



ASX ANNOUNCEMENT

1 November 2013

PanAust to acquire 80% of the Frieda River Project and a cornerstone interest in Highlands Pacific

PanAust Limited has entered into a share sale and purchase agreement with a subsidiary of Glencore Xstrata plc ("Glencore") for PanAust to acquire Glencore's interest in the Frieda River Copper-Gold Project in Papua New Guinea by acquiring all of the shares held by Glencore in Xstrata Frieda River Limited (XFRL), a PNG registered company (the "PanAust Glencore Agreement").

The PanAust Glencore Agreement is subject to a condition precedent relating to all applicable regulatory approvals including under the approval given by the Ministry of Commerce, People's Republic of China relating to Glencore International plc's merger with Xstrata plc and the Investment Promotion Authority of Papua New Guinea.

At the same time as entry into the PanAust Glencore Agreement, PanAust has entered into an agreement with Highlands Pacific Limited ("Highlands") which has the minority interest in the Frieda River Project (the "PanAust Highlands Agreement"). Under the PanAust Highlands Agreement, PanAust will take an initial placement of ordinary shares in Highlands equating to 7.5% of the issued share capital. This placement is unconditional. Subject to completion of the PanAust Glencore Agreement, the PanAust Highlands Agreement provides the framework for the future relationship between PanAust and Highlands in relation to further equity support and the Frieda River Joint Venture.

The acquisition of Frieda River will be consistent with PanAust's strategy to ensure that it has access to sufficient mineral resources to secure the Company's sustainable growth beyond the life of its Phu Kham Operation in Laos. The likely timing for implementation of PanAust's development concept for Frieda River coincides with rising production levels scheduled for Phu Kham.

The PanAust Glencore Agreement

The initial consideration comprises US\$75 million in two instalments. The first instalment will be US\$25 million upon transaction close. The second instalmentⁱ of US\$50 million will be made on 31 December 2015. In addition, on successful completion of a development at Frieda River,

ⁱ subject to consumer price index ("CPI") escalation between the date of signing and on a quarterly basis each year prior to payment

2013 WINNER
PROJECT DEVELOPMENT OF THE YEAR



2013 WINNER – SUSTAINABILITY LEADERSHIP
2010/2011 WINNERS – BEST COMMUNITY DEVELOPMENT



2011 LAO PDR LABOUR ORDER CLASS 1
BEST RURAL DEVELOPMENT



2011 WINNER – SOCIAL/COMMUNITY
PRESENTED BY ETHICAL INVESTOR



Glencore will receive a 2% net smelter return royalty (on PanAust's interest in the Project) to a total aggregate amount of US\$50 millionⁱⁱ.

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

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

The PanAust Highlands Agreement

The Frieda River Project is a joint venture between XFRL and Highlands Pacific Limited. In settlement of an existing dispute between XFRL and Highlands, PanAust and Highlands have agreed that upon completion under the PanAust Glencore Agreement the initial respective interests of each joint venture party will be 80% and 20% respectively.

In the event that the Government of PNG exercises its right to acquire up to a 30% interest in the Frieda River Project, then PanAust (XFRL) will sell down the first 20% of any shares acquired by the Government and, thereafter, the parties will each sell an equal number of shares to the Government up to the maximum level of 30%, i.e. should the Government of PNG exercise its full entitlement to 30% of the Project then, PanAust (XFRL) will sell down to a 55% controlling share and Highlands will sell down to a 15% share.

PanAust is also pleased to announce that it will take a 7.5% shareholding in Highlands through a placement of 64,432,990 fully paid ordinary shares at a subscription price of \$0.0776/share, being a 30% premium to the volume weighted average share price of Highlands' shares traded on the ASX and Chi-X over the last month.

In addition, for the period of 90 days from the date of completion under the PanAust Glencore Agreement, PanAust will have the option to subscribe for a further 64,432,990 fully paid ordinary shares at a subscription price of \$0.0776/share in Highlands (the "additional shares") and Highlands will have the option to require PanAust to subscribe for the additional shares on the same terms.

Lastly, upon completion under the PanAust Glencore agreement, XFRL will relinquish its option to acquire an interest in an exploration tenement currently being explored by Highlands in the Star Mountains. This tenement is not part of the Frieda River Project.

Background and development concept

The Frieda River Project is located on the border of the Sandaun (formerly West Sepik) and East Sepik provinces in Papua New Guinea (Figure 1) and is one of the largest undeveloped copper and gold deposits in the world (Table 1). It is approximately 200 kilometres from the northern coastline of Papua New Guinea and 70 kilometres from the Sepik River. The Project site is located in the foothills of the Schattenberg Range at elevations ranging from 300mRL to 800mRL.

PanAust notes that the area has similar terrain to that of Laos where the company's existing operations are situated.

ⁱⁱsubject to CPI escalation between the date of signing and on a quarterly basis each year prior to final payment

The most recent feasibility study by the joint venture had considered the development of a large scale project, which had identified the need for large infrastructure development and complex material handling solutions which had rendered the Project relatively expensive to develop.

As part of its due diligence work, PanAust completed a scoping study based on a smaller circa 24 million tonne per annum conventional open pit and flotation operation producing a copper-gold concentrate for export to custom smelters.

The scoping study assumed mill feed sourced from the HIT deposit, of 430 million tonnes grading 0.54% copper and 0.3g/t gold and provided average annual production (100% basis) of over 100,000 tonnes of copper and 160,000 ounces of gold in concentrate at a competitive cash cost of approximately US\$1.25/lb (after gold credits) over a plus 18-year mine life. The economics are in large part driven by the low strip ratio (less than 0.6:1 including pre-strip).

This scale of development is more befitting the capability of PanAust with development capital estimated to be in a range of US\$1.5 billion to US\$1.8 billion (100% basis, 2013 dollars) which would equate to a competitive capital intensity of less than US\$13,000/t of annual copper equivalent production.

Table 1: Mineral Resource estimates (100% equity basis)

MINERAL RESOURCES	Category	Tonnes (Mt)	Copper Grade (%)	Gold Grade (g/t)
Horse-Ivaal-Tukai (0.2% copper cut-off)	Measured	780	0.51	0.28
	Indicated	410	0.44	0.20
	Measured and Indicated	1,190	0.49	0.25
	Inferred	900	0.4	0.2
Nena (0.3% copper cut-off)	Measured	-	-	-
	Indicated	33	2.81	0.65
	Measured and Indicated	33	2.81	0.65
	Inferred	12	1.84	0.45

Given the size of the existing Mineral Resources relative to the scoping study proposal, and potential for exploration to define additional mineralisation, it is likely that there will be significant scope for expanding the Project and the feasibility study will include an option analysis for future expansions, that may include the high-grade Nena deposit, with the objective of ensuring the final design for the initial development can accommodate subsequent expansion(s).

Figure 1: Location of Frieda River



Source: Glencore

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Cautionary Statement

The above production and cost data are based on a scoping study level evaluation completed as part of the Company's due diligence and incorporates only Measured and Indicated Mineral Resources for the HIT deposit. There is no guarantee that the future outcome of a feasibility study will provide the same results.

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 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.

Competent Person Statements

The data in this report that relate to the Horse-Ivaal-Tukai Mineral Resources are based on information reviewed by Mr Daniel Brost who is a Member and Chartered Professional (Geology) of the Australasian Institute of Mining and Metallurgy (MAusIMM CP).

Mr Brost is a full time employee of PanAust Limited. Mr Brost has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Mr Brost consents to the inclusion in the report of the Horse-Ivaal-Tukai Mineral Resources in the form and context in which they appear.

The data in this report that relate to the Nena Mineral Resources are based on information reviewed by Mr Paul Gow who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM).

Mr Gow is a full time employee of Glencore Xstrata plc. Mr Gow has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Mr Gow consents to the inclusion in the report of the Nena Mineral Resources in the form and context in which they appear.