PNX METALS LIMITED

ABN 67 127 446 271

FINANCIAL REPORT
For the Half-Year Ended 31 December 2016

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DIRECTORS' REPORT

The directors of PNX Metals Limited (PNX, or Company) are pleased to present the financial report for the half-year ended 31 December 2016 in accordance with the Corporations Act 2001.

The names of the directors of PNX currently in office are:

Graham Ascough (Chairman)
Paul Dowd
Peter Watson
David Hillier
James Fox

Each of the above named directors held office for the whole of and since the end of the half-year.

REVIEW OF OPERATIONS

The loss for the half-year was $768,304 (2015: loss of $755,313). Net assets at 31 December 2016 were $7.3 million, including $3.2 million in cash and term deposits.

During the half-year, the Company raised $4.4 million before costs via share placements to sophisticated and institutional investors. Expenditure during the half-year related primarily to the pre-feasibility study (PFS) ongoing at the Hayes Creek Project, notably infill and extensional resource drilling at Iron Blow and Mt Bonnie. In addition, the Company conducted several regional exploration drilling programs at both greenfield and brownfield prospects in the Northern Territory.

During the half year, the Company completed the first stage of a farm-in under the agreement with Newmarket Gold NT Holdings Pty Ltd ('Newmarket', a subsidiary of Canadian listed Kirkland Lake Gold Inc), earning a 51% interest in 19 exploration licences and 4 mineral leases in the Northern Territory.[1]

Also during the half year the Company completed the sale of its subsidiary Leigh Creek Copper Mine Pty Ltd to Resilience Mining Australia Limited.

Hayes Creek - Pre-Feasibility Study

The Iron Blow and Mt Bonnie deposits form part of the Company's 100% owned zinc-gold-silver Hayes Creek Project ('Project') within the Pine Creek region of the Northern Territory, 180km south of Darwin.

The Project is underpinned by total estimated Inferred and Indicated mineral resources (JORC Code 2012) containing 182Kt zinc, 271Koz gold, 17.1Moz silver, 41Kt lead and 11.6Kt copper.[2] It is located in a favourable mining jurisdiction where the development scenario considers and utilises existing infrastructure that includes rail, road, high voltage power lines and water, further enhancing project fundamentals and lowering development risks.

During the half-year, the Company continued with the PFS over the Project that commenced in June 2016. The PFS follows on from the Scoping Study completed in March 2016 which found that mining and processing ore derived from the proposed open-pit and underground operations at Hayes Creek would generate strong financial returns for the Company.

The PFS is due for completion in mid-2017. Key objectives include increasing the size and certainty of the Project's mineral resources, optimising the metallurgical processes and improving metal

[1] See ASX release 18 August 2014 for full details of the farm-in agreement
[2] See ASX releases 3 November 2014 for Iron Blow Resource Estimate and 9 February 2017 for Mt Bonnie Resource Estimate

recoveries, and progressing the environmental aspects of the Project including submission of the Notice of Intent, as well as conducting hydrogeological and geochemical studies.

Resource Drilling

During the half-year, the Company undertook an infill and extensional reverse-circulation and diamond drilling program at Iron Blow and Mt Bonnie, which was completed in early January 2017. A total of 7,177 metres were drilled, including 1,935 metres at Mt Bonnie and 5,242 metres at Iron Blow.

Mt Bonnie

Assay results from the infill portion of the drill program provided consistent grades and widths of near-surface sulphide mineralisation as predicted by the geological model. Drilling intersected new mineralisation further south than previously anticipated. Potential also exists for a high-grade shoot(s) to extend underneath the current extent of drilling. Further drill testing is planned in 2017 to potentially extend these mineralised zones.

Drill results at Mt Bonnie were incorporated into an updated JORC (2012) Mineral Resource estimate which was completed subsequent to half-year end. The updated resource is **1.55 million tonnes @ 3.8% Zn, 1.34 g/t Au, 127 g/t Ag, 1.1% Pb, and 0.2% Cu** (refer ASX release 9 February 2017 for further detail).

The revised resource shows a significant increase in contained metals, with gold up by 28%, silver up by 15%, and zinc up by 7%. Importantly, 90% of the resource has been converted to the higher confidence Indicated category.

The majority of the Mineral Resource is comprised of sulphide ore and occurs from approximately 25 metres to 170 metres below surface directly beneath the historical oxide pit. As such, the Mineral Resource will be readily accessible by open pit mining methods.

Iron Blow

Assay results for 12 of the 30 holes drilled have been received. Drilling has identified two zones of massive sulphide mineralisation: an eastern hanging wall lode, defined by its significant zinc-gold-silver mineralisation, and underneath, a broader western footwall lode containing massive and disseminated sulphide mineralisation.

In addition, drill results have identified new near surface mineralisation relating to an up dip extension to the western lode which lies outside of the existing resource model.

Remaining assay results and a resource upgrade at Iron Blow are expected in March 2017.

Research & Development program – Metallurgy

During the half-year, BHM Consultants and Nagrom (Perth) commenced the PFS metallurgical test work programme on separate Iron Blow and Mt Bonnie composite ore samples.

The aim of the program is to satisfy the level of technical input data for the PFS including:

- Flotation recoveries and product grades at various grind sizes, to also include locked cycle float tests
- Comminution properties
- Operating cost minimisation via power and reagent optimisation

Metallurgical test work has progressed successfully toward maximising the recovery of valuable metals and the metal grade of the product concentrates. Results to date of batch flotation cleaner testing (conducted at 38µm grind) have been promising with continued improvements in recoveries of zinc, gold and silver, and increasing concentrate grades through the rejection of iron (>85% rejection) and other deleterious elements. Importantly, arsenic levels are within specifications for a saleable zinc concentrate.

Both the zinc and precious metals concentrates will now be sent for mineralogical analysis to further optimise grind size and reagent parameters. This will be followed by locked cycle flotation tests to establish the metallurgical inputs for resource modelling and PFS flow-sheet design.

Evaluation of whole-core for Unconfined Stress testing was completed for ore zones, potential waste material, and hanging and footwall zones and indicates ore of moderate hardness and therefore moderate grinding costs.

Environment and Approvals

In the Northern Territory, the Environment Protection Authority (NT EPA) is responsible for administering the Environmental Assessment Act including determining the level of environmental assessment required for a particular proposal, either a Public Environment Report or an Environmental Impact Statement. The notification of a proposed action and information required to inform this decision is known as a ‘Notice of Intent’ (NOI). PNX aims to submit a NOI for the Hayes Creek Project in March/April 2017.

Preliminary geochemical results have been received from waste, tailings and ore testing. This information will be used to populate the ore resource and waste models at Iron Blow and Mt Bonnie and to assist with developing a strategy around handling those materials and minimising their impact on the surrounding environment.

Hydrogeology information has also been collated to develop a series of conceptual maps of the baseline groundwater environment.

A Flora and Fauna survey will be completed in March/April 2017 over the areas likely to be affected by the Hayes Creek Project.

Northern Territory Regional Exploration – Burnside, Moline and Chessman Projects

PNX currently holds a 51% interest in 19 Exploration Licenses and 4 Mineral Leases covering 1,700km² in the Pine Creek region of the Northern Territory and is progressing with the second stage of the farm-in where it can increase its interest to 90% interest with further expenditure of $2 million by 15 December 2018.

These tenements together comprise the Burnside, Moline and Chessman projects and are located in a highly prospective geological region containing numerous historically mined deposits, unmined mineralisation and potential for new mineralisation discoveries.

Regional exploration highlights from the half-year:

- Completion of a 12 hole RC program targeting gold at Moline
- Completion of NT government co-funded greenfield diamond drilling programs at Barossa and Tractor Corner
- Completion of the acquisition of 3 mineral leases (MLN794, MLN 795, ML30936) containing gold prospects close to the Hayes Creek project

Moline

The Moline Project, which lies on granted mineral leases approximately 65km to the east of the Hayes Creek Project, comprises four key prospects: Moline, School, Tumbling Dice, and Hercules.

12 RC (Reverse Circulation) holes were completed for 1,497 metres during November. The drill program was designed to test three mineralised structures that were partly mined for oxide gold mineralisation in the early 1990s.

Excellent results were received at the School prospect, including the best known grades of gold mineralisation recorded there. Mineralisation is open in all directions, providing significant scope for further exploration success.

Drilling at the Moline and Tumbling Dice prospects also returned some significant drill intercepts. Mineralisation in both areas remains open down-dip and along strike. These north-south trending structures represent a large target area for future gold and base metals exploration. Refer ASX releases 2 Dec 2016 and 19 December 2016 for further detail.

Overall, the results from the Moline drill program confirm significant near-surface mineralisation still exists beneath and along strike from existing historical workings. Results also highlight the potential for the Moline project area to host mineralisation similar to PNX's Hayes Creek Project.

Further analysis and modelling of the data will proceed before a follow-up drill program during the 2017 dry season. Drilling at the Hercules prospect, which could not be completed in 2016 due to weather, is also planned.

Co-funded greenfield drilling - Barossa (Burnside) and Tractor Corner (Chessman)

PNX was awarded NT Government grants totalling approximately $85,000 to co-fund diamond drilling of two new prospects at Barossa and Chessman. Drilling took place in November 2016.

At the Barossa prospect (Burnside Project), two diamond drill holes for 328.7m metres were completed to test two of nine late-time electromagnetic targets identified in data generated from a 2011 VTEM survey.

Several sulphide rich bands were observed in the drill core comprising predominantly pyrrhotite with minor sphalerite. Further geophysical modelling will be completed to determine if the conductivity of the observed sulphides accounts for the VTEM anomaly modelled. Additional ground and downhole geophysics may be employed if the source of the VTEM anomaly is not identified.

Two diamond drill holes for 580.8m metres were also completed at the Tractor Corner prospect (Chessman Project). The electromagnetic targets in this case appear to be caused by graphitic shales. Strong zones of brecciation and alteration in the basement were intersected and will be sampled in 2017 for gold mineralisation.

South Australian Projects

No activity of significance occurred during the half-year at the Company's South Australian projects.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration, as required under Section 307C of the Corporations Act 2001, is included on page 7 of the half-year financial report and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors made pursuant to Section 306 (3) of the Corporations Act 2001.

On behalf of the directors

Graham Ascough
Chairman

Adelaide, 10 March 2017

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PNX METALS LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of PNX Metals Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 10 March 2017

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		Consolidated	
	Note	**Half-year ended 31 Dec 2016**	**Half-year ended 31 Dec 2015**
Interest income		22,662	10,518
Employee benefits		(167,923)	(88,213)
Exploration		(47,112)	(58,177)
Share registry and regulatory		(73,539)	(45,774)
Professional fees		(164,278)	(131,708)
Occupancy		(33,179)	(32,076)
Directors' fees		(92,500)	(87,500)
Equity based compensation	**7**	(21,000)	-
Audit fees		(8,632)	(8,840)
Insurance		(17,004)	(17,878)
Interest	**5**	(50,000)	(50,000)
Depreciation		(3,807)	(183)
Other expenses		(73,457)	(40,751)
Loss before income tax expense		(729,769)	(550,582)
Income tax expense		-	-
Loss for the period - continuing operations		(729,769)	(550,582)
Loss from discontinued operations, net of tax	**2**	(38,535)	(75,811)
Total Loss for the period		(768,304)	(626,393)
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss - movement in fair value of investment (tax: nil)	**4**	-	(128,920)
Total other comprehensive income/(loss)		-	(128,920)
Total comprehensive loss for the period attributable to equity holders of the parent		(768,304)	(755,313)
Loss per share from continuing operations:			
Basic (cents per share)		(0.13)	(0.13)
Diluted (cents per share)		(0.13)	(0.13)

Condensed notes to the consolidated financial statements are included on pages 12 to 17.

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		Consolidated	
	Note	31 Dec 2016 $	30 June 2016 $
CURRENT ASSETS			
Cash and cash equivalents		3,216,731	1,643,632
Trade and other receivables		75,796	260,880
Prepayments/deposits		122,727	77,913
Other financial assets	4	257,840	257,840
TOTAL CURRENT ASSETS		3,673,094	2,240,265
NON-CURRENT ASSETS			
Loan	2	50,000	-
Exploration and evaluation expenditure		6,896,636	4,688,184
Plant and equipment		48,495	37,470
TOTAL NON-CURRENT ASSETS		6,995,131	4,725,654
TOTAL ASSETS		10,668,225	6,965,919
CURRENT LIABILITIES			
Trade and other payables		436,456	194,683
Provisions		79,473	66,149
TOTAL CURRENT LIABILITIES		515,929	260,832
NON-CURRENT LIABILITIES			
Provisions		40,589	28,086
Loan	5	1,200,000	1,200,000
Deferred Revenue	6	1,600,000	1,600,000
TOTAL NON-CURRENT LIABILITIES		2,840,589	2,828,086
TOTAL LIABILITIES		3,356,518	3,088,918
NET ASSETS		7,311,707	3,877,001
EQUITY			
Issued capital	7	32,580,302	28,377,292
Other equity		600,000	600,000
Accumulated losses		(25,868,595)	(25,100,291)
TOTAL EQUITY		7,311,707	3,877,001

Condensed notes to the consolidated financial statements are included on pages 12 to 17.

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		Consolidated				
	Note	**Ordinary Issued Capital $**	**Other Equity $**	**Reserves $**	**Accumulated Losses $**	**Total $**
Balance at 1 July 2015		26,562,067	600,000	347,193	(24,326,941)	3,182,319
Loss attributable to members of the parent entity		-	-	-	(626,393)	(626,393)
Other comprehensive loss - reclassification to loss		-	-	(128,920)	-	(128,920)
Total comprehensive loss for the period		-	-	(128,920)	(626,393)	(755,313)
Shares issued		1,553,250	-	-	-	1,553,250
Share issue costs		(18,025)	-	-	-	(18,025)
Share issue costs - interest on convertible notes		(15,000)	-	-	-	(15,000)
Reclassification on expiry of options		-	-	(209,111)	209,111	-
Balance at 31 December 2015		28,082,292	600,000	9,162	(24,744,223)	3,947,231
Balance at 1 July 2016		28,377,292	600,000	-	(25,100,291)	3,877,001
Loss attributable to members of the parent entity		-	-	-	(768,304)	(768,304)
Other comprehensive income - reclassification to profit or loss		-	-	-	-	-
Total comprehensive loss for the period		-	-	-	(768,304)	(768,304)
Shares issued	**7**	4,486,250	-	-	-	4,486,250
Share issue costs		(268,240)	-	-	-	(268,240)
Share issue costs - interest on convertible notes		(15,000)	-	-	-	(15,000)
Balance at 31 December 2016		32,580,302	600,000	-	(25,868,595)	7,311,707

Condensed notes to the consolidated financial statements are included on pages 12 to 17.

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated Half year ended 31 Dec 2016 $	 Half year ended 31 Dec 2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Research and Development tax refund		245,905	-
Payments to suppliers and employees		(691,078)	(500,441)
NET CASH USED IN OPERATING ACTIVITIES		(445,173)	(500,441)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration activities		(2,050,350)	(1,016,307)
Loan	**2**	(50,000)	-
Payments for plant and equipment		(20,654)	-
Interest received		21,516	12,045
NET CASH USED IN INVESTING ACTIVITIES		(2,099,488)	(1,004,262)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares, net of costs		4,117,760	1,475,224
NET CASH PROVIDED BY FINANCING ACTIVITIES		4,117,760	1,475,224
Net increase in cash and cash equivalents		1,573,099	(29,479)
Cash at the beginning of the reporting period		1,643,632	868,865
CASH AT THE END OF THE REPORTING PERIOD		3,216,731	839,386

Condensed notes to the consolidated financial statements are included on pages 12 to 17.

1 SUMMARY OF ACCOUNTING POLICIES

This half-year financial report of PNX Metals Limited ("Company") comprises the Company and its controlled entities ("Group") and is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report for the year ended 30 June 2016.

None of the standards and amendments to standards published by the Australian Accounting Standards Board that are mandatory for the first time for the financial year beginning 1 July 2016 had any material effect on any amounts recognised or disclosed in the current or prior period and are not likely to affect future periods.

(a) Going Concern Basis

The financial report has been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the half-year ended 31 December 2016, the Group made a comprehensive loss of $768,304 (2015: loss of $755,313) and recorded a net cash outflow from operating and investing activities of $2,544,661 (2015: $1,504,703). At 31 December 2016, the Group had cash of $3,216,731 (30 June 2016: $1,643,632), net current assets of $2,899,325 excluding the investment in Avalon Minerals Ltd (30 June 2016: $1,721,593) and net assets of $7,311,707 (30 June 2016: $3,877,001).

The Directors believe that it is appropriate to prepare the financial statements on the going concern basis, as the Group plans to raise sufficient capital in the future to allow planned exploration, feasibility studies and administrative activities to continue over at least the next 12 months.

If sufficient additional capital is not raised, the going concern basis of accounting may not be appropriate, and the Group may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

(b) Estimates

The preparation of the half-year financial statements requires a number of judgments, estimates and assumptions to be made in the recognition and measurement of assets, liabilities, income and expenses. Actual results may differ and will seldom equal the estimated results.

The judgments, estimates and assumptions applied in the half year financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2016.

2 SALE OF SUBSIDIARY

During the half-year, the Company completed the sale of its wholly owned subsidiary Leigh Creek Copper Mine Pty Ltd ('LCCM') to Resilience Mining Australia Limited ('RMA', formerly Hillsgold Resources Pty Ltd). RMA exercised the option to acquire LCCM it had held since April 2015 on 31 October 2016, and the transaction was completed on 21 November 2016.

LCCM holds three mining leases in the Leigh Creek area including Mountain of Light. The sale included two exploration licences held by the Company in the vicinity of Leigh Creek.

There was no up-front cash consideration; however, RMA assumes all rehabilitation obligations and is required to pay the Company $100,000 if and when 3,000 tonnes of copper are produced from future operations at the three mining leases. No gain or loss was recorded on the sale as the disposal group had been carried in the consolidated financial statements at a net nil value and the fair value of the contingent consideration has been assessed as nil.

To assist RMA with its costs of transitioning to ownership of LCCM, the Company provided RMA with a loan of $50,000, which was drawn on 16 December 2016. The loan is secured by specified plant and equipment at Mountain of Light and bears interest at 6%, payable semi-annually. The loan is to be re-paid at the earliest of the following:

- 31 October 2018;
- The date that is 6 months after first production from any of the three mining leases held by LCCM;
- Following an equity capital raise by RMA in excess of $1.5 million (cumulative from 31 October 2016); or
- The date RMA sells or transfers any of the acquired tenements.

The loan has been classified as a non-current receivable in the Statement of Financial Position.

The loss incurred on discontinued operations at Leigh Creek up to 21 November 2016 has been shown in the Statement of Profit or Loss as a separate line, and is detailed below:

	21 Nov 2016	31 Dec 2015
	$	$
Mine site maintenance	38,535	75,811
Income tax	-	-
Loss - discontinued operations	38,535	75,811
Loss per share (cents)		
basic and diluted	0.01	0.02
Cash outflows	38,535	75,811

Detail of the assets and liabilities of the disposal group at the point of sale and the net nil gain or loss on sale is shown below:

	21 Nov 2016	30 June 2016
	$	$
Assets		
Environmental deposit	150,000	150,000
Plant and equipment - cost	3,634,902	3,634,902
Plant and equipment - accum depr	(3,634,902)	(3,634,902)
Exploration assets	-	-
Mineral Rights	410,250	410,250
	560,250	560,250
Liabilities		
Rehabilitation	560,250	560,250
Net Assets	-	-
Fair value of consideration	-	
Net gain or loss on sale	-	

3 SEGMENT INFORMATION

The Group's reportable segments continue to be:

- Exploration in the Northern Territory
- Exploration in South Australia

Financial information regarding these segments is presented below. The accounting policies for reportable segments are the same as the Group's accounting policies.

	Revenue		Segment profit/(loss)	
	Half-year ended		Half-year ended	
	31 Dec 2016 $	31 Dec 2015 $	31 Dec 2016 $	31 Dec 2015 $
Exploration – Northern Territory	-	-	-	-
Exploration – South Australia	-	-	(47,112)	(58,177)
Mining – discontinued operation	-	-	(38,535)	(75,811)
Unallocated	-	-	(682,657)	(492,405)
Loss before tax			(768,304)	(626,393)
Income tax expense			-	-
Consolidated segment loss for the period			**(768,304)**	**(626,393)**

All exploration costs in the Northern Territory have been capitalised to exploration assets. Segment loss represents the loss incurred by each segment without allocation of central administration costs and directors' fees, interest income and income tax.

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	31 Dec 2016 $	30 June 2016 $
Assets		
Exploration – Northern Territory	5,010,021	2,739,486
Exploration – South Australia	2,000,000	2,000,000
Unallocated assets	3,658,204	2,226,433
Total assets	**10,668,225**	**6,965,919**
Liabilities		
Exploration – Northern Territory	217,700	42,400
Exploration – South Australia	-	-
Unallocated liabilities	3,138,818	3,046,518
Total liabilities	**3,356,518**	**3,088,918**

4 OTHER FINANCIAL ASSETS – INVESTMENT IN AVALON MINERALS LTD

The Company continues to hold 12,892,013 shares in ASX listed Avalon Minerals Limited (Avalon), acquired at a cost of $1,487,288 and carried at a fair value of $257,840.

At each reporting period, the carrying value of the investment in Avalon is revalued to fair value, based on the market value of Avalon Minerals Limited's shares at that time. At 31 December 2016, the market value of the investment had not changed materially from that at 30 June 2016. At the prior half year, the investment was revalued down $128,920 through Other Comprehensive Income/Loss (OCI), reducing the fair value movements reserve in Shareholders' Equity to zero.

In accordance with the requirements of AASB 13 *Fair Value Measurement*, and consistent with prior periods, the fair value of the investment in Avalon is determined with reference to its quoted market price (a 'Level 1' measurement standard per AASB 13) on the ASX.

5 LOAN FACILITY

The Company has a $1.2 million loan which was drawn in 2013 to acquire the shares in Avalon Minerals Limited described in Note 4. Key terms of the loan are as follows:

- Maturity date of 6 November 2019
- Unsecured
- 7.5% annual interest rate, payable in cash or ordinary shares of the Company, at the option of the Company
- Principal is to be repaid via the remittance of net proceeds from the sale of any of the shares in Avalon acquired using the loan proceeds, up to the $1.2m loan principal.

  If the cash proceeds available to the Company through the sale of Avalon shares are insufficient to repay the loan principal amount by the maturity date, any shortfall will be repaid via the issue of shares in the Company.

  If the shares in Avalon have not been disposed of by the maturity date, the loan is repayable then in cash.

Interest of $50,000, including $5,000 of withholding tax paid to the Australian Tax Office, was incurred on the loan during the half-year, the same as in the prior half-year.

6 DEFERRED REVENUE

In the prior year, the Company entered into identical metal streaming and royalty agreements with two investors. Under the agreements, $800,000 was received from each investor for the forward sale of 112,000 troy ounces of silver ($7.14/oz) over a 2 year period once commissioning and ramp up of the Hayes Creek Project is complete. Full details of the agreements are contained in the Company's 2016 annual financial report.

The $1.6 million of cash received continues to be accounted for as deferred revenue, classified in the Statement of Financial Position as a long-term liability. Revenue will be recognised as the silver is delivered in the future.

7 ISSUE OF SECURITIES

During the half-year ended 31 December 2016:

- 1,000,000 ordinary shares were issued in July to Newmarket Gold NT Holdings Pty Ltd as consideration for the acquisition by the Company of 3 tenements near the Hayes Creek Project in the Northern Territory;

- 79,907,895 ordinary shares were issued as a placement to sophisticated and institutional investors, including 750,000 to settle fees associated with the placement, in August and September at 1.9 cents per share raising $1,504,000 before costs;

- 13,157,984 ordinary shares were issued to a sophisticated investor at 1.9 cents per share in November raising $250,000;

- 1,689,586 ordinary shares were issued in November at the Company's 30 day volume weighted-average share price (VWAP) of 2.7 cents to settle $45,000 of 6-monthly interest on the Company's $1.2 million loan;

- 651,796 ordinary shares were issued in November at the Company's 30 day VWAP of 2.3 cents to settle $15,000 of 6-monthly interest on convertible notes;

- 1,000,000 ordinary shares were issued following shareholder approval in November to the Company's Managing Director & CEO as a performance bonus; and

- 130,900,000 ordinary shares were issued as a placement to sophisticated and institutional investors, including 900,000 to settle fees associated with the placement, in December at 2.0 cents per share raising $2,600,000 before costs.

Under the terms of the December share placement, and subject to shareholder approval, investors are also to receive one attaching unquoted option for every two shares subscribed for, with each option exercisable at 5.0 cents and expiring on 31 May 2019. A total of 65,450,000 options were issued in early March 2017 following receipt of shareholder approval in February 2017.

In November 2016, 1,250,000 Performance Rights were issued to the Company's Managing Director & CEO under the PNX Metals Limited Employee Performance Rights Plan and following approval by shareholders at the AGM. The Performance Rights have the following vesting conditions:

- The Company's share price performance in the period 1 July 2016 to 30 June 2017 must exceed that of at least 50% of 10 companies identified by the Directors as the Company's peers; and

- The Company's closing price on the ASX is 6.0 cents for more for 15 consecutive trading days in the period to 30 June 2018.

If these conditions are met by the relevant dates, the Performance Rights will vest providing an entitlement to one ordinary share in the Company for each Performance Right.

During the half-year, a share-based payment expense of $21,000 (2015: $nil) was recorded in relation to the 1 million shares issued to the Company's Managing Director & CEO.

As at 31 December 2016, there were 736,091,151 ordinary shares and 1,250,000 performance rights on issue.

Subsequent to half-year end, a total of 10.16 million Performance Rights were issued to employees of the Company under the PNX Metals Limited Employee Performance Rights Plan, including 4.0 million to the Company's Managing Director & CEO.

The performance rights have conditions related to key Company objectives, including development of the Hayes Creek project, exploration discoveries and Company share price performance. Performance conditions are required to be achieved within specified time periods (extending to 31 December 2019) in order for the rights to vest.

8 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets from those disclosed in the annual report for the year ended 30 June 2016.

9 INVESTMENT IN SUBSIDIARY

The Company owns 100% of the shares of Wellington Exploration Pty Ltd (which holds one exploration licence). As described in Note 2, during the half year the Company sold its other wholly owned subsidiary Leigh Creek Copper Mine Pty Ltd.

10 INCOME TAX

Consistent with prior periods, an income tax benefit on the loss for the half-year has not been recognised in the Statement of Profit or Loss and Comprehensive Income, as the likelihood of utilising the loss against future taxable income is not considered probable at this time.

The PNX Metals Limited tax consolidated group has carried forward losses of approximately $31 million at 31 December 2016.

11 SUBSEQUENT EVENTS

Other than the issue of options and performance rights described in Note 7, there were no events occurring subsequent to 31 December 2016 requiring adjustment to, or disclosure in, the 31 December 2016 half-year financial statements.

DIRECTORS DECLARATION

In the opinion of the Directors:

(a) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) The attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including complying with AASB 134 *Interim Financial Reporting* and giving a true and fair view of the financial position of the Group as at 31 December 2016 and of its performance for the half-year ended on that date.

Signed in accordance with a resolution of the directors made pursuant to Section 303 (5) of the Corporations Act 2001.

On behalf of the Directors

Graham Ascough
Chairman

Adelaide, 10 March 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PNX METALS LIMITED

We have reviewed the accompanying half-year financial report of PNX Metals Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of PNX Metals Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of PNX Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of PNX Metals Limited is not in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1(a) to the half-year financial report which indicates that the company and consolidated entity incurred a total comprehensive loss of $768,304 during the half year ended 31 December 2016 and net cash outlay from operating and investing activities of $2,544,661. These conditions along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the company and consolidated entity's ability to continue as a going concern and therefore, the company and consolidate entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated. Our opinion is not modified in respect to this matter.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 10 March 2017