

Quarterly Activities Report

June 2020

This announcement has been authorised to be lodged with the ASX by the Board of Directors of PNX Metals Limited.



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ASX: PNX

Issued Capital as at 31/07/20:
2,542,621,476

Board & Management:

Non Exec Chairman: Graham Ascough
Non Exec Director: Paul J Dowd
Non Exec Director: Peter J Watson
Non Exec Director: David Hillier
Non-Exec Director: Hans-Jörg Schmidt
MD/CEO: James Fox
CFO/Co Secretary: Angelo Gaudio

Top Shareholders as at 31/07/20:

Delphi Unternehmensberatung 41.8%
Sochrastem SA 6.7%
Marilei International Limited 6.2%

Share Registry:

Computershare
Investor Services Pty Ltd
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Phone:
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Quarterly Highlights:

Northern Territory Project Development

- Updated Mineral Resource estimate completed for the Fountain Head Gold Project (reported in accordance with JORC Code, 2012) (*ASX release 16 June 2020*):
 - 2.94 Mt at 1.7 g/t Au for 156,000 oz Au (Indicated and Inferred)
- Resource update adds 18koz Au, representing a 13% increase in contained gold, including a 20.5% increase to the Indicated resource category
- Technical studies and development plans for near-term gold production at the Fountain Head Gold Project (**Project**) progressing on schedule
- Project Environmental Impact Statement (**EIS**) technical studies complete subject to final edits, prior to submission during August 2020
- Project dewatering mine management plan (**MMP**) proposal completed and ready for submission
- Development of an exploration strategy with the aim of providing a continuing pipeline of gold mineral resources for processing

Corporate

- Non-binding Term Sheet for a proposed financial commitment of up to A\$40m and a proposed joint venture (JV) to develop the Fountain Head Gold Project signed with private company Halifax Capital (HC) and its subsidiary Bridge Creek Mining (BCM) (*PNX ASX release 15 July 2020*)
- Formal documentation is being drafted to reflect the non-binding term sheet
- The proposed capital commitment by HC and JV represents a significant opportunity to establish the Project Infrastructure necessary to fast track the development of Fountain Head, and to generate a continuous pipeline of gold mineral resources through which both PNX and BCM will benefit equally.
- \$1.97 million cash on hand at 30 June 2020

COVID-19 Update

The safety of PNX employees and contractors is paramount and appropriate measures regarding COVID-19 have been taken in line with government advice, particularly in relation to interstate travel. NT field-based activities were suspended earlier in 2020 pending Government advice that access to site can be permanently re-established.

Interstate border restrictions between the NT and South Australia were removed from Friday 17 July 2020. PNX personnel will return to site from early August 2020 to re-commence field-based activities.

JUNE QUARTERLY ACTIVITIES REPORT

PNX Metals Limited (ASX: PNX) (“PNX”, “the Company”) is pleased to present its quarterly activities report for the period ended 30 June 2020.

Fountain Head Gold Project

With the recently executed non-binding term sheet with HC and BCM, and the parties intention to negotiate a binding joint venture agreement in good faith within a 90-day timeframe, the Company is working with BCM to assess the positive impact of the proposed milling and carbon-in-leach (CIL) process over previously envisaged gold heap leaching by PNX at the Fountain Head Gold Project. The CIL process route under consideration is expected to deliver material operating benefits through increased overall gold recoveries, and more stable and earlier cashflow from operations.

KEY TERMS OF THE NON-BINDING TERM SHEET

- HC to provide an unconditional and legally binding commitment at the time of execution of the Formal JV Agreement to fund \$40m of direct pre-development and development costs associated with the infrastructure for the Project (**Project Infrastructure**)
- BCM to be operator of the JV under the direction of the Management Committee (with equal PNX and BCM representation) and will be responsible for the co-ordination and delivery of the Project Infrastructure, operating performance, distribution of production share and invoicing of related costs
- The Project Infrastructure is to be owned by HC and located on PNX’s tenure at Fountain Head with the parties to contribute the following projects to the JV;
 - PNX to contribute the Fountain Head Gold Project, the Santorini exploration project and, under certain terms (see below) the Hayes Creek zinc-gold-silver deposits;
 - BCM to contribute the Yam Creek exploration project and Bridge Creek gold deposit that hosts historical gold resources that are to be updated and reported in accordance with the JORC Code 2012
- PNX is to be granted an option to acquire the Project Infrastructure on payment of an agreed amount or an independent market value subject to;
 - processing of Mineral Resources having occurred for at least 7 years after commencement of commercial production; or
 - all gold Mineral Resources from the PNX and BCM Projects having been mined, whichever occurs first.
- PNX may, in its absolute discretion, at any time after 12 months from the date of commercial production at Fountain Head, grant BCM an option to provide the full capital for the development of the infrastructure for the Hayes Creek Project on the same terms as capital for the Project Infrastructure, by PNX giving BCM notice that it wishes to commence Hayes Creek Infrastructure development. BCM will have 60 days to accept this notice

- If BCM accepts the Hayes Creek option, mining and processing at Hayes Creek would be under the JV and production and operating expenses would be shared between PNX and BCM equally
- If the Hayes Creek option is not accepted then mining and processing at Hayes Creek would be solely under PNX which will have access to the combined aspects of the Project Infrastructure e.g. water, power, tailings
- PNX would retain sufficient capacity in the FH mined out pit for future Hayes Creek tailings disposal
- The JV Agreement is expected to contain customary warranties and representations by each party

PNX's overall strategy remains to rapidly monetise the existing gold mineral resources at Fountain Head whilst retaining control over any future Hayes Creek Project development. The mined-out Fountain Head pit will be made available for use as tailings storage for subsequent sulphide flotation of ore from the Mt Bonnie and Iron Blow zinc-gold-silver deposits at Hayes Creek.

Near-term development of gold resources also capitalises on a supportive current and forecast gold price environment and preserves the in-ground value of the Hayes Creek Project in a low zinc price environment.

POTENTIAL BENEFITS FOR PNX

Significant potential benefits of the proposed transaction for PNX and its shareholders include:

- Removal of execution risk associated with funding uncertainty;
- Minimisation of potential future shareholder dilution from equity placements to cover Project capital;
- Increased certainty around construction and production timeframes due to funding commitment;
- Earlier and more stable cash flow from a CIL process, as opposed to heap leach;
- Increased project scale and therefore project life, through the inclusion of BCM gold projects;
- Reduces the requirement to engage, employ and train the requisite mining and processing staff for the project;
- Mitigates the risks associated with new project developments;
- PNX to focus on regional exploration, and assessing additional value-adding gold opportunities;
- Provision of a platform for growth through monetising possible additional stranded assets and lowers development hurdles for future discoveries.

FOUNTAIN HEAD UPDATED MINERAL RESOURCE ESTIMATE

PNX engaged independent mining consultants CSA Global Pty Ltd to assist with completing an updated Mineral Resource Estimate for the Fountain Head Gold Project (**FH MRE**) (reported in accordance with JORC Code, 2012) as summarised below in Table 1. (See also a report prepared by CSA Global including JORC Table 1 in ASX release 16 June 2020).

The update to FH MRE was based on new geological information derived from analysis and interpretation of the most recent 2019 and 2020 diamond and reverse circulation (RC) drilling where PNX drilled 77 RC and 2 diamond drill holes for 7,402m.

The FH MRE update adds 18koz Au, representing a 13% increase in contained gold, including a 20.5% increase to the Indicated resource category. The FH MRE occurs from surface down to approximately 190m and is amenable to open pit mining methods

Table 1: Fountain Head and Tally Ho Mineral Resources by JORC Classification as at 16 June 2020, reported utilising a cut-off grade of >0.7 g/t Au which is consistent with the assumed open cut mining method.

JORC Classification	Tonnage (Mt)	Au (g/t)	Ounces (Koz)
Tally Ho			
Indicated	0.94	2.0	59
Inferred	–	–	–
Total	0.94	2.0	59
Fountain Head			
Indicated	0.89	1.4	41
Inferred	1.11	1.6	56
Total	2.00	1.5	96
Total Fountain Head + Tally Ho*			
Indicated	1.83	1.7	100
Inferred	1.11	1.6	56
Total	2.94	1.7	156

* Due to the effects of rounding, the total may not represent the sum of all components

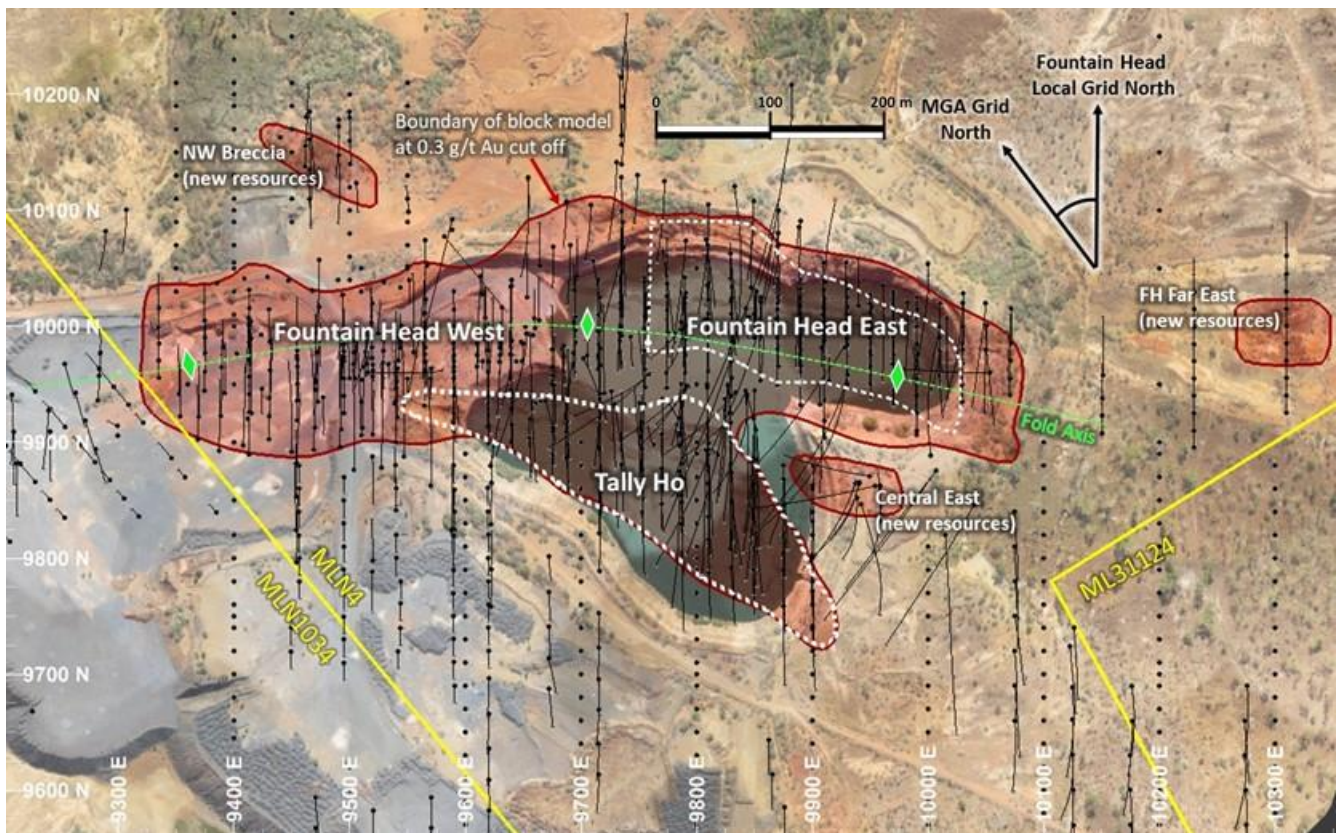


Figure 1: Plan view of the Fountain Head and Tally Ho Mineral Resources (red outline) showing proximity to historic mining areas, mineral leases and drill collar locations. Fountain Head anticline shown in green.

Of particular interest are the following areas that host the potential for additional near-surface gold mineralisation and to provide initial process plant feed.

Fountain Head West

Drill data density increased allowing for increased confidence in continuity of mineralisation resulting in 6,000oz Au elevated to the Indicated category for a total of 30,000oz Au. Mineralisation remains open along strike to the west where drilling highlights the mineralised structure for a further 800m towards the Banner Prospect (ASX release 23 August 2018).

Northwest Breccia

The Northwest Breccia is a newly identified mineralised extension outside the known resource and preliminary pit design with a similar orientation to the high-grade Tally Ho mineral lode. Mineralisation follows a NW trending, subvertical structure cross cutting the Fountain Head anticline. This highlights the potential, with drill testing, for further extensions to the resource within the broader mineralised envelope.

Fountain Head Far East

Approximately 200 metres east of the Fountain Head historical pit, mineralisation within 50m of the surface was identified in historical RC drill hole data – named 'Far East'. Updated geological modelling within this area has allowed for reinterpretation of the Far East mineralisation which appears to be predominantly associated with saddle reef lodes in the hinge of the Fountain Head Anticline. This zone has been identified for follow up drilling due to its position near-surface and higher grades (averaging 5.6g/t Au).

PROJECT DEVELOPMENT

Mining and Infrastructure

Open-pit mining optimisation processes were completed on the updated FH MRE.

Numerous options for gold price, operating costs and processing parameters were evaluated to derive the optimal and most sustainable pit shell under current and projected future economic parameters.

An updated pit design was generated on these optimisation shells and the Fountain Head Pit2D2 design (Figure 2) was selected as the preferred pit based on an A\$2,250/oz gold price (current price A\$2,716, 29 July 2020).

The updated and larger pit design contains approximately 110koz gold, an increase of approximately 10% (contained) compared to the 2019 pit design. This increase in ounces has primarily been derived from the recent RC drilling.

Geotechnical diamond core drilling could not be completed during the quarter due to NT travel restrictions, and final pit slope parameters are yet to be determined; however no significant changes are expected.

Dewatering

Dewatering of the existing FH void is a critical path item for both approvals and mining schedule.

The Company has developed a dewatering model that simulates ground water discharge into the FH pit and evaporation of water from the pit, dewatering dam, and any other exposed areas that may contribute. The model has been used to identify the optimum methodology for cost effective and efficient dewatering which forms the basis of the Dewatering Mine Management Plan.

Evaporators have been considered in combination with floating pontoon pumps to be deployed over the FH pit, and use of an existing dewatering dam to the north of the FH pit to provide maximum water management flexibility.

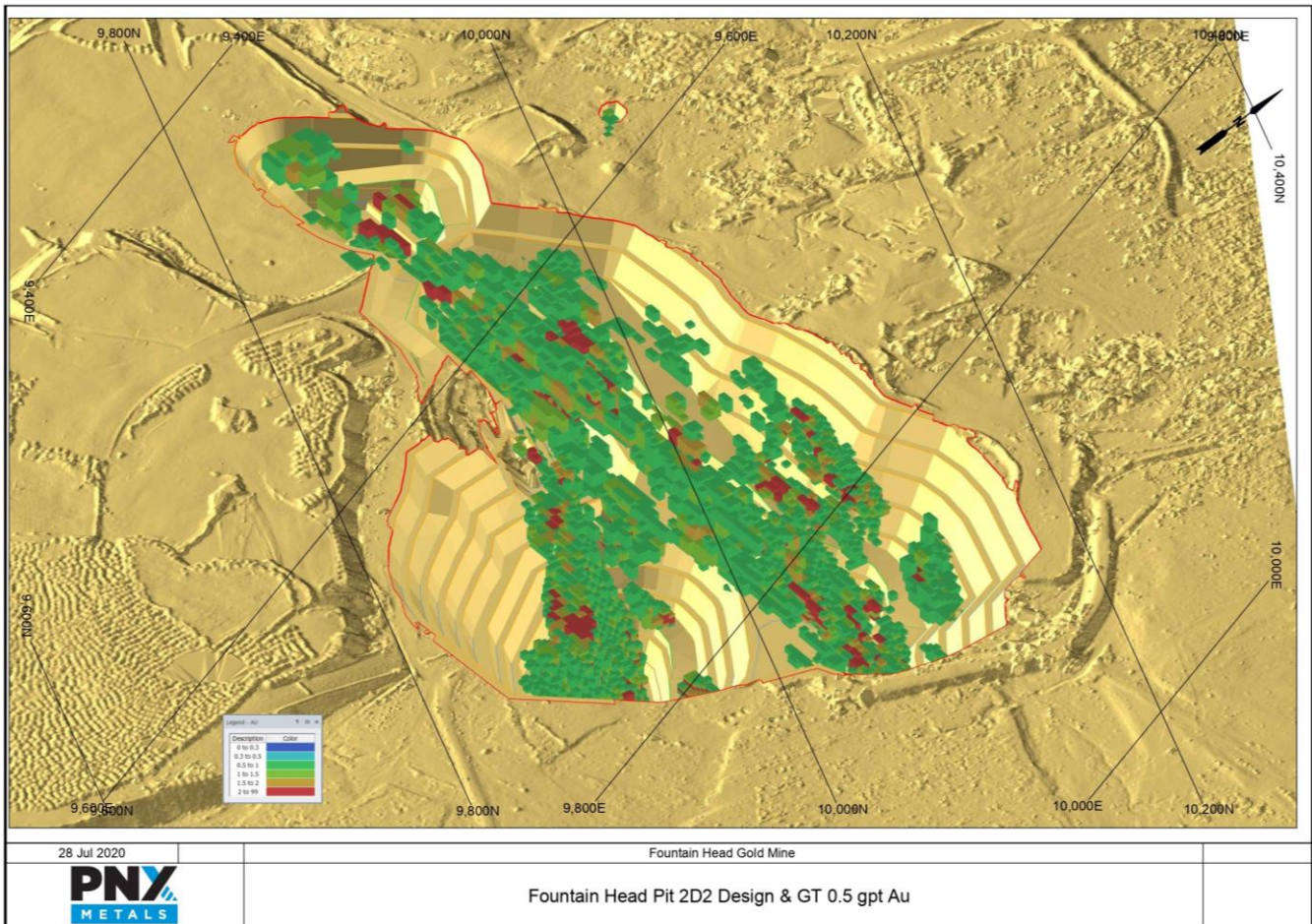


Figure 2: View of the Fountain Head mining optimisation pit design containing resource blocks from the recently updated MRE.

Process design and metallurgical test work

The majority of the Project feasibility level technical studies relating to gold heap leaching are able to be used to inform the proposed milling and CIL process route envisaged by the HC and BCM JV.

Design criteria has been established for crushing, gold leaching and recovery based on preliminary data.

Various options for tailings management are being assessed being a physical key differential between heap leaching and CIL.

Permitting and Approvals

The Project Notice of Intent (NOI) was submitted to the Northern Territory Environmental Protection Authority (NT EPA) in December 2019 and as expected, on 16 March 2020, the Company received a Statement of Reasons determining that the Project requires an EIS. Final Terms of Reference were received during May 2020.

The technical information and studies required to fully satisfy the final Terms of Reference for the Project EIS have now been completed with final edits taking place; submission of the EIS is expected during August. This will be a major milestone for anticipated gold production from Fountain Head to commence in the latter part of 2021, subject to receipt of Government and environmental approvals. A development detailed schedule would be finalised during the period of formal documentation with HC and BCM.

Under the Company's existing Agreement (ASX release 31 January 2018) with Newmarket NT Holdings Pty Ltd (Newmarket), a subsidiary of Kirkland Lake Gold Limited, and with the recent approval of PNX's 'Care and Maintenance' Mine Management Plan for the Project; Newmarket is to transfer to PNX in cash the environmental bonds currently lodged in respect of the Project. PNX will then re-lodge the bonds with the Department of Primary Industries and Resources as required.

Once this has been completed, PNX's Mine Management Plans for pit dewatering at Fountain Head will also be submitted for approval. The anticipated turnaround to enable dewatering to commence is less than six months.

Many Government departments are operating with skeleton staff due to Government advice and restrictions relating to COVID-19. It is unknown at this stage how or if the Project approvals timeline will be affected. Company staff are in regular contact with the NT EPA.

Hayes Creek Zinc and Precious Metals Project

The Hayes Creek Project is comprised of the Iron Blow and Mt Bonnie zinc-gold-silver deposits situated less than 3km apart on wholly owned Mineral Leases located approximately 10km south of Fountain Head.

Funds have been re-allocated from the Hayes Creek Definitive Feasibility Study to accelerate activities at Fountain Head (ASX release 12 December 2019).

See below for a table comparing the foreign exchange rate and commodity prices given the significant rise in the gold and silver price between publishing of the PFS in July 2017 and recent spot prices.

AUD Commodity Prices and FX rate used Hayes Creek PFS - July 2017	PFS Average price over LoM	Spot price at 22 July 2020	% variance over LoM from spot	Total expected Metals Production in Concentrate over LoM
Zinc price per tonne	\$3,521	\$3,153	-10.5%	118,900 t
Gold price per ounce	\$1,766	\$2,658	+50.5%	95,400 oz
Silver price per ounce	\$26.58	\$32.37	+21.9%	9.28 Moz
Lead price per tonne	\$2,916	\$2,535	-13.1%	n/a
Copper price per tonne	\$8,720	\$9,259	+6.2%	n/a
AUD/USD exchange rate	\$0.73	\$0.71	-2.8%	-

Note: Expected Metals production is metal contained in concentrates and is ultimately not the total metal due for payment what to the Company will be subject to certain deductions would ultimately end up being paid for. Payment terms from smelters depend on a number of factors and will need to be finalised as part of any future offtake agreement.

Burnside and Moline exploration Projects

Concurrent with activities underway at Fountain Head, PNX has initiated a major review of the Burnside and Moline regional prospectivity with the aim of identifying new targets within those projects with the potential to host significant "stand alone" gold deposits, and to supplement future proposed CIL processing operations at Fountain Head.

Detailed desktop analysis of the projects' geological settings, and compilation of all historic drilling and surface geochemical data has been completed. Following data compilation, attention will turn to identifying specific target areas for field follow-up and if warranted, drill testing at a later date.

An early observation to emerge from the work is that large areas of the projects remain untested by drilling with the majority of previous work centred on known gold deposits and their immediate areas.

The goal of the exploration strategy is:

- Phase 1 – Identify new potentially economic mineralisation to supplement FH
- Phase 2 – Delineate additional reserves for processing at FH after FH and potentially BCM projects mining is complete
- Phase 3 – Discover an orebody of sufficient scale to justify stand-alone development

With the projected availability of a CIL plant, through the proposed JV, the cut-off grade for any resource discovery/delineation would significantly benefit.

PNX looks forward to informing the market of the progress of this review as it progresses.

South Australia Exploration

No on-ground exploration activities were undertaken by PNX on the Company's Yorke Peninsula exploration tenements during the quarter with all South Australian tenements remaining in good standing.

Ausmex Mining Group Limited (ASX: AMG) completed its earn-in to the Company's Burra Tenements in April 2020 with PNX electing to take a 2% net smelter return royalty over all minerals produced. At the date of this report the formal transfer of the Burra tenements remains to be finalised by the South Australian Department of Energy and Mining.

Planned Activities June 2020 Quarter

Fountain Head Gold Project

- Negotiation of formal agreements relating to the HC and BCM JV
- Final residue analysis and reporting of column leach tests to confirm gold recoveries, reagent consumption and other gold leach design criteria
- Submission of an Environmental Impact Statement to the NT EPA
- Submission of the Mine Management Plan for dewatering of the FH pit
- Recommencing on-ground exploration activities

Financial & Corporate

Cash on hand at 30 June 2020 was \$1.97million.

The Quarterly Cashflow Report (Appendix 5B) for the current period provides an overview of the Company's financial activities.

Exploration expenditure for the reporting period was \$1.16million. Corporate and other expenditure amounted to \$176,128. The total amount paid to non-executive directors of the entity and their associates in the period (item 6.1 of the Appendix 5B) was \$67,509 and includes salary, superannuation, directors' fees, consulting and legal fees.

As at 30 June 2020 the Company had 2,542,621,476 fully paid ordinary shares on issue, and;

- 359,125,000 unquoted options with a 1.50 cent exercise price expiring 30 September 2021;
- 20,000,000 unquoted options with a 1.47 cent exercise price expiring 30 October 2020; and
- 10,800,000 performance rights

James Fox

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Competent Person's Statement

The information in this report that relates to Exploration Results is based on information compiled by Mr Charles Nesbitt, a Competent Person who is a Member of the Australian Institute of Mining and Metallurgy (AusIMM). Mr Nesbitt 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 Ermel is a full-time contract Exploration Manager with 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.

TENEMENTS

Northern Territory

Tenement	Name	Holder	Area Hectare
ML30512	Mt Bonnie	PNX Metals Ltd 100%	6.4
ML30589	Mt Bonnie		31.6
MLN1033	Mt Bonnie		4.8
MLN1039	Mt Bonnie		1.2
MLN214	Iron Blow		6.3
MLN341	Iron Blow		14.9
MLN342	Mt Bonnie		13.7
MLN343	Iron Blow		14.9
MLN346	Mt Bonnie		16.0
MLN349	Iron Blow		15.0
MLN405	Mt Bonnie		12.0
MLN459	Mt Bonnie		15.0
MLN811	Mt Bonnie		8.1
MLN816	Mt Bonnie		8.1
Total Hayes Creek			168.0
MLN794	Fishers-1	PNX Metals Ltd 100%	8.1
MLN795	Fishers-2		8.1
ML30936	Good Shepherd		106.0
Total Other			122.2
ML31124	Fountain Head	PNX Metals Ltd 100%	33.5
MLN1020	Fountain Head		12.0
MLN4	Fountain Head		529.9
MLN1034	Fountain Head		304.2
Total Fountain Head			879.6
Moline			
ML24173	Moline #	PNX Metals Ltd 100%	3126.0
MLN1059	Moline #		418.7
MLN41	Mt Evelyn #		8.9
Total Moline			3,553.6
Total Mineral Leases			4,723.4
EL28616	Moline #	PNX Metals Ltd 100%	262.5 km ²
EL31099	Bridge Creek	PNX Metals Ltd 100%	60.2km ²
EL31893	Ringwood Station	PNX Metals Ltd 100%	23.4km ²
Total Exploration Licences			346.1km²

As at 31 July 2020 the formal transfer of these tenements remains to be completed by NT DPIR.

Northern Territory – Farm-in Tenements

Tenement	Name	Holder	(Area sq km)
Burnside Project *			
EL10012	Mt Ringwood	PNX Metals Ltd 90%, Newmarket 10%	14.9
EL10347	Golden Dyke		10.0
EL23431	Thunderball		13.4
EL23536	Brocks Creek		70.4
EL23540	Jenkins		16.7
EL23541	Cosmo North		3.3
EL24018	Hayes Creek		23.4
EL24051	Margaret River		86.9
EL24058	Yam Creek		3.3
EL24351	McCallum Creek		13.4
EL24405	Yam Creek		4.1
EL24409	Brocks Creek South		22.1
EL24715	Mt Masson		56.8
EL25295	Margaret Diggings		10.0
EL25748	Burnside		584.5
EL9608	Mt Bonnie		10.0
Chessman Project *			
Tenement	Name		
EL25054	Maud	PNX Metals Ltd 90%, Newmarket 10%	64.0
EL28902	Maud		104.5
ML30293	Chessman		1.1
Total Exploration Licences			1,112.8

*PNX Metals Ltd earned a 90% interest under a farm-in agreement with Newmarket Gold NT Holdings Pty Ltd (Newmarket)

South Australia

Exploration Licences	Name	Holder	(Area sq. km)
Adelaide Geosyncline **			
EL6326	Burra Central	PNX Metals Ltd 100%	84
EL5874	Burra West		69
EL6150	Burra North		300
EL6327	Mongolata		60
EL5918	Princess Royal		314
EL6386	Bagot Well		71
EL5910	Spalding		157
EL6430	Washpool		135
Yorke Peninsula			
EL6399	Coonarie	PNX Metals Ltd 100%	254
			254
Total Exploration Licences			1,444

*** Ausmex Mining Group Ltd is now entitled to 100% ownership of these tenements with PNX retaining a 2% net smelter return royalty in respect of all minerals produced from these tenements. As at 31 July 2020 the formal transfer of these tenements remains to be completed by SA DEM.*