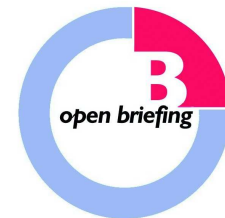


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PanAust Limited (ASX code – PNA) recently announced the completion of the cornerstone investment in PanAust by Guangdong Rising Assets Management (GRAM). GRAM has invested circa A\$216 million, about US\$187 million, to acquire a 19.9% stake in PanAust. What will PanAust do with the funds?

**MD Gary Stafford**

The GRAM investment has enabled PanAust to strengthen its balance sheet and the Company is now well positioned to fund growth initiatives. US\$100 million of the proceeds from the investment has already been applied to repay a significant portion of the Company's project debt. The balance of around US\$81 million in cash (after fees and costs) offsets PanAust's outstanding project debt of less than US\$80 million. We plan to restructure the Phu Kham project facility in order to gain more funding flexibility.

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What are the benefits of having GRAM as a cornerstone investor? How do you plan to grow the Company?

**MD Gary Stafford**

PanAust has a growth strategy aimed at doubling copper (or copper equivalent) production by 2013. GRAM has committed to support PanAust's strategic growth initiatives.

With PanAust's strengthened balance sheet and strong cash flow from the Company's flagship Phu Kham Operation, the Company is able to advance its organic growth projects and to acquire new copper projects.

In Laos, our near-term organic growth opportunities comprise the Ban Houayxai Gold-Silver Project and the Phu Kham Expansion. Both of these projects have the potential to make a significant contribution towards our five-year growth target and we have further development upside provided by the Phonsavan Copper Project. This latter project comprises three deposits in the northern part of the Contract Area in Laos where we will soon commence a two-year resource definition drilling program. At the Ban Phonxai Prospect near Ban Houayxai we will commence drilling a very large copper and gold anomaly that extends over a strike length of 6km.

In Thailand, the Puthap Copper Project joint venture has decided to extend the scope of the feasibility study to review copper leaching options for processing the predominantly chalcocite copper mineralisation.

As we progress the various projects we will start to see them compete for capital - a healthy position for a growing company.

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Recent drill results have been positive at the Ban Houayxai gold-silver deposit. Can you give a brief update?

**MD Gary Stafford**

Infill drilling at Ban Houayxai has identified upside to the current mineral resource estimate for oxide-transitional mineralisation and a new mineral resource estimate will be completed during the December quarter.

We expect to see an increase in the proportion of measured and indicated categories for the oxide-transitional mineral resource. Recent results have also indicated potential extensions to the oxide-transitional gold-silver mineralisation and intersected high-grade zones in the deeper primary zone.

The feasibility study is focused on establishing the viability of developing a mine based on the oxide-transitional mineralisation, which outcrops and persists to an approximate depth of 200 metres, and is scheduled to be completed by the end of the year for announcement in the March quarter 2010. However, the geological and metallurgical work has been encouraging and as a result we are planning to commence pre-development work in the next few months with the onset of the dry season. Surveying of the access road alignment has already commenced.

The initial mine life is expected to be at least six years and we are aiming to extend that to over ten years by confirming the resource potential of the primary mineralisation.

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How do you think Phu Kham has performed during 2009?

**MD Gary Stafford**

The Operation ramped up to design mining and processing rates through the second half of 2008 and so 2009 is our first full year of production and overall I would give us a seven out of 10. We should be able to improve on that performance. The main challenges for the Operation have been the ore handling characteristics and metallurgical performance of the near-surface transitional ore, and post commissioning mechanical issues. We now think that most of those challenges are behind us.

Safety performance was excellent up until the end of June this year with over 12 months lost time injury free. However, during the last two months there have been two contractor fatalities in areas of our operation and the Phu Kham management team has undertaken to redouble efforts in relation to contractor safety management with the aim of achieving the project's Zero Harm objective.

The metallurgical recovery issues are paradoxically related to one of the key advantages enjoyed by the Phu Kham Operation: a near-surface ore-body with probably the lowest strip ratio open-pit for a conventional flotation copper operation (designed to process primary copper mineralisation). While this benefit contributed to Phu Kham's very low (first quartile) capital cost base and continues to underpin low mining costs, the near-surface copper-gold ore is clayey in nature and comprises transitional (partially oxidised) copper minerals that have a lower recovery response than the primary copper mineralisation. Primary ore comprises approximately 70% of the Phu Kham Ore Reserve.

During 2009, transitional ore comprises 80% of the scheduled ore mined and processed. The transitional ore is complex, containing significant high-grade zones and different copper minerals. Despite success in processing transitional ores at the end of 2008, through the first half of this year an increase in the variability of copper grade and copper minerals caused instability in the flotation process and recoveries dipped below 60%. The feasibility study indicated metallurgical recoveries for copper would average 77%, ranging on an annual basis between 73% and 82% over the mine life.

We have now largely implemented a program of recovery improvement initiatives at Phu Kham and we have seen a significant improvement in copper recovery to approximately 70%. As part of the program we are now blending ore to provide a more consistent feed grade to the plant by reducing the impact of high-grade zones, and earlier this month we converted two conditioning tanks to flotation cells to increase the residence time for ore in the process plant. These initiatives appear to have had the desired effect which is very encouraging, though we need more operating time to determine whether the improvement is entirely due to the increased flotation capacity or whether we are processing ores with better metallurgical characteristics.

The clayey nature of the ore and lower than forecast mechanical availability, including two mill motor failures and several belt tears, have hampered efforts to maintain throughput rates. It is very unusual for mill motors to fail and to have two failures (one in March and one in June) is not a coincidence and led to a comprehensive review of possible causes and corrective action being taken.

Despite all of these challenges, the operating team has managed each issue professionally and diligently and I am confident we are making incremental improvements all of the time that will stand us in good stead for an improved operating performance as we move forward. Performance should also benefit from a decreasing proportion of clayey ore as the near-surface ore is depleted.

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How do you think you are faring with regard to delivery against production and operating cost guidance?

**MD Gary Stafford**

For the September quarter we are on track to produce between 13,000 tonnes and 13,500 tonnes of copper in concentrate. This would give copper production for 2009, to the end of September, of around 37,000 tonnes or an annualised rate of 50,000 tonnes. The December quarter is scheduled to be a high-grade quarter which, together with improved recovery rates and dry season conditions, should lead to significantly higher quarterly production. At the beginning of the year, we provided guidance for copper production of 60,000 tonnes  $\pm 5\%$  (57,000 to 63,000 tonnes). However, it is more likely that copper production will be closer to 53,000 tonnes.

During the first half of 2009, the Phu Kham C1 cash costs<sup>1</sup> (net of by-product credits for gold and silver) were in the second quartile<sup>2</sup> at US\$0.91/lb of payable copper despite the suboptimal performance through that period. During the September quarter, operating costs will be higher due to one-off unplanned maintenance costs (mill motor and belt repairs etc.). Consistent with global copper production<sup>2</sup>, we are also experiencing upward pressure on cash costs as input costs rise with the weaker US dollar. In particular, we are experiencing higher US dollar costs for fuel, steel, wages and power.

However, we are confident that we will remain cost competitive in global terms and the recovery of the copper price has far exceeded our expectations and, accordingly, our operating margins are significantly higher than anticipated with the strong gold price yielding higher by-product credits.

We will provide formal guidance in the September quarter report once we have completed production and cost reconciliation, and confirmed the outlook for the December quarter.

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<sup>1</sup> Brook Hunt convention - based on invoiced pricing for gold and silver

<sup>2</sup> Macquarie Research – Macquarie has reported that, between the 2009 March and June Quarters, there was a 7% increase in 50<sup>th</sup> percentile cost production and a 11% increase in 75<sup>th</sup> percentile cost production

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What is the potential to extend the life of the Phu Kham Operation?

**MD Gary Stafford**

There is potential to extend the resource at Phu Kham both to the immediate north, beyond the existing planned open pit, and through an infill drill program in the south to improve the definition of mineralisation within and below the current open pit design.

In the south pit area, the infill drill program has returned very encouraging results and has intersected above cut-off mineralisation up to 150 metres beneath the current open pit design. A similar program in 2007 in the north pit area led to an extension to the open pit and consequent increase in the ore reserve. Drilling in the south area is presently about 75% complete and the results will be incorporated into a new mineral resource estimate scheduled to be released in early 2010.

Our geological team is implementing a program of work with the objective of defining additional resources for the Phu Kham Operation. The goal is to maintain a 10-year mine life through all phases of production. In addition, nearby prospects will be included in programs that have the goal of extending mine life or identifying additional resources that could underpin future expansion of the Phu Kham Operation above and beyond the scheduled expansion of throughput from 12 Mtpa currently to 16 Mtpa in 2012.

To the north of the open pit we have previously confirmed the presence of cut-off grade copper-gold mineralisation in wide-spaced scout holes over an area that extends at least 800 metres to the northwest of the currently designed pit limit.

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Where do you want PanAust to be in 12 months time?

**MD Gary Stafford**

I want PanAust to be established as a consistent 60,000 to 65,000 tonnes per annum copper producer with construction underway at Ban Houayxai and poised to commence the expansion of Phu Kham. Of course this outlook assumes that the feasibility study for Ban Houayxai is successful and that all approvals for construction are obtained. If so, then gold and silver production from Ban Houayxai together with current production levels from Phu Kham will see annualised gold production climb to between 150,000 and 180,000 ounces and silver to over 1,000,000 ounces after the scheduled commissioning of Ban Houayxai in 2011.

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Thank you Gary.

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Forward-Looking Statements

This announcement includes certain "Forward-Looking Statements". All statements, other than statements of historical fact, included herein, including without limitation, statements regarding potential mineralisation, resources and reserves and development objectives of PanAust

Limited are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements.

For further information on PanAust Limited please visit [www.panaust.com.au](http://www.panaust.com.au) or call:

Allan Ryan, Investor Relations Manager, or Natalie Whale, Communications Manager on (07) 3117 2000.

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