PNX METALS LIMITED

ABN 67 127 446 271

FINANCIAL REPORT
For the Half-Year Ended 31 December 2018

Index

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 2018 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 total comprehensive loss for the half-year was $824,468 (2017: total comprehensive loss of $373,715). Net assets at 31 December 2018 were $11.1 million, including $1.6 million in cash and term deposits.

During the half-year, the Company raised $3.5 million ($3.4 million after costs) via a share placement issued in two tranches to sophisticated and institutional investors and Company directors.

During the 2018 field season there has been a renewed focus on regional exploration and as such the Hayes Creek project progression was limited to studies relating to the Notice of Intent (NOI), Environmental Impact Statement (EIS) and ongoing metallurgical flotation test work. With increased investor interest in the project, in particular from new sophisticated investors the Definitive Feasibility Study (DFS) will re-commence subject to funding availability. The longest lead-time items still relate to environmental and regulatory approvals with the submission of the EIS proposed for mid-2019. These approvals and finalisation of the DFS are expected to be completed during early 2020, subject to any unplanned delays.

Hayes Creek Project

The Hayes Creek Project comprises the Iron Blow and Mt Bonnie zinc-gold-silver deposits, and Fountain Head plant site[1], situated on 100% owned Mineral Leases in close proximity to each other within the Pine Creek region of the Northern Territory (NT), 170km south of Darwin.

A Pre-Feasibility Study (PFS) was completed in July 2017[2] which confirmed Hayes Creek to be a promising future low-cost, high margin zinc and precious metal mine that could create significant value for the Company's shareholders.

The PFS forecast that the Hayes Creek Project would generate a pre-tax NPV_{10} of $133 million, based on net smelter revenue from the sale of zinc and precious metals concentrates of $628 million (based on consensus views as to future metals prices and exchange rates) 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 estimated $58 million initial capital expenditure requirement, the Project is forecast to have a 73% IRR, and very short pay-back period of 15 months.

The Hayes Creek Project 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.

[1] Refer ASX announcement 31 January 2018 for further detail

[2] Refer ASX announcement 12 July 2017 for full details. 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.

The DFS is expected to provide increased confidence in all aspects of the Hayes Creek Project as well as investigate opportunities to improve overall project economics thereby increasing the prospect of favourable development finance terms and structure.

During the half-year, geochemical and hydrological studies continued with ongoing water quality analyses and regular surface water samples building baseline environmental data to support the environmental approvals for the Hayes Creek Project. These are long term tests, and typically run for 1-2 years. The results of this test work are being reviewed and evaluated with information collected to be used in future studies and planning of the Hayes Creek Project.

Investigations are ongoing into the production and marketing of a single concentrate stream vs the two concentrate streams proposed in the PFS. If successful this has the potential to improve the project economics and simplify the flowsheet. This will be further investigated as the DFS progresses.

Further metallurgical optimisation targeting further specific impurity recognition and rejection at Iron Blow was carried out. Results from this program will assist with advancing marketing and offtake discussions.

Two new diamond holes are planned to be drilled at Iron Blow, one in the eastern, and one in the western lode in order to obtain the required mass of samples for larger-scale milling and a number of locked cycle flotation tests essential for the DFS.

Given the excellent access due to the existing infrastructure these holes are planned to be drilled as soon practicable, likely towards the end of the March 2019 quarter.

Northern Territory Regional Exploration – Fountain Head, Burnside, Moline & Chessman Projects

Successful gold exploration during the 2018 field season at Fountain Head, and at Cookies Corner reinforced the Company's belief in the significant untapped scale potential of these areas.

PNX is pursuing regional exploration targeting gold and base metals mineralisation that has the potential to either

- complement and enhance the Hayes Creek Project, or
- is of sufficient scale to:
    - warrant being processed via existing infrastructure in the region capable of treating free-milling gold ore; or
    - support a standalone mine development.

Fountain Head project

The Fountain Head MLs are 100% owned;

- located less than 15km from the Hayes Creek Project,
- provide PNX with the ideal location for the proposed Hayes Creek Project process plant and associated infrastructure,
- and host the potential for significant gold mineralisation

The scale of the mineralised envelope at the Fountain Head project is significant. Drilling has intersected gold mineralisation from the south-eastern corner of the existing historic open-pits to the Banner prospect which amounts to an approximate 1.6km strike, and down to a vertical depth of ~250m. Almost the entire strike extent remains open.

During the half year assays were reported from a large drill reverse circulation (RC) and diamond drill program consisting of approximately 2,700 metres of RC and 770 metres of diamond drilling (see ASX releases 23 July 2018, 2 August 2018, 22 August 2018, 23 August 2018, 19 September 2018, and 20 December 2018).

The diamond drill component of the program was designed to test for gold mineralisation directly under the existing Fountain Head and Tally Ho historic mining areas with the RC drilling testing an approximate 1.6km strike extent to the north-west along the Fountain Head anticline. Highlights of the program include:

Banner prospect

- **6m at 39.5 g/t Au from 54m in FHRC085 including**
  - **1m at 215 g/t Au from 54m**

Fountain Head lode

- **1m at 10.86 g/t Au from 29m in FHRC072;**
- **3m at 11.09 g/t Au from 93m in FHRC062; and**
- **1m at 28.00 g/t Au from 83m in FHRC070**
- **16m @ 1.37 g/t Au from surface in FHRC074, including:**
  - **1m @ 8.39 g/t Au from 5m.**

Tally Ho lode

- **5m @ 3.96 g/t Au from 107m in FHRC076, including:**
  - **2m @ 9.17 g/t Au from 110m.**
- **6.67m at 11.35 g/t Au from 201.15 metres in FHRC077D, including**
  - **0.85m at 84.9 g/t Au from 201.15 metres**

Analysis of these assay results indicate that high-grade gold mineralisation exists along strike and down dip of the known mineralised structures. Importantly mineralisation exists outside of the previously known zones that had been modelled prior to drilling, and below historic mining which was limited to approximately 60m below surface.

The mineralisation intersected at Fountain Head contains coarse and 'nuggety' gold, and as such it can be highly variable in grade and width. Detailed structural analysis will be required for accurate assessment of grade continuity, to identify potentially larger "trap sites" for mineralisation, and to assist with resource estimation. PNX has engaged CSA Global to undertake this work. Additional screen fire assays of nuggetty gold intercepts are also planned to be completed prior to the commencement of new drilling during the 2019 dry season.

In addition, small-scale historic hard-rock workings have been identified a further 400m to the west of the Banner prospect along the interpreted Fountain Head anticline, suggesting there is potential for further gold mineralisation in this area. The outcrop that contains the historic workings has been mapped at surface and the depth extent will be drill tested in 2019.

A desktop conceptual mining study has commenced to determine the relative values of the gold mineralisation versus using the existing historic open pits as the in-pit tails location, or a combination of both for the Hayes Creek project. This study will assist with the development strategy for the project.

Cookies Corner prospect (Burnside project)

Drilling was designed to target the source of a consistent >0.1g/t gold in soils anomaly, and all 24 holes drilled intersected gold mineralisation over an approximate 800m strike length (ASX release 9 October 2018 and 29 January 2019).

Multiple gold zones have been identified at Cookies Corner, and a number of untested soil anomalies also exist. The Company looks forward to advancing this exciting new opportunity. Highlights from the drilling to date include:

- **8m at 3.13 g/t Au from 12 metres in CCRC005, including;**
  - **1m @ 11.7 g/t Au from 12 metres;**

- **6m at 3.72 g/t Au from 71 metres in CCRC002,**
- **19m at 1.15 g/t Au from 10 metres in CCRC012,**
- **11m at 1.13 g/t Au from 75 metres in CCRC023, including;**
  - **1m at 5.62 g/t Au from 75 metres**

Cookies Corner is one of a cluster of gold targets in the north-west of PNX's Burnside exploration project located at the convergence of two major gold-producing structural corridors, the Pine Creek Shear Zone and the Howley Anticline (host to Kirkland Lake Gold Limited's Cosmo gold mine). The Cookies Corner geochemical anomaly is directly analogous to that observed over the historic Goodall Mine located 4km to the south-west. Goodall was discovered via geochemical sampling in 1981, mined from 1988-1993 and produced, on average over that time, 41,500 oz Au per year when gold prices at the time were less than a third of prices today.

Moline project

The 100% owned Moline project has strong synergies with, and is located approximately 65km by sealed road east of, the Company's 100% owned Hayes Creek Project. The area has been mined periodically, typically only down to the transitional zone (weathered to fresh rock interface). PNX has identified open primary gold and base metals mineralisation along three parallel trends over a total approximate strike extent of 5km.

Studies indicate that Moline gold and base metals sulphide mineralisation is amenable to flotation and that a high-value concentrate can be produced through the proposed Hayes Creek Project process plant. Flotation test work will commence later in the March 2019 quarter subsequent to the receipt of final assays and modelling of the mineralisation.

South Australian Projects

In South Australia, PNX continues to hold 8 exploration licences in the Burra region and 3 exploration licences on the Yorke Peninsula.

During the half-year, no on-ground exploration activities were undertaken by PNX on the Company's Yorke Peninsula or Adelaide Geosyncline exploration tenements. Ausmex Mining Group Limited has commenced a farm-in over PNX's 8 exploration licences in the Burra area, to earn up to a 90% interest over 2 stages (60% and 90%) by spending a minimum of $300,000 in each stage on diamond drilling or other agreed exploratory work. The first stage must be completed by 30 September 2019. All South Australian tenements remain in good standing.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration, as required under Section 307C of the Corporations Act 2001, is included on page 6 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, 8th March 2019

Grant Thornton

Grant Thornton House
Level 3
170 Frome Street
Adelaide, SA 5000
Correspondence to:
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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 2018, 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 audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 8 March 2019

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated Half-year ended 31 Dec 2018	Half-year ended 31 Dec 2017
Interest income		18,857	18,390
Other income		30,000	24,920
Employee benefits		(170,102)	(122,697)
Exploration		(39,933)	(52,629)
Share registry and regulatory		(75,711)	(67,893)
Professional fees		(218,832)	(225,703)
Occupancy		(34,108)	(33,170)
Directors' fees		(97,500)	(97,500)
Equity based compensation	**5**	3,502	(21,461)
Audit fees		(1,112)	(9,478)
Insurance		(14,942)	(13,840)
Interest		-	(50,000)
Depreciation		(2,053)	(2,409)
Other expenses		(42,046)	(66,245)
Loss before income tax expense		(643,980)	(719,715)
Income tax benefit	**8**	-	152,620
Loss for the period		(643,980)	(567,095)
Other comprehensive income/(loss):			
Fair Value OCI	**3**	(180,488)	193,380
Total comprehensive loss for the period attributable to equity holders of the parent		(824,468)	(373,715)
Loss per share from continuing operations:			
Basic (cents per share)	**9**	(0.05)	(0.06)
Diluted (cents per share)	**9**	(0.05)	(0.06)

Condensed notes to the consolidated financial statements are included on pages 11 to 17.

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		Consolidated	
	Note	**31 Dec 2018 $**	**30 June 2018 $**
CURRENT ASSETS			
Cash and cash equivalents		1,601,176	860,076
Trade and other receivables		171,757	143,071
Prepayments/deposits		226,677	153,739
Other financial assets	**3**	309,408	489,896
TOTAL CURRENT ASSETS		2,309,018	1,646,782
NON-CURRENT ASSETS			
Exploration and evaluation expenditure		11,405,283	9,706,714
Plant and equipment		33,590	22,161
TOTAL NON-CURRENT ASSETS		11,438,873	9,728,875
TOTAL ASSETS		13,747,891	11,375,657
CURRENT LIABILITIES			
Trade and other payables		148,613	358,075
Provisions		138,297	101,670
TOTAL CURRENT LIABILITIES		286,910	459,745
NON-CURRENT LIABILITIES			
Provisions		5,149	67,340
Contract liabilities	**4**	2,400,000	2,400,000
TOTAL NON-CURRENT LIABILITIES		2,405,149	2,467,340
TOTAL LIABILITIES		2,692,059	2,927,085
NET ASSETS		11,055,832	8,448,572
EQUITY			
Issued capital	**5**	40,352,796	36,917,796
Reserves		152,756	336,746
Accumulated losses		(29,449,720)	(28,805,970)
TOTAL EQUITY		11,055,832	8,448,572

Condensed notes to the consolidated financial statements are included on pages 11 to 17.

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

		Consolidated					
	Note	**Ordinary Issued Capital $**	**Other Equity $**	**Equity-based Payment Reserve $**	**Fair Value OCI Reserve $**	**Accumulated Losses $**	**Total $**
Balance at 1 July 2017		32,665,302	600,000	90,687	-	(27,805,295)	5,550,694
Loss attributable to members of the parent entity		-	-	-	-	(567,095)	(567,095)
Other comprehensive loss - reclassification to loss		-	-	-	193,380	-	193,380
Total comprehensive loss for the period		-	-	-	193,380	(567,095)	(373,715)
Fair value of equity-based payments		-	-	21,461	-	-	21,461
Shares issued - settlement of convertible notes		600,000	(600,000)	-	-	-	-
Shares issued		2,597,806	-	(74,591)	-	-	2,523,215
Share issue costs		(155,007)	-	-	-	-	(155,007)
Reclassification of loan to other equity		-	1,200,000	-	-	-	1,200,000
Share issue costs - interest on convertible notes		(11,712)	-	-	-	-	(11,712)
Balance at 31 December 2017		35,696,389	1,200,000	37,557	193,380	(28,372,390)	8,754,936
Balance at 1 July 2018		36,917,796	-	40,230	296,516	(28,805,740)	8,448,802
Loss attributable to members of the parent entity		-	-	-	-	(643,980)	(643,980)
Other comprehensive income		-	-	-	(180,488)	-	(180,488)
Total comprehensive loss for the period		-	-	-	(180,488)	(643,980)	(824,468)
Fair value of equity-based payments	*5*	-	-	(3,502)	-	-	(3,502)
Shares issued - Placement Tranche #1	**5**	2,110,000	-	-	-	-	2,110,000
Shares issued - Placement Tranche #2	**5**	1,355,000	-	-	-	-	1,355,000
Share issue costs		(30,000)	-	-	-	-	(30,000)
Balance at 31 December 2018		40,352,796	-	36,728	116,028	(29,449,720)	11,055,832

Condensed notes to the consolidated financial statements are included on pages 11 to 17.

PNX METALS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

		Consolidated	
	Note	**Half-year ended 31 Dec 2018 $**	**Half-year ended 31 Dec 2017 $**
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(721,377)	(597,348)
NET CASH USED IN OPERATING ACTIVITIES		(721,377)	(597,348)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration activities		(1,967,809)	(2,089,383)
Payments for plant and equipment		(20,255)	(2,773)
Interest received		15,541	12,410
NET CASH USED IN INVESTING ACTIVITIES		(1,972,523)	(2,079,746)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from silver streaming option exercise		-	800,000
Issue of shares, net of costs		3,435,000	2,308,208
NET CASH PROVIDED BY FINANCING ACTIVITIES		3,435,000	3,108,208
Net increase in cash and cash equivalents		741,100	431,114
Cash at the beginning of the reporting period		860,076	1,430,630
CASH AT THE END OF THE REPORTING PERIOD		1,601,176	1,861,744

Condensed notes to the consolidated financial statements are included on pages 11 to 17.

1 SUMMARY OF ACCOUNTING POLICIES

This half-year financial report of PNX Metals Limited ("Company") comprises the reports of the Company and its controlled entity ("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 interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group applies, for the first time, AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments. As required by AASB 134, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

New standards, interpretations and amendments adopted by the Group

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

When adopting AASB 9, the Group has applied transitional relief and elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

The reclassifications and adjustments arising from the introduction of AASB 9 have not been reflected in the statement of financial position as at 30 June 2018, but are recognised in the opening balance sheet from 1 July 2018. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the change have not been included.

Balance Sheet Extract

	30 June 2018 as originally presented	AASB 9	1 July 2018
	$	$	$
Non-Current Assets			
Financial assets at fair value through other comprehensive income (OCI)	**-**	**489,896**	**489,896**
Available-for-sale financial assets	**489,896**	**(489,896)**	**-**

On 1 July 2018 (the date of initial application of AASB 9), the group's management assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate AASB 9 categories.

The impact of these changes on the Group’s equity is as follows:

	Effect on AFS reserve $	Effect on FVOCI reserve $
Closing Balance 30 June 2018 - AASB 139	**296,516**	**-**
Reclassify non trading equities from available-for-sale to FVOCI	**(296,516)**	**296,516**
Opening Balance 1 July 2018 - AASB 9	**-**	**296,516**

Equity investments previously classified as available-for-sale

The group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of $489,896 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of $296,516 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 July 2018.

AASB 9 *Financial Instruments* – Accounting Policies applied from 1 July 2018

(a) Classification and Measurement

Except for certain trade receivables, under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI).

The classification is based on two criteria:

- the Group’s business model for managing the assets; and
- whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the ‘SPPI criterion’).

The new classification and measurement of the Group’s debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group’s Trade and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition.

The Group classified its quoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under AASB 9. Under AASB 139, the Group’s quoted equity instruments were classified as AFS financial assets.

The accounting for the Group’s financial liabilities remains largely the same as it was under AASB 139. Similar to the requirements of AASB 139, AASB 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

(b) Impairment

The adoption of AASB 9 has fundamentally changed the Group’s accounting for impairment losses for financial assets by replacing AASB 139’s incurred loss approach with a forward-looking expected credit loss (ECL) approach.

AASB 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Contract assets and Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when its contractual payment is 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of AASB 9 have not materially impacted the expected recoverability of financial assets and accordingly no adjustment or restatement was required to be recognised by the Group.

AASB 15 *Revenue from Contracts with Customers* – Accounting Policies applied from 1 July 2018

AASB 15 supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has applied AASB 15 using the modified approach and the relevant impacts of the implementation of AASB 15 are disclosed below.

(a) Forward sale of metal from future mining projects

Cash received from the forward sale of metal from future mining projects is accounted for as a long-term liability until the metal is delivered. Deferred revenue is recognised as revenue from the sale of goods in the period that the related metal is delivered.

Prior to the adoption of AASB 15, the Group accounted for the forward sales as a separate deliverable. Under AASB 15, the Group assessed whether there were any additional performance obligations in relation to the forward sales. From this review it was determined that there were no additional performance obligations other than delivering metal when it is produced.

Under AASB 15, the Group concluded that forward sales of metal will continue to be recognised at a point in time when the metal is delivered, because the customer does not receive the benefits until such time.

From this review, no restatement to the statement of financial position as at 30 June 2018 or the statement of profit or loss for the six months ended 31 December 2017 was required as a result of the introduction of AASB 15.

(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 2018, the Group made a total comprehensive loss of $824,468 (2017: total comprehensive loss of $373,715) and recorded a net cash outflow from operating and investing activities of $2,693,900 (2017: net outflow $2,677,094). At 31 December 2018, the Group had cash of $1,601,176 (30 June 2018: $860,076), net current assets of $1,712,700 excluding the investment in Sunstone Metals Ltd of $309,408 (30 June 2018: net current assets of $697,141) and net assets of $11,055,832 (30 June 2018: $8,448,572).

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 2018.

2 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 2018 $	**31 Dec 2017 $**	**31 Dec 2018 $**	**31 Dec 2017 $**
Exploration – Northern Territory	-	-	-	-
Exploration – South Australia	-	-	(39,933)	(51,598)
Unallocated	-	-	(604,047)	(668,117)
Loss before tax	-	-	(643,980)	(719,715)
Income tax benefit			-	152,620
Consolidated segment loss for the period			**(643,980)**	**(567,095)**

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 2018 $	30 June 2018 $
Assets		
Exploration – Northern Territory	11,102,556	9,206,714
Exploration – South Australia	500,000	500,000
Unallocated assets	2,145,335	1,668,943
Total assets	**13,747,891**	**11,375,657**
Liabilities		
Exploration – Northern Territory	45,089	368,643
Exploration – South Australia	-	-
Unallocated liabilities	2,646,970	3,119,071
Total liabilities	**2,692,059**	**3,487,714**

3 OTHER FINANCIAL ASSETS – INVESTMENT IN SUNSTONE METALS LTD

The Company continues to hold 12,892,013 shares in ASX listed Sunstone Metals Limited ('Sunstone', previously Avalon Minerals Ltd), carried at a fair value of $309,408.

At each reporting period, the carrying value of the investment in Sunstone is revalued to fair value, based on the market value of Sunstone's shares at that time. The decrease in the fair value of the investment from 30 June 2018 to 31 December 2018 is $180,488 and is recorded to a FV-OCI Reserve in shareholders' equity, and shown in Other Comprehensive Income, under the adoption of AASB 9 *Financial Instruments*, from 1 July 2018 as outlined in note 1.

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

4 CONTRACT LIABILITIES

During the year ended 30 June 2018, the two parties to the silver streaming and royalty agreements with the Company each exercised their option to acquire an additional 56,000 troy ounces of silver, for a forward payment of $400,000 each (total $0.8 million).

The Company received a total of $2.4 million under these agreements, for the forward sale of a total of 336,000 oz of silver, to be delivered over a 3-year period once commissioning and ramp up of the Hayes Creek Project is completed. In the event the Project is not developed, the forward payments will be converted into shares subject to any required approvals.

The $2.4 million of cash received is 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.

5 ISSUE OF SECURITIES

During the half-year ended 31 December 2018:

- 433,125,000 shares were issued in two tranches under a placement to sophisticated and professional investors at 0.8 cents per share, raising a total of $3.47 million before costs;
- 433,125,000 unquoted options (exercisable at 1.5 cents per share up to 30 September 2021) were issued to the placement participants on the basis of one free attaching option for each placement share acquired;
- 10,000,000 performance rights were issued to the Managing Director as approved by shareholders at the AGM held on 24 October 2018. The performance rights are subject to certain market related conditions being met and 5,000,000 expiring on 3 December 2020 and the remaining 5,000,000 expiring on 3 December 2021;

During the half-year, following the lapse of 2,990,000 existing performance rights issued under the Company's Employee Performance Rights Plan in a previous financial year and together with MD performance rights issued in the current half year, as outlined above, a share-based payment adjustment of ($3,502) was recorded to the expense (2017: $21,461) for the half-year ended 31 December 2018.

As at 31 December 2018, there were 1,522,055,020 ordinary shares, 518,575,000 unquoted options (65,450,000 exercisable at 5.0 cents and expiring on 31 May 2019, 20,000,000 unquoted options exercisable at 1.47 cents and expiring on 30 Oct 2020, and 433,125,000 unquoted options exercisable at 1.50 cents and expiring on 30 Sep 2021) and 14,080,000 performance rights (held by Company staff and Managing Director) on issue.

6 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 2018.

7 INVESTMENT IN SUBSIDIARY

The Company owns 100% of the shares of Wellington Exploration Pty Ltd, which holds one exploration licence in South Australia.

8 INCOME TAX

No income tax benefit was recorded for the half-year in relation to any R&D claim as the Company was unable to reliably measure the R&D at that time. For year ended 30 June 2018 an estimated R&D claim of $100,000 was recorded as at 30 June 2018.

Otherwise, and 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 $36 million at 31 December 2018.

9 LOSS PER SHARE

The weighted-average number of shares underlying the basic and diluted loss of $0.05 cents per share disclosed in the Statement of Profit or Loss and Other Comprehensive Income is 1,401,623,634 (2017: 880,090,777).

The weighted average number of ordinary shares in the calculation of diluted loss per share is the same as for basic loss per share, as the inclusion of potential ordinary shares in the diluted calculation is anti-dilutive, due to the loss incurred for the half-year.

10 SUBSEQUENT EVENTS

There were no other events occurring subsequent to 31 December 2018 requiring adjustment to, or disclosure in, the 31 December 2018 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 2018 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, 8th March 2019

Grant Thornton House
Level 3
170 Frome Street
Adelaide, SA 5000
Correspondence to:
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report

To the Members of PNX Metals Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of PNX Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of PNX Metals Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of $643,980 during the half year ended 31 December 2018 and, as of that date, the Group also recorded a net cash outflow from operating and investing activities of $2,693,900. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half year financial report

The Directors of the Company 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 internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with 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 Group's financial position as at 31 December 2018 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 have complied with the independence requirements of the *Corporations Act 2001*.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 08 March 2019