

## Acquisition of Key Infrastructure Site for development of Hayes Creek zinc-gold-silver Project

- **Fountain Head Mineral Leases, the preferred site for the process plant and tailings facility for the Hayes Creek zinc-gold-silver Project acquired from Kirkland Lake Gold for no cash outlay**
- **Represents key milestone for the development of the Project with environmental Notice of Intent to now be submitted**
- **100% ownership of Hayes Creek Project confirmed following lapse of Kirkland Lake Golds clawback option**
- **Moline exploration Project also acquired 100% allowing PNX to retain all upside**
- **Hayes Creek drilling completed in December to support DFS and potentially extend mine life – assays due shortly**

PNX Metals Limited (**ASX: PNX**) is pleased to announce that it has signed an agreement (**'Agreement'**) with a subsidiary of Kirkland Lake Gold Ltd (**'KL Gold'**) (TSX: KL, ASX: KLA), for the acquisition of 4 Mineral Leases (**'MLs'**) at Fountain Head in the Pine Creek region of the Northern Territory (**'NT'**). 100% ownership of the high grade Hayes Creek zinc-gold-silver Project (**'Project'** or **'Hayes Creek Project'**) has also been affirmed.

The acquisition of the MLs represents a key milestone in the development of the Hayes Creek Project as it secures the proposed location for the Project's process plant. The area was identified through the Pre-Feasibility Study (**'PFS'**) as being the preferred plant site for a number of reasons, including:

- close proximity to the mining areas at Iron Blow and Mt Bonnie (approximately 12km)
- excellent existing infrastructure including high-voltage power, rail, gas, water and roads; and
- it is an existing disturbed site with historic open pits proposed for use as tailings storage.

With the Agreement to acquire Fountain Head, the proposed process plant location has now been finalised and the Project environmental Notice of Intent will now be submitted to the Northern Territory Environment Protection Authority.

The transaction will result in no cash outlay for PNX and cements the significant Project capital and operating cost savings this site provides as identified during the PFS.

As part of the Agreement, PNX will also take 100% ownership of the Moline Exploration Project which is highly prospective for gold and base metals (currently owned 51% by PNX under an existing farm-in agreement with KL Gold<sup>1</sup>).

<sup>1</sup> PNX 51% interest progressing toward 90% in 23 exploration licences and mineral leases in the Pine Creek region of the NT

In return for the acquisition of Fountain Head and balance of the Moline Project, PNX has agreed to carve out three exploration areas within the Burnside project area that are also part of the farm-in agreement and 51% owned by PNX. The transfer of these areas will allow KL Gold to continue with its regional gold exploration program in those areas and PNX will retain the right to explore for base metals.

PNX is also pleased to report that KL Gold's **option to clawback 30% of the Hayes Creek Project has now lapsed, affirming PNX's unencumbered 100% interest in the Project**. This simplified ownership structure will allow for a more efficient process to finance and develop the Hayes Creek Project and potentially improve the financial returns for PNX shareholders.

## Managing Director Comment

PNX Managing Director James Fox said;

*"We are pleased to have finalised the Agreement for the acquisition of the process plant site at Fountain Head for no cash outlay to PNX.*

*The benefits of the area are significant for the Project as it is the preferred location for the Hayes Creek process plant and tailings facility as contemplated in our PFS due to being located on granted MLs with excellent infrastructure and in close proximity to the mining areas at Iron Blow and Mt Bonnie.*

*We will continue to advance the Project development particularly in light of the strong appreciation in base metals prices and further tightness in the zinc concentrate market since the PFS was published in mid-2017. The Project DFS is expected later in 2018 with the potential for production in early 2020.*

*Acquiring the remaining 49% of the Moline Project is also an excellent outcome as it contains a number of strong zinc and gold exploration targets, and we look forward to drilling these during 2018."*

## About the Hayes Creek Zinc and Precious Metals Project

In mid-2017 PNX completed a PFS<sup>2</sup> over the Project confirming it to be a promising future low-cost, high-margin zinc and precious metals mine that could create significant value for the Company's shareholders.

The PFS is based on the development of the high-grade Iron Blow and Mt Bonnie zinc-gold-silver VMS deposits which are located less than 3km apart on wholly owned Mineral Leases and 12km to the south of Fountainhead, within the Pine Creek region of the Northern Territory, 170km south of Darwin (Figure 1).

The PFS forecasts the Project to generate a NPV<sub>10</sub> of \$133 million, based on net smelter revenue from the sale of zinc and precious metals concentrates of \$628 million over a 6.5 year mine life through annual production of 18,200t zinc, 14,700oz gold, and 1.4Moz silver (39,100t of zinc equivalent). With a low \$58 million initial capital expenditure requirement, the Project is forecast to have a 73% IRR, and very short pay-back period of 15 months<sup>3</sup>. The short pay-back period coupled with this acquisition, project risk continues to be effectively managed and reduced.

It is envisaged that the Project can be ready for development in 2020 and will directly employ approximately 130 people.

The Definitive Feasibility Study (DFS) and Environmental Impact Statement are now well underway with GR Engineering Services (ASX: GNG) recently engaged<sup>4</sup> to provide process design and engineering expertise. The DFS is expected to build on the excellent outcomes achieved in the PFS.

<sup>2</sup> Refer ASX announcement 12 July 2017

<sup>3</sup> PNX confirms that all the material assumptions underpinning the production targets, and the forecast financial information derived from the production targets, continue to apply and have not materially changed

<sup>4</sup> Refer ASX announcement 1 December 2017

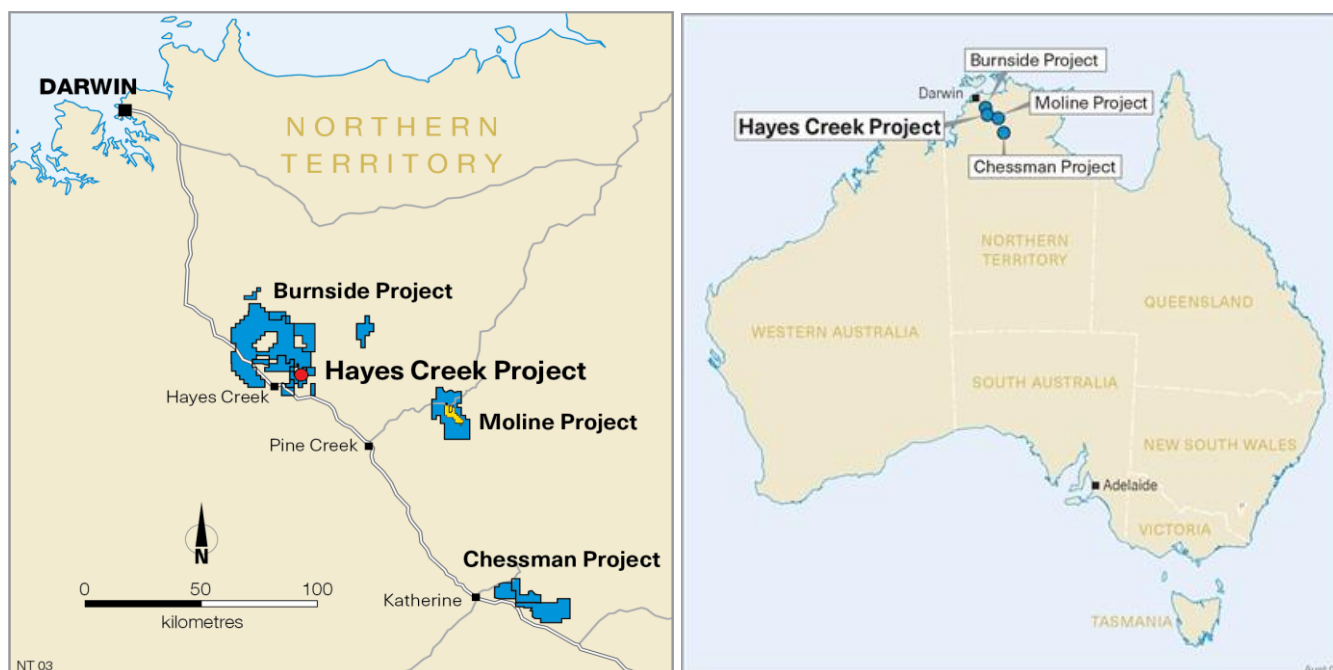
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## Key terms of the Agreement:

- PNX to acquire 4 Mineral Leases at Fountain Head including environmental bonds and associated liabilities and all mineral resources (Figures 2 & 3).
- PNX to acquire a 49% interest (to increase its overall interest to 100%) in 3 mineral leases and 1 exploration licence comprising the Moline Project, including environmental bonds and associated liabilities:
  - Upon government approval of PNX's Mine Management Plans for Fountain Head and Moline, KL Gold to transfer to PNX in cash the environmental bonds currently lodged by KL Gold in respect of both Fountain Head and Moline; PNX will then re-lodge the bonds with the Department of Primary Industries and Resources as required:
    - \$0.98 million regarding Fountain Head; and
    - \$0.29 million regarding Moline
- KL Gold to receive a 2% net smelter returns royalty over any precious metals derived from the Fountain Head and Moline tenements.
- Moline tenements are removed from the existing farm-in agreement with KL Gold and KL Gold's precious metals deposit rights<sup>5</sup> over these tenements are terminated.
- 20 reticular blocks across 3 areas (Liberator, McCallum Creek and Mt Paqualin) within the Burnside Project Area are to be carved out from the existing farm-in agreement and PNX's 51% interest will be transferred to KL Gold:
  - PNX retains the right to explore for base metals in these areas
  - PNX retains a first right of refusal of these areas in the event of a sale
- The Agreement is subject to the following conditions being satisfied or waived on or before 3 months after the date the Agreement was signed:
  - The Minister responsible for the Mineral Titles Act agreeing to divide the title area of the relevant exploration licences in the Burnside Project Area (ELs 25748 and 24351) such that the Liberator, McCallum Creek and Mt Paqualin areas are carved out as contemplated in the Agreement;
  - If the Minister does not agree to divide the title area of the relevant exploration licenses then the parties are to enter into an acceptable agreement to allow the transfer of PNX's 51% interest in the Liberator, McCallum Creek and Mt Paqualin areas to KL Gold;
  - Execution of Deed of Assignment related to Rockland Resources Pty Ltd (Uranium Exploration Agreement) in the Fountain Head tenements; and
  - if required, PNX having received the approval of Australia's Foreign Investment Review Board under the *Foreign Acquisition and Takeovers Act 1975 (Cth)* for the acquisition of the Fountain Head tenements and a 49% interest in the Moline tenements.

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<sup>5</sup> Under the terms of the farm-in agreement, KL Gold has the right to acquire 90% of any precious metals deposit with a JORC compliant resource established on any of the farm-in tenements by paying PNX three times PNX's accumulated expenditure related to the deposit. Going forward this right will not apply to the Moline tenements but it will continue to apply to all other tenements the subject matter of the farm-in agreement with KL Gold.



**Figure 1: NT Project locations**

#### Competent Person's Statement

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

For further information please visit the Company's website [www.pnxmetals.com.au](http://www.pnxmetals.com.au) or contact us:

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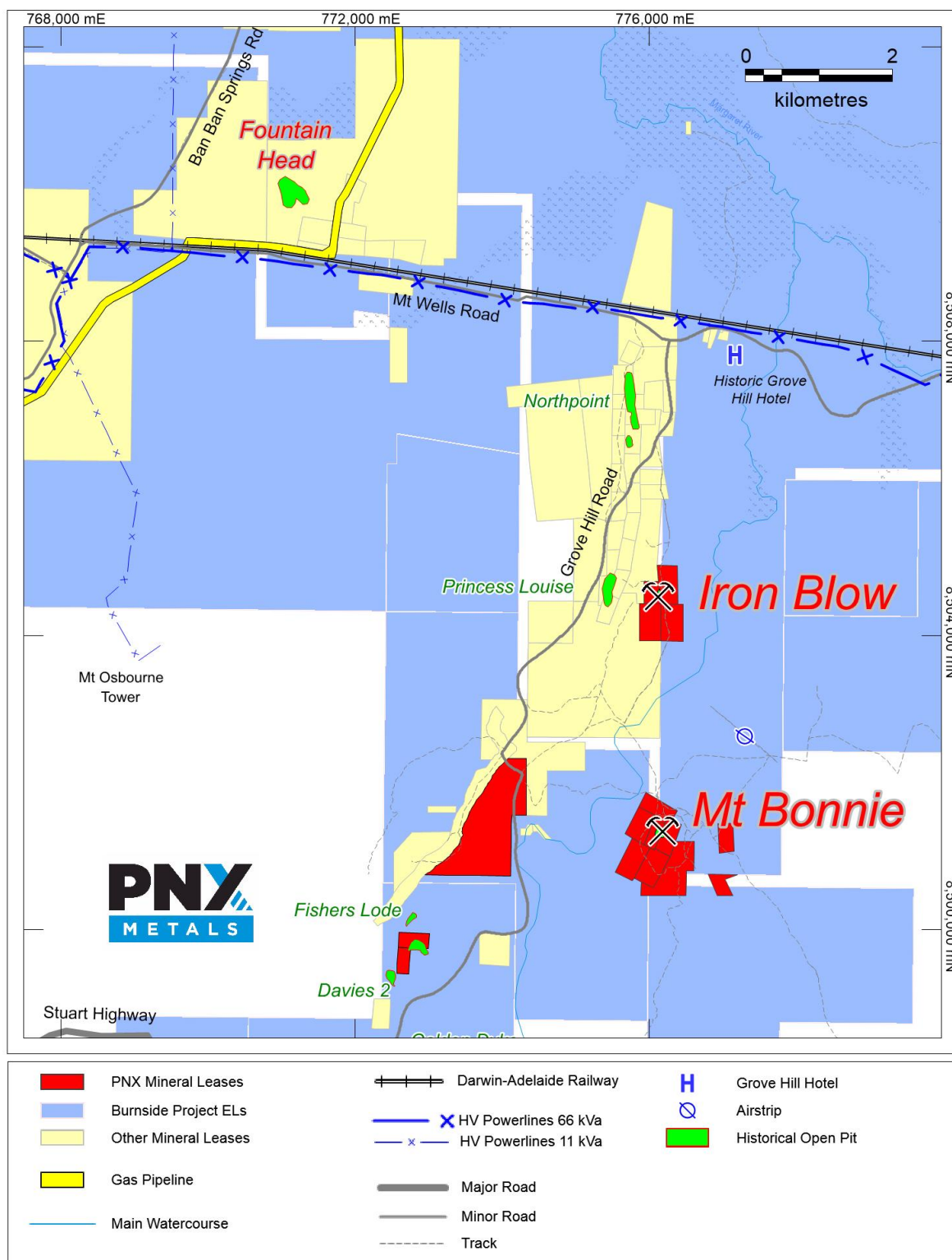


Figure 2: Fountain Head site in relation to regional infrastructure and Hayes Creek MLs (red) at Iron Blow and Mt Bonnie



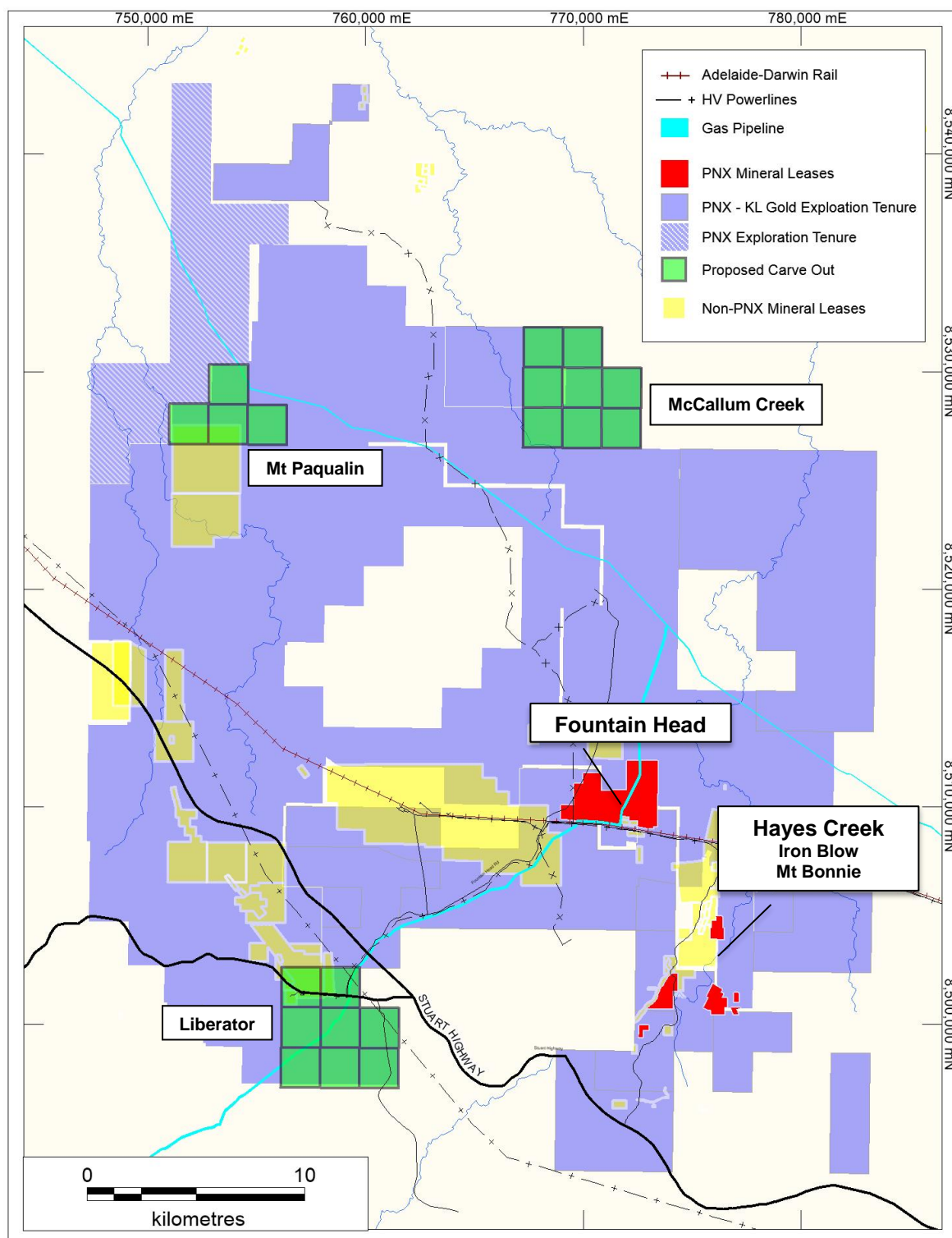


Figure 3: Areas to be carved out of farm-in Agreement at Liberator, McCallum Creek and Mt Paqualin