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PANAUST

ASX ANNOUNCEMENT
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PanAust financial results review for the 12-months to 31 December 2014

- Sales revenue of US$678.8 million: record annual copper and silver production and sales were more than offset by materially lower pay-metal prices for all commodities sold, and lower gold production and sales.
- Loss after income tax for the year of US$221.4 million includes impairments totalling US$264.7 million.
- Loss after income tax attributable to PanAust Limited of US$178.1 million.
- Adjusted EBITDA[1] of US$194.2 million in line with guidance when adjusted for realised prices.
- Balance sheet net-gearing[2] remains modest at 12.3%.
- The total dividends declared for the year were A$0.03 per share. No final dividend was declared.
- A strategic review has identified in excess of US$50 million in combined operating and capital cost savings that are expected to be realised in the 2015 year.

Summary of results[3]

(US$ million)	12 months to 31 Dec 2014	12 months to 31 Dec 2013
Sales revenue	**678.8**	725.0
Sales revenue, derivative gains/losses and other income	**698.3**	734.0
Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA)	**194.2**	272.5
Profit / (loss) after income tax	**(221.4)**	43.7
Profit / (loss) after income tax, attributable to PanAust Limited	**(178.1)**	36.4
Basic earnings per share (US cents)	**(29.8)**	6.1
Dividend per share (Aust. cents)	**3**	6

This announcement is unaudited. Refer to page 8 for endnotes, including explanations of the non-IFRS measures used in the announcement and for reconciliation of non-IFRS data to IFRS data.

Record annual copper and silver production and sales were achieved. Copper, gold and silver production for 2014 exceeded guidance measures following particularly strong operating performances in the December quarter at both Phu Kham and Ban Houayxai. At Phu Kham, C1 costs beat guidance for the year and all in sustaining costs also reduced year-on-year with US$1.96/lb being achieved for the December quarter, a level consistent with guidance for 2015. The reported financial results largely reflect the impact of materially lower realised prices for all pay-metals sold, together with impairments (ref. page 5 'Impairments') recognised to the Ban Houayxai Operation due to a lower long-term gold price assumption, and to pre-development and discontinued exploration projects.

PanAust Managing Director, Dr Fred Hess, said "With the operations well established and performing consistently in line with plan, the Company can look to the future with confidence.

"PanAust has a clear strategy which is focused on maximising the returns from its producing assets while advancing the Frieda River Copper-Gold feasibility study. The study is expected to be completed by 2015 year-end and be funded from cash flow from operations.

"Annual copper production at Phu Kham is expected to rise over the next several years to peak at 90,000t in 2018 and 2019 as grades improve. This increase, together with a declining strip ratio from 2016 onwards, is expected to enhance cash flow during the anticipated lead up to development of the Frieda River Project. No further development capital is required at the Lao operations to achieve this growth.

"The business efficiency review that commenced in November 2014 already reflects operating and capital cost savings of over US$50 million versus the starting position last November. These expenditure improvements have been incorporated into guidance for 2015 and further opportunities continue to be pursued. The PanAust business is now better positioned to be competitive throughout the full copper price cycle. Disappointingly, the measures undertaken were validated almost immediately by the extreme copper price volatility experienced during January 2015.

"The short to medium term metal price outlook, combined with PanAust's focus on advancing the Frieda River Project towards possible development has led the Company to recognise impairment charges totalling US$186.9 million against the carrying values for Inca de Oro, Carmen and KTL and for exploration projects where no material work programs are planned for the foreseeable future.

"I remain confident that the fundamental outlook for the copper market, and therefore the copper price, is positive in the medium and longer term. A cautious approach to fiscal management today, coupled with preparing Frieda River for a development decision when the market forces are likely more favourable, will lead to the prudent management of risk and enhanced returns for shareholders," he said.

2014 production and financial results discussion

Income

PanAust consolidated loss after income tax for the year to 31 December 2014 was US$221.4 million (2013: profit of US$43.7 million), which included impairments (refer to balance sheet section on page 5 of this report) totalling US$264.7 million (2013: impairments of US$50.9 million).

Sales revenue from ordinary activities of USUS678.8 million (2013: US$725.0 million) benefited from a 9% increase in sales of copper in concentrate and a 37% increase in silver in concentrate and doré. However, this was more than offset by a 6% reduction in gold output and lower commodity prices being realised across all pay-metals. The average prices realised after hedging for sales during 2014 were US$3.05/lb for copper, US$1,282/oz for gold and US$18.5/oz for silver (2013: US$3.34/lb, US$1,378/oz and US$22.8/oz respectively).

Adjusted EBITDA of US$194.2 million (2013: US$272.5 million) was within the guidance range of US$200 million to US$225 million after correcting for the lower actual average realised copper price of US$3.05/lb (guidance range assumption US$3.20/lb to US$3.40/lb). The PanAust Board has decided that the Company will no longer provide one-year forward guidance for EBITDA due to the volatility and uncertainty in relation to the incorporated metal price assumptions.

Depreciation and amortisation charges increased by US$10.8 million to US$129.1 million, primarily due to the higher units of copper production that were achieved in 2014 versus the previous year.

Cash flows and production

Net cash inflow from operating activities was US$161.8 million (2013: US$171.5 million). Copper in concentrate sales increased by nearly 9% to 68,122t and silver sales in concentrate and doré increased by 37% to 1,264,666oz, largely driven by higher silver grades at Ban Houayxai. Gold sales in concentrate and doré decreased by just over 10% to 165,049oz as a result of lower average ore head grades at both Phu Kham and Ban Houayxai, and, a lower average recovery rate at Ban Houayxai as greater quantities of transitional ore were mined and processed.

Production summary (100% equity basis)	Units	**12 months to 31 Dec 2014**	12 months to 31 Dec 2013
Copper in concentrate	t	**71,155**	64,885
Gold in concentrate and doré	oz	**168,755**	183,769
Silver in concentrate and doré	oz	**1,279,625**	955,357

Phu Kham and Ban Houayxai remain competitive on both a C1[i] cost and all-in sustaining cost[ii] basis despite the impact of lower prices for precious metal credits.

The Phu Kham C1 cost was US$1.39/lb copper after deducting precious metal credits (2013: US$1.36/lb copper), and the all-in sustaining cost was US$2.21/lb copper (2013: US$2.37/lb). The near 7% improvement in all-in sustaining costs was driven by lower unit mining, processing and concentrate haulage costs, a reduction in sustaining capital, and higher copper production levels, which more than offset higher treatment and refining charges and site support charges, an increase in waste stripping, and a reduced contribution from precious metal credits.

[i] C1 cost is a Brook Hunt convention for the reporting of direct costs comprising: mine site, product transportation and freight, treatment and refining charges and marketing costs; based on payable metal content after by-product credits.

[ii] All-in sustaining cost is C1 cost plus indirect costs (an allocation of Brisbane corporate support and shared services costs); royalties; sustaining capital; lease principal and interest charges; and deferred mining and inventory adjustments capitalised.

The Ban Houayxai C1 cost was US$737/oz gold after deducting silver credits (2013: US$611/oz gold), and all-in sustaining costs were 2% higher than the previous year at US$987/oz (2013: US$964/oz). This result reflects the benefits realised from productivity improvements that led to lower unit mining and processing costs, reduced sustaining capital and a larger silver by-product credit, as well as the impacts from higher material movements in the open pit, lower gold production levels and a weaker average realised silver price.

In November 2014 PanAust implemented a business efficiency review aimed at ensuring the business remains competitive throughout the copper price cycle. On 14 January 2015, PanAust announced organisational changes as part of the review that resulted in a reduction in the workforce across the Group of 182 people (approximately 5% of the workforce). The changes are expected to result in an annual operating cost reduction of approximately US$15.5 million. One-off charges relating to redundancy payments totalling approximately US$4.2 million have been recognised in the 2014 accounts and will be paid to employees during the March quarter 2015.

There was no capital expenditure on major development projects during the year (2013: US$25.6 million). Sustaining capital expenditure, excluding deferred stripping costs, reduced to US$44.4 million compared with US$88.7 million in 2013. The result largely reflects the completion of the accelerated development of the Phu Kham tailings storage facility and the expansion of the Phu Kham mining fleet.

No major capital project expenditures are planned for 2015. Sustaining capital for Lao operations in 2015 is estimated to be US$16.8 million, which is included in the all-in sustaining cost guidance figures (ref. page 6 'Operating outlook'). New equipment leases totalling US$24.1 million are expected in 2015, with the associated incremental amortisation and service costs also included in the all-in sustaining cost guidance figures. Unallocated corporate capital expenditures are expected to be less than US$2.0 million.

Capitalised deferred stripping costs increased to US$44.7 million (2013: US$21.1 million). Approximately 62% of waste material mined was capitalised as deferred waste in 2014 as the open-pit wall at Phu Kham was cut back to provide access to much deeper ore (ref. page 7 'IFRIC 20' for further detail). Minimal quantities of deferred waste are expected to be capitalised in 2015.

Payments for the investment in Frieda River Limited amounted to US$38.0 million (2013: nil), which includes a consideration of US$25 million paid to Glencore plc, together with approximately US$4.4 million to reimburse costs incurred by Glencore plc from the date of the share sale and purchase agreement (31 October 2013) to conclusion of acquisition (25 August 2014). Project development and post-acquisition support expenditures totalled US$8.6 million.

Expenditures on the Frieda River Project in 2015 are expected to total approximately US$50 million, including feasibility study costs, corporate support and site based activities. A further US$50 million[iii] is due to be paid to Glencore plc on 31 December 2015 in satisfaction of the final acquisition instalment.

PanAust increased its investment in Highlands Pacific Limited in August 2014 via a placement for US$4.5 million (US$4.7 million in 2013) as a result of exercising its option under a Share Placement Agreement.

[iii] Subject to consumer price index escalation between the date of the agreement (31 October 2013) and on a quarterly basis each year prior to payment

Exploration and evaluation expenditures were lower at US$23.8 million (2013: US$48.4 million), which reflected the conclusion of resource drilling programs during 2013 in Laos and Chile, and a transition to lower cost regional exploration and target generation activities.

During 2014, PanAust's 90% owned subsidiary, Phu Bia Mining, remitted to the Government of Laos US$36.2 million in royalty payments and a profits tax payment (paid in arrears for the 2013 year) of US$3.1 million. In addition, US$20.7 million in value added tax and customs and excise duties was paid during the year, which is able to be offset against 2014 profits tax payable in 2015.

Payment of dividends to shareholders totalled approximately US$29.4 million (2013: US$37.1 million), which excludes dividends taken as PanAust shares under the Company's Dividend Reinvestment Plan.

Dividend

The total dividends paid to shareholders of PanAust for the 2014 year were A$0.03 per share. No final dividend was declared.

Balance sheet

At 31 December 2014, PanAust had cash of US$74.1 million; debt of US$130.0 million; undrawn debt facilities of US$145.0 million; and mobile equipment lease facilities drawn to a total of US$57.2 million.

Net debt (including lease facilities) increased by US$12.9 million during 2014 and balance sheet net-gearing[iv] at 31 December 2014 was 12.3%.

Impairments

Using long-term assumptions of US$1,250/oz and US$16/oz for gold and silver respectively, the impairment review of the operating assets has resulted in recognition of an post-tax impairment of US$50.9 million (pre-tax US$67.9 million) against the written down value of the Ban Houayxai Gold-Silver Operation. After recognition of the impairment, the carrying value of the Ban Houayxai Gold-Silver Operation is approximately US$200 million. In addition, US$12.4 million has been written off against the value of the Ban Houayxai low-grade mineralisation stockpiles. This decision reflects the price assumptions above and updated test work which shows lower recoveries than those assumed in prior analysis. These stockpiles will remain accessible and at higher gold prices may prove to be viable, and therefore be able to be economically processed in the future.

Lower long-term commodity price assumptions coupled with PanAust prioritising the advancement of the Frieda River Project, the Company has recognised impairment charges totalling US$186.9 million against pre-development projects (where a development commitment is deemed unlikely during the five year strategic planning window) and for discontinued exploration prospects. Specifically, the impairment amounts were: US$92.8 million for Inca de Oro, US$8.6 million of goodwill; US$30.9 million for Carmen; US$27.6 million for KTL;

[iv] Balance sheet net-gearing = net debt / (net debt +equity)

US$27.1 million associated with the various Lao exploration prospects; and, US$9.9 million for other capitalised costs.

Safety

PanAust safety performance continues to be a strong focus of the Company. The Company's lost time injury (LTI) and total recordable injury (TRI) frequency rates continue to be significantly better than industry averages and are comparable to the lowest rates reported by companies listed on the Australian Securities Exchange.

The LTI frequency rate on a 12-month rolling average basis at 31 December 2014 was 0.15 per million man-hours which compares favourably to the 2014 target of 0.20 per million man-hours. The TRI frequency rate on a 12-month rolling average basis at 31 December 2014 was 0.88 per million man-hours which compares favourably to the 2014 target of 1.67 per million man-hours.

Operating outlook

PanAust expects consolidated 2015 production to rise to 73,000t to 76,000t copper in concentrate, and precious metal production in concentrate and doré of 175,000oz to 183,000oz of gold and 1.3Moz to 1.4Moz of silver.

At Phu Kham, copper production is expected to rise to between 73,000t and 76,000t at an average C1 cost of between US$1.45/lb and US$1.50/lb copper after precious metal credits from 80,000oz to 83,000oz of gold and 500,000oz to 550,000oz of silver. The all-in sustaining cost is expected to fall to between US$1.95/lb and US$2.00/lb copper. Peak life-of-mine material movements in the open pit are scheduled to continue in 2015 with nearly 56 million tonnes budgeted to be mined (waste to ore ratio 1.9 to 1, similar to 2014). Minimal quantities of deferred waste are scheduled to be capitalised for the year. The mill processing throughput is expected to rise to 19.5 million tonnes of ore due to higher operating time and processing rates. The strip ratio is expected to decline from 2016 onwards and, together with increasing copper production from higher grades, will contribute to increased cash flow.

At Ban Houayxai, gold production is expected to remain steady at between 95,000oz and 100,000oz at an average C1 cost between US$650/oz and US$700/oz gold after credits from between 800,000oz and 850,000oz silver. The all-in sustaining cost is expected to fall to between US$850/oz and US$900/oz. In 2015 the strip ratio is expected to be approximately 1 to 1 and mill throughput is scheduled to be 4.7 million tonnes, nearly 20% above design capacity. As with Phu Kham, minimal quantities of deferred waste are scheduled to be capitalised for the year.

Cost estimates for both mines incorporate the anticipated benefits of the workforce rationalisation announced in January 2015 and the ongoing business efficiency review. They assume a diesel price of US$0.70 per litre delivered to site based on an oil price of approximately US$70/barrel. This compares with an average of US$0.89 per litre achieved across both mines in 2014.

The organisational changes announced in January 2015 have delivered an increased focus on productivity and business efficiency. The objective of the organisational restructure is to realise the full cash flow potential of the Company's operating assets to support the advancement of the Frieda River Copper-Gold Project, which has the potential to sustain the business for decades to come and provide a platform for growth.

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IFRIC 20

Under IFRIC 20 (Stripping Costs in the Production Phase of a Surface Mine) which was effective for annual reporting periods beginning on or after 1 January 2013, each mining stage of a mining operation is reviewed on its own merits to determine when the cutback costs of a new stage of ore body cease and when operational waste removal commences. As a broad guideline, waste costs associated with new mining stages are capitalised (deferred waste mining costs) until such time as substantial ore can be extracted on a commercial basis. These costs are subsequently recognised in depreciation and amortisation.

Forward-Looking Statements and Financial Data

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

Financial data for the 12-month period to 31 December 2014 presented in this announcement are sourced from the Financial Statements for the year ended 31 December 2014 lodged by PanAust with the Australian Securities Exchange and it is recommended that this document be referenced to provide the appropriate form and context for such data.

[1] The Adjusted measure of earnings before interest, taxes, depreciation and amortisation (EBITDA) excludes from profit before income tax the effects of profit or loss items such as depreciation, amortisation and impairment, interest revenue and expense, and equity-settled share-based payments. Reconciliation of EBITDA to IFRS data is presented below.

Group Consolidated	12 months to 31 Dec 2014	12 months to 31 Dec 2013
	US$'000	**US$'000**
Adjusted EBITDA	194,244	272,454
Interest expense (net of interest revenue) and finance charges	(20,725)	(21,506)
Depreciation and amortisation	(129,110)	(118,336)
Impairment	(264,742)	(50,850)
Retrenchments	(4,231)	-
Exploration costs expensed	(1,670)	(1,869)
Provision for rehabilitation expensed	(1,209)	(3,514)
Share-based payments	(6,668)	(5,771)
Change in fair value of investment in Highlands Pacific Limited	(1,859)	(1,182)
Profit/(loss) before income tax	**(235,970)**	**69,426**

[2] Balance sheet net-gearing = net debt / (net debt +equity).

[3] PanAust's assets in Laos are held by Phu Bia Mining Limited (PBM). The Government of Laos (GoL) owns a 10% interest in PBM. Results referred to in this announcement reflect 100% ownership of PBM other than the "Net profit after tax attributable to PanAust Limited" which recognises the GoL minority interest.