)**	13,967
Payments for income tax		**(53,906)**	(36,486)
		216,393	256,249
Interest and fees paid		**(12,825)**	(13,829)
Put option premium paid		**(6,240)**	(4,609)
Interest received		**1,060**	1,331
Net cash inflow from operating activities	9	**198,388**	239,142
Cash flows from investing activities			
Payments for property, plant and equipment	14	**(69,648)**	(59,084)
Payments for brownfield development costs	14(b)	**(71,343)**	(33,090)
Payments for greenfield development costs	15	**(62,779)**	(140,010)
Payments for exploration and evaluation costs	15	**(67,872)**	(41,633)
Payments for acquisition of tenements	15(a)	**(8,000)**	-
Payments for investment in subsidiary, net	31	**-**	(27,461)
Payments for investment in associate		**(263)**	(688)
Net cash outflow from investing activities		**(279,905)**	(301,966)
Cash flows from financing activities			
Proceeds from issues of shares		**3,710**	1,385
Proceeds from issues of shares to non-controlling interest		**7,175**	-
Proceeds from borrowings		**75,716**	43,338
Repayment of borrowings		**(19,188)**	(10,521)
Dividends paid to Company's shareholders		**(16,937)**	-
Net cash inflow from financing activities		**50,476**	34,202
Net decrease in cash and cash equivalents		**(31,041)**	(28,622)
Cash and cash equivalents at the beginning of the financial year		**155,525**	184,759
Effects of exchange rate changes on cash and cash equivalents		**545**	(612)
Cash and cash equivalents at end of year		**125,029**	155,525

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

Contents of the notes to the financial statements

1 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

(iii) Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2012 and the results of all subsidiaries for the reporting period then ended.

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

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

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

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

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

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

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

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

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

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

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

(iii) Employee Share Trust
The Group has formed a trust to administer the Group's Executive Long Term Share Plan (LTSP). This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held on trust are disclosed as treasury shares and deducted from contributed equity.

(c) Foreign currency translation

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

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

1 Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

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

(d) Revenue recognition

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

(i) Copper, gold and silver in concentrate revenue
PanAust delivers concentrate to customers on the industry standard basis using the prevailing London Metal Exchange (LME) copper price or a pre-determined fixed price.

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

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

For amounts at balance date still subject to price adjustments due to the quotational period remaining open, a final settlement price is estimated based on the closing LME copper price on the final day of the month. This revaluation is performed up until the final invoice is received. The actual settlement price may vary from this estimate.

(ii) Gold and silver in doré revenue
Revenue from gold and silver sales is recognised when the significant risks and rewards of ownership have transferred to the refinery and the quantity of gold and silver, as well as selling prices are known or can be reasonably estimated.

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

(e) Income tax

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

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

1 Summary of significant accounting policies (continued)

(e) Income tax (continued)

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

(f) Cash and cash equivalents

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

(g) Receivables

(i) Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(ii) Other receivables
Other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Cash flows relating to other receivables are discounted if the effect of discounting is material.

(h) Derivatives and hedging activities

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

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

1 Summary of significant accounting policies (continued)

(h) Derivatives and hedging activities (continued)

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12. Movements in the hedging reserve in shareholders' equity are shown in note 21. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

Amounts accumulated in equity are recycled in profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within ‘finance costs'.

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

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

(i) Inventories

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

(j) Investments and other financial assets

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

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables (note 10) in the consolidated balance sheet.

1 Summary of significant accounting policies (continued)

(k) Exploration and evaluation expenditure

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

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

(l) Mine development expenditure

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

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

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

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

No amortisation is provided in respect of development expenditure until they are reclassified as "mining properties”, from which date they are amortised on the units-of-production method with separate calculations being made for each mineral resource. Amortisation is based on assessments of proven and probable reserves to be mined.

(m) Property, plant and equipment

All property, plant and equipment is shown at historical cost, less subsequent depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

1 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

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

- Mining plant and equipment	3 - 10 years *
- Mine properties	units-of-production
- Motor vehicles	3 - 5 years
- Office equipment	3 - 5 years

* Except for life-of-mine assets which are depreciated on the units-of-production method. Depreciation is based on assessments of proven and probable reserves to be mined by the current production equipment.

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

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

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

(i) Deferred stripping costs
Stripping costs incurred during the production phase, to remove waste material, are deferred and charged to production costs on the basis of the average life-of-mine stripping ratio. The average stripping ratio is calculated as the number of tonnes of waste material removed per tonne of ore mined. The average life-of-mine ratio is reviewed annually in the light of additional knowledge and change in estimates. The cost of “excess stripping” is capitalised as mine property costs when the actual stripping ratio exceeds the average life-of-mine stripping ratio. Where the average life-of-mine stripping ratio exceeds the actual stripping ratio, the cost is charged to profit or loss.

(n) Intangible assets

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

(o) Impairment of assets

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

(p) Trade and other payables

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

(q) Provisions

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

1 Summary of significant accounting policies (continued)

(q) Provisions (continued)

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

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

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

(r) Borrowings and borrowing costs

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

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

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

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

(s) Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 14). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1 Summary of significant accounting policies (continued)

(t) Employee benefits

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

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

The Managing Director is entitled to one month termination benefit for each year of service or a maximum of 12 months which is also included in the provision for employee benefits.

(iii) Share-based payments
Share based compensation benefits are provided to the Managing Director and other senior executives through the Company's Executive Long Term Share Plan (LTSP). Share based compensation benefits are provided to a wider cross section of employees through the Share Right Plan (SRP). Information relating to these plans, including the Executive Option Plan (EOP) which was replaced in 2010 by the LTSP, is set out in note 24.

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

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

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

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

1 Summary of significant accounting policies (continued)

(u) Contributed equity

Ordinary shares are classified as equity (note 20).

At the Annual General Meeting held on 20 May 2011, PanAust shareholders approved the consolidation of ordinary shares on a 1 for 5 basis, in accordance with section 254H(1) of the Corporations Act 2001 (Cth). The ordinary fully paid shares of the Company ('shares') have now been consolidated through the conversion of every five shares held by a shareholder into one share with any resulting fractions of a share rounded up to the next whole number of shares. The consolidation was effective from 31 May 2011.

In accordance with the terms and conditions of the share rights and ASX Listing Rule 7.21, share rights have been consolidated in a similar manner to ordinary shares; and, in accordance with the terms and conditions of the options and ASX Listing Rule 7.22, unlisted options on issue under the Executives' Option Plan have been consolidated on the same basis as the Company's shares with the effect that the number of shares the subject of each option and share right will be reduced by a factor of five.

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

(v) Dividends

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

(w) Earnings per share

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

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

(x) Financial guarantee contracts

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

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

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

1 Summary of significant accounting policies (continued)

(y) Business combinations

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

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

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(z) Segment reporting

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

(aa) Comparatives

Comparative information has been reclassified where appropriate to enhance comparability.

(ab) Rounding of amounts

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

(ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

1 Summary of significant accounting policies (continued)

(ac) New accounting standards and interpretations (continued)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements but may impact the type of information disclosed in relation to the Parent entity's investments in the separate Parent entity financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. The Group is still assessing the impact of these amendments. The Group does not expect to adopt the new standards before their operative date. The new standards would therefore be first applied in the financial statements for the half-year reporting period ending 30 June 2014.

(ii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

1 Summary of significant accounting policies (continued)

(ac) New accounting standards and interpretations (continued)

(iii) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(iv) AASB Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20 (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the ore body) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body.

This is different to the Group's current accounting policy which is to capitalise stripping costs based on a general waste-to-ore stripping ratio and amortise the costs over the life of the mine. The interpretation must be applied retrospectively and the Group will have to write off existing stripping cost asset balances to retained earnings on the date of transition, unless they relate to an identifiable component of the ore body. The Group will adopt the interpretation from 1 January 2013.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(b) Critical judgements in applying accounting policies

(i) Determination of Ore Reserves, Mineral Resources, and units of Production Method of Depreciation and Amortisation

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

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

2 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying accounting policies (continued)

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

(ii) Mine restoration provisions estimates

The calculation of rehabilitation and closure provisions rely on estimates of costs required to rehabilitate and restore disturbed land to its original condition. These estimates are regularly reviewed and adjusted in order to ensure that the most up to date data is used to calculate these balances. Restoration provisions are disclosed in Note 19.

Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate costs required to rehabilitate the mine site. During 2012, an independent consulting firm was engaged to assist with the calculation of the provision estimates. Factors that will affect this liability include future development, changes in technology, price increases and changes in interest rates.

(iii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management has to exercise judgement with regards to deferred tax assets. Where the possibility exists that no future taxable income may flow against which these assets can be offset, the deferred tax assets are not recognised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. When different tax rates apply, deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the taxable profit or loss of the periods in which the temporary differences are expected to reverse.

Income tax returns in Laos are reviewed in detail by the relevant authorities on a regular basis with reference to both the tax legislation and the Mineral Exploration and Production Agreement (MEPA), held with the Government of Laos, which supersedes the tax legislation of Laos on various matters. Such reviews could potentially result in additional tax payments or potential refunds being necessary. This would result in the payment or refund being recognised as income tax expense, in profit or loss, in the period in which the transaction is completed.

(iv) Fair values of derivative financial instruments

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

2 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying accounting policies (continued)

(v) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, units operating costs, future capital requirements and future operating performance.

Impairment of mining assets
The recoverable amount of mining assets and goodwill is generally determined utilising discounted future cash flows. Other considerations also include the ore reserves and life of mine, market risk and asset specific risks in determining the fair value.

Impairment of exploration and evaluation assets
The recoverability of exploration and evaluation expenditure is assessed at the end of each reporting period. Significant judgment is required as to whether an area of activity is to be carried forward on the balance sheet, or written off through the identification of areas of activity which have not yet reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves, where there is no continuing significant activity plan in relation to the area.

Impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(n). (Refer to note 16 for further detail).

Impairment of investment in associates
The investments in associates are evaluated annually for impairment by comparing the entire carrying value of the investment to the recoverable amount, which is the higher of value in use or fair value less costs to sell. During the year, the Company has commenced a trade sale process for the Puthep Copper Project in conjunction with its joint venture partner. Due to the preliminary and indeterminate nature of discussions, the investment for Puthep has not been classified as held for sale, and no impairment recognised due to the assessed likelihood of realising the full investment value in future financial periods. (Refer to note 13 for further detail).

(vi) Quotational period price adjustments

For amounts at balance date still subject to price adjustments due to the quotational period remaining open, a final settlement price is estimated based on the relevant forward price curve. The actual settlement price may vary from this estimate. The extent of the variation due to the quotational period price adjustment is disclosed in the accounts. (Refer to note 5 for further detail).

3 Financial risk management

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

Company Hedging Policy

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

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

Mandatory Hedging Program

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

As the Company has grown and debt facilities have been amended and restated the hedging protocol has also changed. The hedging protocol as required by the banks is that the Company must hedge at least 50% of the copper in every shipment at the provisional copper price invoiced on the date of the shipment. Under the hedging protocol from the 2010 Restatement in place during 2012, the Company was also required to hedge 20% of the Phu Kham copper production at a minimum copper price of US$2.25/lb on a rolling 24 month basis.

On 22 January 2013, the Company entered into amended and restated facilities agreements for debt facilities, under which there is no longer a mandatory requirement by the banks for the Company to hedge 20% of the Phu Kham copper production on a rolling 24 month basis. The provisional price hedging protocol remains intact.

(a) Market risk

(i) Foreign exchange risk
PanAust operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar. Foreign exchange risk arises from both future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the functional currency of the relevant Group entity. The risk is measured using sensitivity analysis and cash flow forecasting.

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

3 Financial risk management (continued)

(a) Market risk (continued)

	2012 Profit before tax		2011 Profit before tax	
	15 % weaker US$'000	15 % stronger US$'000	15 % weaker US$'000	15 % stronger US$'000
Cash and cash equivalents	1,439	(1,064)	4,456	(3,293)
Trade and other payables	(3,243)	2,397	(2,127)	1,572
	(1,804)	1,333	2,329	(1,721)

PanAust has a functional currency of United States dollars. Due to the nature of its business and the location of its operations, the company deals in a number of currencies. The principal currencies dealt with are United States dollars, Australian dollars, Thai Baht, Lao Kip, and Chilean Peso. The above analysis has used a common sensitivity of -/+15% (2011: -/+15%).

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

Sensitivity of pre-tax profit and equity to changes in interest rates by -0.25%/+0.5% (2011: -0.25%/+0.5%) from the 31 December 2012 rates of 0.478% for cash and a floating rate of 0.30% for borrowings with all other variables held constant, are shown in the table below. The exposure is mainly as a result of borrowings and cash at bank at floating rates.

	Profit before tax		Equity	
2012	0.25% decrease US$'000	0.5% increase US$'000	0.25% decrease US$'000	0.5% increase US$'000
Cash and cash equivalents	(313)	625	-	-
Receivable from the Government of Laos	-	-	(46)	92
Put option premium payable	12	(24)	-	-
Borrowings	412	(824)	-	-
	111	(223)	(46)	92

	Profit before tax		Equity	
2011	0.25 % decrease US$'000	0.5 % increase US$'000	0.25 % decrease US$'000	0.5 % increase US$'000
Cash and cash equivalents	(389)	778	-	-
Receivable from the Government of Laos	-	-	(129)	258
Put option premium payable	23	(46)	-	-
Borrowings	267	(535)	-	-
	(99)	197	(129)	258

(iii) Price risk
PanAust is exposed to commodity price risk. This arises from the sale of copper, gold and silver that is priced on, or benchmarked to, open market exchanges.

3 Financial risk management (continued)

(a) Market risk (continued)

Copper price sensitivity

The hedging protocol under the 2010 amended and restated debt facilities also led the Company to undertake a short term hedging program for copper concentrate sales subject to quotational period price adjustments and also to cover 20% of future production on a rolling 24 month basis. At 31 December 2012, had the copper price changed by -/+20% from the 31 December 2012 LME closing price of US$7,907/t (US$3.59/lb) (2011: -/+20% from the 31 December 2011 LME closing price of US$7,590/t (US$3.44/lb)), pre-tax profit and equity for the year would have been impacted due to the 5,274t of provisionally priced copper sales; 6,930t of copper swap derivatives; and 13,914t of copper put options, as per the table below:

	2012 Profit before tax		**2011 Profit before tax**	
	20 % decrease US$'000	**20 % increase US$'000**	**20 % decrease US$'000**	**20 % increase US$'000**
Financial assets				
Accounts receivable	(8,340)	8,340	(17,126)	24,005
Derivatives - put options	909	(121)	5,714	(861)
Derivatives - copper swaps	8,151	(8,215)	9,261	(8,665)
	720	4	(2,151)	14,479

(b) Credit risk

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

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

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

(c) Liquidity risk

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

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

The amounts disclosed in the table are the contractual undiscounted cash flows.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2012	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000
Bank loans (i)	85,000	-	-
Trade and other payables	84,624	-	-
Put option premium payable	3,334	1,465	-
Finance lease liabilities (ii)	28,861	13,738	37,874
	201,819	15,203	37,874

As at 31 December 2011	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000
Bank loans	-	45,000	-
Trade and other payables	78,653	-	-
Put option premium payable	5,842	3,334	-
Finance lease liabilities	14,961	22,925	26,058
	99,456	71,259	26,058

(i) As at 31 December 2012, US$85 million has been drawn from the 2010 Restated Revolving Facility, with US$15 million remaining undrawn. The interest rate, including margin, on this facility was 4.716% as at 31 December 2012 (2011: 4.775%). Refer to note 18 relating to the details of the refinancing that occurred post balance sheet date. As a result of the refinancing the bank loans, classified as current liabilities as at 31 December 2012, have been reclassified in 2013 as non-current liabilities.

(ii) The equipment lease facilities have variable interest rates and are repayable in quarterly installments. The average interest rate, as at 31 December 2012, on funds drawn from the facilities was 4.00% (2011: 3.65%).

The parent entity has provided a guarantee with respect to the obligations of Phu Bia Mining Limited under equipment leases amounting to US$15.1 million (2011: US$23.4 million) (refer to note 33 for further detail).

(d) Fair value hierarchy

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

4 Segment information

(a) Description of segments

(i) Business segments

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

4 Segment information (continued)

(a) Description of segments (continued)

(ii) Operating segments

Operating segments have been determined based on the analysis provided in the reports reviewed by the Chief Operating Decision Maker (CODM), being the Managing Director, in assessing performance and determining strategy. The CODM considers the business from a geographic basis represented by: PanAust Asia; PanAust South America; and Corporate, which includes Project Development and Operational Improvement. The corporate head office in Brisbane provides the business units with support in relation to finance, commercial and technical services, risk management, human resources, governance and public reporting. The Corporate and PanAust South America segments are currently disclosed as "Other".

(b) Segment information

2012	**Other US$'000**	**PanAust Asia US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Sales revenue	-	712,696	-	712,696
Derivative gains/(losses)	-	(9,271)	-	(9,271)
Interest income	10,660	130	(9,730)	1,060
Other income	749	1,086	-	1,835
Total segment revenue (i)	**11,409**	**704,641**	**(9,730)**	**706,320**
Segment result - EBITDA (iii)	**(11,515)**	**342,987**	**-**	**331,472**
Segment assets (ii)	**544,778**	**1,202,917**	**(343,870)**	**1,403,825**
Segment liabilities (ii)	**7,536**	**706,972**	**(334,761)**	**379,747**
Other segment information				
Investments in associates and joint venture partnership	23,414	-	-	23,414
Acquisitions of property, plant and equipment	2,929	166,383	-	169,312
Increase in exploration, evaluation and development costs	32,608	106,106	-	138,714
Income tax expense	(544)	54,272	-	53,728

2011	**Other US$'000**	**PanAust Asia US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
Sales revenue	-	575,678	-	575,678
Derivative gains/(losses)	-	20,144	-	20,144
Interest income	11,693	250	(10,530)	1,413
Other income	1	762	-	763
Total segment revenue (i)	**11,694**	**596,834**	**(10,530)**	**597,998**
Segment result - EBITDA (iii)	**(8,065)**	**296,277**	**-**	**288,212**
Segment assets (ii)	**502,868**	**1,002,219**	**(312,232)**	**1,192,855**
Segment liabilities (ii)	**28,850**	**582,248**	**(312,232)**	**298,866**
Other segment information				
Investments in associates and joint venture partnership	23,151	-	-	23,151
Acquisitions of property, plant and equipment, and other non-current segment assets	2,022	159,877	-	161,899
Increase in exploration, evaluation and development costs	60,875	149,557	-	210,432
Income tax expense	-	57,254	-	57,254

4 Segment information (continued)

(b) Segment information (continued)

(i) Segment revenue

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

Revenues from external customers are derived from the sale of copper-gold concentrate and gold doré from production sites in Laos, and as such, all of the revenue generated is attributable to the PanAust Asia segment. The revenue from external customers attributable to the PanAust Asia segment are from customers in various countries. Over half of the product was sent to China for processing (55%), a large portion was sent to India (40%) and the remainder was sent to Philippines.

During 2012, over half of the sales revenue was attributable to two major customers (33% and 30%), while all other customers accounted for less than 10% each.

(ii) Segment assets and liabilities

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

(iii) EBITDA

The CODM assesses the performance of the operating segments based on an adjusted measure of earnings before interest, taxes, depreciation and amortisation ('EBITDA'). This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as share-based payments from acquisition. This measurement also excludes the effects of equity-settled share-based payments, exploration costs expensed and the provision for rehabilitation expensed

A reconciliation of EBITDA to operating profit before income tax is provided as follows:

31 December 2012	Notes	**Other US$'000**	**PanAust Asia US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
EBITDA		(11,515)	342,987	-	331,472
Interest income		10,660	130	(9,730)	1,060
Interest expense and finance charges		(10)	(27,374)	9,730	(17,654)
Put option premium expense		-	(1,864)	-	(1,864)
Depreciation, amortisation and impairment		(1,093)	(87,320)	-	(88,413)
Share-based payments	24	(2,857)	(1,515)	-	(4,372)
Exploration costs expensed		-	(1,848)	-	(1,848)
Provision for rehabilitation expensed	19	-	(5,998)	-	(5,998)
Profit/(loss) before income tax		**(4,815)**	**217,198**	**-**	**212,383**

31 December 2011	Notes	**Other US$'000**	**PanAust Asia US$'000**	**Eliminations US$'000**	**Consolidated US$'000**
EBITDA		(8,065)	296,277	-	288,212
Interest income		11,693	250	10,530	1,413
Interest expense and finance charges		(9)	(24,329)	(10,530)	(13,808)
Share based payment expense from acquisition	6(c)	(5,530)	-	-	(5,530)
Put option premium expense		-	(2,955)	-	(2,955)
Depreciation, amortisation and impairment		(470)	(57,983)	-	(58,453)
Share-based payments	24	(2,744)	(1,240)	-	(3,984)
Provision for rehabilitation expensed	19	-	(1,079)	-	(1,079)
Profit/(loss) before income tax		**(5,125)**	**208,941**	**-**	**203,816**

5 Sales revenue, derivative gains/(losses) and other income

	31 December 2012 $'000	31 December 2011 $'000
From continuing operations		
Sales revenue		
Copper in concentrate (a)	**477,733**	480,367
Gold in concentrate	**99,968**	85,451
Realised losses on gold hedges (c)	**(4,341)**	(6,764)
Silver in concentrate	**13,390**	16,624
Gold doré	**121,818**	-
Silver in doré	**4,128**	-
	712,696	575,678
Derivative gains/(losses)		
Copper sales realised derivative gains/(losses) (b)	**(209)**	15,839
Copper sales unrealised derivative gains/(losses) (b)	**(3,672)**	1,560
Gold and silver sales derivative gains/(losses) (d)	**(2,307)**	2,168
Copper and gold put options unrealised net derivative gains/(losses)	**(3,083)**	577
	(9,271)	20,144
	703,425	595,822
Other income		
Interest income	**1,060**	1,413
Sundry income	**612**	636
Net gain on disposal of property, plant and equipment	**-**	127
Foreign exchange gains (net)	**1,223**	-
	2,895	2,176

(a) Copper in concentrate

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

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

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

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

5 Sales revenue, derivative gains/(losses) and other income (continued)

(a) Copper in concentrate (continued)

At balance date, provisional invoices issued with an open QP have been revalued at rates which provide an estimate of the average settlement price and resulted as follows:

The aforementioned have resulted in a favourable US$0.5 million (2011: US$ 3 million unfavourable) mark-to-market adjustment to profit or loss for outstanding provisional pricing of sales at balance date.

2012			2011		
Tonnes	**US$/t**	**US$/lb**	**Tonnes**	**US$/t**	**US$/lb**
5,274	7,907	3.59	13,548	7,590	3.44

(b) Copper sales derivative gains/(losses)

For the financial year 2011, the Company discontinued the application of hedge accounting for provisional price copper exposure. The accounting treatment now closely aligns the mark-to-market movement through the profit or loss of both the revalued provisional invoices, and the copper swaps undertaken to hedge the exposure to movements in the copper price.

The table below summarises the realised/unrealised gains and losses from settlement of the copper derivatives in 2012 and 2011.

Consistent with the requirements of the Company's debt facility at the time, during 2012, the Company entered into some longer term copper swaps over 5,180t of future production between October 2013 and April 2014. The mark-to-market revaluation of these copper swaps resulted in an unrealised loss of US$2.4 million at 31 December 2012.

	2012				2011			
			Average hedge price				Average hedge price	
	Tonnes	US$ million	US$/t	US$/lb	Tonnes	US$ million	US$/t	US$/lb
Realised gains/(losses)	30,375	(0.2)	8,009	3.63	40,635	15.8	9,374	4.25
Unrealised gains on outstanding QP copper derivatives	1,750	0.3	8,078	3.66	8,400	1.6	8,102	3.68

(c) Realised losses on gold hedges

In 2010, the project financing was renegotiated and, as a result, the gold forward contracts were closed out in August 2010 at an average rate of US$1,244 per ounce. The unrealised losses recognised in the hedging reserve at the time of the close out of these gold forwards will remain in the hedging reserve and be recognised as realised hedge losses in line with the original gold forward maturity profile. In the year ended 31 December 2012, a loss of US$4.3 million (2011: US$6.8 million loss) was recognised as realised on gold forwards. A further US$4.1 million will be expensed over the remaining four quarters through to December 2013.

(d) Gold and silver derivative gains

During 2011, additional gold and silver forwards were taken out over 35,565oz gold and 166,602oz silver. These forwards were subsequently closed out, resulting in a gain of US$2.2 million, with US$0.3 million realised in 2011. The remaining US$1.9 million of this gain was realised in 2012. Further gold forwards were entered into during 2012 over 27,000oz gold which were subsequently closed out, resulting in a realised loss of US$2.3 million.

6 Expenses

Profit before income tax includes the following specific expenses:	**31 December 2012 $'000**	**31 December 2011 $'000**
Employee benefits expenses		
Superannuation expense	**932**	712
Other expenses		
Exploration costs expensed	**1,848**	-
Provision for rehabilitation expensed	**5,998**	1,079
Foreign exchange losses (net)	**-**	1,220
Other	**7,727**	6,336
	15,573	8,635
Interest and finance charges		
Interest charges	**14,744**	12,238
Unwinding of discount on restoration provision	**2,910**	1,570
	17,654	13,808
Depreciation, amortisation expense and impairment		
Motor vehicles	**2,314**	1,361
Mining plant and equipment	**58,191**	32,309
Office equipment	**1,978**	856
Mine properties	**20,883**	16,538
Total depreciation and amortisation	**83,366**	51,064
Exploration Impairment (a)	**5,047**	7,389
Total depreciation, amortisation expense and impairment	**88,413**	58,453
Share based payment expense from acquisition (b)	**-**	5,530
Rental expense relating to operating leases		
Minimum lease payments	**438**	545

(a) Exploration impairment

The recoverability of exploration and evaluation expenditure is assessed at the end of each reporting period. The impairment expense recognised represents the accumulated costs incurred in exploration of areas where there is no continuing significant activity planned in relation to the area.

(b) Share based payments expense from acquisition

On 17 March 2011, a shareholders agreement was signed between the Company and Victory Mining Finance Ltd ('Victory') in relation to the management and control of PanAust IDO Holdings Pte Ltd. AS at 17 March 2011 Victory had a 10% shareholding in PanAust IDO Holdings Pte Ltd, with the Company through its wholly owned subsidiary, PanAust Holdings Pte Ltd, holding the remaining 90% of shares. A non-cash accounting expense of US$5.53 million (10% of the purchase price for a majority interest in Inca de Oro S.A.) has been recognised to represent the fair value of the non-controlling interest shares granted to Victory, in exchange for services provided in identifying an acquisition target.

7 Income tax

(a) Income tax expense

	Note	**31 December 2012 $'000**	31 December 2011 $'000
Current tax		**45,566**	47,446
Deferred tax		**6,400**	8,617
Adjustments for current tax of prior periods		**1,762**	1,191
		53,728	57,254
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease in deferred tax assets		**7,650**	4
Increase (decrease) in deferred tax liabilities		**(1,250)**	8,613
	7(d)	**6,400**	8,617

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

Profit from continuing operations before income tax expense	**212,383**	203,816
Tax at the Australian tax rate of 30.0% (2011 - 30.0%)	**63,715**	61,145
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payment expense from acquisition	**-**	1,659
Foreign exchange translation	**-**	(46)
Other permanent differences	**3,429**	3,283
Tax losses not recognised	**639**	440
	4,068	5,336
International tax rate differential	**(10,783)**	(10,418)
Temporary differences not recognised	**(1,812)**	-
Adjustments for deferred tax of prior periods	**(3,222)**	-
Adjustments for current tax of prior periods	**1,762**	1,191
Income tax expense	**53,728**	57,254

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	**21,908**	19,302
Potential tax benefit @ 30.0%	**6,572**	5,791

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

7 Income tax (continued)

(d) Deferred tax assets and liabilities

	31 December 2012 $'000	31 December 2011 $'000
Non-current deferred tax assets		
The balance comprises temporary differences attributable to:		
Property, plant & equipment, and mine pre-production	**9**	7,284
Payables	**1,200**	2,493
Cash flow hedges	**648**	-
Provisions	**2,602**	2,332
	4,459	12,109
Other		
Set-off of deferred tax liabilities pursuant to set-off provisions	**(4,459)**	(12,109)
Net deferred tax assets	**-**	-
Non-current deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Exploration and evaluation	**18,645**	30,509
Property, plant and equipment	**17,702**	5,580
Cash flow hedges	**161**	1,669
	36,508	37,758
Other		
Set-off of deferred tax assets pursuant to set-off provisions	**(4,459)**	(12,109)
Net deferred tax liabilities	**32,049**	25,649
Movements:		
Opening balance at start of year	**25,649**	15,633
Opening balance attributable to acquisition	**-**	(1,107)
Charged/(credited) to the income statement	**6,400**	8,617
Credited to other comprehensive income	**-**	2,506
Closing balance at end of year	**32,049**	25,649

(e) Current tax liabilities

Income tax payable	**23,591**	30,418

8 Cash and cash equivalents

	31 December 2012 $'000	31 December 2011 $'000
Cash at bank and in hand	**119,784**	126,633
Deposits at call (a)	**5,245**	28,892
	125,029	155,525

(a) These are interest bearing with floating interest rates between nil% to 4.00% (2011: nil% to 4.89%).

9 Reconciliation of profit after income tax to net cash inflow

	31 December 2012 $'000	31 December 2011 $'000
Profit for the year	**158,655**	146,562
Depreciation, amortisation and impairment	**88,413**	58,453
Executive and employee long term incentives	**4,372**	3,985
Deferred hedge losses	**4,341**	6,764
Fair value losses (gains) on derivatives through profit or loss	**8,625**	(4,007)
Unwinding of discount on restoration provision	**2,910**	1,570
Provision for rehabilitation expensed	**5,998**	1,079
Amortisation of capitalised borrowing costs	**1,919**	1,213
Disposals of assets	**505**	-
Net exchange differences	**(545)**	(999)
Share based payment expense from acquisition	**-**	5,530
Decrease (increase) in receivables	**(6,829)**	12,907
Decrease in prepayments	**2,398**	1,285
Increase in inventories	**(55,611)**	(10,376)
Increase in deferred stripping costs	**(16,929)**	(6,228)
Increase (decrease) in trade and other payables	**1,595**	(190)
Increase (decrease) in current tax liabilities	**(6,827)**	10,937
Increase in deferred tax liabilities	**6,400**	10,011
Increase (decrease) in provisions	**(1,002)**	646
Net cash inflow from operating activities	**198,388**	239,142

10 Receivables and other assets

	31 December 2012 $'000	31 December 2011 $'000
Current assets		
Trade receivables (a)	**10,131**	141
Other receivables (a)	**1,120**	4,281
	11,251	4,422
Prepayments - general	**8,168**	10,566
Prepayments - lease facility fees	**684**	684
	8,852	11,250
Total current assets	**20,103**	15,672
Non-current assets		
Prepayments	**1,121**	1,806
Government of Laos receivable (b)	**20,416**	51,643
Total non-current assets (c)	**21,537**	53,449

(a) As at 31 December 2012, no trade receivables or other receivables were past due or impaired (31 December 2011: nil). It is expected that these amounts will be received when due. The Company does not hold any collateral in relation to these receivables.

(b) PanAust owns a 90% interest (2011: 90%) in the Lao registered company, Phu Bia Mining Limited (Phu Bia Mining), through the Company's wholly owned subsidiary, Pan Mekong Exploration Pty Limited. Phu Bia Mining has a Mineral Exploration and Production Agreement (MEPA) with the Government of Laos. This agreement regulates exploration and mining within a contract area in Laos.

The Government of Laos exercised its option to acquire a 10% interest in Phu Bia Mining Limited. A Shareholders Agreement was executed in May 2011, and the Share Transfer Agreement ('STA') was signed by the Government of Laos and Pan Mekong Exploration Pty Limited on 2 August 2012. Under the agreement, the Government of Laos acquired its 10% shareholding interest in Phu Bia Mining. A purchase price amounting to US$29 million for the transfer of shares to the Government of Laos has been agreed. The amount receivable is discounted to factor the passage of time.

In August 2012, Phu Bia Mining Limited declared a dividend, with 10% of that dividend, amounting to $US4.1 million, being payable to the Government of Laos. In accordance with the STA, the amount was applied against the receivable.

(c) The value of non-current assets approximates their fair value.

11 Inventories

	31 December 2012 $'000	31 December 2011 $'000
Raw materials and store inventory		
Raw materials and consumables - at cost	**82,037**	48,180
Provision for obsolete stores	**(301)**	(936)
Total	**81,736**	47,244
Work in progress		
Work in progress - at cost	**12,234**	2,875
Gold in circuit - at cost	**3,409**	-
Total	**15,643**	2,875
Finished goods		
Copper-gold concentrate - at cost	**10,824**	6,160
Gold bullion - at cost	**3,687**	-
Total	**14,511**	6,160
Total inventories	**111,890**	56,279

12 Derivative financial instruments

	31 December 2012 $'000	31 December 2011 $'000
Current assets		
Gold and silver forward contracts	**-**	1,870
Copper forward contracts	**478**	1,560
Copper put options	**8**	818
Total current derivative financial instrument assets	**486**	4,248
Non-current assets		
Copper put options	**158**	2,409
Gold put options	**-**	22
Total non-current derivative financial instrument	**158**	2,431
Non-current liabilities		
Copper forward contracts	**2,590**	-
Net derivative financial instrument assets/(liabilities)	**(1,946)**	6,679

The Company is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in the copper price and gold price in accordance with the Company Hedging Policy and the hedging protocol as required under the Phu Bia Mining 2010 amended and restated loan agreement. Refer to note 3.

12 Derivative financial instruments (continued)

(i) Copper price risk hedging

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

As at 31 December 2012, the Company had entered into several copper swap contracts and fixed price agreements as part of its short term hedging program for copper concentrate sales which are subject to quotational period price adjustments. As at 31 December 2012, a total of 9,550t of copper, which has been sold, was hedged at a price of US$8,031/t (US$3.64/lb) (2011: 8,400t of copper at a price of US$8,102/t (US$3.68/lb)).

To protect the Company against the downside copper price risk on future production, as at 31 December 2012, put options have been established to cover 13,914t of copper, deliverable through to July 2014, at an average strike price of US$4,998/t (US$2.27/lb), in addition to copper swaps over 5,180t, maturing between October 2013 and April 2014, at an average price of US$7,513/t (US$3.41/lb).

The copper put options do not qualify for hedge accounting and the mark-to-market movement of these put options is recognised in profit or loss immediately with a loss of US$3.06 million recorded during 2012 (2011: US$0.7 million gain - refer to note 5).

13 Investments accounted for using the equity method

	31 December 2012 $'000	31 December 2011 $'000
Shares in associates	**6,021**	6,021
Advances to equity accounted investment (a)	**17,393**	17,130
	23,414	23,151

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

PanAust holds a shareholding interest of 49% (2011: 49%) in the Thai registered company Puthep Co., Limited (Puthep) through the Company’s wholly owned subsidiary, PNA (Puthep) Pty Limited. Padaeng Industry Public Company Limited (Padaeng) owns the other 51% (2011: 51%) interest in Puthep. Puthep has a concession agreement with the Government of Thailand. The concession covers the two deposits (the PUT1 and PUT2 deposits) that comprise the Puthep Copper Project.

(a) During 2011 the Company resolved to not demand repayment in the foreseeable future of a loan which represents advances for exploration expenditure to Puthep Co., Limited. The outstanding balance of this loan has therefore been transferred from other financial assets to investments.

14 Property, plant and equipment

	Note	Office equipment US$'000	Deferred stripping costs $'000	Mining properties US$'000	Mining plant and equipment US$'000	Motor vehicles US$'000	Total US$'000
At 1 January 2011							
Cost or fair value		3,725	17,186	169,506	358,066	4,798	553,281
Accumulated depreciation and amortisation		(2,129)	-	(50,899)	(83,668)	(2,156)	(138,852)
Net book amount		1,596	17,186	118,607	274,398	2,642	414,429
Year ended 31 December 2011							
Opening net book amount		1,596	17,186	118,607	274,398	2,642	414,429
Additions		3,904	6,228	54,717	92,076	4,974	161,899
Assets write-off		-	-	-	(1,312)	-	(1,312)
Depreciation and amortisation charge		(856)	-	(16,538)	(30,997)	(1,361)	(49,752)
Closing net book amount		4,644	23,414	156,786	334,165	6,255	525,264
At 31 December 2011							
Cost or fair value		7,629	23,414	224,223	448,830	9,772	713,868
Accumulated depreciation and amortisation		(2,985)	-	(67,437)	(114,665)	(3,517)	(188,604)
Net book amount		4,644	23,414	156,786	334,165	6,255	525,264
Year ended 31 December 2012							
Opening net book amount		4,644	23,414	156,786	334,165	6,255	525,264
Additions (b)		4,258	16,929	17,394	122,834	7,897	169,312
Transfer in (a)	15	805	-	101,222	191,178	-	293,205
Depreciation and amortisation charge (a) (b)		(1,978)	-	(20,883)	(58,191)	(2,314)	(83,366)
Disposals net		-	-	-	(505)	-	(505)
Closing net book amount		7,729	40,343	254,519	589,481	11,838	903,910
At 31 December 2012							
Cost or fair value		12,536	40,343	342,561	760,426	17,669	1,173,535
Accumulated depreciation and amortisation		(4,807)	-	(89,995)	(168,992)	(5,831)	(269,625)
Net book amount		7,729	40,343	252,566	591,434	11,838	903,910

(a) Commercial production was declared at the Ban Houayxai Gold-Silver Operation on 1 June 2012. Costs incurred for exploration, evaluation and mine development have been transferred to mine properties and mining plant and equipment (refer to Note 15). Depreciation is calculated from 1 June 2012.

(b) Commercial production was declared for the Phu Kham Upgrade project on 1 November 2012. Depreciation is calculated from 1 November 2012. An amount of US$60.3 million was spent in 2012 (2011: US$33.1 million).

The construction of the Increased Recovery Project commenced in 2012. An amount of US$11 million was spent during the year (2011: nil).

14 Property, plant and equipment (continued)

Leased assets

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

	31 December 2012 $'000	31 December 2011 $'000
Opening net book amount	**46,736**	22,673
Additions	**38,914**	36,603
Depreciation charge	**(16,374)**	(12,540)
Net book amount	**69,276**	46,736

Security

Phu Bia Mining Limited's property, plant and equipment has been pledged as security under the finance facilities held by Phu Bia Mining, refer to note 18.

15 Exploration, evaluation, and mine development

	Preproduction exploration & evaluation US$'000	**Mine pre-production US$'000**	**Mine development US$'000**	**Total US$'000**
Year ended 31 December 2011				
Carrying amount at start of year	52,896	26,438	60,494	139,828
Additions	87,203	2,572	120,657	210,432
Impairment charge (a)	(7,389)	-	-	(7,389)
Carrying amount at year end	132,710	29,010	181,151	342,871

	Note	**Preproduction exploration & evaluation US$'000**	**Mine pre-production US$'000**	**Mine development US$'000**	**Total US$'000**
Year ended 31 December 2012					
Carrying amount at start of year		132,710	29,010	181,151	342,871
Additions (a)		71,444	4,491	62,779	138,714
Impairment charge (b)		(5,047)	-	-	(5,047)
Transfers out	14	(15,774)	(33,501)	(243,930)	(293,205)
Carrying amount at year end		183,333	-	-	183,333

(a) On 10 August 2012, the Company completed the acquisition of the balance of the Carmen tenements in Chile for US$8 million. The tenements are wholly owned by PanAust and will be integrated into the Carmen resource studies to be completed.

(b) The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. The impairment expense recognised represents the accumulated costs incurred in exploration of areas where there is no continuing significant activity planned in relation to the area.

16 Intangible assets

	Goodwill $'000
Year ended 31 December 2011	
Opening net book amount	5,380
Additions - Acquisition of Inca de Oro S.A.	8,585
Closing net book amount	13,965
At 31 December 2011	
Cost	13,965
Accumulation amortisation and impairment	-
Net book amount	13,965
Year ended 31 December 2012	
Opening net book amount	13,965
Closing net book amount	13,965
At 31 December 2012	
Cost	13,965
Accumulation amortisation and impairment	-
Net book amount	13,965

Goodwill of US$5,380,000 has been allocated to the PanAust Asia segment and US$8,585,000 to PanAust South America, currently disclosed as "Other". As at 31 December 2012 the recoverable amount exceeds the carrying value. In determining the recoverable amount, the goodwill balances have been tested at segment level on a value in use basis for the PanAust Asia segment, and Fair Value Less Cost to Sell (FVLCTS) for PanAust South America.

The goodwill allocated to the PanAust Asia segment represents the excess of the cost of the acquisition of the 20% non-controlling interest held by Newmont SEA in Phu Bia Mining Limited over the book value of the non-controlling interest at the date of acquisition on 14 November 2005.The goodwill allocated to the PanAust South America represents the excess of the cost of the acquisition of the 66% interest in Inca de Oro S.A. held by PanAust Minera IDO Limitada over the book value of the net assets acquired, that was approved by Presidential Decree on 22 February 2011.

The value in use has been determined by estimating the cash flows for the current life of mine based on current reserves assessments. The cash flow projections are based on long term mine plans for the Phu Kham Copper-Gold Operation, reflecting estimated reserves and production profiles.

In arriving at a value in use, a pre-tax discount rate of 12% has been applied to cash flows expressed in nominal terms. A key assumption to which the calculation of value in use of the Phu Kham Copper-Gold Operation is sensitive is a change to operating margins as a result of movements in the long term copper price. The long term average copper price that has been adopted in the calculation is US$2.89/lb which has been provided by a recognised independent analyst. Should the copper price vary materially from this long term estimate then a change would be made to the life of mine plan with corresponding impacts on production levels and associated operating cost structures.

FVLCTS for PanAust South America has been determined by applying the mean Enterprise Value per pound of in-situ copper equivalent in mineral resource of a number of listed companies with assets at various stages of development, feasibility study and exploration.

17 Trade and other payables

	31 December 2012 $'000	31 December 2011 $'000
Current		
Trade payables	**57,634**	37,542
Accrued capital and operating expense	**26,990**	41,111
Put option premium payable	**3,334**	5,842
Total current trade and other payables	**87,958**	84,495
Non-current		
Put option premium payable	**1,466**	3,334
Total non-current trade and other payables	**1,466**	3,334

18 Borrowings

	Note	31 December 2012 $'000	31 December 2011 $'000
Current (Secured)			
Bank loans a)		**84,269**	-
Lease liabilities b)		**28,861**	14,961
Total current borrowings		**113,130**	14,961
Non-current (Secured)			
Bank loans a)		**-**	43,036
Lease liabilities b)	29	**51,612**	48,983
Total non-current borrowings		**51,612**	92,019

The fair values of non-current borrowings approximate their book values because the interest rates applicable to the borrowings are not materially different to market rates.

(a) Bank loans

On 30 July 2010, the Group entered into an amended and restated loan agreement for a total US$102 million of debt facilities with a syndicate of four banks. In February 2011, the debt facilities were increased with the inclusion of another bank to lift the commitments to a total of US$120 million. The debt facilities in place at 31 December 2012 had a three year term (maturing in 2013) and comprised:

- Tranche A: US$100 million Revolving Facility with an interest rate of LIBOR plus a fixed margin of 4.5% p.a.;
- Tranche B: US$20 million guarantee facility; and
- extensive hedging lines for commodity, currency and interest rates (refer to note 3 for further detail on the mandatory hedging program).

As at 31 December 2012, US$85 million (2011: US$45 million) has been drawn from the Revolving Facility.

18 Borrowings (continued)

(a) Bank loans (continued)

On 22 January 2013, the Company entered into amended and restated facilities agreements for debt facilities totalling US$275 million. The facilities comprise a US$250 million revolving debt facility with a syndicate of seven banks, and a US$25 million working capital facility offered by ANZ Bank (Lao) Limited. The revolving debt facility replaces the previous facility entered into in 2010 and described above which was scheduled to mature in 2013.

The key terms for the debt facilities are as follows:

- Amortisation of loan over two years from 2015 via maximum repayments totalling US$130 million;
- Repayment of remaining balance in full at expiry of the four year term;
- An interest rate of US LIBOR plus a fixed margin of 3.5% p.a. on the revolving facility (plus political risk insurance);
- Secured by shares held by PanAust Limited in Pan Mekong Exploration Pty Ltd and shares held by Pan Mekong Exploration Pty Ltd in Phu Bia Mining Limited;
- Secured by charges over Phu Bia Mining Limited production assets in Laos and key contractual rights, except for mobile plant which is subject to equipment leasing arrangements;
- There are no requirements for mandatory long term hedging.

The facilities will be used for general corporate purposes including funding of working capital and operating expenses and to fund capital expenditure on growth projects in Laos.

Financial close under the amended and restated facilities occurred on 31 January 2013. The principal outstanding remained unchanged at $85 million.

(b) Lease liabilities

The Company has entered into three equipment lease facilities to finance the acquisition of a variety of mining, haulage and miscellaneous equipment for the Phu Kham Copper-Gold Operation and the Ban Houayxai Gold-Silver Operation as follows:

Equipment lease facility	Date	Facility limit	Amount drawn	Expiring date
1	26-Jun-2007	US$48.5 million	Fully drawn	31-Dec-2013
2	21-Jan-2011	US$24.8 million	Fully drawn	25-Jan-2016
3	16-Dec-2011	US$65 million	US$54.2 million	21-Dec-2016

The equipment lease facilities have variable interest rates and are repayable in quarterly installments. The all in average interest rate at reporting date on funds drawn from the facilities is 4.00% (2011: 3.65%).

19 Provisions

	31 December 2012 $'000	31 December 2011 $'000
Current		
Employee benefits	**11,657**	10,102
Restoration	**2,343**	2,938
Environmental protection fund	**651**	464
Other provisions	**-**	60
Total current provisions	**14,651**	13,564
Non-current		
Restoration	**50,696**	32,517
Employee benefits - long service leave	**1,995**	1,909
Other provisions	**9**	-
Total non-current provisions	**52,700**	34,426

(a) Movements in provisions

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

	Environmental protection fund US$'000	**Restoration US$'000**
2012		
Carrying amount at start of year	**464**	**35,455**
additional provision charged to profit or loss	**187**	**5,998**
unwinding of discount	**-**	**2,973**
amount used during the year	**-**	**(2,779)**
impact of the change in discount rate		**6,336**
additional (reduction in) provision for change in estimated cash outflows	**-**	**5,056**
Carrying amount at end of year	**651**	**53,039**
Current	**651**	**2,343**
Non-current	**-**	**50,696**

20 Contributed equity

(a) Share capital

	31 December 2012 Shares	**31 December 2011 Shares**	**31 December 2012 $'000**	**31 December 2011 $'000**
Ordinary shares - fully paid (c)	**605,962,322**	593,992,185	**548,029**	542,617
Treasury shares	**(12,578,995)**	(5,296,792)	**-**	-
	593,383,327	588,695,393	**548,029**	542,617

20 Contributed equity (continued)

(b) Movements in ordinary share capital

Date	Details	Note	Number of shares	Issued price	US$'000
1 January 2012	Opening balance		593,992,185		542,617
	Dividend reinvestment plan	(e)	518,637	3.282	1,702
	Executive Long Term Share Plan	(f)	7,282,203	-	-
	Executive options exercised	(g)	750,000	2.036	1,527
	Executive options exercised	(g)	260,000	1.643	427
	Executive options exercised	(g)	800,000	2.195	1,756
	Employees share rights exercised	(h)	2,359,297	-	-
31 December 2012	Balance		605,962,322		548,029
	Treasury shares		(12,578,995)		-
31 December 2012	Balance excluding treasury shares		593,383,327		548,029

(c) Ordinary shares

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

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

(d) Cornerstone Investment Agreement

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

(e) Dividend reinvestment plan

The Dividend Reinvestment Plan (DRP) was approved by the shareholders at the Annual General Meeting on 18 May 2012. The DRP provides eligible shareholders with the option of reinvesting all or part of their dividends in additional PanAust shares without paying any brokerage or other entry costs. Participating in the DRP is voluntary. On 23 August 2012, the PanAust Board of Directors declared an interim unfranked dividend of A$0.03 per share.

On 10 October 2012, PanAust advised that the market price to be used for the purpose of issuing shares under the DRP was A$3.17 per share. In accordance with the rules of the DRP, the market price was the arithmetic average of the daily volume weighted average price of PanAust shares sold on the Australian Securities Exchange during each of the five trading days commencing on 2 October 2012, excluding trades not in the ordinary course of business.

20 Contributed equity (continued)

(f) Long Term Share Plan (LTSP)

Information relating to the PanAust employee Long Term Share Plan (LTSP), including details of shares issued under the plan is set out in note 24. The LTSP is a loan backed share plan where the Group issues shares, or a trustee transfers shares, to the executive at market value. The purchase price of each share is funded by a loan from the Group.

The Group has formed a trust to administer the Group's LTSP. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held on trust are disclosed as treasury shares and deducted from contributed equity.

The Company issues new shares for the LTSP. It does not buy shares on market. Shares which are forfeited by the senior executive are available for future issues under the LTSP.

The after tax benefit of any dividends (based on the top Australian marginal tax rate and the Medicare levy) must be applied in repayment of the loan granted to the employees.

(g) Share Options

Information relating to the PanAust Executives' Options Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 24.

(h) Share Rights Plan

Information relating to the PanAust Share Rights Plan, including details of shares issued under the plan is set out in note 24.

(i) Capital risk management

The Company's objectives when managing capital are to safeguard the ability to continue as a going concern, in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

The gearing ratios were as follows:

	31 December 2012 US$'000	31 December 2011 US$'000
Total borrowings	**164,742**	106,980
Total equity	**1,024,078**	893,989
Total capital	**1,188,820**	1,000,969
Gearing ratio	**14%**	11%

21 Reserves and retained earnings

(a) Reserves

	31 December 2012 $'000	31 December 2011 $'000
Hedging reserve - cash flow hedges	**(3,728)**	(8,153)
Share-based payments reserve	**34,466**	30,094
	30,738	21,941

Movements in reserves were as follow:

Hedging reserve - cash flow hedges		
Opening balance	**(8,153)**	(20,976)
Revaluation - gross	**-**	861
Transfer to net profit - gross	**4,425**	14,216
Deferred tax	**-**	(2,254)
Balance 31 December	**(3,728)**	(8,153)
Share-based payments reserve		
Opening balance	**30,094**	26,110
Employee share based payments	**4,372**	3,984
Balance 31 December	**34,466**	30,094

(b) Nature and purpose of other reserves

(i) Share-based payments reserve

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

(ii) Hedge reserve

The hedging reserve is used to record gains or losses on hedging instruments accounted for as cash flow hedges that are recognised directly in equity, as described in notes 1(h) and 12. Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

(c) Retained earnings

Movements in retained earnings were as follows:

	31 December 2012 $'000	**31 December 2011 $'000**
Balance 1 January	**213,119**	80,998
Net profit for the year	**142,273**	132,121
Dividends (i)	**(18,639)**	-
Balance 31 December	**336,753**	213,119

(i) On 23 August 2012, the PanAust Board of Directors declared an interim unfranked dividend of A$0.03 per share for a total amount of A$17,961,000 (US$18,639,000). The dividend was paid on 25 October 2012.

22 Non-controlling interests

	31 December 2012 $'000	31 December 2011 $'000
Interest in:		
Share capital	**61,373**	81,277
Cash flow hedge reserves	**(414)**	(330)
Retained earnings	**47,599**	35,365
	108,558	116,312

The Government of Laos exercised its option to acquire a 10% interest in Phu Bia Mining Limited which was formally transacted when the Share Transfer Agreement (STA) was signed by the Government of Laos and Pan Mekong Exploration Pty Limited on 2 August 2012.

The issue of shares in Inca de Oro S.A. was completed during the first half of 2011 (refer to note 31 for further detail).

23 Earnings per share

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

	31 December 2012 $'000	31 December 2011 $'000
The following reflects the income used in the calculations of basic and diluted earnings per share:		
Profit attributable to ordinary equity holders of the Company	**142,273**	132,121

(b) Weighted average number of shares used as denominator

	31 December 2012 Number of shares	31 December 2011 Number of shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**592,181,313**	588,002,186
Adjustments for calculation of diluted earnings per share:		
Unlisted securities	**2,739,563**	5,029,567
Adjusted weighted average number of ordinary shares used in calculating diluted profit per share	**594,920,876**	593,031,753

24 Share-based payments

Share-based compensation benefits are provided to the Managing Director and other senior executives through the Executive Long Term Share Plan (LTSP). Share based compensation benefits are provided to a wider cross section of employees through the Share Right Plan (SRP). Since 2010, the senior executives have been awarded the long term incentive component of their remuneration under the LTSP, rather than the Executives' Option plan or the SRP.

As at 31 December 2012

Grant date	Loan expiry date / Expiry date	Fair value at grant A$	Purchase price / Exercise price A$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited / Lapsed during the year * Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
(a) Executive Long Term Share Plan									
21-May-12	31-Dec-16	0.614	2.779	-	2,120,141	-	-	2,120,141	-
02-Mar-12	31-Dec-16	0.878	3.600	-	5,100,784	-	-	5,100,784	-
17-Jan-12	31-Dec-15	1.375	3.775	-	61,278	-	-	61,278	-
23-May-11	31-Dec-15	1.124	3.775	501,312	-	-	-	501,312	-
18-Feb-11	31-Dec-15	1.375	4.285	1,147,660	-	-	-	1,147,660	-
21-May-10	21-May-15	0.600	2.547	3,647,820	-	-	-	3,647,820	3,647,820
				5,296,792	7,282,203	-	-	12,578,995	3,647,820
Weighted average purchase price A$				3.039	3.362			3.226	2.547
Weighted average remaining contractual life in years				3.6				3.4	
(b) Executives' Option Plan									
22-May-09	31-Dec-13	0.470	2.106	3,440,000	-	(800,000)	-	2,640,000	2,640,000
27-Apr-09	31-Dec-13	0.425	1.525	840,000	-	(260,000)	-	580,000	580,000
23-May-08	31-Dec-12	1.490	4.400	788,480	-	-	(788,480)	-	-
22-Feb-08	31-Dec-12	1.290	4.400	354,816	-	-	(354,816)	-	-
05-Jul-07	07-Oct-12	0.825	4.050	142,500	-	-	(142,500)	-	-
29-May-07	29-Feb-12	0.405	1.900	490,000	-	(490,000)	-	-	-
23-Mar-07	29-Feb-12	0.405	1.900	260,000	-	(260,000)	-	-	-
				6,315,796	-	(1,810,000)	(1,285,796)	3,220,000	3,220,000
Weighted average exercise price A$				2.463	-	1.937	4.361	2.001	2.001
Weighted average remaining contractual life in years				1.6				1.0	
(c) Share Rights Plan									
07-June-12	31-Mar-14	3.188	nil	-	15,350	-	(3,173)	12,177	-
15-May-12	31-Mar-14	3.188	nil	-	480,494	-	(37,916)	442,578	-
03-Mar-11	31-Jan-13	4.200	nil	236,804	-	-	(44,057)	192,747	192,747
03-Mar-11	31-Jan-12	4.200	nil	1,837	-	(1,837)	-	-	-
21-Dec-10	31-Dec-11	2.500	nil	1,912	-	(1,912)	-	-	-
04-Oct-10	31-Dec-11	2.500	nil	1,912	-	(1,912)	-	-	-
03-Sep-10	31-Dec-11	2.500	nil	2,305	-	(2,305)	-	-	-
29-Mar-10	31-Dec-11	2.500	nil	265,863	-	(265,863)	-	-	-
27-Oct-09	01-Sep-19	1.775	nil	43,690	-	(43,690)	-	-	-
27-Apr-09	31-Dec-18	1.020	nil	2,012,000	-	(2,012,000)	-	-	-
25-Mar-09	28-Feb-19	0.607	nil	39,354	-	(29,778)	(9,576)	-	-
				2,605,677	495,844	(2,359,297)	(94,722)	647,502	192,747

* Executives' options lapsed during the period.

24 Share-based payments (continued)

(a) Executive Long Term Share Plan

The LTSP is a loan backed share plan. Under the LTSP the company issues shares or a trustee transfers shares to the executive at market value. The purchase price of the share is funded by a loan from the Company. The issue of shares and the advance of a loan to the Managing Director was approved by shareholders at the Annual General Meeting held on 18 May 2012. The fair value attributed to LTSP at grant date was calculated using a Monte Carlo simulation model that takes into account the following:

Variable input	2012	2011
Dividend yield	1.25%	Nil
Expected volatility	40%	40%
Risk-free interest rate	2.4%-3.8%	5.1% - 5.4%
Staff turnover	0.00%	0.00%

Subject to the performance conditions, the vesting date for the shares is three years from the commencement of the performance period.

LTSP Cash Bonus

In 2011, the Managing Director and the other senior executives also became eligible for a LTI Cash Bonus provided the conditions referred to on page 25 have been met as at 31 December 2013. The valuation of the LTI Cash Bonus has been completed using a Monte Carlo simulation technique, incorporating assumed probabilities for the conditions being met as at 31 December 2013. The LTI Cash Bonus is not payable until after 31 December 2013. This was the only year the LTI Cash Bonus was offered.

(b) Executives' Option Plan

The establishment of the Company's Executives' Option Plan (EOP) was approved by shareholders at the 1996 annual general meeting. There have been no options granted since 2009. Options vest based on PanAust's TSR ranking within the S&P/ASX 300 Metals and Mining Index. All options have already vested. Vested options are exercisable for a period of up to 5 years from the grant date.

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2012 was A$3.44.

(c) Share Rights Plan

Under the SRP established in 2007, eligible employees (other than the Managing Director, senior executives and senior managers) may be offered rights to acquire fully-paid ordinary shares in the Company annually for no cash consideration and no performance hurdles. The share rights vest based on terms of employment of up to three years. Vested share rights are exercisable for a period of 10 years from the grant date.

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

Prior to the implementation of the LTSP, share rights subject to TSR performance hurdle were offered to the Managing Director, senior executives and senior managers for no cash consideration. The remaining of those share rights vested in 2011 and was exercised during 2012. Set out below are the variable model inputs.

Grant date	Vesting date	Share price at grant date A$
07-Jun-12	31-Mar-14	2.83
15-May-12	31-Mar-14	2.68
03-Mar-11	31-Dec-12	4.20
03-Mar-11	31-Dec-11	4.20

24 Share-based payments (continued)

As at December 2011

Grant date	Loan expiry date / Expiry date	Fair value at grant A$	Purchase price / Exercise price A$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
(a) Executive Long Term Share Plan									
23-May-11	31-Dec-15	1.124	3.775	-	501,312	-	-	501,312	-
18-Feb-11	31-Dec-15	1.375	4.285	-	1,147,660	-	-	1,147,660	-
21-May-10	21-May-15	0.600	2.547	3,647,820	-	-	-	3,647,820	-
				3,647,820	1,648,972	-	-	5,296,792	-
Weighted average purchase price A$				2.550	4.128	-	-	3.039	-
(b) Executives' Option Plan									
22-May-09	31-Dec-13	0.470	2.106	3,440,000	-	-	-	3,440,000	3,440,000
27-Apr-09	31-Dec-13	0.425	1.525	840,000	-	-	-	840,000	840,000
23-May-08	31-Dec-12	1.490	4.400	880,000	-	-	(91,520)	788,480	788,480
22-Feb-08	31-Dec-12	1.490	4.400	396,000	-	-	(41,184)	354,816	354,816
05-Jul-07	07-Oct-12	0.825	4.050	142,500	-	-	-	142,500	142,500
29-May-07	29-Feb-12	0.405	1.900	700,000	-	(210,000)	-	490,000	490,000
23-Mar-07	29-Feb-12	0.405	1.900	750,000	-	(490,000)	-	260,000	260,000
				7,148,500	-	(700,000)	(132,704)	6,315,796	6,315,796
Weighted average exercise price A$				2.444	-	1.900	-	2.463	2.463
(c) Share Rights Plan									
03-Mar-11	31-Jan-13	4.200	nil	-	281,685	-	(44,881)	236,804	-
03-Mar-11	31-Jan-12	4.200	nil	-	5,388	-	(3,551)	1,837	1,837
21-Dec-10	31-Dec-11	2.500	nil	1,912	-	-	-	1,912	1,912
04-Oct-10	31-Dec-11	3.375	nil	1,912	-	-	-	1,912	1,912
03-Sep-10	31-Dec-11	2.500	nil	4,217	-	-	(1,912)	2,305	2,305
29-Mar-10	31-Dec-11	2.500	nil	319,826	-		(53,963)	265,863	265,863
27-Oct-09	01-Sep-19	1.775	nil	43,690	-	-	-	43,690	-
18-Jun-09	30-Apr-19	1.975	nil	306,517	-	(306,517)	-	-	-
27-Apr-09	31-Dec-18	1.020	nil	2,012,000	-	-	-	2,012,000	2,012,000
25-Mar-09	28-Feb-19	0.607	nil	108,236	-	(49,730)	(19,152)	39,354	-
17-Nov-08	31-Oct-18	0.778	nil	28,338	-	(24,742)	(3,596)	-	-
31-Jul-08	30-Jun-18	1.625	nil	5,800	-	(5,800)	-	-	-
31-Jul-08	30-Jun-18	2.554	nil	6,920	-	(5,960)	(960)	-	-
30-Apr-08	31-Mar-18	3.701	nil	11,186	-	(10,620)	(566)	-	-
26-Feb-08	31-Jan-18	3.364	nil	49,996	-	(49,996)	-	-	-
26-Feb-08	31-Dec-17	2.205	nil	369,000	-	(330,624)	(38,376)	-	-
				3,269,550	287,073	(783,989)	(166,957)	2,605,677	2,285,829

24 Share-based payments (continued)

(d) Expenses arising from share-based payment transactions

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

	31 December 2012 $'000	31 December 2011 $'000
Options issued under the EOP	**-**	778
Share rights issued under the SRP	**1,043**	1,718
Shares issued under the LTSP	**3,329**	1,489
	4,372	3,985

25 Key management personnel disclosures

(a) Directors

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

Non-executive Directors:	Garry Hounsell
	Nerolie Withnall
	Geoff Handley
	Geoff Billard
	Zezhong Li
	John Crofts
	Ken Pickering
	Andrew Daley (retired 18 May 2012)
	Annabelle Chaplain (appointed 1 July 2012)
Executive Director:	Gary Stafford

(b) Other key management personnel

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

Detailed remuneration disclosures are provided in the remuneration report on pages 17 to 33 .

Name	*Position*
Fred Hess	Executive General Manager Project Development & Operational Improvement
Rob Usher	Executive General Manager PanAust Asia
David Hairsine	Chief Financial Officer
Francisco Tomic	Executive General Manager PanAust South America

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

25 Key management personnel disclosures (continued)

(c) Compensation

	31 December 2012 US$	31 December 2011 US$
Short-term employee benefits	**5,748,929**	4,854,112
Post-employment benefits	**204,581**	278,044
Long-term benefits	**177,287**	177,002
Share-based payments	**2,248,193**	1,869,687
	8,378,990	7,178,845

(d) Equity instrument disclosures

(i) Securities provided as remuneration and shares issued on the exercise of such securities
Details of long term incentives (LTIs) securities granted as remuneration and shares issued on the exercise of these securities, together with terms and conditions of the options and share rights detailed in the Remuneration Report and note 24.

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

Name		Balance at start of the year	Granted as compensation (a)	Exercised during the year (b)	Lapsed during the year (c)	Balance at the end of the year	Vested and exercisable (d)	Unvested (e)
Managing Director								
Gary Stafford	**2012**	**6,650,292**	**2,120,141**	**(1,290,000)**	**(788,480)**	**6,691,953**	**4,070,500**	**2,621,453**
	2011	6,450,500	501,312	(210,000)	(91,520)	6,650,292	4,718,480	1,931,812
Other executives								
Fred Hess	**2012**	**807,326**	**514,211**	**(400,000)**	**-**	**921,537**	**298,020**	**623,517**
	2011	808,020	109,306	(98,560)	(11,440)	807,326	400,000	407,326
Rob Usher	**2012**	**912,372**	**498,080**	**-**	**-**	**1,410,452**	**806,500**	**603,952**
	2011	972,500	105,872	(159,136)	(6,864)	912,372	580,000	332,372
David Hairsine	**2012**	**676,818**	**411,738**	**(320,000)**	**-**	**768,556**	**262,260**	**506,296**
	2011	666,260	94,558	(75,264)	(8,736)	676,818	320,000	356,818
Francisco Tomic	**2012**	**139,932**	**356,890**	**-**	**-**	**496,822**	**-**	**496,822**
	2011	-	139,932	-	-	139,932	-	139,932

(a) Securities granted as compensation relate to the LTSP, after the introduction of the plan in 2010;
(b) Securities which were exercised relate to the EOP and SRP;
(c) Securities which lapsed during the periods relate to the EOP;
(d) Securities which have vested and are exercisable relate to the EOP, SRP and LTSP; and
(e) Unvested securities as at 31 December 2012 relate to the LTSP.

(iii) Share holdings
The numbers of shares in the Company held during the financial year by each Director of PanAust, the Managing Director and other key management personnel of the Company, including their personally related parties, are set out below.

25 Key management personnel disclosures (continued)

(d) Equity instrument disclosures (continued)

Name		Balance at start of the year	Received during the year on the exercise of options and share rights	Other changes during the year	Balance at the end of the year
Directors of PanAust Limited					
Garry Hounsell	**2012**	**160,535**	**-**	**30,000**	**190,535**
	2011	120,535	-	40,000	160,535
Garry Hounsell (indirect)	**2012**	**-**	**-**	**-**	**-**
	2011	46,000	-	(46,000)	-
Gary Stafford	**2012**	**1,236,506**	**1,290,000**	**(210,000)**	**2,316,506**
	2011	2,291,506	210,000	(1,265,000)	1,236,506
Gary Stafford (indirect) (i)	**2012**	**925,723**	**-**	**-**	**925,723**
	2011	660,723		265,000	925,723
Nerolie Withnall	**2012**	**76,000**	**-**	**720**	**76,720**
	2011	76,000	-		76,000
Andrew Daley (indirect) (ii)	**2012**	**121,681**	**-**	**-**	**121,681**
	2011	121,681	-		121,681
Geoff Handley (indirect) (iii)	**2012**	**54,202**	**-**	**-**	**54,202**
	2011	54,202	-	-	54,202
Geoff Billard (indirect) (iv)	**2012**	**25,027**	**-**	**-**	**25,027**
	2011	25,027	-	-	25,027
Ken Pickering	**2012**	**-**	**-**	**5,000**	**5,000**
	2011	**-**	**-**	**-**	**-**
Annabelle Chaplain (indirect) (v)	**2012**	**-**	**-**	**18,250**	**18,250**
	2011	-	-	-	-
John Crofts (indirect) (vi)	**2012**	**-**	**-**	**31,739**	**31,739**
	2011	**-**	**-**	**-**	**-**
Other executives					
Fred Hess	**2012**	**534,433**	**400,000**	**(50,000)**	**884,433**
	2011	435,873	98,560	-	534,433
Rob Usher	**2012**	**206,514**	**-**	**(200,000)**	**6,514**
	2011	247,378	159,136	(200,000)	206,514
David Hairsine	**2012**	**499,826**	**320,000**	**(218,866)**	**600,960**
	2011	424,562	75,264	-	499,826

(i) Gary Stafford has an indirect interest in 925,723 ordinary shares options in PanAust held by The Spellbrook Superannuation Fund of which Mr Stafford is a beneficiary.

(ii) Andrew Daley had, at the date of retirement, an indirect interest in 121,681 ordinary shares in PanAust held by The Motherlode Superannuation Fund of which Mr Daley was a beneficiary.

(iii) Geoff Handley has an indirect interest in 54,202 ordinary shares in PanAust held by his spouse.

(iv) Geoff Billard has an indirect interest in 25,207 ordinary shares in PanAust through Macquarie Investment Management Limited, of which Mr Billard is a beneficiary.

(v) Annabelle Chaplain has an indirect interest in 18,250 ordinary shares in PanAust held by WWSC Pty Ltd as trustee for the Willem A Willink Superannuation Fund of which Ms Chaplain is a beneficiary.

(vi) John Crofts has an indirect interest in 31,739 ordinary shares in PanAust held by BT Funds Management Limited.

During the periods reported, Zezhong Li did not have a direct or an indirect interest in PanAust.

(e) Other transactions with key management personnel

(i) Assaying fees of US$3,080,914 (2011: US$1,715,457) paid to Australian Laboratory Services Pty Ltd (ALS) and subsidiaries on normal commercial terms. ALS is a wholly owned subsidiary of ALS Limited of which Nerolie Withnall is Chairman.

25 Key management personnel disclosures (continued)

(e) Other transactions with key management personnel (continued)

(ii) PanAust's long-term share service provider is Computershare Limited, of which Nerolie Withnall is a Director. Service fees of US$521,501 (2011: US$552,553), have been paid to Computershare during the year on normal commercial terms.

26 Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is PanAust Limited.

(b) Directors and specified executives

Disclosures relating to Directors and specified executives are set out in note 25.

(c) Subsidiaries

Interests in subsidiaries are set out in note 27.

(d) Transactions with other related parties

As at 31 December 2012, the Company had advanced loans to the Managing Director and other senior executives for the purchase price of shares issued to the Managing Director and other senior executives under the Long Term Share Plan (LTSP). The shares are held on trust and will be released to the Managing Director and other senior executives if the vesting conditions are met and the shares have vested, the loans to the Company have been paid or appropriate arrangements entered into for repayment of the loans upon the sale of the related shares. Further details with regards to the LTSP are included in the Remuneration Report and note 24.

27 Subsidiaries and transactions with non-controlling interests

Name of entity * Beneficial interest	**Place of incorporation**	**Class of shares**	**Equity holding ***	
			2012 **%**	2011 %
PanAust Services Pty Ltd	QLD	Ordinary	**100**	100
PanAust Exploration Pty Ltd	QLD	Ordinary	**100**	100
Pan Mekong Exploration Pty Ltd	QLD	Ordinary	**100**	100
Phu Bia Mining Limited (Subsidiary of Pan Mekong Exploration Pty Ltd)	Laos	Ordinary	**90**	90
PNA (Puthep) Pty Ltd	QLD	Ordinary	**100**	100
Puthep Co., Limited (Subsidiary of PNA (Puthep) Pty Ltd)	Thailand	Ordinary	**49**	49
PanAust Canada Ltd (incorporated)	Canada	Ordinary	**100**	100
Masons Hill Gold NL (incorporated)	WA	Ordinary	**90**	90
Terra Firma Resources NL (incorporated)	QLD	Ordinary	**100**	100
PanAust Holdings Pte Ltd	Singapore	Ordinary	**100**	100
PanAust IDO Holdings Pte Ltd (Subsidiary of PanAust Holdings Pte Ltd)	Singapore	Ordinary	**91.2**	90
PanAust IDO SpA	Chile	Ordinary	**91.2**	90
PanAust Minera IDO Limitada	Chile	Ordinary	**91.2**	90
PanAust South America Services SpA	Chile	Ordinary	**100**	100
Inca de Oro S.A. (a)	Chile	Ordinary	**60.2**	59.4
PanAust Executive Long Term Share Plan Trust	QLD	n/a	**n/a**	-
PanAust Services (Thailand) Company Limited	Thailand	Ordinary	**100**	-
PanAust Chile Holdings Pte Ltd	Singapore	Ordinary	**100**	-
PanAust Atacama SpA	Chile	Ordinary	**100**	-

27 Subsidiaries and transactions with non-controlling interests (continued)

(a) During the year ended 31 December 2012, Inca de Oro S.A. made calls upon shareholders. As a result of the responses to the calls and following the issue of shares, PanAust holds a 60.2% (2011: 59.4%) beneficial interest in Inca de Oro S.A.

28 Remuneration of auditors

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers ('PwC'), auditor of the Parent entity and its related practices:

	31 December 2012 US$	31 December 2011 US$
1. Audit services		
PwC Australia		
Audit and review of financial reports and other audit work	**315,837**	299,482
Related practices of PwC Australia		
Audit and review of financial reports and other audit work		
PwC Laos	**158,110**	147,549
PwC Chile	**25,231**	24,023
PwC Singapore	**17,000**	16,000
Total remuneration for audit services	**516,178**	487,054
2. Other services - PwC Australia		
Human resources matters	**94,851**	-
Other services	**55,766**	6,498
Total remuneration for other services	**150,617**	6,498

29 Commitments

(a) Capital commitments

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

	31 December 2012 $'000	31 December 2011 $'000
(i) Mine Property, plant and equipment		
Within one year	**22,226**	4,628
	22,226	4,628
(ii) Mine development		
Payable:		
Within one year	**-**	14,767
	-	14,767

(i) The total estimated capital cost for the Phu Kham Increased Recovery Project is US$45 million (incorporating a contingency of US$10 million). As at 31 December 2012, Project expenditure totalled approximately US$11 million and an additional US$13 million was contracted for.

(ii) The capital expenditure commitment for mine development represented the construction of the Ban Houayxai Gold-Silver Project which was completed in 2012.

29 Commitments (continued)

(b) Lease commitments: group as lessee

(i) Non-cancellable operating leases

	31 December 2012 $'000	31 December 2011 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**718**	306
Later than one year but not later than five years	**1,966**	284
Charged to profit or loss	**2,684**	590
Representing:		
Non-cancellable operating leases	**2,684**	590
	2,684	590

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

(ii) Finance leases

The Group leases various plant and equipment with a written down value of US$69.3 million (2011: US$46.7 million) under finance leases expiring between 31 December 2013 and 21 December 2016.

	31 December 2012 $'000	31 December 2011 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**31,722**	17,240
Later than one year but not later than five years	**55,531**	52,810
Minimum lease payments	**87,253**	70,050
Future finance charges	**(6,780)**	(6,106)
Total lease liabilities	**(6,780)**	(6,106)
Representing lease liabilities:		
Current	**28,861**	14,961
Non-current	**51,612**	48,983
	80,473	63,944

The weighted average interest rate implicit in the leases is 4.00% (2011: 3.65%).

30 Contingencies

Contingent liabilities

Included in the net assets of Inca de Oro S.A. is a contingent liability related to future royalties payable to Codelco as part of the sales agreement. At the time of acquisition, and at balance date, the Inca de Oro Copper-Gold Project was in the exploration and evaluation phase.

31 Business combination

(a) Summary of acquisition

During 2011, PanAust acquired a majority interest in the Chilean registered company Inca de Oro S.A. which owns the Inca de Oro Copper-Gold Project.

PanAust's interest in Inca de Oro S.A. is held through PanAust IDO Holdings Pte Ltd giving PanAust a 91.2% (2011: 90%) beneficial interest. The remaining 8.8% (2011:10%) beneficial interest in PanAust IDO Holdings Pte Ltd is held by an independent private company.

(b) Purchase consideration

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	
Fair value of net identifiable assets acquired (refer to (c) below)	**70,780**
Cash paid	**55,300**
66% of fair value of net identifiable assets acquired	**(46,715)**
Goodwill	**8,585**

(c) Assets and liabilities acquired

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Cash	**22,839**
Mining information	**25,500**
Tenements	**19,300**
Intangible assets	**1,553**
Deferred tax assets	**1,107**
Current tax assets	**483**
Plant and equipment	**4**
Trade and other payable	**(6)**
Net identifiable assets acquired	**70,780**
Net cash flow attributable to the acquisition in 2011	
Cash consideration paid in 2011 ($US5 million was held in escrow in 2010)	**50,300**
Less: Cash acquired	**(22,839)**
	27,461

Included in the net assets acquired is a contingent liability related to future royalties payable to Codelco as part of the sales agreement. At the time of acquisition, and at balance date, the Inca de Oro Copper-Gold Project was in the exploration and evaluation phase.

The goodwill is attributable to the perceived future profitability from the potential development of the Inca de Oro Copper-Gold Project.

(i) Non-controlling interest
In accordance with the accounting policy set out in note 1(b), the Group elected to recognise the non-controlling interests at the proportionate share of the acquired net identifiable assets.

32 Events occurring after the reporting period

On 22 January 2013, the Company entered into amended and restated facilities agreements for debt facilities totalling US$275 million. The facilities comprise a US$250 million revolving debt facility with a syndicate of seven banks, and a US$25 million working capital facility. The revolving debt facility amends and restates the previous facility entered into in 2010 which was scheduled to mature in 2013. Refer to note 18 for additional information.

As a result of the refinancing the bank loans, classified as current liabilities as at 31 December 2012, have now been reclassified as non-current liabilities.

On 21 February 2013, the PanAust Board of Directors declared an unfranked dividend of A$0.04 per share in respect of the year ended 31 December 2012. The dividend amount has not been provided for in the financial report for the year ended 31 December 2012.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

33 Parent entity financial information

(a) Summary financial information

	31 December 2012 $'000	31 December 2011 $'000
Balance sheet		
Current assets	**64,811**	51,796
Non-current assets	**461,752**	463,020
Total assets	**526,563**	514,816
Non-current liabilities	**205**	205
Total liabilities	**205**	205
Net assets	**526,358**	514,611
Shareholders' equity		
Issued capital	**548,029**	542,617
Reserves		
Share-based payments reserve	**34,466**	30,094
Retained earnings	**(56,137)**	(58,100)
	526,358	514,611
Profit or loss for the year	**20,601**	18,864
Total comprehensive income	**20,601**	18,864

33 Parent entity financial information (continued)

(b) Contingent liabilities of the parent entity

The parent entity had contingent liabilities at 31 December 2012 for a guarantee given in respect of the obligations of Phu Bia Mining Limited under equipment leases amounting to US$15.1 million (2011: US$23.4 million).

This guarantee may give rise to a liability in the parent entity if Phu Bia Mining Limited does not meet the obligations under the terms of the equipment lease facilities subject to the guarantee.

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

PanAust Limited
Directors' declaration
31 December 2012

In the Directors' opinion:

(a) the financial statements and notes set out on pages 47 to 99 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements as detailed above; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the financial year on that date, and
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

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

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Garry Hounsell
Director

Gary Stafford
Director

Melbourne
21 February 2013

Independent auditor's report to the members of PanAust Limited

Report on the financial report

We have audited the accompanying financial report of PanAust Limited (the company), which comprises the balance sheet as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the PanAust group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Auditor's opinion
In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 17-33 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion
In our opinion, the remuneration report of PanAust Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

D. G. Smith

Debbie Smith
Partner

Brisbane
21 February 2013

PanAust Limited
Shareholder information
31 December 2012

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows, and is current as at 15 February 2013.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security			
	Ordinary shares		Redeemable preference shares	% Issued Capital
Holding	**Total Holders**	**Units**		
1 - 1,000	4,534	2,059,179	-	0.34%
1,001 - 5,000	6,463	17,262,393	-	2.85%
5,001 - 10,000	2,407	18,062,638	-	2.98%
10,001 - 100,000	2,573	64,619,776	-	10.66%
100,001 - and over	171	504,151,083	-	83.17%
	16,148	606,155,069	-	100.00%

There were 954 holders of less than a marketable parcel of 157 ordinary shares totalling 40,219 shares.

B. Shareholders

Twenty largest quoted shareholders

	Ordinary shares	
	Number held	**Percentage of issued shares**
Name		
Guangdong Rising H.K. (Holding) Limited	121,026,698	19.97%
JP Morgan Nominees Australia Limited	95,584,187	15.77%
National Nominees Limited	82,972,329	13.69%
HSBC Custody Nominees (Australia) Limited	67,069,260	11.06%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	11,208,148	1.85%
Citicorp Nominees Pty Limited	10,978,631	1.81%
BNP Paribas Noms Pty Ltd <Master Cust DRP>	8,666,154	1.43%
AMP Life Limited	8,527,744	1.41%
Mr Robert Bryan	7,402,735	1.22%
UBS Nominees Pty Ltd	6,147,535	1.01%
BNP Paribas Noms Pty Ltd <SMP Accounts DRP>	5,949,013	0.98%
UBS Wealth Management Australia Nominees Pty Ltd	5,638,365	0.93%
Equity Trustees Limited <SGH20>	4,440,000	0.73%
RBC Dexia Investor Services Australia Nominees Pty Limited <GSAM A/C>	3,946,690	0.65%
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/C>	3,083,956	0.51%
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	2,754,268	0.45%
Mr Gary Stafford	2,316,506	0.38%
BNP Paribas Noms Pty Ltd <DRP>	1,439,653	0.24%
Suncorp Custodian Services Pty Limited <SGAEAT>	1,407,928	0.23%
Aust Executor Trustees SA Ltd <TEA Custodians Limited>	1,370,223	0.23%
	451,930,023	74.55%

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

C. Voting rights

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

C. Voting rights (continued)

D. Holders of other equity securities

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

Equity securities

	Total holders	Number of securities
Options under the Executives' Option Plan	2	3,220,000
Share rights under the Share Rights Plan, not subject to performance conditions	96	454,755

None of these equity securities have voting rights

E. On-market buy back

There is no current on-market buy back.