

PNX METALS LIMITED (PNX)

Golden opportunities aplenty

We visited PNX Metals Limited's (PNX) Hayes Creek Project, ~150km south of Darwin, NT. While (as per the PFS) the Hayes Creek plant will produce a polymetallic concentrate (Zn, Ag, Cu, Pb, Au) which includes sulphide gold, there are numerous free gold mineral deposits and occurrences within the broader area including Cosmo-Howley, Woolwonga, Brocks Creek, Fountain Head/Tally Ho and Goodall, with around 2Moz Au produced historically. There is also a large alluvial gold occurrence dating back to the 1870's where around 60koz Au is believed to have been mined historically from the alluvials and shallow pits. In 2016 and prior to any PNX drilling, Newmarket (Kirkland Lake) estimated that an unconstrained 73koz remained at Fountain Head.

PNX is very excited about the gold opportunities around the broader Fountain Head and Tally Ho area where it acquired tenure in a land swap with Kirkland Lake in early 2018. The Company recently announced an impressive **6m @ 39.5g/t Au** from 54m (incl. 1m @ 215g/t Au) at the Banner prospect, which lies ~1.5km northeast of the historic Fountain Head/Tally Ho pits, along the region anticline. The ten hole RC program on 200m line spacings was designed to test a 500m long, 1g/t+ Au soil/RAB anomaly and from our field inspections, it is very apparent just how under-explored the region is. PNX has also drilled beneath the historic pits and looks to have extended the mineralisation, intercepting broad mineralised zones and high-grade pods: **16m @ 1.4g/t Au** from surface (incl. **1m @ 8.4g/t Au**) – Fountain Head; **2m @ 4g/t Au** from 21m and **5m @ 4g/t Au** from 107m (incl. 2m @ 9.2g/t Au) – Tally Ho. Drilling is ongoing.

The host rock consists of siltstones, mudstones and shales with high grade gold occurring in sheeted and ladder veins, all within a regional anticline. PNX and others liken this to Newmont's large Callie Mine (7Moz+) where the mine stratigraphy consists of tightly folded sediments in a moderately ESE plunging anticlinorium; hence the excitement.

Extracting value from the free gold

While a resource is yet to be defined, PNX is busy assessing ways to monetise the free gold opportunities. The current design for the Hayes Creek plant does not accommodate free gold but the addition of a CIL/gravity circuit could easily be included in the Feasibility Study (FS). A delay to the Hayes Creek FS wouldn't be a bad outcome if a free gold scenario was added to better the overall economics. There is also the nearby Union Reef plant where Kirkland Lake processed its Cosmo ore until recently, and is aiming to treat its Lantern underground ore once production recommences in the near term.

Early days, more results to come; Speculative Buy

We eagerly await the results of ongoing drilling around Fountain Head/Tally Ho as well as Moline, and have been encouraged by the prospectivity, both regionally and within PNX's ground. We have increased our exploration value for PNX's portfolio and have added a discovery scenario to our price target; however, we have given this a low weighting to reflect the early stage of exploration and the current cash position of PNX.

Our valuation has increased but been diluted by the recent placement to give a NAV of 1.8cps (down from 2.0cps) and an unchanged 12-month price target of 2.2cps. Spot NAV is 1.7cps.

	12 Sep 2018
Share Price	\$0.007
Valuation	\$0.018
Price Target (12 month)	\$0.022

Brief Business Description:
Base and precious metals explorer & developer

Hartleys Brief Investment Conclusion
PNX is focused on the Hayes Creek polymetallic project in the NT. The recent PFS considers mining of the Mt Bonnie o/p and Iron Blow u/g mines. PNX aims to be a zinc producer with silver, gold, copper and lead credits.

Chairman & MD
Graham Ascough (Non-Exec Chairman)
James Fox (MD & CEO)

Top Shareholders

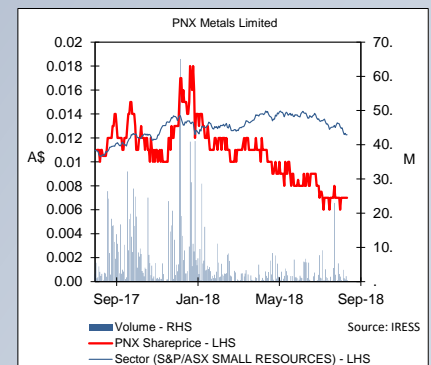
Marilei International Limited	10.4%
Delphi Unternehmensberatung Aktiengesell	8.9%

Company Address
Level 1, 135 Fullarton Road
Rose Park, SA 5067

Issued Capital	1509.4m
- fully diluted	1602.0m
Market Cap	A\$11m
- fully diluted	A\$11m
Cash (post placement)	A\$4.2m
Debt (30 June 2018a)	A\$0.0m
EV -current	A\$6.3m
EV - fully diluted	A\$3.4m

	Prelim. (A\$m)	FY19e	FY20e	FY21e
Prod (Kt ZnEq)	-	1	10	
Op Cash Flw	2.2	-0.4	10.8	
Norm NPAT	0.4	-3.8	1.8	
CF/Share (cps)	0.0	-0.1	0.1	
EPS (cps)	0.0	-0.1	0.1	
P/E	32.0	-5.6	11.8	

	Mt	ZnEq (%)
Resources	4.1	10.9
Reserves	0.0	0.0



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Hartleys has assisted in the completion of capital raisings in the past 12 months for PNX Metals Limited ("PNX"), for which it has earned fees. Hartleys has also provided corporate advice within the past 12 months and continues to provide corporate advice to PNX, for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 20 million unlisted options in PNX Metals Limited.

SUMMARY MODEL

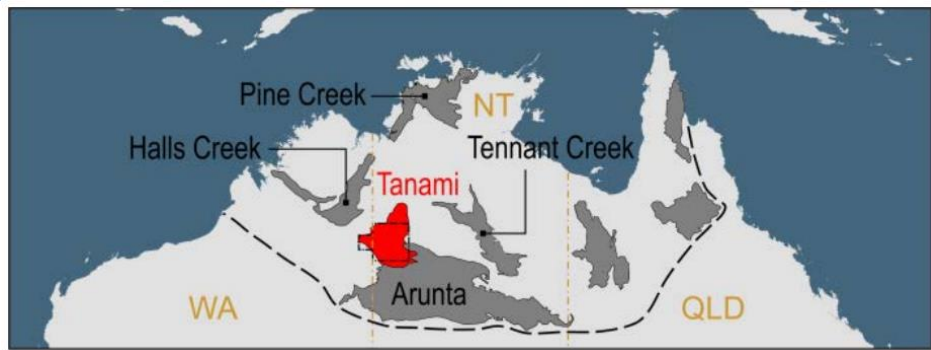
PNX Metals Limited								Share Price		12 September 2018											
PNX								\$0.007		Speculative Buy											
Key Market Information																					
Share Price								\$0.007													
Market Capitalisation - ordinary								A\$11m													
Net Cash (Debt)								\$4m													
Market Capitalisation - fully diluted								A\$11m													
EV								A\$7.0m													
Issued Capital								1509.4m													
Options								92.5													
Issued Capital (fully diluted inc. all options)								1602.0m													
Issued Capital (fully diluted inc. all options and new capital)								4766.3m													
Valuation								\$0.018													
12month price target								\$0.022													
P&L																					
	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22														
Net Revenue	A\$m	0.0	0.0	0.0	2.6	35.0	110.3														
TOTAL COSTS	A\$m	-3.0	-0.9	-0.9	-4.2	-27.3	-64.9														
EBITDA	A\$m	-3.0	-0.9	-0.9	-1.6	7.7	45.4														
- margin	%	0%	-	-	-63%	22%	41%														
Depreciation/Amort	A\$m	0.0	-0.8	-1.6	-5.0	-8.2	-8.9														
EBIT	A\$m	-3.0	-1.6	-2.5	-6.6	-0.5	36.6														
Net Interest	A\$m	0.0	1.2	3.1	1.2	3.1	1.2														
Norm. Pre-Tax Profit	A\$m	-3.1	-0.4	0.6	-5.4	2.6	37.8														
Reported Tax Expense	A\$m	0.4	0.0	0.0	0.0	0.0	2.2														
effective rate	%	-13.2%	0.0%	0.0%	0.0%	0.0%	-5.8%														
Normalised NPAT	A\$m	-2.1	-0.3	0.4	-3.8	1.8	26.4														
Abnormal Items	A\$m	-0.6	-0.1	0.2	-1.6	0.8	9.2														
Reported Profit	A\$m	-2.7	-0.4	0.6	-5.4	2.6	35.6														
Minority	A\$m	0.0	0.0	0.0	0.0	0.0	0.0														
Profit Attrib	A\$m	-2.7	-0.4	0.6	-5.4	2.6	35.6														
Balance Sheet																					
	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22														
Cash	A\$m	1.4	1.0	52.9	-0.2	4.5	31.1														
Other Current Assets	A\$m	0.6	0.3	0.3	0.3	0.3	0.3														
Total Current Assets	A\$m	2.1	1.4	53.2	0.1	4.9	31.4														
Property, Plant & Equip.	A\$m	0.0	-0.7	14.4	60.0	55.8	52.9														
Exploration	A\$m	6.9	7.4	9.4	11.4	13.4	15.4														
Investments/other	A\$m	0.1	0.0	0.1	0.1	0.0	0.0														
Tot Non-Curr. Assets	A\$m	7.0	6.7	23.8	71.5	69.3	68.4														
Total Assets	A\$m	9.0	8.1	77.0	71.6	74.2	99.7														
Short Term Borrowings	A\$m	-	-	-	-	-	-														
Other	A\$m	0.6	0.1	0.1	0.1	0.1	0.1														
Total Curr. Liabilities	A\$m	0.6	0.1	0.1	0.1	0.1	0.1														
Long Term Borrowings	A\$m	1.2	-	21.2	21.2	21.2	11.2														
Other	A\$m	1.7	1.7	1.7	1.7	1.7	1.7														
Total Non-Curr. Liabil.	A\$m	2.9	1.7	22.9	22.9	22.9	12.9														
Total Liabilities	A\$m	3.5	1.7	23.0	23.0	23.0	13.0														
Net Assets	A\$m	5.6	6.3	54.0	48.6	51.2	86.8														
Net Debt (cash)	A\$m	-0.2	-1.0	-31.6	21.4	16.7	-19.8														
Cashflow																					
	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22														
EBITDA	A\$m	-3.0	-0.9	-0.9	-1.6	7.7	45.4														
Working Capital	A\$m	2.1	-0.2	0.0	0.0	0.0	0.0														
Operating Cashflow	A\$m	-0.9	-1.1	-0.9	-1.6	7.7	45.4														
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0	0.0	-2.2														
Interest & Other	A\$m	0.0	1.2	3.1	1.2	3.1	1.2														
Operating Activities	A\$m	-0.9	0.1	2.2	-0.4	10.8	44.4														
Property, Plant & Equip.	A\$m	0.0	0.0	-16.7	-50.7	-4.0	-5.9														
Exploration and Devel.	A\$m	-3.4	-0.5	-2.0	-2.0	-2.0	-2.0														
Other	A\$m	0.0	0.0	0.0	0.0	0.0	0.0														
Investment Activities	A\$m	-3.5	-0.5	-18.7	-52.7	-6.0	-7.9														
Borrowings	A\$m	0.0	0.0	21.2	0.0	0.0	-10.0														
Equity or "tbc capital"	A\$m	4.4	0.0	47.1	0.0	0.0	0.0														
Dividends Paid	A\$m	0.0	0.0	0.0	0.0	0.0	0.0														
Financing Activities	A\$m	4.1	0.0	68.4	0.0	0.0	-10.0														
Net Cashflow	A\$m	-0.2	-0.4	51.8	-53.1	4.8	26.5														
Shares																					
	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22														
Ordinary Shares - End	m	741.1	741.1	4325.5	4325.5	4325.6	4325.6														
Ordinary Shares - Weighted	m	624.4	741.1	2533.3	4325.5	4325.6	4325.6														
Diluted Shares - Weighted	m	624.5	741.1	2533.4	4325.6	4325.6	4325.6														
Ratio Analysis																					
	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22														
Cashflow Per Share	A\$ cps	-0.1	0.0	0.1	0.0	0.1	0.0														
Cashflow Multiple	x	0.0	0.0	0.0	0.0	0.0	0.0														
Earnings Per Share	A\$ cps	-0.4	-0.1	0.0	-0.1	0.1	0.8														
Price to Earnings Ratio	x	-1.6	-12.9	32.0	-5.6	11.8	0.9														
Dividends Per Share	AUD	-	-	-	-	-	-														
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%														
Net Debt / Net Debt + Equity	%	-4%	-19%	-141%	31%	25%	-30%														
Interest Cover	X	na	1.3	0.8	5.5	0.2	na														
Return on Equity	%	na	na	1%	na	4%	30%														
Directors																					
Graham Ascough (Non-Exec Chairman)										Level 1, 135 Fullarton Road											
James Fox (MD & CEO)										Rose Park, SA 5067											
Paul Dowd (Non-Exec Director)										+61 8 8364 3188											
David Hillier (Non-Exec Director)										www.pnxmetals.com.au											
Peter Watson (Non-Exec Director)																					
Top Shareholders																					
Marlei International Limited								156.77		10.4%											
Delphi Unternehmensberatung Aktiengesellschaft								134.54		8.9%											
BNP Paribas Noms Pty Ltd								71.56		4.7%											
Sochrastem SA								63.15		4.2%											
Potezna Gromadka Ltd								58.96		3.9%											
Reserves & Resources																					
Reserves								Mt		Zn (%)		Pb (%)		Cu (%)		Ag (g/t)		Au (g/t)		ZnEq (%)	
Resources								Mt		Zn (%)		Pb (%)		Cu (%)		Ag (g/t)		Au (g/t)		ZnEq (%)	
Mt Bonnie								1.5		3.8		1.1		0.2		127		1.3		9.5	
Iron Blow								2.5		4.7		0.8		0.3		122		2.1		11.8	
Measured								-		-		-		-		-		-		-	
Indicated								3.5		4.9		1.0		0.28		137		1.9		12.0	
Inferred								0.6		1.4		0.4		0.10		52		1.5		5.0	
Total								4.1		4.3		0.9		0.25		124		1.8		10.9	
Production Summary								Unit		30 Jun 17		30 Jun 18		30 Jun 19		30 Jun 20		30 Jun 21		30 Jun 22	
Mill Throughput								Mt		-		-		0.015		0.158		0.451			
Mined grade								Zn Eq (%)		-		-		6.6		8.9		10.1			
Combined Recovery & Payability								%		-		-		69.3%		69.3%		69.3%			
Zinc								kt		-		-		0.1		3.0		12.6			
Lead								kt		-		-		0.1		1.2		2.9			
Copper								kt		-		-		0.0		0.1		0.5			
Silver								koz		-		-		30.9		457.5		1,445.8			
Gold								koz		-		-		0.7		5.4		12.7			
Zinc Eq								kt		-		-		0.7		9.7		31.7			
Zinc Eq								mib		-		-		1.5		21.4		69.9			
Modelled mine life								yr		-		-		7.5		6.5		5.5			
Modelled mining inventory								Mt		-		-		5.5		4.9		4.2			
Costs								Unit		30 Jun 17		30 Jun 18		30 Jun 19		30 Jun 20		30 Jun 21		30 Jun 22	
Cost per milled tonne								\$/t		-		-		282.3		173.2		143.7			
EBITDA / tonne milled ore								\$/t		-		-		-109.1		48.9		100.6			
Total cash costs								\$/lb Eq		-		-		2.81		1.28		0.93			
- ex royalties								\$/lb Eq		-		-		2.68		1.17		0.82			
C1: Operating Cash Cost = (a)								\$/lb Eq		-		-		1.97		1.11		0.81			
(a) + Royalty = (b)								\$/lb Eq		-		-		2.10		1.23		0.91			
C2: (a) + depreciation & amort. = (c)								\$/lb Eq		-		-		5.30		1.50		0.93			
(a) + actual cash for dev. = (d)								\$/lb Eq		-		-		36.97		1.40		0.92			
C3: (c) + Royalty								\$/lb Eq		-		-		5.43		1.61		1.04			
(d) + Royalty								\$/lb Eq		-		-		37.10		1.51		1.03			
Total cash costs as per P&L								\$/lb Eq		-		-		2.81		1.28		0.93			
All in sustaining cash cost (AISC)								\$/lb Eq		-		-		4.77		1.42		0.97			
Price Assumptions								Unit		30 Jun 17		30 Jun 18		30 Jun 19		30 Jun 20		30 Jun 21		30 Jun 22	
AUDUSD								A\$/US\$		0.75		0.77		0.75		0.76		0.77		0.79	
Zinc								US\$/lb		1.25		1.32		1.35		1.22		1.19		1.17	
Lead								US\$/lb		1.03		1.12		1.03		1.03		1.00		0.98	
Copper								US\$/lb		2.71		2.97		3.00		3.20		3.30		3.34	
Silver								US\$/oz		17.66		18.29		17.42		18.14		18.57		18.86	
Gold								US\$/oz		1241.37		1252.64		1300.00		1335.73		1320.75		1325.57	
Hedging								30 Jun 17		30 Jun 18		30 Jun 19		30 Jun 20		30 Jun 21		30 Jun 22			
Hedges maturing?								No		No		No		No		No		No			
Sensitivity Analysis																					
Base Case								Valuation		0.018		FY22 NPAT		35.6							
Spot Prices								0.02 (-6.0%)				31.3 (-12.0%)									
Spot USD/AUD 0.71, Zinc \$1.04/lb, Lead \$0.89/lb, Copper \$2.65/lb, Silver \$14.11/oz.																					
AUDUSD +/-10%								0.01 / 0.02 (-20.4% / 22.3%)				28.4 / 42.5 (-20.3% / 19.3%)									

BACKGROUND

PNX is an NT focussed gold and base metals explorer/developer with a large package a highly prospective tenure. The 2017 PFS for Hayes Creek sees the Mt Bonnie open pit and Iron Blow underground producing 119kt Zn, 9.3Moz Ag, 95koz Au and 21kt Cu/Pb in recoverable metal concentrates over a 6.5-year operating life of mine. Preproduction capex is expected to be less than A\$60M. The Company is also undertaking a Feasibility Study for the project and will look to augment this with additional discoveries at the nearby Moline Project where assays are pending for recent drilling. Moline has numerous anomalous geochem and geophysical targets to test. The Mt Bonnie resource is set to grow following extensional drilling in 2017, which also demonstrated the deposit remains open further to the south.

Fig. 1: Location of PNX's tenure (Pine Creek) and other regional orogens

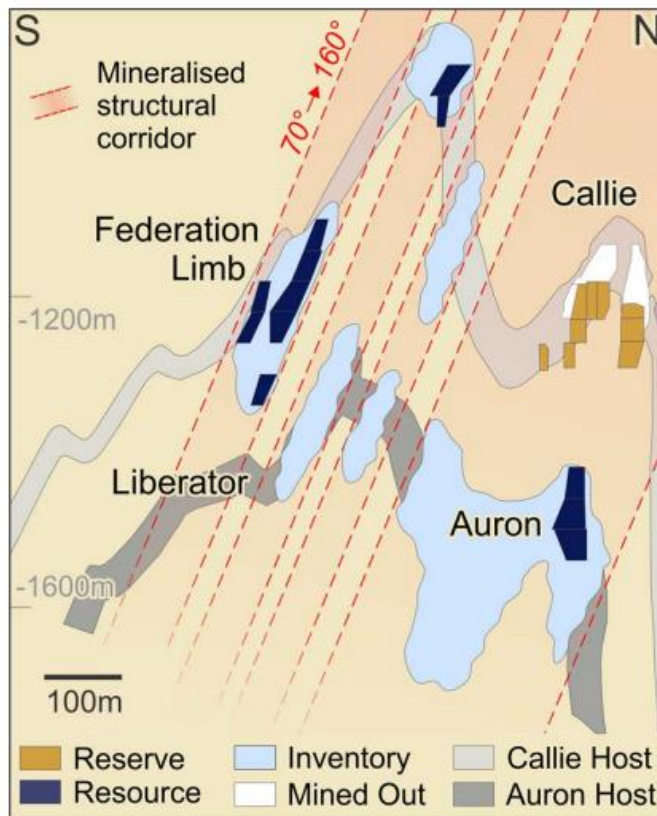
PNX's portfolio of tenements is focussed around the Pine Creek Orogeny in the NT.



Source: Newmont Mining Corp.

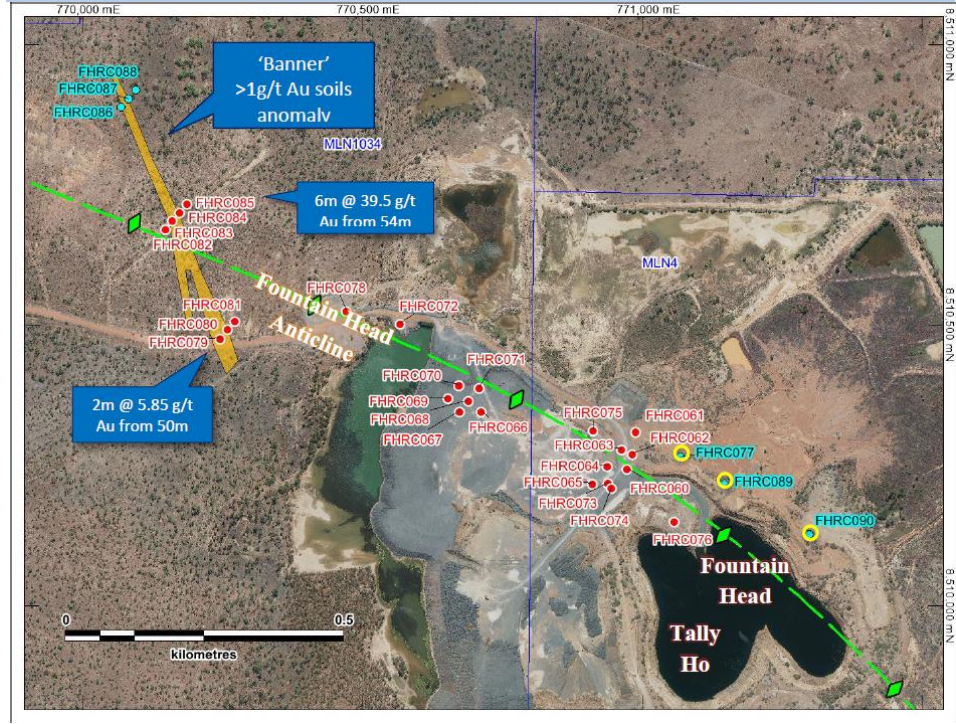
Fig. 2: Anticline hosted orogenic gold at Callie (section)

PNX is exploration for Callie style gold in the Pine Creek region.



Source: Newmont Mining Corp.

Fig. 3: Anticline hosted orogenic gold at Fountain Head (plan)



Source: PNX Metals Limited

Fig. 4: [Click to view Hartleys' Site Visit video](#)

Digital readers can view our site visit video on YouTube.



Source: Hartleys' Research

EXCELLENT LOCAL INFRASTRUCTURE

For a fairly remote part of Northern Australia, the Pine Creek region is well serviced by infrastructure with the Stuart Hwy, Darwin-Adelaide railway, gas pipeline, grid power and abundant mobile reception easily accessible. PNX appears to have built up excellent relationships with local stakeholders and operators, sharing core processing and camp facilities with Kirkland Lake, and working well alongside private explorers such as Bacchus Resources.

VALUATION

Our sum of parts valuation for PNX is based on discounted cashflows and assumes a 7.5 year mine life (including ~1 year pre-strip) at Hayes Creek with production from early FY20 after a ~12 month development build time. We model the Hayes Creek operations in line with the Company's PFS. We consider the PFS as a base case scenario and see potential for additional mill feed through mine extension and regional exploration at the likes of Burnside and Moline. We assume a nominal \$A40m (0.8cps) value for exploration upside potential. We believe PNX is well positioned for exploration success within its large tenement holding.

Fig. 5: Hartleys Sum of Parts Valuation for PNX

Share Price Valuation (NAV)	Risked Est. A\$m	Est. A\$/share
100% Hayes Creek (pre-tax NAV at disc. rate of 12%)	59.8	0.013
Other Exploration	40.0	0.008
Hedging	0.0	0.000
Corporate Overheads	-5.9	-0.001
Net Cash (Debt)	4.2	0.001
Tax (NPV future liability)	-17.3	-0.004
Expected future franking credits	0.0	0.000
Options & Other Equity	3.6	0.001
Total	84.3	0.018

Hartleys sum of parts valuation for PNX is 1.8 cents per share

Source: Hartleys' Estimates

PRICE TARGET

Our price target for PNX is based on our NPV₁₂ base case for the Hayes Creek at spot and consensus prices. We also include a discovery and net cash backing scenario.

Fig. 6: PNX Price Target Methodology

Price Target Methodology	Weighting	Spot	12 mth out
NPV ₁₂ base case	70%	\$0.018	\$0.022
NPV ₁₂ base case at spot commodity and fx prices	10%	\$0.017	\$0.021
Significant discovery by PNX in Pine Creek region - 1Moz AuEq	10%	\$0.034	\$0.04
Net cash backing	10%	\$0.003	\$0.003
Risk weighted composite		\$0.018	
12 Months Price Target		\$0.022	
Shareprice - Last		\$0.007	
12 mth total return (% to 12mth target + dividend)		216%	

Hartleys 12-month price target is 2.2 cents per share

Source: Hartleys' Estimates

RISKS

Key risks for PNX include completion of further studies (DFS due in 2H18), funding (both for ongoing exploration activities and future development) and commodity sentiment/demand.

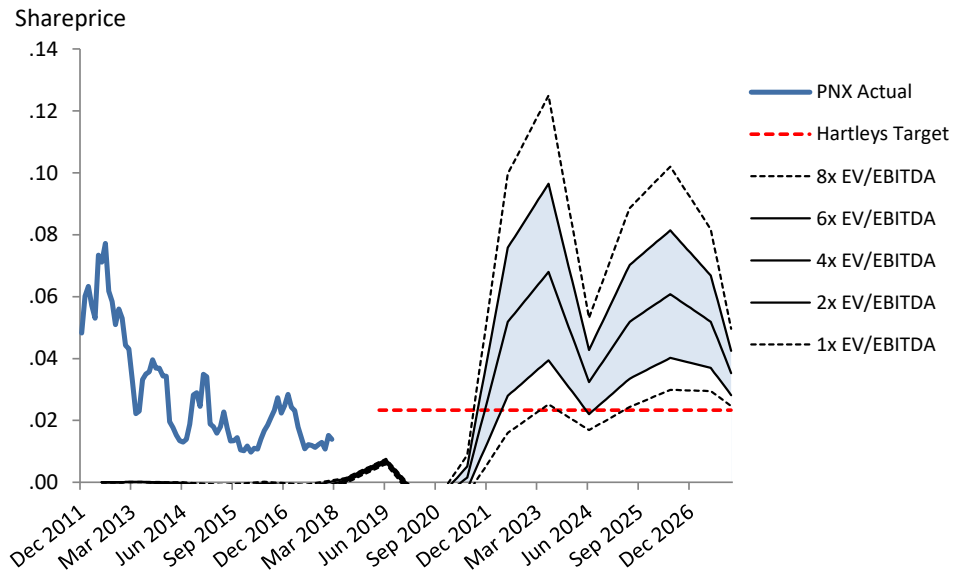
Fig. 7: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
6.5 year mine life at Hayes Creek	Moderate	Meaningful	We model a 6.5 year mine life, which includes a large component of waste striping in year 1, in line with the PFS. If the operations vary largely from our modelling, our valuation will be at risk.
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of PNX, changes in these assumptions can change our valuation to both the upside and downside.
Exploration upside potential	Moderate	Meaningful	We assume exploration upside at Hayes Creek and further afield within the Burnside and Moline Projects. Some downside risk to our valuation exists if PNX has no exploration success.
Funding	Low to Medium	High	We model conventional debt & equity funding (40:60), we believe the low capex requirement should see our modelling assumptions achievable.
Orebody Risk	Low to Medium	Meaningful	As with all orebodies there is risk around geology, geotech and metallurgy.
Commodity prices	Moderate	High	PNX is reliant on commodity prices maintaining consensus performance and is very much economic at current spot prices.
<i>Conclusion</i>	<i>We have made significant assumptions but believe these are achievable.</i>		

Source: Hartleys' Research

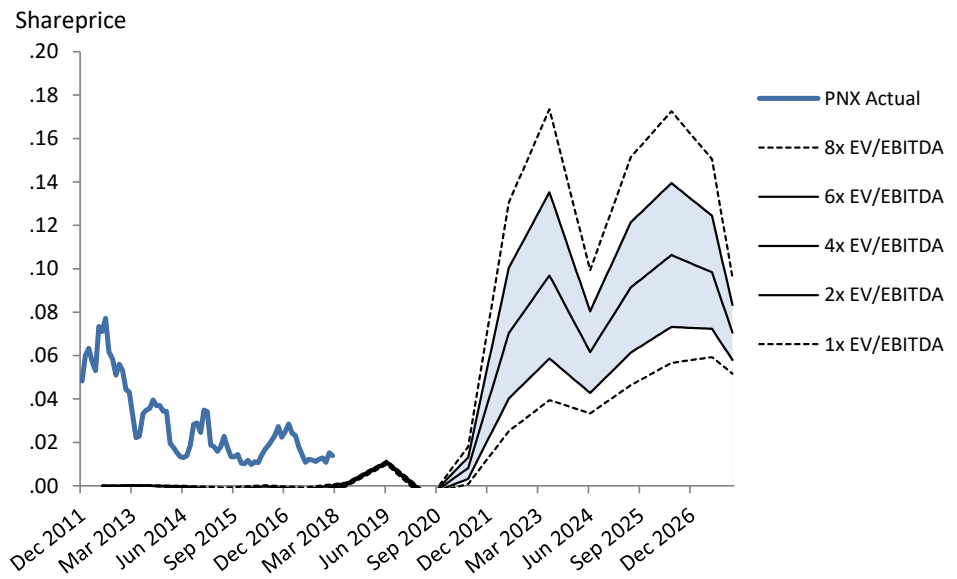
EV/EBITDA BANDS

Fig. 8: Using Hartleys base case commodity forecasts



Source: Hartleys' Estimates, IRESS

Fig. 9: Using spot commodity prices



Source: Hartleys' Estimates, IRESS

HARTLEYS CORPORATE DIRECTORY

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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The analyst travelled to site at the expense of PNX, with all associated costs being covered by PNX.

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