

ASX Announcement

20 December 2021

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



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Fountain Head Gold Project Development Update

- **Permitting and Approvals well advanced;**
 - **Fountain Head Gold Project EIS and Supplement lodged with NT EPA with approval anticipated from end Q1 2022**
 - **Mining Management Plan draft near completion and to be submitted to the NT Government early in 2022**
- **Capital cost estimates updated and have increased by ~20%, initiatives employed to offset and remain in-line with the PFS estimate of A\$46 million, including;**
 - **Use of second-hand equipment; with suitable tailing filtration equipment identified and engineering assessment underway**
 - **Modular Plant design to reduce time and site-based construction costs**
 - **Mobile crushing plant moved off balance sheet and chosen over fixed units to achieve greater flexibility and ease of financing**
- **Feasibility of a stand-alone hybrid power station is positive, up to 41% renewable power to significantly reduce overall carbon footprint and unit operating costs**
- **Argonaut PCF appointed as Debt Advisor, aim to finalise project Financing during Q1 2022**

PNX Metals Limited (**ASX: PNX**) ("**PNX**", "the **Company**") is pleased to provide a comprehensive update on the development of the Fountain Head Gold Project (**Project**).

In June 2021 the Company completed a Prefeasibility Study (PFS) on the sequential development of the Fountain Head Gold Project (Stage 1) and Hayes Creek gold-silver-zinc (Stage 2) Project which highlighted a technically and economically robust, multi-commodity development with a mine life of 10 years (refer ASX 17 June 2021).

A considerable volume of work has been undertaken since publishing the Project PFS. The main Project development components are detailed below with reference to an updated timeline to production (Figures 1 and 2). Development activities are on track to enable a final investment decision (FID) to occur once Government and Environmental approvals have been granted and project financing arranged, anticipated from end Q1 2022.

Managing Director's Comments *PNX Managing Director James Fox said: "The PNX Project team along with its Engineers and Consultants have made significant progress on the Fountain Head Gold Project since the project PFS was released. Approvals are well advanced with supplementary information now provided to the NT EPA. Capital cost pressures related to the current economic climate have been in part mitigated and offset by use of 2nd hand equipment, with suitable filtration equipment identified and engineering assessment underway, and use of mobile crushing units. We are also excited to be partnering with Sunrise Energy Group to reduce the project carbon footprint by way of a hybrid power station. We look forward to completing project financing, approvals and making a Project final investment decision during H1 2022."*

Significant Milestones already Achieved

Target First Gold Production at Fountain Head early 2023

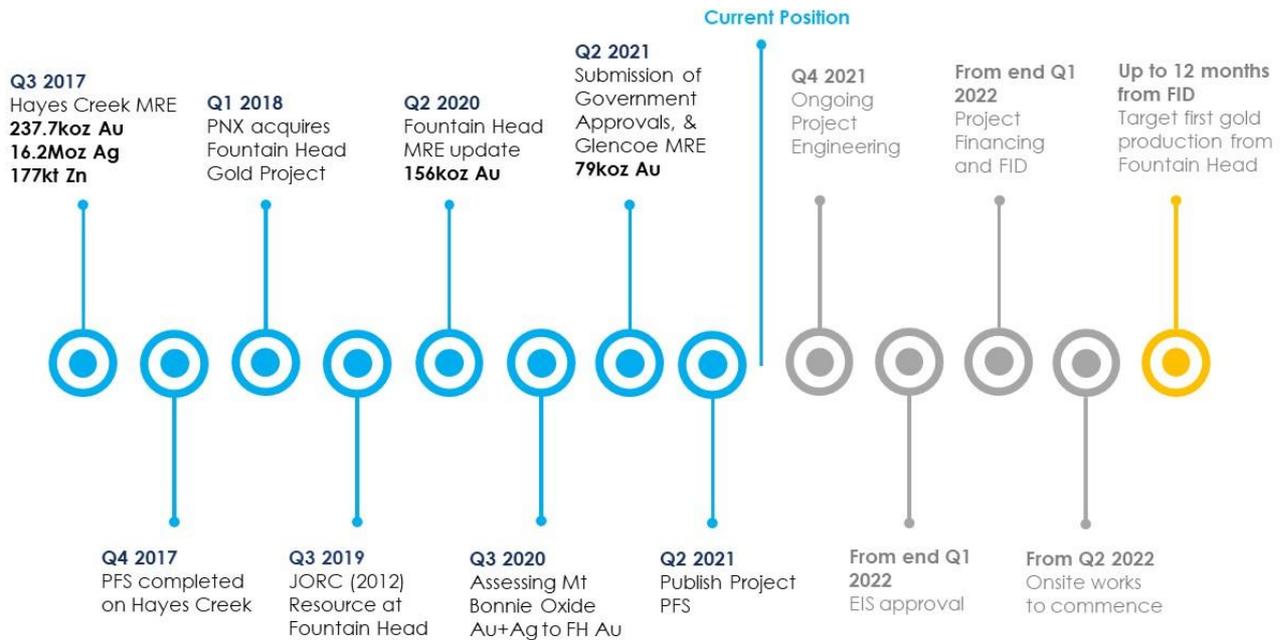


Figure 1: Project Milestones and schedule

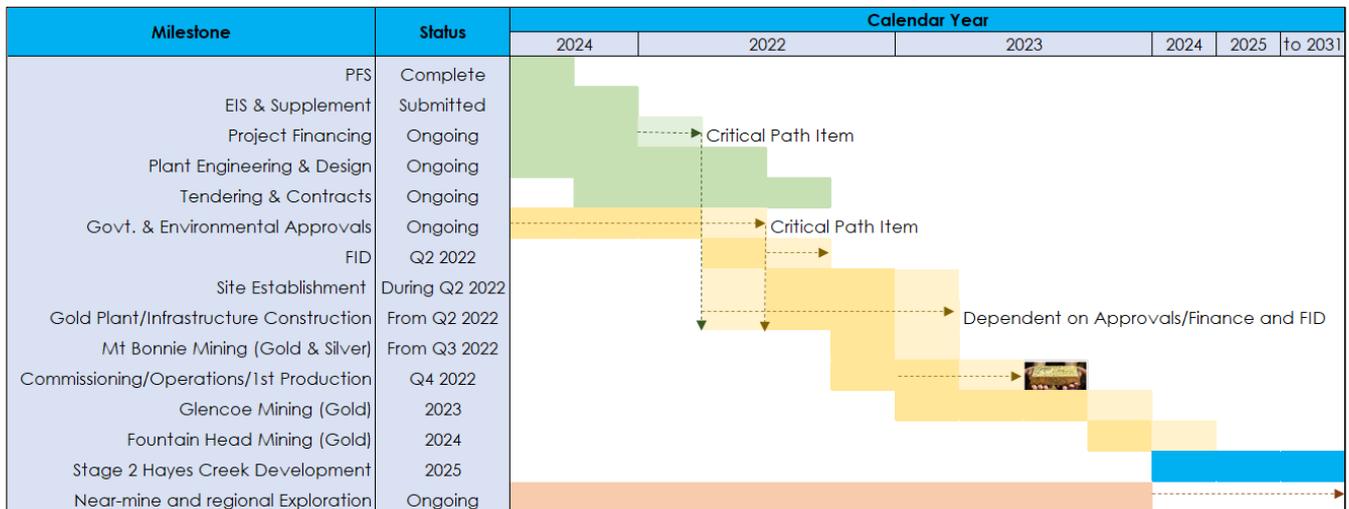


Figure 2: Fountain Head Gold Project Indicative Timeline

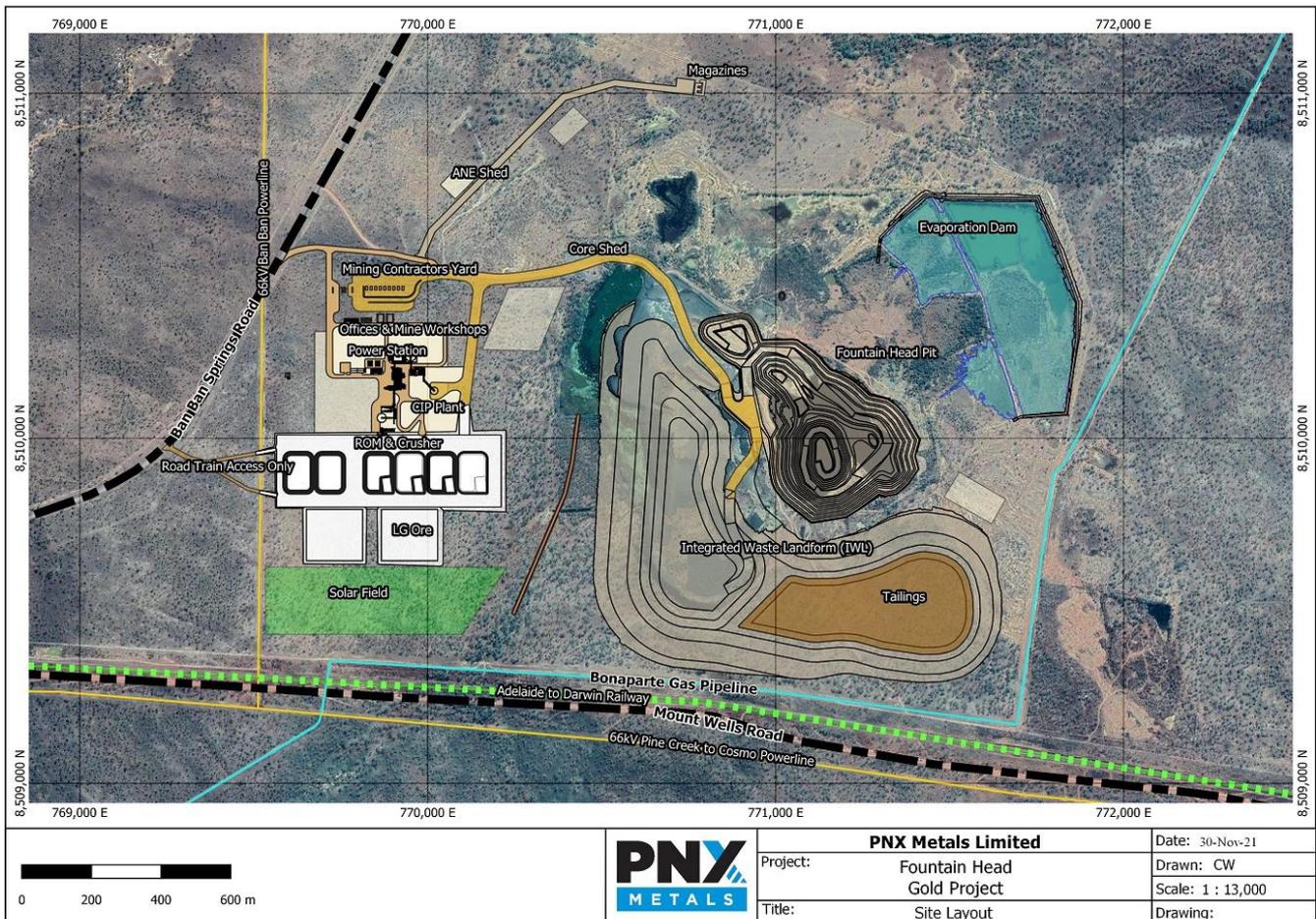


Figure 3: Updated Fountain Head site layout

Government and Environmental Approvals

Project approvals are well advanced with the majority of the technical studies now complete.

The assessment and approval process will continue over the next few months with NT EPA regulatory approval for the Project, likely to occur from end of Q1 calendar 2022 (based on published statutory timeframes and subject to any further requests or clarification by NT EPA or other agencies).

Submission of the Environmental Impact Statement (EIS) and Supplement is an important milestone in the Project approval process, and the culmination of a significant body of work by the Company and its Environmental Consultants, ERIAS Group. The EIS identifies potential Project environmental impacts and risks and to mitigate these through careful and considered management commitments.

The EIS and Supplement contain a comprehensive risk assessment, and studies on groundwater and surface water, biodiversity, Aboriginal and cultural heritage, socioeconomic impacts, transport, air quality, noise, and mine closure/rehabilitation.

Following the close of the EIS public comment period in early August 2021, the Company received a Direction from the NT EPA at the end of September 2021 to prepare the Supplement to the EIS, specifically to address comments from Government agencies relating to the assessment of potential environmental impacts. These comments have now been addressed with additional information provided where required in the Supplement which is now available for public comment.

The Fountain Head Mining Management Plan (MMP) is now also being prepared. An approved MMP is required before any works can commence on site. The lead time for approval of the MMP is 4-6 months and consequently the Company is running both the MMP and EIS approvals in parallel in order to minimise any delays. The first

draft of the MMP is near completion and is to be submitted to the NT Department of Industry, Tourism and Trade (DITT) early in 2022.

Debt Advisor Appointment

Specialist natural resources investment house Argonaut PCF Limited has been appointed to act as the Company's exclusive debt advisor. There has been a good level of interest by potential financiers in the Project and PNX expects that the appointment of Argonaut PCF, combined with the experience of the Board and management in funding projects, will result in a tailored funding solution that appropriately manages shareholder dilution, cost and risk to the Company.

Mining and Site Establishment

Early engagement with mining contractors has commenced with request for quotes distributed and several groups short listed for further discussions. Various contracting models are being considered to provide the lowest cost of mining. The mining contract will include all drill and blast, mining activities, remote site ore haulage, and crushing services.

Site establishment works will commence upon grant of Project approvals including fencing, cattle grids, site access upgrades, offices and telecommunications and plant earthworks.

Plant and Infrastructure Engineering and Design

PNX Project Engineering partner Como Engineers (Como) have updated capital costs based on a refined process design and contractor quotes (Figures 3 and 4 for updated site plan and gold Plant design). Quoted 3rd party contractor costs have increased by approximately 20% when compared to those utilised in the PFS. Numerous contributing factors include inflation, global supply shortages and demand increase, shipping, logistical bottlenecks, raw material price increases, and ongoing uncertainty and OHS&E considerations relating to border restrictions. Mitigation strategies have been employed to limit the impact of these increases, including the use of second-hand equipment where possible.

PNX is pleased to announce that it has reached an in-principle agreement to acquire suitable second-hand tailings filtration equipment (Figure 5) for the Project. Como are assessing the equipment with a site visit scheduled for early 2022. Relocation and rebuild costs will then be included as part of the Project budget. A significant capital cost reduction is envisaged when compared to acquiring new tailings filtration equipment.

Additional time and cost savings will also be realised by incorporating modular designs into the Plant, something that Como have applied successfully at other operations, and will include construction and fabrication of transportable modules that will be essentially bolted together on site with a minimum of additional engineering.

A mobile crushing plant has been chosen over a fixed unit to reduce capital costs and time to production, and to achieve greater operational flexibility and ease of financing. The Company is working with several contract groups to finalise this component.

By applying the above measures, the Project Capital cost inclusive of contingency and margins, first fill and critical spares will be in-line with the PFS estimate of A\$46 million, and in such a challenging environment is testament to the hard work of the engineering team.

PNX and Como have agreed to work under a modified Design and Construct contract arrangement which provides for cost-plus (open book) coupled with a 'gain-share/pain-share' mechanism by reference to actual vs target cost outcomes. The benefit of this arrangement is that any cost underrun is shared between PNX and Como and the risk of any cost overrun is also shared, helping to incentivise Como to perform and deliver under budget whilst mitigating the impact and risk of a 'capital cost blowout'.

PNX and Como are investing time upfront in setting an ambitious but achievable "Target Out-turn Cost (TOC)" based on the Project scope. There are limited circumstances such as variations or un-budgeted risk in which the TOC should be varied / revisited however both parties are confident that once agreed the overall Project capital costs will be very close to TOC.

The project construction schedule is yet to be finalised but expected to be up to 12 months from FID.

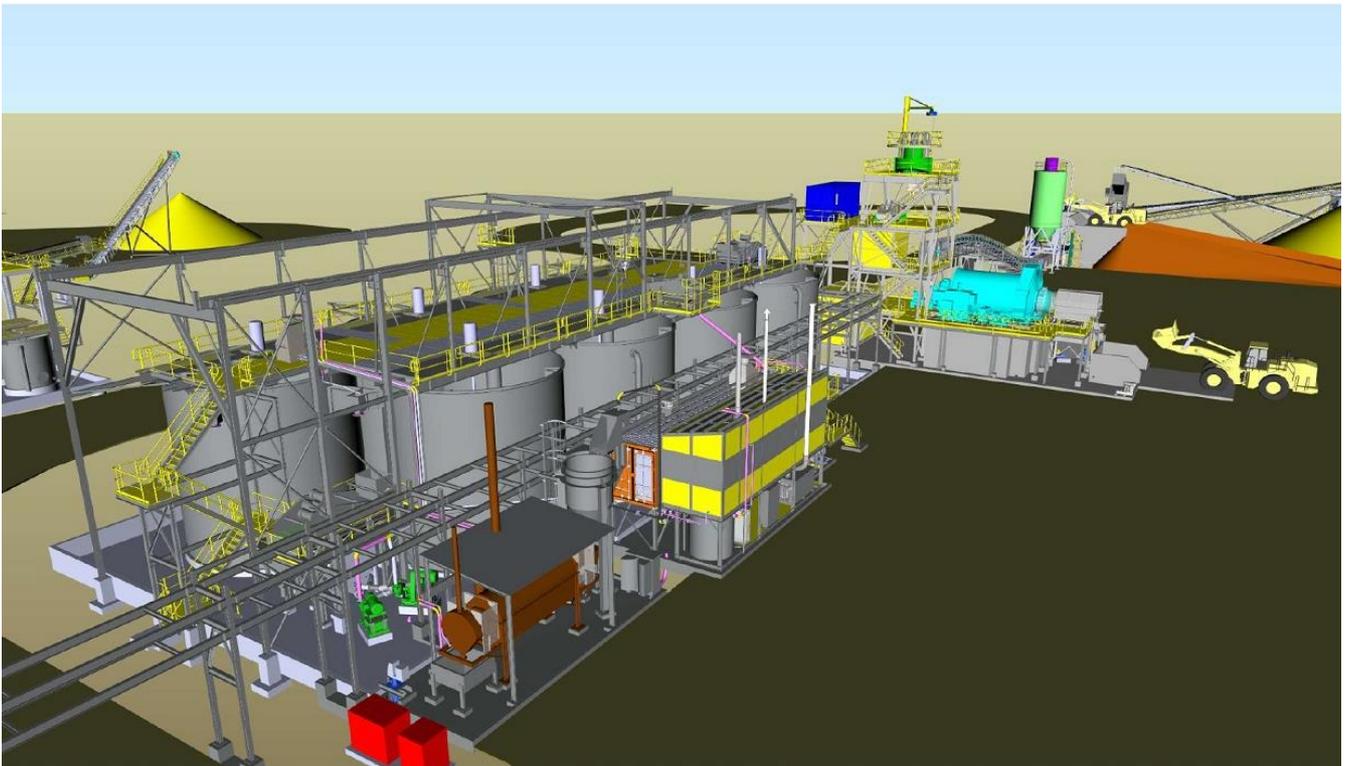


Figure 4: Como Gold Plant Design



Figure 5: Tailings Filtration system including filter press (background) and thickener (foreground) that PNX is assessing for use at the Fountain Head project. The equipment would be transported and reconstructed at Fountain Head.

Power

Sunrise Energy Group is PNX's preferred power partner and will complete the Front-End Engineering and Design to deliver a standalone hybrid power station to be located at Fountain Head. This is expected to be finalised during Q1 2022. The power contract solution proposed is via an energy-as-a-service model through a Power Purchase Agreement with included buy-out option.

A hybrid renewable energy plant has been agreed in principle, consisting of a 4.6MWp solar farm, 2.3MW/ (2.2MWh usable) Battery Energy Storage System (BESS), 3 x 2,000kVA diesel generators and a hybrid energy controller. The design of the architecture is important as it will allow the solar PV, BESS and generators to be interconnected in a complementary manner to ensure smooth power transmission to the Project.

The benefits of this type of system are significant, and result in an overall reduction in the Project carbon footprint and initial 41% green power. Importantly hybrid renewable energy unit operating costs vs base-case diesel genset are lower by approximately \$0.06/kWh (20%).

Geology and Mineral Resources

Project gold and silver Mineral Resources used to inform the mining optimisation and Project financial model are derived from mineralisation at Mt Bonnie, Glencoe and Fountain Head (combined as Stage 1).

Since publishing the Project PFS, RC drilling of approximately 4,000 metres has been completed at Glencoe to test for near-surface extensions to gold mineralisation, and increase confidence in the current Mineral Resource (MRE) of 2.1Mt @ 1.2g/t Au for 79,000oz Au (Inferred category) (reported in accordance with the JORC Code, 2012 (refer ASX 28 April 2021 for original MRE and JORC Tables).

The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements referenced in this release continue to apply and have not materially changed.

Drilling has identified immediate extensions to near-surface gold mineralisation, extending the strike and demonstrating excellent continuity by more than 280 metres to the southeast of the current MRE, and 450 metres from the historic North-Central pit. Importantly, several thicker near-surface zones of gold mineralisation were intersected (refer ASX release 25 November 2021).

Phase 2 of RC drilling now has been completed at Glencoe consisting of a further 27 holes for 2,118 metres. Assays are pending and expected to be finalised and reported in early 2022.

The Company is considering an update to the MRE and subsequent mining optimisation will be updated to measure the impact on the Project economics where an incremental increase in the resource is expected. The geometry of mineralisation (approx. 45° dip), and location near-surface immediately along strike from the current pit optimisation is likely to result in an increased resource utilisation.

PNX has agreed with private company Ausgold Trading Pty Ltd to extend the period for completion of the Glencoe acquisition to 31 January 2022 to allow for finalisation of the stamp duty assessment and Ministerial approval (refer to Key Terms in PNX ASX announcement 10 December 2020 for further information).

For further information please visit the Company's website www.pnxmetals.com.au or contact us:

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