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ASX Announcement

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HAYES CREEK PFS FUNDED THROUGH FORWARD SALE OF SILVER

Study on zinc-silver-gold project in the NT now well underway with gold and base metals exploration also continuing in the region

PNX Metals Limited (**ASX:PNX**) is pleased to announce that the technical components of a Pre-Feasibility Study (**PFS**) on its Hayes Creek Zinc, Gold and Silver Project in the Pine Creek region of the Northern Territory are now fully-funded after the Company secured \$1.6 million via the signing of two agreements for the forward sale of silver from the Project (see key terms below).

The PFS, due for completion in mid-2017, expands on the Scoping Study, which indicates that mining and processing ore derived from both open-pit and underground operations at Hayes Creek would generate strong financial returns for PNX.

Hayes Creek is located in a favourable mining jurisdiction in the Pine Creek region of Northern Territory, less than two hours by road from Darwin (Figure 1). The development strategy includes the use of existing infrastructure, which will further boost the economics and reduce the risks of the Hayes Creek Project.

Total estimated inferred and indicated mineral resources of 3.885 million tonnes grading 4.59% zinc, 2.05g/t gold, 130g/t silver, 1.05% lead and 0.3% copper are contained across two deposits, Iron Blow and Mt Bonnie, which are situated less than 3km apart on granted Mineral Leases.¹

Pre-feasibility studies have commenced following the successful Scoping Study, with the aim of improving the certainty of the mining inventory and associated operating and development costs, and reducing technical risk.

PNX Managing Director James Fox said the forward sale mechanism was a beneficial funding route for shareholders.

“The forward sale, at this early stage, of a small amount of the total silver that we believe may be produced from the Hayes Creek Project is an important step and allows us to continue to execute our development strategy.”

“These agreements provide the funds to complete the technical components of the PFS without diluting shareholders. Progressing the PFS will further demonstrate and increase the value of the Hayes Creek Project, which will in turn assist with future project funding.”

“At the same time, we are pursuing our gold and base metals exploration program in the region with the aim of diversifying our opportunities.”

¹ See ASX Releases 1 Feb 2016 for Mt Bonnie Resource Estimate, and 3 November 2014 for Iron Blow Resource Estimate

Key Terms of Silver Streaming and Royalty Agreements:

- \$1.6 million in total, to be received on or before 10 June 2016, under separate but identically structured Silver Streaming and Royalty Agreements (**Agreement**) signed with two investors (**Investor**).
- Each Agreement results in the forward sale of 112,000 troy ounces (**oz**) of silver for \$0.8 million to be delivered at a rate of 14,000 oz per quarter (56,000 oz per year) for 2 years once commissioning and ramp up of the Project is complete, expected to be in 2019.
- Each Investor may exercise an option (**Option**), within 3 months of completion of the PFS, to increase the amount of silver by 56,000 oz to be delivered over a further one year period for payment, made at the time of exercising the option, of \$0.4 million. *Note: If the Option is exercised by an Investor it will have paid a total of \$1.2 million to PNX and will receive a total of 168,000 oz silver at the rate of 14,000 oz silver per quarter over three years.*
- At the end of the two year (or, if the Option is exercised by an Investor, three year) silver delivery period, each Investor will be entitled to a 0.24% (or 0.36%, if the Option has been exercised) Net Smelter Return (**NSR**) royalty. The NSR royalty applies in respect of gold and silver produced from the Hayes Creek Project, and will be paid for a 5 year period from the end of the silver delivery period.
- PNX can buy back the NSR royalty from an Investor prior to production commencing for \$0.27 million (or \$0.4 million, if the Option is exercised).
- If production at the Hayes Creek Project has not commenced within 5 years and PNX or an Investor elects to terminate the Agreement, the forward payment made by that Investor (\$0.8 million, or \$1.2 million, if the Option has been exercised) converts to PNX shares based on a 30 day VWAP. The NSR royalty will also apply in these circumstances in relation to each tenement comprising the Hayes Creek Project for 5 years from when production commences on that mining tenement.
- If shareholder approval and/or Foreign Investment Review Board approval is required but not received in relation to the conversion to shares then the applicable forward payment is to be repaid in cash.
- If production at the Hayes Creek Project is suspended for 12 consecutive months during the silver delivery period and PNX or an Investor terminates the Agreement then the amount that converts to PNX shares, or is to be repaid in cash, is an amount equal to that portion of the forward payment representing the undelivered silver. The NSR royalty will also apply in this circumstance in respect of each mining tenement comprising the Hayes Creek Project for 5 years from when production recommences on that mining tenement.

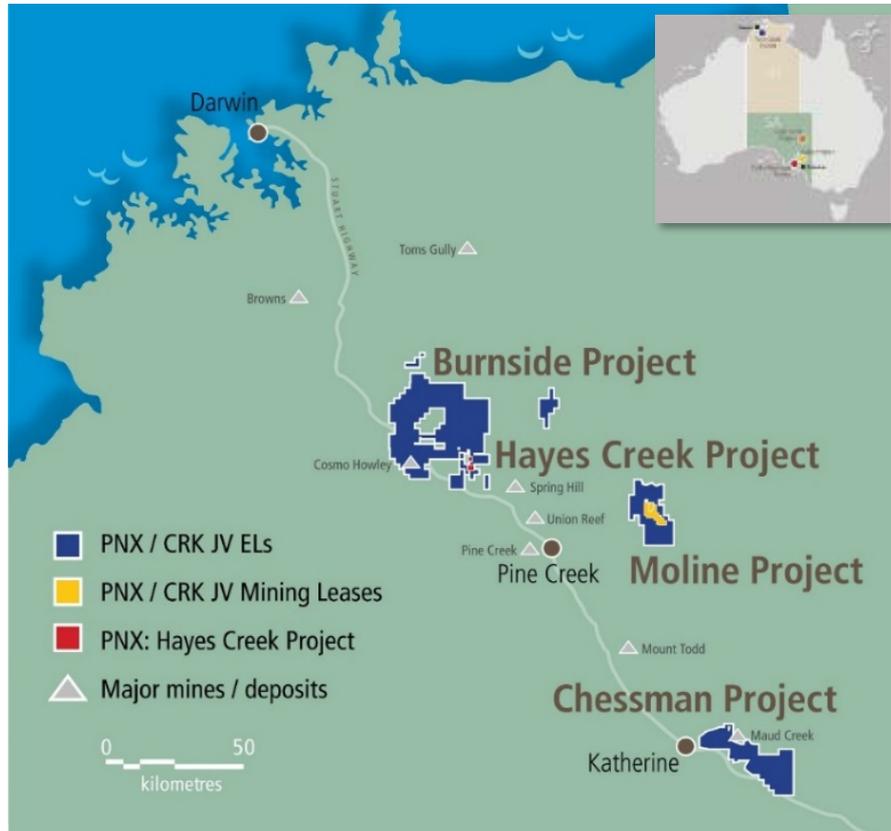


Figure 1: Hayes Creek Project and the Burnside, Moline and Chessman Exploration Projects

Competent Person’s Statement

The information in this report that relates to Exploration Results is based on information compiled by Mr Andrew Bennett, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Bennett has sufficient experience relevant to the style of mineralisation and the type of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr Bennett is a full time employee of PNX Metals Ltd and consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

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