PNX METALS LIMITED ABN 67 127 446 271

ANNUAL REPORT 2016

CORPORATE DIRECTORY

Australian Business Number
67 127 446 271

Country of Incorporation
Australia

Board of Directors

Graham Ascough	Non-executive Chairman
Paul Dowd	Non-executive Director
Peter Watson	Non-executive Director
David Hillier	Non-executive Director
James Fox	Managing Director & CEO

Company Secretary
Tim Moran

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Auditors
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Level 1, 67 Greenhill Road
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ASX
The Company's fully paid ordinary shares are quoted on the ASX under the code PNX.

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CHAIRMAN'S LETTER

Dear Fellow Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the 2016 Annual Report for PNX Metals Limited ('PNX' or 'Company').

At last year's AGM shareholders approved a name change to PNX Metals Limited from Phoenix Copper Limited. The new name is a better reflection of the Company's recent and future activities, with zinc, silver and gold being the predominant metals of interest at our wholly owned Hayes Creek Project in the Northern Territory.

The year under review has been exciting and progressive for PNX. During the year the Company achieved excellent drilling results at the Hayes Creek project, completed a new Mineral Resource Estimate for the Mt Bonnie Deposit and released an initial Scoping Study which found that mining and processing ore derived from both open-pit and underground operations at Hayes Creek could generate strong financial returns for PNX and its shareholders.

The excellent results delivered to date demonstrate that we are making considerable progress on our objective to develop a profitable mining operation at our Hayes Creek gold-silver-zinc project.

A Pre-Feasibility Study is now underway – it is fully funded and due for completion by May 2017. The PFS aims to build on the strong results of the scoping study, improving on the certainty of the mining inventory and associated operating and development costs, and reducing the technical risk of the Project before a development decision is made.

In support of the PFS, drilling at the Iron Blow and Mt Bonnie deposits is ongoing with the objective to define additional near-surface mineralisation to complement the already significant Mineral Resources outlined at both deposits. The drilling will also provide infill data to increase the confidence in the Mineral Resource estimates and will provide samples for metallurgical optimisation test work to underpin the technical aspects of the PFS. The company has also commenced Environmental Impact Assessment studies in support of permitting and a decision to mine. The development strategy includes the use of existing infrastructure including rail, road, high voltage power lines and water, designed to boost economics and reduce project risk.

The board and management remain confident that the continued work and completion of studies on the Hayes Creek project in 2017 will deliver a robust development opportunity.

The Company continues to receive strong support from its shareholders, and in 2016 PNX completed a number of successful fundraisings to new, professional investors as well as to existing shareholders. The Company also raised \$1.6 million in June 2016 under novel metal streaming and royalty agreements with two investors (details of the agreements are provided in the attached report). The forward sale, at this early stage, of a small amount of the total silver that we believe may be produced from the Hayes Creek Project is an important step and allows PNX to continue to execute on its development strategy providing funds to complete the technical components of the PFS without diluting shareholders.

In the near term our priority will continue to be the advancement of Hayes Creek towards development; however we are pursuing gold and base metals exploration programs in the Pine Creek region with the aim of diversifying our opportunities. As detailed in the annual report, a number of high quality gold and base metals targets have been generated at our Burnside, Moline and Chessman projects and these will gradually be tested for further resource potential and future development options.

Although no activities of significance occurred during the year at the Company's Burra or Yorke Peninsula projects in South Australia, the tenure remains in good standing and the Company is assessing the future of these projects. At Leigh Creek, Resilience Mining Australia Limited ('RMA', previously Hillsgold Resources Pty Ltd) continues to hold an option to acquire the Company's 100% owned subsidiary Leigh Creek Copper Mine Pty Ltd that holds three mining leases including Mountain of Light, which has been on care and maintenance since January 2012.

In closing, I would like to take this opportunity to express my thanks to my fellow directors, management and staff for their dedication and work during the past 12 months. We are committed to progressing the Company and advancing our flagship Hayes Creek project towards development for the benefit of all shareholders.

I also take this opportunity to thank all shareholders for your continued support of PNX and I look forward to providing further updates as our activities advance in 2017.

Yours sincerely,

Graham Ascough
Chairman
7 October 2016

OVERVIEW

GENERAL

PNX Metals Limited ('PNX' or the 'Company') is an ASX listed minerals exploration company, with a vision of being a successful explorer and sustainable and profitable gold and base metals producer. PNX has a significant base and precious metals tenement portfolio in the Northern Territory and South Australia.

The principal activity of the Company during the 2016 financial year was mineral exploration in the Northern Territory (NT) and advancement of its Hayes Creek gold-silver-zinc project in the NT through to a completed scoping study and the start of a Pre-Feasibility Study.

HAYES CREEK PROJECT

The Hayes Creek Project ('Project') is located in a favourable mining jurisdiction in the Pine Creek region of Northern Territory, 180km by road south of Darwin (Figure 1). It comprises 14 wholly-owned mineral leases including the base and precious metals deposits at Iron Blow and Mt Bonnie which were acquired in 2014 from Newmarket Gold NT Holdings Pty Ltd, a subsidiary of Newmarket Gold Inc. ('Newmarket Gold').

The Hayes Creek Project contains total Inferred and Indicated mineral resources (JORC Code 2012) of 257koz gold, 16.3Moz silver, 178kt zinc, 41kt lead and 11.5kt copper[1]. During the year the Company completed a scoping study on the Project which found that mining and processing ore derived from both open-pit and underground operations would generate strong financial returns for PNX, including a fast payback period with modest capital expenditure. The Company is aiming to develop an operation with a mine life of greater than 7 years, producing payable metals of 14koz gold, 1.3Moz silver, and 14kt zinc in concentrate annually. The development strategy includes the use of existing infrastructure including rail, road, high voltage power lines and water, designed to boost economics and reduce project risk.

PNX project locations

Key achievements during the year, which are discussed in more detail in the Exploration Report, that provided valuable input to the scoping study included:

- Completion of a 1,560m RC and diamond drill program at Mt Bonnie in October 2015 with better intersections including:
  - 8.78m @ 7.16% Zn, 1.04g/t Au, 215g/t Ag, 0.34% Cu and 1.62% Pb from 55m in MBDH033
  - 42.25m @ 2.96% Zn, 0.59g/t Au, 35g/t Ag and 0.33% Pb from 25.75m in MBDH034, including 3.1m @ 10.77% Zn, 3.34g/t Au, 133g/t Au, 0.39% Cu and 1.21% Pb from 63.9m[2]
- The drilling and assay results from Mt Bonnie were a key component of an initial JORC 2012 resource estimate at that deposit that was finalised in February 2016:
  - 1.3 million tonnes @ 4.2% Zn, 1.3g/t Au, 133g/t Ag, 1.3% Pb, and 0.3% Cu[3]

1 *Refer ASX release 31 March 2016 and Table 2 on page 26*

2 *Refer ASX release 17 December 2015*

3 *Refer ASX release 1 February 2016 and Table 2 on page 26*

- R&D metallurgical test-work – detailed analysis was completed on Iron Blow massive sulphides, including grind variability, reagent optimisation, concentrate regrind and cleaning flotation. Metallurgical investigations have identified a practical and low cost flow sheet to maximise recoveries of the most valuable minerals in the resources, being zinc, gold and silver.

A Pre-Feasibility Study ('PFS') at Hayes Creek has now commenced, which is fully funded and due for completion by May 2017. The PFS aims to improve the certainty of the mining inventory and associated operating and development costs, and reduce the technical risk of the Project before a development decision.

PFS and Research and Development (R&D) metallurgical optimisation work includes the continuation of research and development activities associated with identifying and understanding the geological and mineralogical structure and processing characteristics of the polymetallic ores at Hayes Creek.

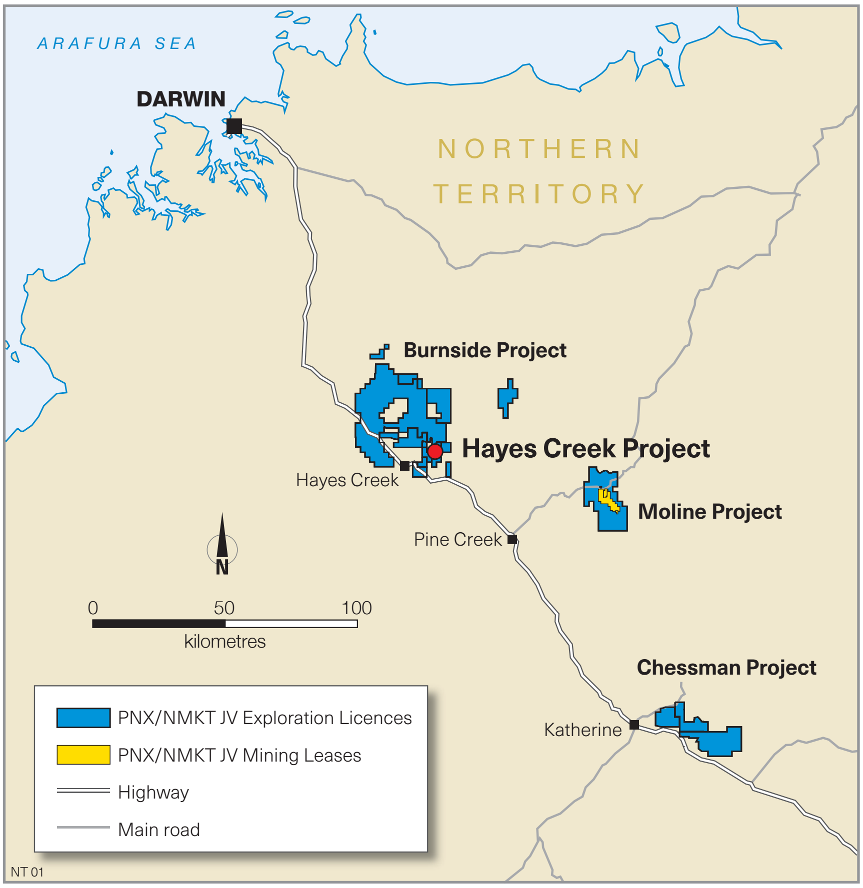


Figure 1 *NT project locations*

REGIONAL EXPLORATION AND FARM-IN AGREEMENT

The Burnside, Moline and Chessman project areas are also in the Pine Creek region of the Northern Territory and form part of PNX's farm-in agreement with Newmarket Gold where PNX is earning up to 90%, in two stages, of 19 Exploration Licenses and four Mineral Leases covering approximately 1,700 square kilometres (Figure 1). Total expenditure at 30 June 2016 for the purpose of the first stage of the farm-in was approximately $1.5 million. A further $0.5 million is required, and will, be spent by mid-December 2016 to achieve the 51% stage one farm-in. PNX can then elect to increase its interest to 90% with expenditure of an additional $2 million over a further 2 year period.

The Burnside, Moline and Chessman Projects contain exciting opportunities for brownfield discoveries with undeveloped mineralisation and promising new conceptual targets. Regional exploration activities during the year were aimed at identifying new gold and base metal targets in the vicinity of the Hayes Creek project. Geological mapping, rock chip sampling and geochemical soil data were collected to complement the already significant datasets inherited from Newmarket Gold.

A number of targets will be drill-tested in 2016-17, and a pipeline of new prospects is being generated through geological mapping and surface geochemical analysis.

The Company will also conduct diamond drilling in the coming months at two greenfield targets, Barossa (Burnside Project) and Tractor Corner (Chessman Project). In June 2016, PNX was successful in obtaining grant funding from the Northern Territory Geological Survey's Geophysics and Drilling Collaborations of approximately $85,000 to co-fund these diamond drilling programs.

CAPITAL RAISING

During the first half of the financial year the Company raised $1.5 million via the placement of 115 million shares at 1.3 cents per share to sophisticated investors and, with shareholder approval, company directors. A further $0.25 million was raised in April 2016 from the placement of 26.3 million shares at 0.95 cents each to sophisticated investors.

Subsequent to 30 June 2016, the Company raised $1.5 million via the placement of 79 million shares at 1.9 cents each to sophisticated and institutional investors, and received a commitment for a further share placement of $0.25 million, if approved by shareholders at the Company's 2016 annual general meeting.

SILVER STREAMING AGREEMENTS

The Company raised $1.6 million in June 2016 under identical metal streaming and royalty agreements with two investors. $800,000 was received from each investor for the forward sale of 112,000 troy ounces of silver ($7.14/oz). The silver is to be delivered at a rate of 14,000 oz per quarter (56,000 oz per year) for 2 years once commissioning and ramp up of the Hayes Creek Project is complete.

At the end of the two year silver delivery period, each investor receives a 0.24% Net Smelter Return (NSR) royalty. The NSR royalty applies in respect of gold and silver produced from the Hayes Creek Project, and will be paid for

Portable XRF soil and rock chip sampling a 5 year period from the end of the silver delivery period. PNX can buy back the NSR royalty from an Investor prior to production commencing for $0.27 million.

Each investor has an option, to be exercised within 3 months of completion of the pre-feasibility study over the Hayes Creek project, to purchase an additional 56,000 oz of silver for $0.4 million. This silver is to be delivered over a further one year period. In this scenario the NSR increases to 0.36% and buy-back amount increases to $0.4 million.

If production at the Hayes Creek Project has not commenced within 5 years and PNX or an investor elects to terminate the agreement, the forward payment made by that investor ($0.8 million, or $1.2 million, if the option has been exercised) converts to PNX shares based on a 30 day VWAP. If any required approval to issue the shares is not received, the applicable forward payment is to be repaid in cash via a series of quarterly installment payments plus interest. The NSR royalty will still apply in these circumstances for 5 years from when production commences on any of the mineral leases making up the Hayes Creek project.

OTHER CORPORATE MATTERS

Leigh Creek

Resilience Mining Australia Limited ('RMA', previously Hillsgold Resources Pty Ltd) continues to hold an option to acquire the Company's 100% owned subsidiary Leigh Creek Copper Mine Pty Ltd ('LCCM'). LCCM holds three mining leases in the Leigh Creek area including Mountain of Light, which has been on care and maintenance since January 2012.

RMA has yet to exercise the option, which now expires 31 October 2016 following an agreed 2 week extension.

Should RMA exercise the option, it will acquire LCCM, and two exploration licences in the Leigh Creek area, from the Company for nil up-front consideration (other than the assumption of the rehabilitation obligations at Mountain of Light) and a contingent payment to the Company of $100,000 if and when 3,000 tonnes of copper are produced from future operations at the three mining leases.

Avalon Investment

The Company continues to hold 12.9 million shares in Avalon Minerals Limited, representing an equity holding of approximately 2.5% of that company. The investment was funded primarily by a $1.2 million unsecured loan, which is to be repaid via the remittance of proceeds from the sale of Avalon shares. Any shortfall may be paid by the issue of shares in the Company. If the shares in Avalon are not disposed of by the November 2019 maturity date, the loan is repayable in cash. The maturity date of the loan was extended three years to November 2019 during the year by agreement with the lender.

The Company is continuing to evaluate strategic options regarding its holding in Avalon. Avalon is continuing to progress its flagship Viscaria copper project in northern Sweden toward feasibility and a production decision, and advance its newly acquired lithium and gold assets in Finland and Sweden.

OUTLOOK

PNX's aim is to be a sustainable, profitable gold and base metals producer and successful explorer in the Pine Creek region of the NT by establishing an economic mining project at Hayes Creek and through new mineral discoveries in the region.

In 2016-17, the Group will continue mineral exploration and development of the Hayes Creek Project. Key priorities include completion of a PFS at Hayes Creek, including conducting significant extensional and infill resource drilling, as well as continued regional exploration targeting gold and base metals mineralisation at the Burnside, Moline and Chessman projects.

The Group aims to conclude a divestment of its Leigh Creek assets by the end of calendar 2016, and will continue to evaluate opportunities to undertake exploration programs on its South Australian assets.

Iron Blow drill core

FINANCIAL SUMMARY

($000's, except as indicated)	30 June 2016	30 June 2015
Interest and other income	18	69
Research & development tax refund	246	-
Impairment – Leigh Creek	-	150
Impairment – exploration assets	-	1,718
Loss on Avalon investment	128	773
Corporate/administrative costs	1,056	1,026
Interest charges	100	100
Comprehensive Loss after tax	**1,111**	**3,875**
Comprehensive Loss per share	**0.2 cents**	**1.4 cents**
Net operating cashflows	(1,093)	(1,195)
Funds raised – equity (net of costs)	1,738	2,901
Funds raised – silver streaming	1,600	-
Cash on hand	1,644	869
Net working capital[1]	1,720	657
Assets held for sale – Leigh Creek	-	-
Investment in Avalon – at fair value	258	387
Capitalised exploration expenditure	4,688	3,294
Borrowings	1,200	1,200
Net assets	3,877	3,182
Number of shares on issue[2]	507,783,980	357,256,457
Number of performance rights on issue	-	1,500,000
Number of unlisted options on issue	-	1,250,000
Inferred and Indicated resources – Hayes Creek^:		
Gold (contained oz)	256,631	203,000
Silver (contained oz)	16,286,146	10,700,000
Zinc (contained tonnes)	178,483	125,000
Lead (contained tonnes)	40,657	23,000
Copper (contained tonnes)	11,515	7,000
Indicated resources – South Australia		
Copper (contained tonnes) – 0.9% at 0.4% cut-off grade	19,600	19,600
Share price (ASX: PNX)	0.018	0.020

^ 3.9Mt at 2.05g/t Au, 130g/t Ag, 4.59% Zn, 1.05% Pb, 0.3% Cu – refer Exploration Report for details
1 Excluding Investment in Avalon
2 588,691,875 as of the date of this report

OVERVIEW

REVIEW OF OPERATIONS

Overall, PNX and its controlled entities ('Group') reported a comprehensive net loss for the year of $1.1 million (2015: $3.9 million), and the net result from continuing operations was a loss after income tax of $0.9 million (2015: $4.1 million). The prior year result included impairment charges on the Group's South Australian exploration and evaluation assets of $1.7 million and $1.2 million on the investment in Avalon. The loss from the Group's discontinued operations at Leigh Creek was $0.1 million (2015: $0.2 million). The 2016 result included a tax benefit of $0.2 million from the Group's 2015 research and development claim, which was received in July 2016.

Overall, the loss from continuing operations in 2016 of $0.9 million was similar to the $1.2 million loss from 2015 after excluding the prior year impairment charges, and very similar on a pre-tax basis ($1.1 million loss in 2016 compared to $1.2 million in the prior year). The Group's corporate costs, which include head office wages, directors' fees, professional fees, insurance, regulatory, occupancy and communications costs have not changed significantly.

During the year the Company raised $1.7m from placements to sophisticated investors and, with shareholder approval, Company directors, and also raised $1.6 million from the forward sale of 224,000 oz of silver from the Hayes Creek Project under silver streaming agreements executed with two investors.

Net operating cash outflows for the year of $1.1 million reflect the pre-tax loss from continuing operations. Exploration cash outflows of $1.5 million related almost entirely to the Group's projects in the Northern Territory.

At 30 June 2016, the Group had cash holdings of $1.6 million and net working capital of $1.7 million excluding the investment in Avalon. As noted earlier, subsequent to year-end the Group raised $1.5m from placements to sophisticated and institutional investors.

PNX Directors and Exploration Manager Andy Bennett, Mt Bonnie

OVERVIEW

PNX's interests in the Northern Territory comprise four project areas covering approximately 1,700km^2 of tenure prospective for both gold and base metals within the Pine Creek Orogen (Figure 1). All projects are easily accessible being located just off the Stuart Highway 180km south of Darwin.

The Hayes Creek gold-silver-zinc project is 100% owned by PNX and is the principal asset which underpins the Company's strategy to become a base and precious metals producer. The project comprises 14 granted mineral leases containing the Iron Blow and Mt Bonnie base and precious metal deposits as well as three granted mineral leases with historical gold production in the Golden Dyke Dome area.

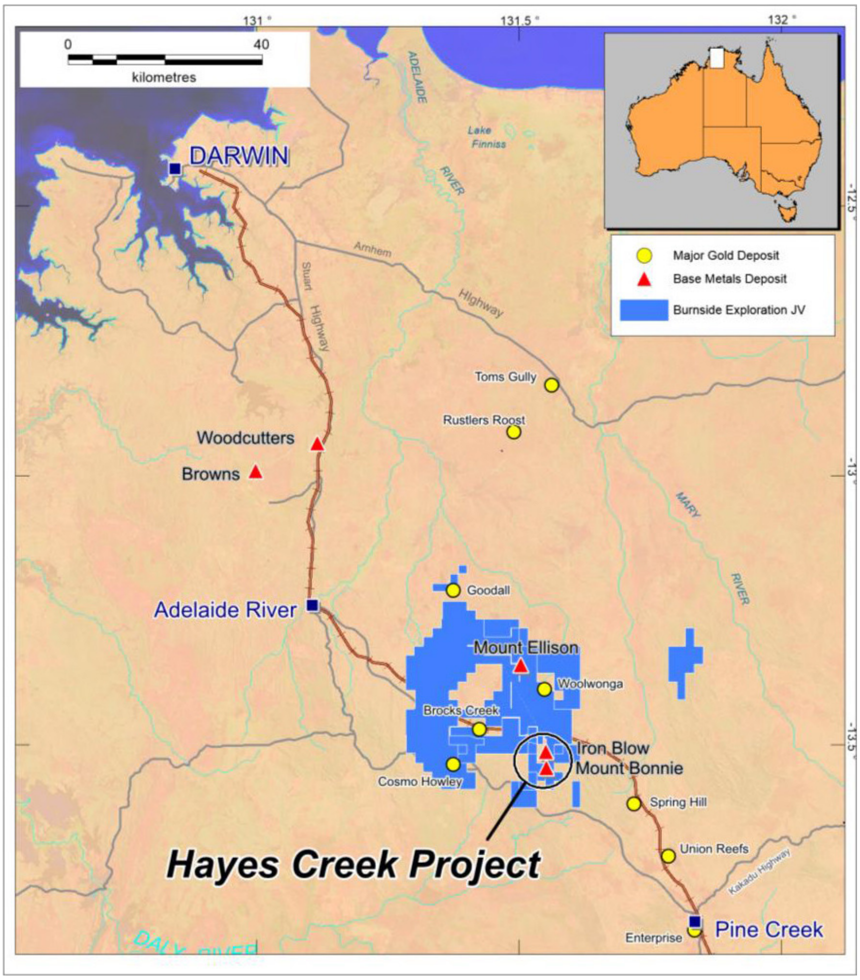


Figure 1 *NT Project locations*

The Burnside, Moline and Chessman Projects include 19 exploration licences and four mineral leases in which the Company is earning up to a 90% interest from Newmarket Gold and one exploration licence (part of the Burnside project) which is 100% owned by PNX. These projects contain exciting opportunities for brownfield discoveries with undeveloped mineralisation and promising new conceptual targets.

The key focus of the Company during 2016 was the advancement of its Hayes Creek Project through to a completed Scoping Study and the start of a Pre-Feasibility Study. Mineral exploration in regional areas was aimed at identifying new gold and base metal targets in the vicinity of the Hayes Creek project.

In South Australia the Company holds 15 exploration licences and three mining leases covering an area of approximately 3,500km^2. Exploration activity during the year was minimal at the Company's main South Australian projects at Burra and on the Yorke Peninsula as resources were directed toward the Company's NT projects.

SUMMARY OF PHYSICAL ACTIVITIES

During the reporting year, field activities consisted of reverse-circulation (RC) drilling (455.4m), diamond drilling (1,339.5m), as well as surface geochemical activities and mapping (4,644 pXRF measurements, 1,079 soil samples and 215 rock chip samples). This was the first full season of field activity following PNX's entry into the NT. The work has advanced the geological and technical understanding of the development potential of the Hayes Creek Project and has highlighted the potential mineral wealth of the Burnside Project.

HAYES CREEK PROJECT – NORTHERN TERRITORY

The Hayes Creek Project (Project) is underpinned by total estimated Inferred and Indicated mineral resources (JORC Code 2012) containing 257koz gold, 16.3Moz silver, 178kt zinc, 41kt lead and 11.5kt copper (750koz AuEq) (refer Mineral Resources and Ore Reserves tables on page 26 for further detail).

The Project is located in a favourable mining jurisdiction in the Northern Territory where the development scenario considers and utilises existing infrastructure that includes rail, road, high voltage power lines, water and historical mining areas, further enhancing project fundamentals and lowering development risks (Figure 3).

The Iron Blow and Mt Bonnie deposits were first discovered in the late 1800s with limited open pit and underground mining occurring in the early 1900s. During the mid-1980s most of the oxidised ore was mined by shallow open pits for gold and silver with the remaining primary sulphide ore now the focus for PNX. Figure 2 shows recent photos of the historical pits.

Figure 2 *Iron Blow (top) and Mt Bonnie historical pits*

SCOPING STUDY

Completed March 2016

PNX completed a Scoping Study in March 2016 that identified a robust economic base case and the potential for the Project to be economically viable. The level of capital investment scoped provides for modest mining and ore throughput rates and demonstrates, at the metal prices used, a potentially fast Project payback period. This is likely to be attractive to stakeholders and/or other financiers, as is the inherent commodity mix of gold, silver and zinc. The Study confirms the Project to be profitable across the commodity cycle and capable of producing zinc concentrate and gold-silver doré from both open-pit (Figure 5) and underground operations (Figure 4).

PNX is aiming to develop an operation with a greater than 7 year mine life, producing 14koz of gold, 1.3Moz of silver and 14kt of zinc annually.

PRELIMINARY FEASIBILITY STUDY

Underway, due for completion May 2017

On completion of the Scoping Study PNX commenced a fully funded Preliminary Feasibility Study (PFS) with the aim of improving the certainty of the mining inventory and associated operating and development costs, and reducing the technical risk of the Project before a development decision. Specific components and objectives of the PFS include:

- Drilling:
  - » Upgrade the confidence in the mineral resources to the 'Indicated' category for both the Iron Blow and Mt Bonnie deposits
  - » Test for extensions to the mineralisation beyond current geological models
- Define additional gold resources at Iron Blow to enhance Project value
- Ongoing approvals, environmental impact studies, and stakeholder engagement toward a decision to mine

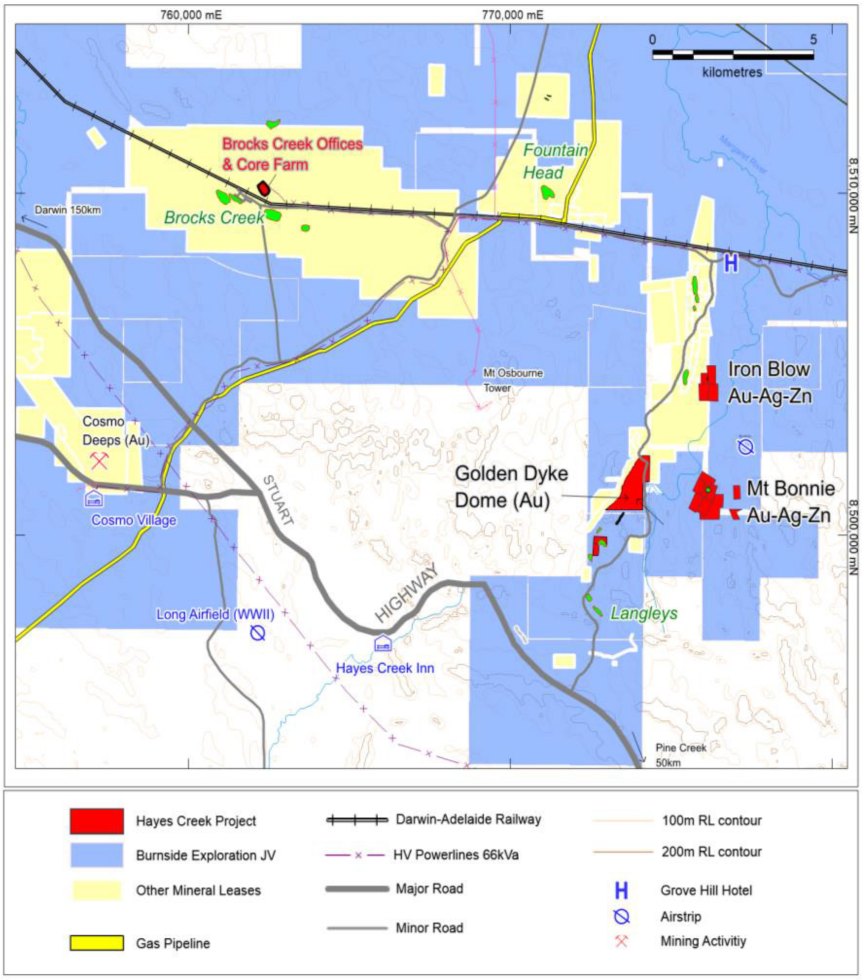


Figure 3 *Hayes Creek Project location*

- Selection of optimum Project configuration: process plant, infrastructure, engineering studies, tails treatment, waste dumps, route to market
- Increase confidence in capital and operating cost estimates
- Metallurgical optimisation: improve recoveries, reduce impurities, and investigate additional revenue streams

In September 2016, a 7,500 metre infill and extensional RC and diamond drilling program commenced at Mt Bonnie and Iron Blow with assay results expected in October 2016.[1]

1 *Refer ASX release 6 October 2016 for first assay results*

Drill rig at Mt Bonnie

MT BONNIE DRILL PROGRAMS

October 2015 & September 2016

A 1,560m RC and diamond drill program was completed at the Mt Bonnie deposit in October 2015, with results incorporated into an initial Mineral Resource Estimate (reported in accordance with JORC 2012). Better intersections included:

- 8.78m @ 7.16% Zn, 1.04g/t Au, 215g/t Ag, 0.34% Cu and 1.62% Pb from 55m in MBDH033
- 42.25m @ 2.96% Zn, 0.59g/t Au, 35g/t Ag and 0.33% Pb from 25.75m in MBDH034, including;
  - » 3.1m @ 10.77% Zn, 3.34g/t Au, 133g/t Au, 0.39% Cu and 1.21% Pb from 63.9m

High-grade, multi-element mineralisation was drilled over a substantial area (Figure 6). Importantly, drilling to the south of the historical open pit identified a new thick zone of mineralisation where potential exists to link with a gossan outcropping approximately 150m to the south of the existing pit, providing near-surface extensional upside. A gossan is the weathered product of sulphide mineralisation.

The results show excellent continuity and consistency of mineralisation, and indicate a simple tabular north-west dipping zone of massive sulphides. A halo of brecciated and carbonate altered rocks containing primarily gold-rich mineralisation was intersected directly below the massive sulphide zone, and a zone of silver-rich supergene mineralisation occurs in a flat-lying zone near surface. The lateral and vertical extents of this gold and silver mineralisation is currently undefined, and was not included in the mineral resource estimate. As it is outside of the massive sulphide envelope it was likely not identified by ground and downhole EM surveys and therefore provides considerable potential upside.

As noted earlier, in September 2016, an infill and extensional RC program was completed at Mt Bonnie for 27 holes and 1,826m (Figure 6). Mineralisation was intercepted in all holes drilled and is consistent with the geological model. Assay results are expected in October 2016[1] with an updated mineral resource due by the end of 2016 which will be a key component of the PFS.

1 Refer ASX release 6 October 2016 for first assay results

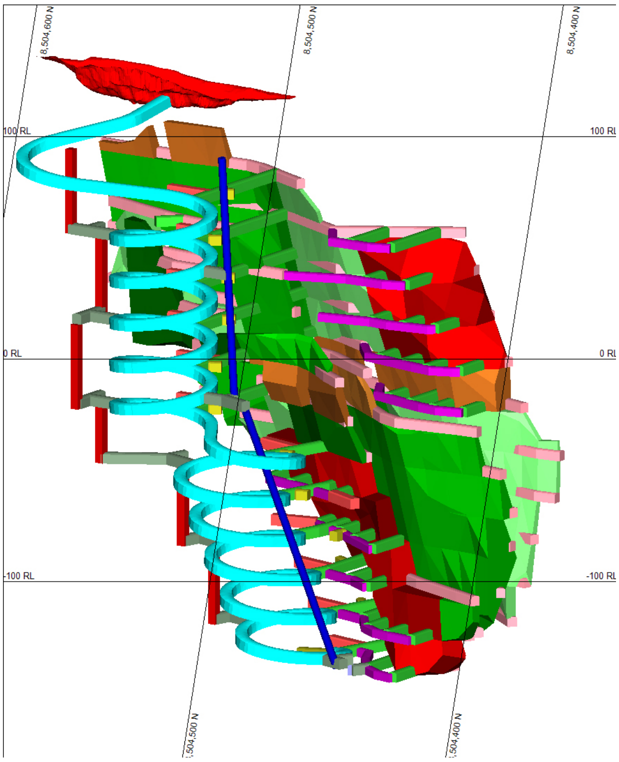


Figure 4 *Isometric view of the conceptual Iron Blow underground mine design looking south west*

Blue: fresh air intake/egress; Red: exhaust air; Green stopes: longitudinal retreat stopes; Red stopes: transverse stopes; Brown: blind uphole/crown stopes; Light blue: decline

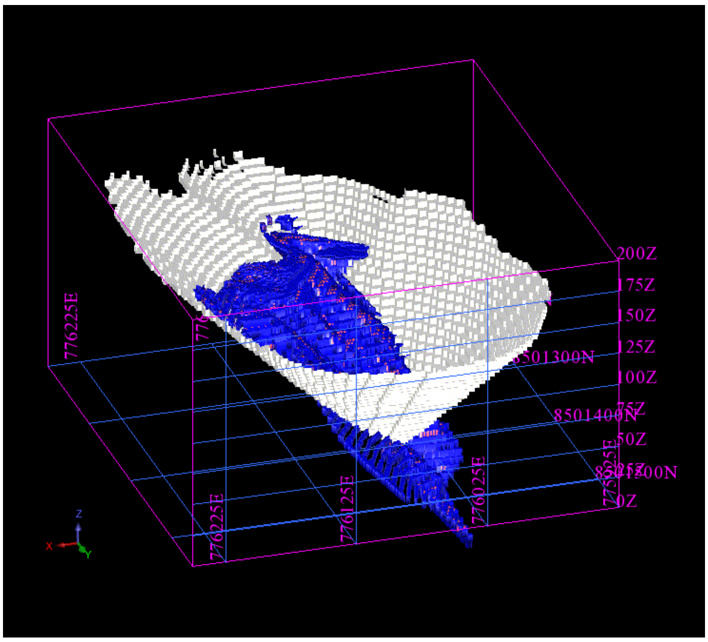


Figure 5 *Conceptual Whittle pit shell (white) for Mt Bonnie looking south, blue zone represents the orebody*

MT BONNIE RESOURCE ESTIMATE

February 2016

In February 2016, based on information derived from historical data and the October 2015 drill program, an initial Mineral Resource Estimate was completed for the Mt Bonnie deposit (reported in accordance with JORC Code, 2012) containing:

- 1.3 million tonnes @ 4.2% Zn, 1.3g/t Au, 133g/t Ag, 1.3% Pb, and 0.3% Cu

Refer to the Mineral Resources and Ore Reserves tables on page 26 and the Company's ASX release dated 2 February 2016 for further detail. This resource estimate, along with the significant resource existing at Iron Blow, was a key input to the Scoping Study.

RESEARCH & DEVELOPMENT PROGRAM – METALLURGY

In January 2016, PNX published results of interim metallurgical test work on representative material from Mt Bonnie to determine the performance relative to previously tested Iron Blow ore. The conditions for flotation tests were based on the optimal conditions established previously for the Iron Blow composite sample and resulted in an improvement in recoveries of zinc, silver, and in particular gold.

The results were excellent for a first pass, and are expected to improve with possible further grinding optimisation and recycling. Various reagent (zinc depressant) parameters will be trialled to adjust the zinc deportment in the bulk rougher. Further work is also progressing to better understand the gold deportment in flotation, and silver concentrate leaching.

A detailed metallurgical test work program to further optimise the innovative processing route being developed for the Hayes Creek PFS is currently in progress and expected to be completed by the end of 2016.

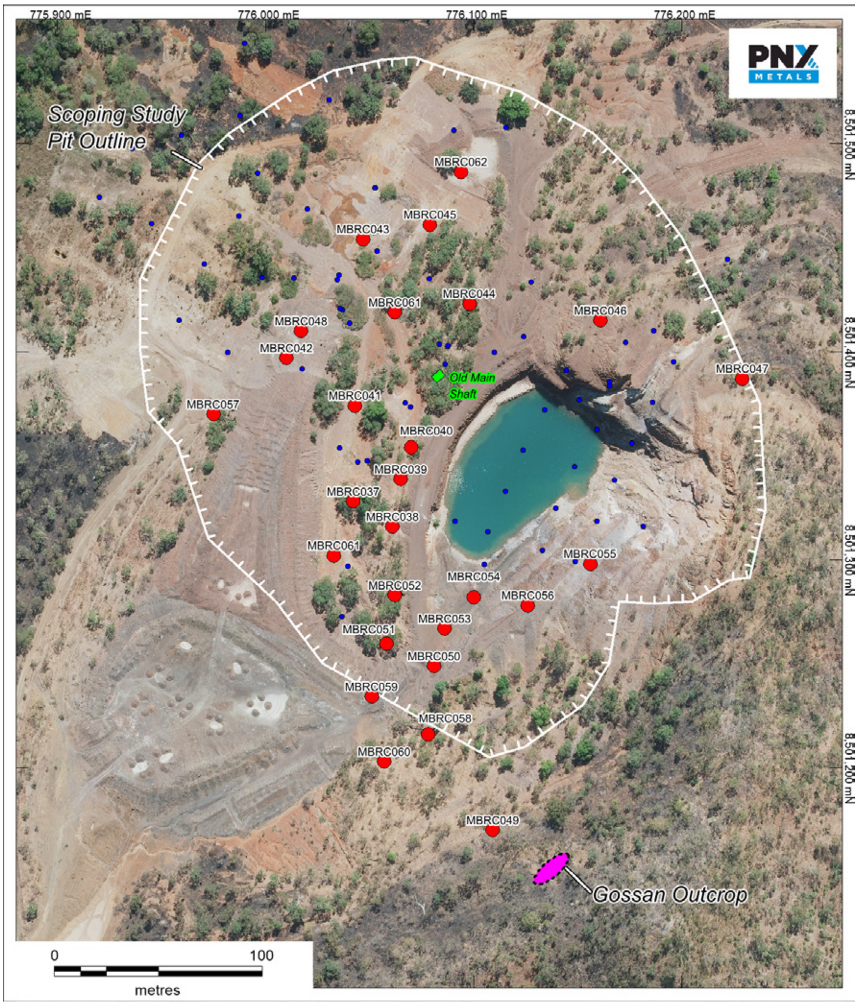


Figure 6 *Mt Bonnie drilled holes September 2016 (red) and 2015 drill holes (blue) and Scoping Study pit outline*

Drill rig at Mt Bonnie

MINERAL LEASE ACQUISITION

In July 2016, PNX completed the acquisition of three highly prospective Mineral Leases containing a number of gold prospects adjacent to the Hayes Creek project (Figure 7). The acquisition is aimed at increasing the already established significant mineral resource base at Hayes Creek through the delineation of additional economic gold mineralisation.

Consideration for the purchase was 1 million PNX shares, which have been issued to the vendor Newmarket Gold. PNX has also granted Newmarket Gold a 2% Net Smelter Return royalty over any gold and silver production from the leases.

The three mineral leases acquired MLN 794, MLN 795, and ML 30936 are located less than 3km to the west of the Hayes Creek project.

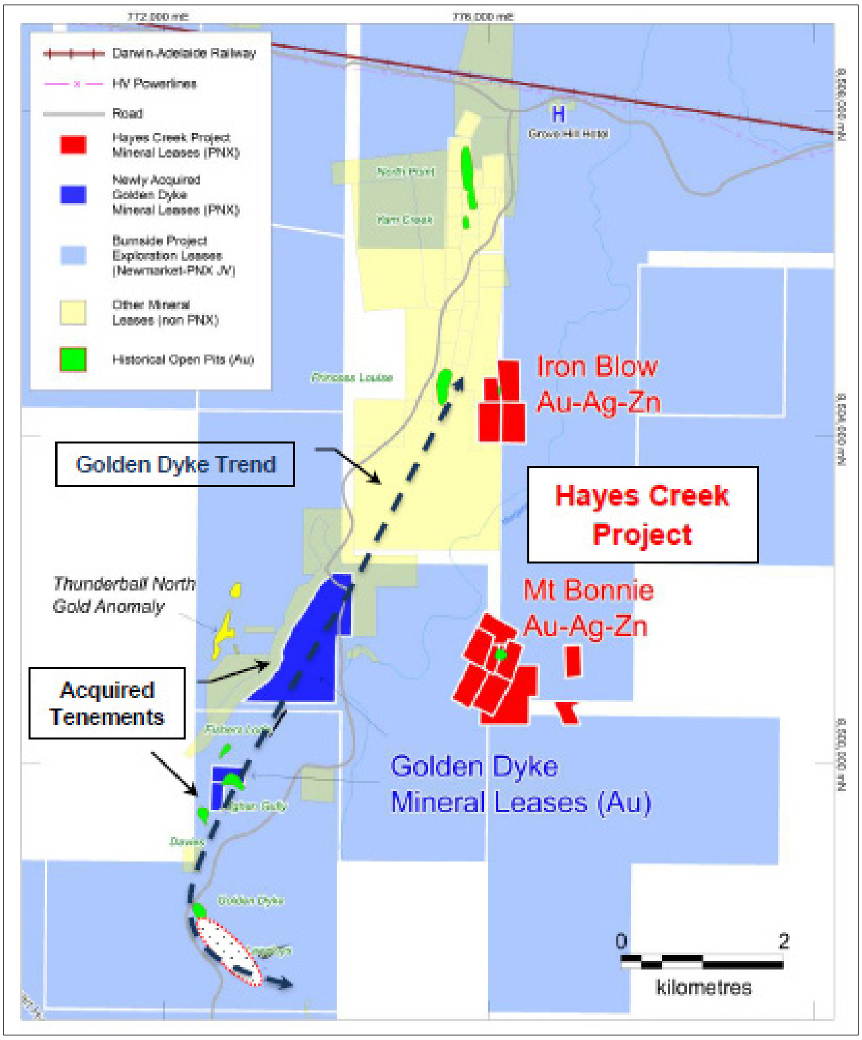


Figure 7 *Mineral leases acquired (blue) in proximity to Hayes Creek, Mt Bonnie and Iron Blow (red)*

REGIONAL EXPLORATION – NORTHERN TERRITORY

BURNSIDE, MOLINE & CHESSMAN PROJECTS

PNX is currently earning up to a 90% interest from Newmarket Gold in 19 Exploration Licenses and 4 Mineral Leases covering approximately 1,700km^2 (Figure 8) through total expenditure of $4 million over 4 years in two stages.

During the year, PNX applied for a new tenement (EL31099) in the Burnside project area, which was granted on 4 August 2016. This tenement is located along the highly endowed Howley anticline adjacent to Burnside area and complements that project.

At 30 June 2016, total expenditure for the purpose of the first stage of the farm-in was approximately $1.5 million. A further $0.5 million is required, and will be spent by December 2016 to achieve the 51% stage one earn-in.

Regional exploration activities during the year were aimed at identifying and testing new gold and base metal targets in the vicinity of the Hayes Creek project. Geological mapping, rock chip sampling and geochemical soil data were collected to complement the already significant datasets inherited from Newmarket Gold.

GOVERNMENT GRANT AWARDED

During the year, PNX was awarded grant funding totalling approximately $85,000 to co-fund diamond drilling of two new prospects within its Burnside and Chessman projects.

The grants, awarded through the Northern Territory Geological Survey's Geophysics and Drilling Collaborations funding program, comprise up to $34,100 for the Barossa zinc-silver-gold VMS prospect and up to $51,590 for the Tractor Corner lead-zinc prospect.

The Geophysics and Drilling Collaborations program forms part of the Northern Territory Government's CORE (Creating Opportunities for Resource Exploration) initiative and provides co-funding for exploration drilling and geophysical work in greenfield areas. PNX was one of nine successful applicants for the 2015-2016 round of co-funding for drilling.

BURNSIDE EXPLORATION

Exploration during the 2015/2016 dry seasons has been aimed at identifying new gold and base metal targets to complement (by increasing the prospective project life of) the Hayes Creek project. PNX is progressing a number of early-stage exploration prospects by collecting geological mapping, rock chip sampling and geochemical soil data to prioritise further exploration programs including drilling.

The prospect areas shown in Figure 8 all provide excellent opportunities for economic mineralisation in one of the most highly endowed geological domains in Australia. Significant nearby gold deposits include Cosmo-Howley (>2Moz), Woolwonga (450,000oz), Brocks Creek (500,000oz) and Goodall (330,000oz) and PNX's own Iron Blow/Mt Bonnie (~750,000oz AuEq*). Several key prospects that were progressed during the year are discussed in further detail below.

* *Refer Table 2 on page 26.*

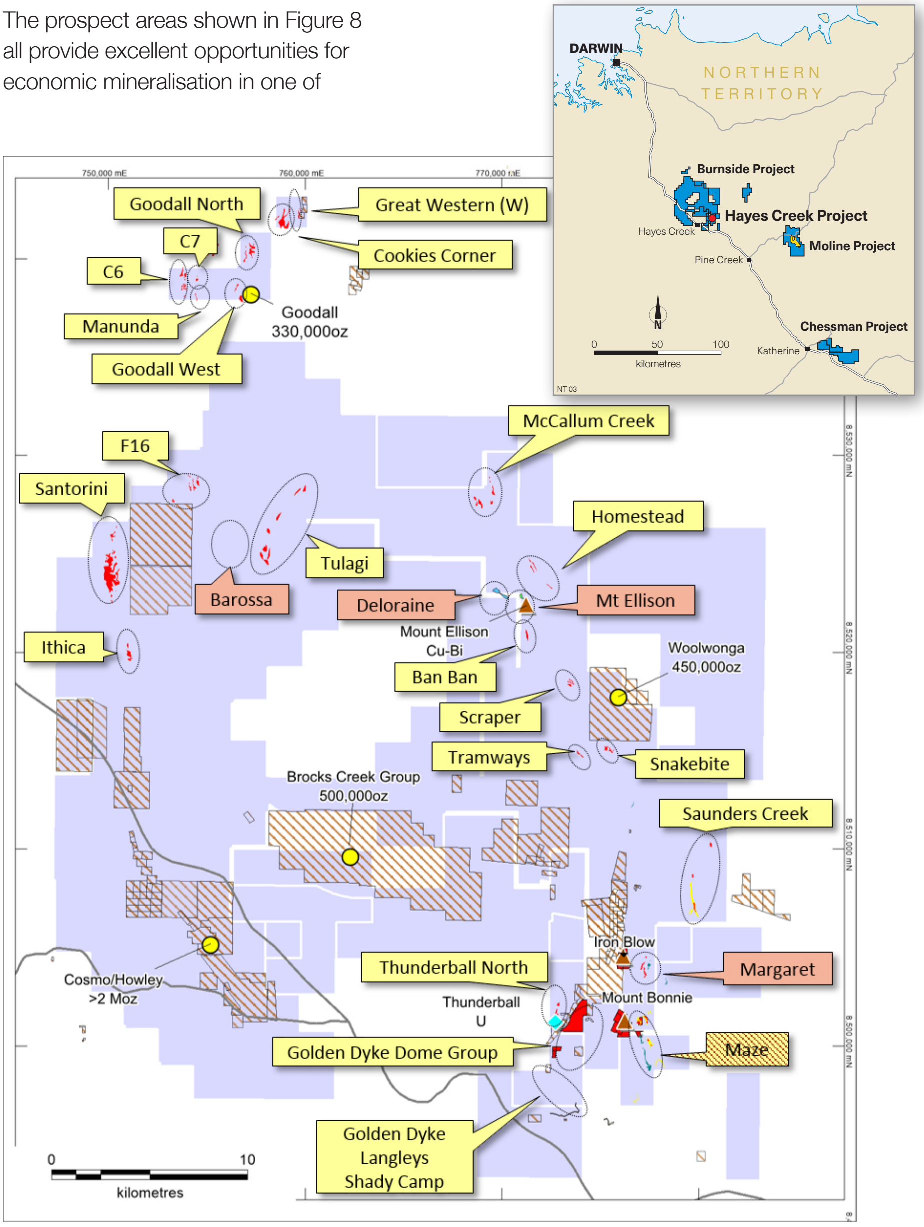


Figure 8 *PNX Burnside tenure (shaded blue), showing exploration targets*

MAZE (AU)

Mapping and sampling at the Maze prospect, less than 1km to the east of Mt Bonnie (Figure 9) has identified a 2km NNW/SSE trending mineralised structure containing three zones of gold-arsenic anomalism in surface soil sampling. Gold and arsenic anomalism occurs together in several places along the contact of Zamu Dolerite within the Koolpin Formation and concentrated within the fold hinges of a prominent NNW trending anticlinal structure. The geology is interpreted to be directly analogous with the Cosmo-Howley gold deposit, being situated within an anticlinal fold hinge at the dolerite contact.

MT ELLISON (CU) & DELORAINE (PB-ZN-AG)

The historical Mt Ellison mine is located on EL25748, approximately 20km to the north of the Hayes Creek project. During the period 1891-1911, Mount Ellison produced approximately 3,300t of copper-bismuth ore averaging approximately 20% Cu and 0.1% Bi.

Along strike from the old workings (Figure 10), a conductive body has been identified and modelled from 2011 VTEM survey data. It is not known yet to what extent this may have been tested by historical work, but it is considered unlikely that the primary zone received much attention during small-scale mining activities more than 100 years ago. Elevated copper in soils has been defined along a 1.4km strike to the north of the mine trend (Figures 10 and 11) which may represent a northerly extension to the mined lode. There is good potential to discover both lateral and depth extensions to the Mt Ellison mineralisation.

During 2015 and 2016, PNX delineated a new strong Pb and Zn anomaly (Deloraine) by soil sampling to the northwest of Mt Ellison (Figure 10). This anomaly occurs in the fold hinge of a northwest trending anticlinal axis, extends to over 2.8km in length, and is open along strike. The anomaly is located in the aureole of Burnside Granite and in a favourable setting for localisation of metal-bearing hydrothermal fluids.

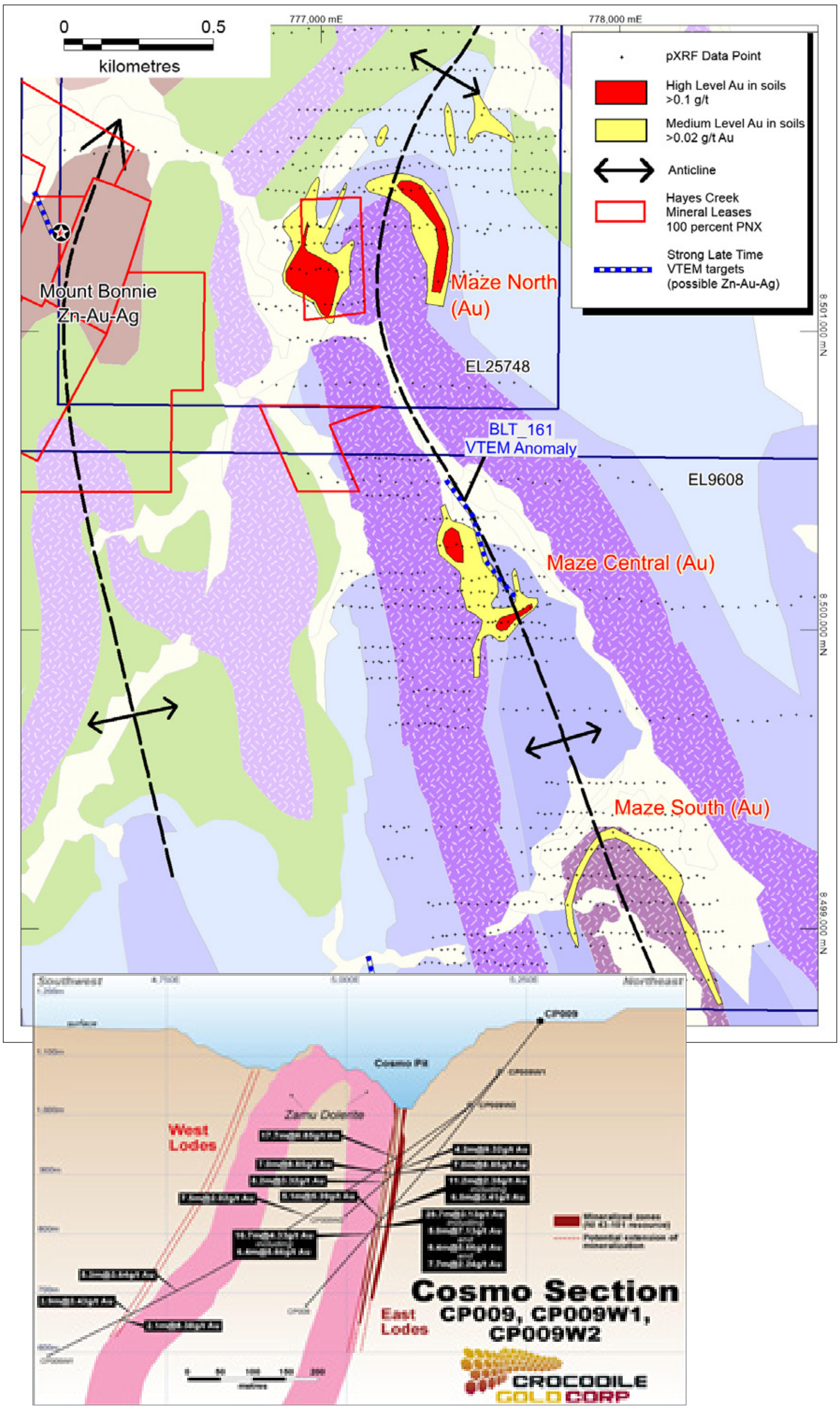


Figure 9 *Maze prospect geochemical anomalies shown with Newmarket Gold Cosmo mine cross-section*

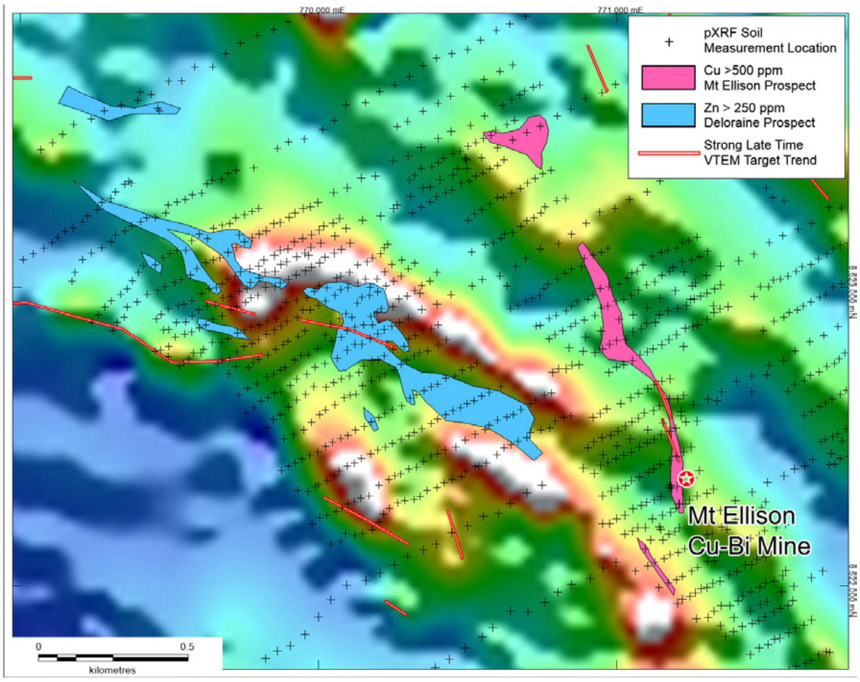


Figure 10 *Mt Ellison-Deloraine area Zn and Cu geochemistry on late-time VTEM image*

Figure 11 *Mt Ellison area – historically mined copper lode at surface*

LANGLEYS AND SHADY CAMP PROSPECTS

An 8-hole RC drilling program was completed in September 2016 for 602 metres at the Langleys and Shady Camp prospect, one of many gold targets within the Golden Dyke Dome and approximately 3km from the Hayes Creek Project. The program targeted extensions to known gold mineralisation. The best intercept drilled was:

- 2m @ 5.10 g/t Au from 72m in LAR006

Four of the holes drilled contained narrow zones of gold mineralisation and assay results received were in general of a lower grade and narrower width than historically drilled. As such the gold mineralisation intercepted is unlikely to be economic and based on current knowledge and geological interpretation of the results, the mineralising system appears to be pinching out. Whilst the mineralisation system remains open and there is potential for it to swell in thickness at depth, Langleys is now considered a lower priority target.

BAROSSA VMS PROSPECT
(Government co-funded drill program)

Barossa is a cluster of volcanogenic massive sulphide (VMS) style zinc-silver-gold targets in an area which has never been drilled and has seen only limited exploration. Nine strong late-time airborne electromagnetic (VTEM) anomalies consistent with that of VMS camps have been identified using the nearby Iron Blow and Mt Bonnie VMS deposits as known analogies (Figure 12).

The VTEM anomalies at Barossa are of a strength and geometry consistent with concentrations of massive sulphides. The host stratigraphy and structural setting are also identical to those observed at the Iron Blow and Mt Bonnie deposits.

Two holes are proposed to test the highest-priority electromagnetic responses among the nine VTEM anomalies, being BLT021 and BLT018 (Figure 12). Drilling is due to commence in October 2016.

MOLINE EXPLORATION

The Moline Project (Figure 13) is centred on the historic Moline goldfields at the northern end of a belt of gold, tin and base metal mineralisation which extends from the vicinity of the abandoned Evelyn Zn-Pb-Ag mine southerly for some 60 kilometres to the vicinity of the former Mount Todd gold mine. Between 1989 and 1992, approximately 110,000 ounces of gold were recovered from production of 1.6Mt at a grade of 2.14g/t, mainly from oxidised ore to a maximum depth of 65m below surface.

PNX has identified numerous untested VTEM anomalies in the project area and in 2016 began systematically undertaking surface geochemistry and field inspection to prioritise drilling targets. PNX also considers that there is significant potential for high grade shoots to continue at depth under the oxide pits. There is therefore both considerable greenfield and brownfield potential latent in the Moline leases, all of which are easily accessible off the Arnhem Highway. Furthermore, the elevated Zn nature of mineralisation in the Moline pits has good synergy with the contemplated development at Hayes Creek. PNX is bringing a multi-commodity focus to this tenure.

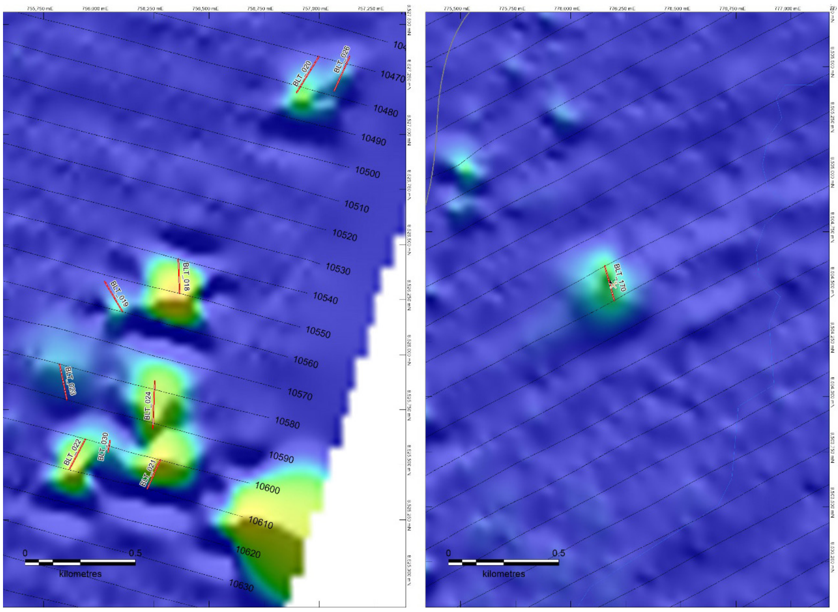


Figure 12 *Barossa VTEM targets and Iron Blow deposit on VTEM time channel 42 (same scale).*

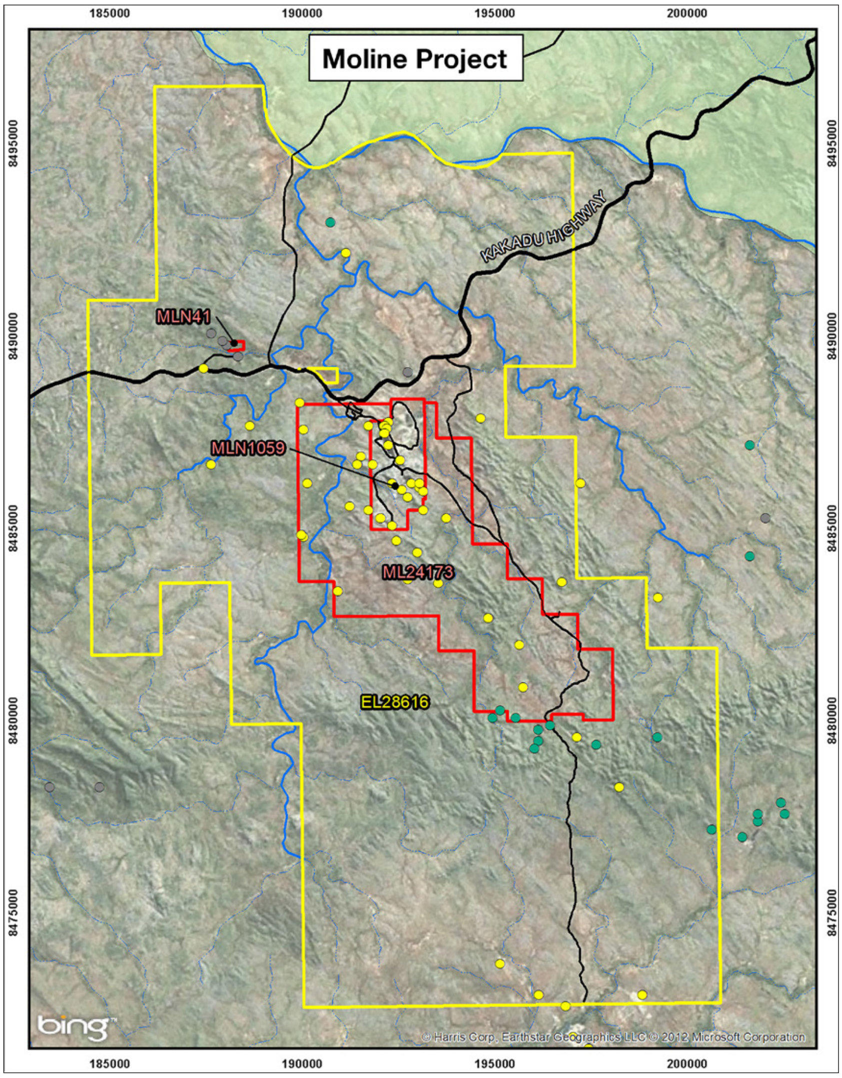


Figure 13 *Moline Project area.*

CHESSMAN EXPLORATION

(adjacent to Katherine, NT)

TRACTOR CORNER SEDEX PROSPECT

(Government co-funded drill program)

Tractor Corner is a sedimentary exhalative (SEDEX) style zinc-lead target situated on the margin of the Cambrian Daly Basin and the Proterozoic Pine Creek Orogen (Figure 14), a favourable setting for such deposits. Drilling is due to commence in late October 2016.

SEDEX deposits represent attractive exploration targets due to their size potential and the fact that they are responsible for more than 50% of the world's zinc and lead reserves. Australian examples include Mt Isa, Century and McArthur River mines.

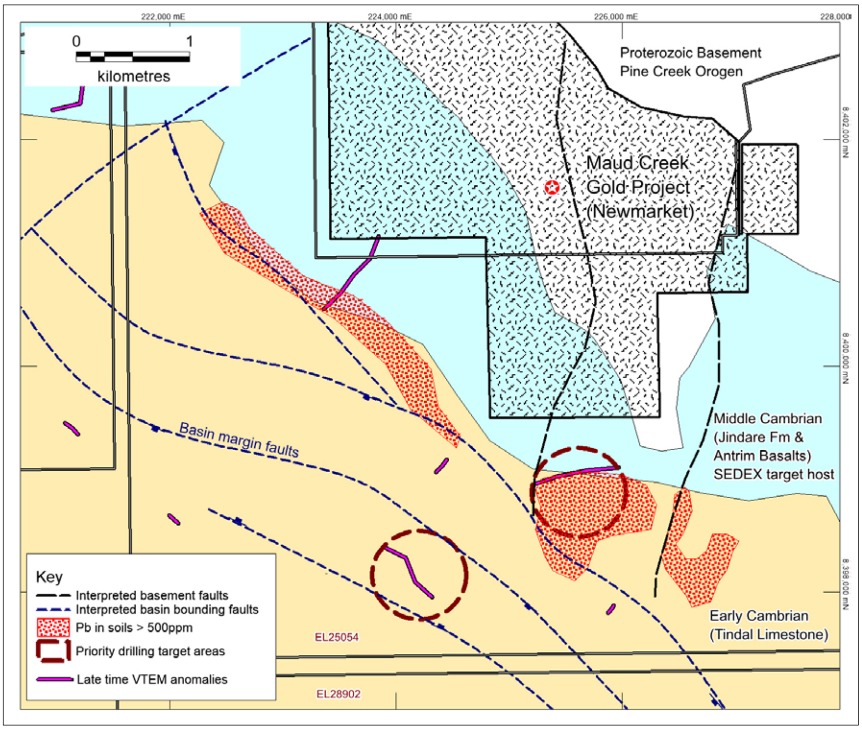


Figure14 *Tractor Corner drilling targets.*

ENVIRONMENT

The Company's exploration activities have been carried out in accordance with the Northern Territory government's regulatory laws. PNX is committed to reducing its environmental footprint, implementing 'best practices' for assessment, management, mitigation and rehabilitation for all exploration activities. The Company reviews its environmental policies and procedures regularly and liaises with the appropriate government departments to ensure compliance. There were no reportable environmental incidents during the year.

Mine Management Plans (MMPs) were submitted and approved for the Hayes Creek and Burnside projects and environmental bonds are in place. Rehabilitation will commence in areas disturbed by drilling activity prior to the onset of the wet season in late 2016.

SOCIAL AND COMMUNITY

PNX recognises and responds to the growing expectation from community, regulators and industry leaders for more open community engagement and stakeholder consultation. The Company's policy and practice of 'information, consultation and active participation' forms an integral part of the exploration process.

The Company participated in the Mining the Territory Conference in September 2015 and September 2016.

OCCUPATIONAL HEALTH AND SAFETY

PNX is committed to the health and safety of its employees, contractors and visitors. No reportable incidents occurred during the year.

The Company reviews its Health and Safety policies and procedures on a regular basis to ensure it maintains a high standard. All field staff have been engaged in appropriate ongoing training and skills for supervising and implementing the required exploration activities in remote environments.

TENEMENTS

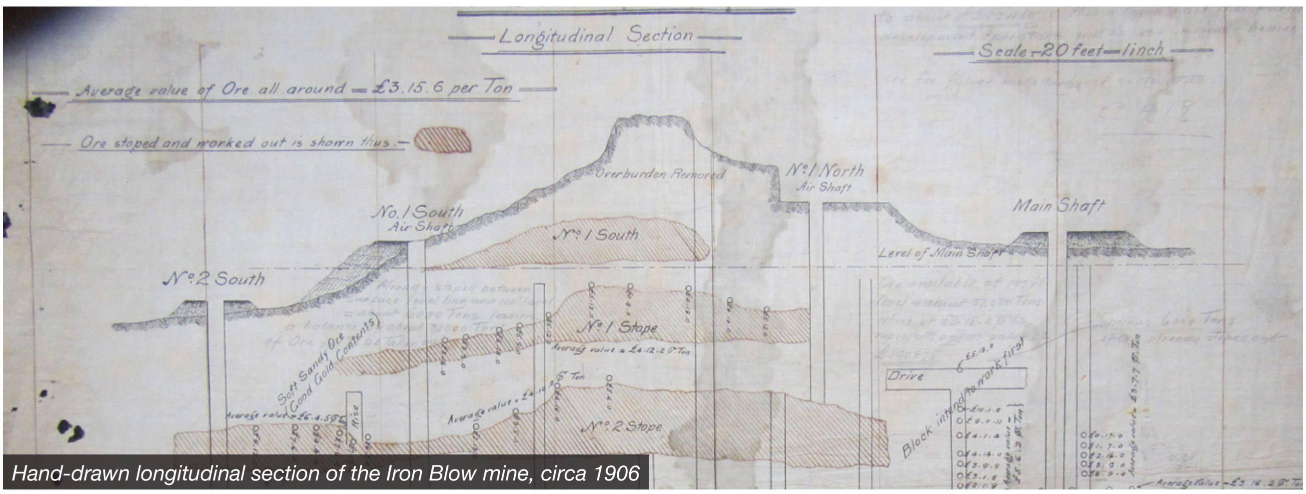
NORTHERN TERRITORY

PNX TENEMENTS

Tenement	Name	Holder	Area (hectare)
ML30512	Mt Bonnie	PNX Metals Ltd 100%	6.4
ML30589	Mt Bonnie	PNX Metals Ltd 100%	31.6
MLN1033	Mt Bonnie	PNX Metals Ltd 100%	4.8
MLN1039	Mt Bonnie	PNX Metals Ltd 100%	1.2
MLN214	Iron Blow	PNX Metals Ltd 100%	6.3
MLN341	Iron Blow	PNX Metals Ltd 100%	14.9
MLN342	Mt Bonnie	PNX Metals Ltd 100%	13.7
MLN343	Iron Blow	PNX Metals Ltd 100%	14.9
MLN346	Mt Bonnie	PNX Metals Ltd 100%	16.0
MLN349	Iron Blow	PNX Metals Ltd 100%	15.0
MLN405	Mt Bonnie	PNX Metals Ltd 100%	12.0
MLN459	Mt Bonnie	PNX Metals Ltd 100%	15.0
MLN811	Mt Bonnie	PNX Metals Ltd 100%	8.1
MLN816	Mt Bonnie	PNX Metals Ltd 100%	8.1
MLN794	Fishers-1	PNX Metals Ltd 100%[1]	8.1
MLN795	Fishers-2	PNX Metals Ltd 100%[1]	8.1
ML30936	Good Shepherd	PNX Metals Ltd 100%[1]	106
			290.2
EL31099	Bridge Creek	PNX Metals Ltd 100%[2]	60.2km^2

1 *Completion of acquisition of mineral leases occurred in July 2016*

2 *Tenement granted August 2016*



Hand-drawn longitudinal section of the Iron Blow mine, circa 1906

FARM-IN TENEMENTS

Tenement	Name	Holder	Area (sq km)
Burnside Project*			
EL10012	Mt Ringwood	Newmarket Gold NT Holdings Pty Ltd 100%	14.9
EL10347	Golden Dyke	Newmarket Gold NT Holdings Pty Ltd 100%	10.0
EL23431	Thunderball	Newmarket Gold NT Holdings Pty Ltd 100%	13.4
EL23536	Brocks Creek	Newmarket Gold NT Holdings Pty Ltd 100%	70.4
EL23540	Jenkins	Newmarket Gold NT Holdings Pty Ltd 100%	16.7
EL23541	Cosmo North	Newmarket Gold NT Holdings Pty Ltd 100%	3.3
EL24018	Hayes Creek	Newmarket Gold NT Holdings Pty Ltd 100%	23.4
EL24051	Margaret River	Newmarket Gold NT Holdings Pty Ltd 100%	86.9
EL24058	Yam Creek	Newmarket Gold NT Holdings Pty Ltd 100%	3.3
EL24351	McCallum Creek	Newmarket Gold NT Holdings Pty Ltd 100%	30.1
EL24405	Yam Creek	Newmarket Gold NT Holdings Pty Ltd 100%	4.1
EL24409	Brocks Creek South	Newmarket Gold NT Holdings Pty Ltd 100%	22.1
EL24715	Mt Masson	Newmarket Gold NT Holdings Pty Ltd 100%	56.8
EL25295	Margaret Diggings	Newmarket Gold NT Holdings Pty Ltd 100%	10.0
EL25748	Burnside	Newmarket Gold NT Holdings Pty Ltd 100%	643.1
EL9608	Mt Bonnie	Newmarket Gold NT Holdings Pty Ltd 100%	10.0
Chessman Project*			
EL25054	Maud	Newmarket Gold NT Holdings Pty Ltd 100%	64.0
EL28902	Maud	Newmarket Gold NT Holdings Pty Ltd 100%	288.2
ML30293	Chessman	Newmarket Gold NT Holdings Pty Ltd 100%	1.1
Moline Project*			
EL28616	Moline	Newmarket Gold NT Holdings Pty Ltd 100%	262.5
ML24173	Moline	Newmarket Gold NT Holdings Pty Ltd 100%	31.3
MLN1059	Moline	Newmarket Gold NT Holdings Pty Ltd 100%	4.2
MLN41	Mt Evelyn	Newmarket Gold NT Holdings Pty Ltd 100%	0.1
			1669.9

* *PNX is earning up to 90% in these tenements in two stages. PNX's interest at the date of this report is zero*

TENEMENTS

SOUTH AUSTRALIA

Exploration Licences	Name	Holder	Area (sq. km)
Adelaide Geosyncline			
EL5382	Burra Central	PNX Metals Ltd 100%	84
EL4807	Burra West	PNX Metals Ltd 100%	69
EL4970	Burra North	PNX Metals Ltd 100%	300
EL5411	Mongolata	PNX Metals Ltd 100%	60
EL4809	Princess Royal	PNX Metals Ltd 100%	314
EL5473	Bagot Well	PNX Metals Ltd 100%	71
EL5169	Tarnma	PNX Metals Ltd 100%	128
EL4886	Spalding	PNX Metals Ltd 100%	157
EL5557	Washpool	PNX Metals Ltd 100%	135
			1,318
Yorke Peninsula			
ELA281/12	Minlaton	Wellington Exploration Pty Ltd 100%	547
EL5491	Koolywurtie	PNX Metals Ltd 100%	255
EL4983	Weaver Hill	PNX Metals Ltd 100%	104
EL5196	Coonarie	PNX Metals Ltd 100%	254
			1,160
Leigh Creek			
EL5264	Nantawarrinna	PNX Metals Ltd 100%	317
EL5300	Mt Elkington	PNX Metals Ltd 100%	618
			935
TOTAL ELs - South Australia			**3,413**

Mineral Leases	Name	Holder	Area (hectare)
ML5467	Mountain of Light	LCCM 100%	250
ML5741	Mount Coffin	LCCM 100%	200
ML5498	Lorna Doone	LCCM 100%	122


Mt Bonnie freshwater dam

As at 30 September 2016

NORTHERN TERRITORY

HAYES CREEK – IRON BLOW

Table 1: Hayes Creek Project Mineral Resources

Deposit	Domain	Cut-off	Category	Ktonnes	Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (g/t)	ZnEq* (%)	AuEq* (g/t)
Iron Blow	> -90m RL	0.7g/t AuEq	Inferred	2,200	4.9	1.0	0.3	140	2.4	11.8	6.7
	< -90m RL	3.0g/t AuEq	Inferred	400	4.1	0.4	0.4	71	2.7	10.0	5.6
Mt Bonnie	>1% Zn		Indicated	456	5.63	1.26	0.32	151	1.15	9.14	5.46
	>1% Zn		Inferred	644	4.38	1.52	0.25	131	1.47	8.16	4.87
	>0.5g/t Au		Inferred	78	0.16	1.87	0.26	121	1.88	5.36	3.20
	>50g/t Ag		Inferred	107	0.26	0.06	0.04	70	0.04	1.60	0.96
TOTAL			**INDICATED & INFERRED**	3,885	4.59	1.05	0.30	130	2.05	10.29	5.91

Table 2: Hayes Creek Project total contained metal estimate based on total mineral resources

Contained metal	Zn (t)	Au (oz)	Ag (oz)	Pb (t)	Cu (t)	ZnEq (t)	AuEq (oz)
Iron Blow	124,200	204,482	10,815,677	23,600	8,200	304,504	550,450
Mt Bonnie	54,283	52,149	5,470,469	17,057	3,315	102,803	197,382
TOTAL	178,483	256,631	16,286,146	40,657	11,515	407,307	747,832

Notes relating to Tables 1 and 2

Due to effects of rounding, totals may not represent the sum of all components.

Mt Bonnie – zinc domains are reported above a cut-of grade of 1% zinc, gold domains are reported above a cut-off grade of 0.5 g/t gold and silver domains are reported above a cut-off grade of 50 g/t silver.

Iron Blow – a variable gold-equivalent cut-off grade was used corresponding to an RL at which mineralisation could be extracted with open cut versus underground methods.

In order to assess the potential value of the total suite of minerals of economic interest in the mineral inventory, formulae were developed to calculate metal equivalency for the gold and zinc (see below). Metal price assumptions were updated during the Mt Bonnie estimation to reflect average consensus forecasts for the period 2017 through 2021, (consensus forward price forecasts compiled from a group of domestic and international mining analysts and financial institutions).

Metallurgical recovery information for Iron Blow was assigned prior to any diagnostic testwork by PNX and was based on what was considered reasonable in similar operations. Metallurgical recovery information for Mt Bonnie was sourced from test work completed on diamond drill core from the Iron Blow deposit, and historical test work on the Mt Bonnie deposit. Mt Bonnie and Iron Blow have similar mineralogical characteristics and are a similar style of deposit; hence the assumption that metallurgical characteristics are similar between the two deposits is considered reasonable by the Competent Persons.

Price assumptions

Deposit	Zn price ($USD/t)	Pb price ($USD/t)	Cu price ($USD/t)	Ag price ($USD/troy oz)	Au price ($USD/troy oz)
Iron Blow	2350	2250	7000	20	1300
Mt Bonnie	2400	2000	6200	18	1250

Recovery assumptions

Deposit	Zn (%)	Pb (%)	Cu (%)	Ag (%)	Au (%)
Iron Blow	70	70	70	90	90
Mt Bonnie	80	60	60	75	55

The formulae below were applied to the estimated constituents to derive the metal equivalent values:

*Gold Equivalent (field = "AuEq") (g/t) = (Au grade (g/t) * (Au price per ounce/31.10348) * Au recovery) + (Ag grade (g/t) * (Ag price per ounce/31.10348) * Ag recovery) + (Cu grade (%) * (Cu price per tonne/100) * Cu recovery) + (Pb grade (%) * (Pb price per tonne/100) * Pb recovery) + (Zn grade (%) * (Zn price per tonne/100) * Zn recovery) / (Au price per ounce/31.10348)*

*Zinc Equivalent (field = "ZnEq") (%) = (Au grade (g/t) * (Au price per ounce/31.10348) * Au recovery) + (Ag grade (g/t) * (Ag price per ounce/31.10348) * Ag recovery) + (Cu grade (%) * (Cu price per tonne/100) * Cu recovery) + (Pb grade (%) * (Pb price per tonne/100) * Pb recovery) + (Zn grade (%) * (Zn price per tonne/100) * Zn recovery) / (Zn price per tonne/100)*

Iron Blow Resource - See ASX release 3 November 2014, 'High Grade Mineral Resource Estimate for Iron Blow Deposit', where further details are provided. All material assumptions and technical parameters underpinning the resource estimate announced on 3 November 2014 continue to apply and have not materially changed. Results of drilling by PNX since October 2014 have not been included in the estimate but if they were, they would not likely result in a material change to the October 2014 resource estimate.

Mt Bonnie Resource - See ASX release 1 February 2016, 'Mt Bonnie Resource Estimate Boosts Hayes Creek Project, NT' where further details are provided. All material assumptions and technical parameters underpinning the resource estimate announced on 1 February 2016 continue to apply and have not materially changed.

SOUTH AUSTRALIA

Table 3: Resources at Mountain of Light, Lorna Doone and Princess Royal

Indicated Resources	Cut-off grade	Tonnage	Grade % copper	Tonnes copper contained
ML5467 – MOUNTAIN OF LIGHT				
Paltridge North	>0.3%	890,000	0.83%	7,400
	>0.4%	710,000	0.96%	6,800
	>0.5%	570,000	1.10%	6,200
Rosmann East	>0.3%	128,000	0.78%	1,000
	>0.4%	100,000	0.88%	900
	>0.5%	77,000	1.00%	800
ML5498 – LORNA DOONE				
Lorna Doone	>0.3%	840,000	0.75%	6,300
	>0.4%	620,000	0.90%	5,600
	>0.5%	460,000	1.00%	4,600
Lynda	>0.3%	1,000,000	0.72%	7,200
	>0.4%	750,000	0.84%	6,300
	>0.5%	580,000	0.96%	5,600
EL4809 – PRINCESS ROYAL				
Princess Royal	>0.3%	286,757	0.81%	2,325
	>0.4%	216,586	0.96%	2,083
	>0.5%	184,995	1.10%	2,034
TOTALS				
Indicated	>0.3%	2,858,000	0.77%	21,900
	>0.4%	2,180,000	0.90%	19,600
	>0.5%	1,687,000	1.02%	17,200
Inferred	>0.3%	286,757	0.81%	2,325
	>0.4%	216,586	0.96%	2,083
	>0.5%	184,995	1.10%	2,034

The information pertaining to the Mountain of Light, Lorna Doone and Princess Royal Indicated and Inferred Mineral Resources was prepared and first disclosed by PNX under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

There has been no change in the reported mineral resources for Iron Blow – Northern Territory and South Australia from the prior year. The Mt Bonnie mineral resource data is new for 2016 as noted earlier in this report.

PNX utilises suitably qualified independent consultants to compile all new mineral resources estimates. These resources estimates, and the underlying assumptions and interpretations, are reviewed by PNX management, in particular the Company's Exploration Manager Andy Bennett (a Competent Person), for reasonableness prior to being finalised.

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 Limited and consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT

The Directors of PNX Metals Limited ('PNX' or 'Company') present their report for the financial year ended 30 June 2016. As approved by shareholders at the Company's November 2015 Annual General Meeting and effective December 2015, the Company's name was changed from Phoenix Copper Limited to PNX Metals Limited.

DIRECTORS

The names and details of directors in office during and since the end of the financial year are as follows.

GRAHAM ASCOUGH

Non-executive Chairman

Appointed 7 December 2012

Graham Ascough (BSc, PGeo, MAusIMM) is a senior resources executive with more than 25 years of industry experience evaluating mineral projects and resources in Australia and overseas.

Mr Ascough, a geophysicist by training, has had broad industry involvement playing a leading role in setting the strategic direction for companies, completing financing and in implementing successful exploration programmes. Mr Ascough was the Managing Director of Mithril Resources Ltd from October 2006 until June 2012. Prior to joining Mithril in 2006, he was the Australian Manager of Nickel and PGM Exploration at a major Canadian resources house, Falconbridge Limited, which was acquired by Xstrata Plc in 2006. He was also a Councillor of the South Australian Chamber of Mines and Energy and Chair of its Exploration Committee from 2006–2012 and has strong ties to the South Australian resources industry. He is a member of the Australian Institute of Mining and Metallurgy and is a Professional Geoscientist of Ontario, Canada.

In the 3 years immediately prior to 30 June 2016, Graham Ascough held the following directorships of other listed companies for the following periods:

- Non-executive Chairman, Avalon Minerals Limited since 30 November 2013
- Non-executive Chairman, Mithril Resources Limited since 9 October 2006
- Non-executive Chairman, Musgrave Minerals Limited since 26 May 2010
- Non-executive Chairman, Aguia Resources Limited from 19 October 2010 to 15 November 2013
- Non-executive Director, Reproductive Health Science Limited from 31 July 2013 to 2 April 2014

PAUL J DOWD

Non-executive Director

Appointed 27 September 2007

Paul Dowd has over 50 years' experience in the mining industry in Australia and many overseas countries. In April 2012 he retired as Managing Director of PNX, a position he assumed in September 2008, but remains on the Board as a non-executive director. Mr Dowd's experience includes executive management roles including Vice President of Newmont Mining Corporation's Australian and New Zealand Operations and Managing Director of Newmont Australia Limited, and as a senior public servant – head of the resources and petroleum department in the Kennett Government of Victoria. In 2015, he retired as Chairman of the SA Mineral Resources & Heavy Engineering Skills Centre but remains on the Board. He is a non-executive director of Oz Minerals Limited and Energy Resources of Australia Limited (ERA). Mr Dowd is also a board member of the Sustainable Minerals Institute (University of Queensland) and Chairman of the Mineral Resources Sector Advisory Council of the CSIRO.

In the 3 years immediately prior to 30 June 2016, Paul Dowd held the following directorships of other listed companies for the following periods:

- Non-executive director, Oz Minerals Limited since 23 July 2009
- Non-executive director, Energy Resources of Australia Limited since 26 October 2015

PETER WATSON

Non-executive Director

Appointed 7 September 2007

Peter Watson, a founder of PNX, studied Law at Melbourne University and graduated with honours. He has practiced law for over 45 years, specialising in commercial, corporate, resources and trade practices law. He is admitted to practice in South Australia, New South Wales, Victoria and Western Australia as well as the High Court of Australia. For over 20 years, Mr Watson was a partner in the national law firm now known as Norton Rose Fulbright. During that time he established, and for 4 years managed, its Perth office. He also managed its Melbourne office for 2 years. In 1996 Mr Watson joined Andersen Legal as its first Melbourne partner and in 1999 was recruited by Normandy Mining Limited as its group legal counsel and a group executive. Following the takeover of Normandy by Newmont Mining Corporation, he returned to private legal practice and founded the boutique law firm Watsons Lawyers in Adelaide which on 1 July 2016 merged with Piper Alderman. Mr Watson is a member of the board of trustees of the Bethlehem Griffiths Research Foundation (a medical research charitable foundation), non-executive director of Felton Grimwade and Bosisto's Pty Ltd (a manufacturer and supplier of eucalyptus products and over-the-counter therapeutic products).

In the 3 years immediately prior to 30 June 2016, Peter Watson held the following directorships of other listed companies for the following periods:

- Non-executive director, Lawson Gold Limited from 5 August 2010 to 2 July 2013

DAVID HILLIER

Non-executive Director

Appointed 17 September 2010

David Hillier is a Chartered Accountant and has more than 40 years' experience in commercial aspects of the resources industry. He has served as Chairman and as a director of a number of public companies in the mining and exploration field, including Lawson Gold Limited and Buka Gold Limited. Throughout 2008 he was Chief Financial Officer and an executive director of AIM listed Minerals Securities Limited, based in London. Between 1989 and 2002, Mr Hillier held a range of senior executive positions in the Normandy Mining Limited Group of companies and was Chief Financial Officer of Normandy for six of these years.

In the 3 years immediately prior to 30 June 2016, David Hillier held the following directorships of other listed companies for the following periods:

- Non-executive Chairman, Lawson Gold Limited from 5 August 2010 to 2 July 2013

JAMES FOX

Managing Director & Chief Executive Officer (MD & CEO)

Appointed 26 November 2014

James Fox has been CEO of the Company since May 2012. He has 20 years' experience in the mining industry. Prior to joining PNX, he was responsible for the development and operation of the Nickel Laterite Heap Leach project at the Murrin Murrin operations in Western Australia. Mr Fox has held various senior processing positions including Process Manager at the Nifty Copper Operation in Western Australia. He has worked in the UK, Cyprus, Uganda and Australia in gold, lead, zinc, copper, nickel and cobalt mining and processing operations.

COMPANY SECRETARY

Tim Moran

Tim Moran is a Chartered Accountant with 20 years' experience in accounting and finance and over 10 years' experience in the mining and energy industries. Prior to commencing with PNX, Mr Moran was the Chief Financial Officer and Company Secretary of a Canadian listed oil and gas company in Calgary, Canada, and before that spent 12 years with global accounting and professional advisory firm KPMG.

INTERESTS IN SHARES AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares and performance rights of PNX are as follows:

Graham Ascough, Non-executive Chairman

Graham Ascough has an indirect interest in 2,363,010 shares.

Paul Dowd, Non-executive Director

Paul Dowd has a direct interest in 500,000 shares, and an indirect interest in 5,668,077 shares.

Peter Watson, Non-executive Director

Peter Watson has a direct interest in 1,767,231 shares and an indirect interest in 7,000,000 shares. Related parties of Mr Watson hold a further 1,350,000 shares.

David Hillier, Non-executive Director

David Hillier has an indirect interest in 2,000,000 shares.

James Fox, Managing Director & CEO

A related party of Mr Fox holds 3,825,000 shares.

DIVIDENDS AND DISTRIBUTIONS

No dividends or distributions were paid to members during the financial year and none were recommended or declared for payment.

PRINCIPAL ACTIVITIES

The principal activity of the Company and its wholly owned subsidiaries ('Group') during the financial year was mineral exploration and advancement of its Hayes Creek gold-silver-zinc project through to a completed scoping study and the start of a Pre-Feasibility Study ('PFS').

Hayes Creek Project

The Hayes Creek Project ('Project') is located in a favourable mining jurisdiction in the Pine Creek region of Northern Territory, approximately 180km south of Darwin. It comprises 14 wholly-owned mineral leases including the base and precious metals deposits at Iron Blow and Mt Bonnie which were acquired, as prospects, in 2014 from Newmarket Gold NT Holdings Pty Ltd, a subsidiary of Newmarket Gold Inc. ('Newmarket Gold')[1].

The Hayes Creek Project contains total Inferred and Indicated mineral resources (JORC Code 2012) of 257koz gold, 16.3Moz silver, 178kt zinc, 41kt lead and 11.5kt copper[2]. During the year the Company completed a scoping study on the Project which found that mining and processing ore derived from both open-pit and underground operations would generate strong financial returns for PNX, including a fast payback period with modest capital expenditure. The Company is aiming to develop an operation with a mine life of greater than 7 years, producing payable metals of 14koz gold, 1.3Moz

1 *Refer ASX release 18 August 2014 for further detail*

2 *Refer ASX release 31 March 2016 for further detail*

silver, and 14kt zinc in concentrate annually. The development strategy includes the use of existing infrastructure including rail, road, high voltage power lines and water, designed to boost economics and reduce project risk.

A PFS is underway, fully funded and due for completion by mid-2017. The PFS aims to improve the certainty of the mining inventory and associated operating and development costs, and reduce the technical risk of the Project before a development decision. Specific components and objectives of the PFS include:

- Drilling:
  - » Upgrade the confidence in the mineral resources to the 'Indicated' category for both the Iron Blow and Mt Bonnie deposits
  - » Test for extensions to the mineralisation beyond current geological models
  - » Define additional gold resources at Iron Blow to enhance Project value
- Ongoing approvals, environmental baseline studies, stakeholder engagement toward a decision to mine
- Selection of optimum Project configuration – process plant, infrastructure, engineering studies, tails treatment, waste dumps, route to market
- Increase confidence in capital and operating cost estimate
- Metallurgical optimisation:
  - » increase recoveries of payable metals to final products
  - » decrease potential penalty and/or deleterious elements
  - » investigate benefits of producing bullion – doré (a scoping study assumption) vs precious metals concentrate
  - » investigate potential revenue from lead/copper concentrates (assumed nil in scoping study)

PFS drilling commenced in September 2016 at Hayes Creek, comprising a 7,500 metre infill and extensional reverse-circulation ('RC') and diamond drilling program.

PFS and Research and Development (R&D) metallurgical optimisation work includes the continuation of research and development activities associated with identifying and understanding the geological and mineralogical structure and processing characteristics of the polymetallic ores at Hayes Creek.

Regional exploration and farm-in agreement

The Burnside, Moline and Chessman project areas are also in the Pine Creek region of the Northern Territory and form part of PNX's farm-in agreement with Newmarket Gold where PNX is earning up to 90%, in two stages, of 19 Exploration Licenses and four Mineral Leases covering approximately 1,700 square kilometres.[3] Total expenditure at 30 June 2016 for the purpose of the first stage of the farm-in was approximately $1.5 million. A further $0.5 million is required to be spent by mid-December 2016 to achieve the 51% stage one earn-in. PNX can then elect to increase its interest to 90% with expenditure of an additional $2 million over a further 2 year period.

Regional exploration activities during the year were aimed at identifying new gold and base metal targets in the vicinity of the Hayes Creek project. Geological mapping, rock chip sampling and geochemical soil data were collected to complement the already significant datasets inherited from Newmarket Gold.

Gold and base metals exploration will be the key regional focus for the latter half of 2016 and into 2017, with four clear areas of focus for short to medium term development potential emerging:

- Golden Dyke Dome – near mine growth potential, primary mineralisation beneath historic open pits
- Cosmo-Howley anticline – large zone of interest, numerous existing gold deposits, limited deeper drilling
- Moline – historical mining centre with reserves reportedly remaining unmined and untested depth potential of numerous high grade ore shoots
- Mt Ellison – multi-commodity zone (Au, Cu, Pb, Zn), historic copper-bismuth mining, no modern exploration

A 7-hole RC drilling program commenced subsequent to year-end at Langleys prospect (Burnside area), one of many gold targets within the Golden Dyke Dome and approximately 3km from the proposed developments at Hayes Creek. The program is targeting extensions to known gold mineralisation, with assay results expected by the end of September. PNX acquired a further three minerals leases during the year (completed subsequent to year-end) to consolidate a dominant position in this prospective but under-explored geological region.

The Company will also conduct diamond drilling in the coming months at two greenfield targets, Barossa (Burnside Project) and Tractor Corner (Chessman Project). In June 2016, PNX was successful in obtaining grant funding from the Northern Territory Geological Survey's Geophysics and Drilling Collaborations funding program of approximately $85,000 to co-fund these diamond drilling programs.

3 *Refer ASX release 18 August 2014 for further detail*

Capital raising

During the first half of the financial year the Company raised $1.5 million via the placement of 115 million shares at 1.3 cents per share to sophisticated investors and company directors. A further $0.25 million was raised in April 2016 from the placement of 26.3 million shares at 0.95 cents per share to sophisticated investors.

Subsequent to 30 June 2016, the Company raised $1.5 million via the placement of 79 million shares at 1.9 cents each to sophisticated and institutional investors, and received a commitment for a further share placement of $0.25 million, if approved by shareholders at the Company's annual general meeting.

Other funding – silver streaming agreements

The Company raised $1.6 million in June 2016 under identical metal streaming and royalty agreements with two investors. $800,000 was received from each investor for the forward sale of 112,000 troy ounces of silver ($7.14/oz). The silver is to be delivered at a rate of 14,000 oz per quarter (56,000 oz per year) for 2 years once commissioning and ramp up of the Hayes Creek Project is complete.

At the end of the two year silver delivery period, each investor receives a 0.24% Net Smelter Return (NSR) royalty. The NSR royalty applies in respect of gold and silver produced from the Hayes Creek Project, and will be paid for a 5 year period from the end of the silver delivery period. PNX can buy back the NSR royalty from an Investor prior to production commencing for $0.27 million.

Each investor has an option, to be exercised within 3 months of completion of the pre-feasibility study over the Hayes Creek project, to purchase an additional 56,000 oz of silver for $0.4 million. This silver is to be delivered over a further one year period. In this scenario the NSR increases to 0.36% and buy-back amount increases to $0.4 million.

If production at the Hayes Creek Project has not commenced within 5 years and PNX or an investor elects to terminate the agreement, the forward payment made by that investor ($0.8 million, or $1.2 million, if the option has been exercised) converts to PNX shares based on a 30 day VWAP. The NSR royalty will also apply in these circumstances for 5 years from when production commences on any of the mineral leases making up the Hayes Creek project.

Leigh Creek

Resilience Mining Australia Limited ('RMA', previously Hillsgold Resources Pty Ltd) continues to hold an option to acquire the Company's 100% owned subsidiary Leigh Creek Copper Mine Pty Ltd ('LCCM'). LCCM holds three mining leases in the Leigh Creek area including Mountain of Light, which has been on care and maintenance since January 2012.

RMA has yet to exercise the option, which expires in mid-October 2016.

Should RMA exercise the option, it will acquire LCCM, and two exploration licences in the Leigh Creek area, from the Company for nil up-front consideration (other than the assumption of the rehabilitation obligations at Mountain of Light) and a contingent payment to the Company of $100,000 if and when 3,000 tonnes of copper are produced from future operations at the three mining leases.

Avalon investment

The Company continues to hold 12.9 million shares in Avalon Minerals Limited, representing approximately 2.5% of ordinary shares on issue of that company. The investment was funded primarily by a $1.2 million unsecured loan, which is to be repaid via the remittance of proceeds from the sale of Avalon shares. Any shortfall may be paid by the issue of shares in the Company. If the shares in Avalon are not disposed of by the November 2019 maturity date, the loan is repayable in cash. The maturity date of the loan was extended three years to November 2019 during the year by agreement with the lender.

The Company is continuing to evaluate strategic options regarding its holding in Avalon. Avalon is continuing to progress its flagship Viscaria copper project in northern Sweden toward feasibility and a production decision, and advance its newly acquired lithium and gold assets in Finland and Sweden.

REVIEW OF OPERATIONS

The Group reported a comprehensive net loss for the year of $1.1 million (2015: $3.9 million), and the net result from continuing operations was a loss after income tax of $0.9 million (2015: $4.1 million). The prior year result included impairment charges on the Group's South Australian exploration and evaluation assets of $1.7 million and $1.2 million on the investment in Avalon. The loss from the Group's discontinued operations at Leigh Creek was $0.1 million (2015: $0.2 million). The 2016 result included a tax benefit of $0.2 million from the Group's 2015 research and development claim, which was received in July 2016.

Overall, the loss from continuing operations in 2016 of $0.9 million was similar to the $1.2 million loss from 2015 after excluding the prior year impairment charges, and very similar on a pre-tax basis ($1.1 million loss in 2016 compared to $1.2 million in the prior year). The Group's corporate costs, which include head office wages, directors' fees, professional fees, insurance, regulatory, occupancy and communications costs have not changed significantly.

Net operating cash outflows for the year of $1.1 million reflect the pre-tax loss from continuing operations. Exploration cash outflows of $1.5 million related almost entirely to the Group's projects in the Northern Territory.

At 30 June 2016, the Group had cash holdings of $1.6 million and net working capital of $1.7 million excluding the investment in Avalon. As noted earlier, subsequent to year-end the Group raised $1.5m from placements to sophisticated and institutional investors.

EXPLORATION

As noted earlier, exploration activities during the year were focused at Hayes Creek, with the successful completion of a scoping study and commencement of a PFS. These have been discussed earlier under 'Principal Activities'.
Other significant achievements that provided valuable input to the scoping study included:

- Completion of a 1,560m RC and diamond drill program at Mt Bonnie in October 2015 with better intersections including:
  - 8.78m @ 7.16% Zn, 1.04g/t Au, 215g/t Ag, 0.34% Cu and 1.62% Pb from 55m in MBDH033
  - 42.25m @ 2.96% Zn, 0.59g/t Au, 35g/t Ag and 0.33% Pb from 25.75m in MBDH034, including 3.1m @ 10.77% Zn, 3.34g/t Au, 133g/t Au, 0.39% Cu and 1.21% Pb from 63.9m
- The drilling and assay results from Mt Bonnie were a key component of an initial JORC 2012 resource estimate at that deposit that was finalised in February 2016:
  - 1.3 million tonnes @ 4.2% Zn, 1.3 g/t Au, 133 g/t Ag, 1.3% Pb, and 0.3% Cu[4]
- R&D metallurgical test-work was completed during the year where detailed analysis was completed on Iron Blow massive sulphides, including grind variability, reagent optimisation, concentrate regrind and cleaning flotation. Metallurgical investigations have identified a practical and low cost flow sheet to maximise recoveries of the most valuable minerals in the resources, being zinc, gold and silver.

4 *Refer ASX release 1 February 2016*

Regional exploration (NT)

Exploration during the year was aimed at identifying new gold and base metal targets in the vicinity of the Hayes Creek project. The Burnside, Moline and Chessman Projects contain exciting opportunities for brownfield discoveries with undeveloped mineralisation and promising new conceptual targets.
A number of targets will be drill-tested in 2016-17, and a pipeline of new prospects is being generated through geological mapping and surface geochemical analysis.

South Australian Projects

No activities of significance occurred during the year at the Company's Burra or Yorke Peninsula projects.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during or since the end of the year.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to year end the Company raised $1.5 million via the placement of 79 million shares to sophisticated and institutional investors at an issue price of 1.9 cents per share. The Company also received a commitment for a further placement of $0.25 million, if approved by shareholders at the Company's 2016 AGM.

Also subsequent to year-end, the Board resolved to issue 1,000,000 Shares to Company MD & CEO James Fox and grant him 1,250,000 Performance Rights, with both awards subject to shareholder approval at the Company's 2016 AGM. The proposed share issuance is considered by the Directors to be an appropriate bonus for Mr Fox's performance over the past year as the Company's Managing Director & CEO, and in particular for his leadership in advancing the Hayes Creek Project into a Pre-Feasibility Study.

The 1,250,000 Performance Rights to be offered to Mr Fox have the following performance conditions:

- The Company's share price performance for the year ended 30 June 2017 must exceed that of at least 50% of ten companies identified by the Directors as the Company's peers; and
- The Company's closing price on the ASX is 6.0 cents or more for 15 consecutive trading days prior to 30 June 2018.

There has not otherwise been any matter or circumstance that has occurred subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS

PNX's aim is to be a sustainable, profitable gold and base metals producer and successful explorer in the Pine Creek region of the NT by establishing an economic mining project at Hayes Creek and to make new mineral discoveries in the region.

In 2016-17, the Group will continue mineral exploration and development of the Hayes Creek Project. Key priorities include completion of a PFS at Hayes Creek, including conducting significant extensional and infill resource drilling. The Company will also continue regional exploration targeting gold and base metals mineralisation at the Burnside, Moline and Chessman projects and expects to earn a 51% interest in these projects by December 2016 under the farm-in agreement with Newmarket.

The Group aims to conclude a divestment of its Leigh Creek assets by 31 December 2016, and will continue to evaluate opportunities to undertake exploration programs its South Australian assets.

ENVIRONMENT REGULATION AND PERFORMANCE

The Group continues to meet all environmental obligations across its tenements.

OPTIONS AND PERFORMANCE RIGHTS

During the year, all Performance Rights on issue lapsed as the performance conditions were not met.

As at the date of this report, the Group has no Performance Rights and no share options on issue.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company entered into a Deed of Access, Insurance and Indemnity with Peter Watson and Paul Dowd on 12 November 2007, David Hillier on 22 September 2010, Graham Ascough on 11 December 2012, and James Fox on 26 November 2014. Under the terms of these Deeds, the Company has undertaken, subject to restrictions in the *Corporations Act 2001*, to:

- indemnify each Director in certain circumstances;
- advance money to a Director for the payment of legal costs incurred by a Director in defending legal proceedings before the outcome of those proceedings is known (subject to an obligation by the Director to repay money advanced if the costs become costs in respect of which the Director is not entitled to be indemnified under the Deed);
- maintain Directors' and Officers' insurance cover (if available) in favour of each Director whilst they remain a director of the Company and for a run out period after ceasing to be such a director; and
- provide each Director with access to Board papers and other documents provided or available to the Director as an officer of the Company.

Throughout and since the end of the financial year, the Company has had in place and paid premiums for insurance policies, with a limit of liability of $10 million, indemnifying Directors and Officers of the Company against certain liabilities incurred in the conduct of business or in the discharge of their duties as Directors or Officers. The contracts of insurance contain confidentiality provisions that preclude disclosure of the premium paid.

DIRECTORS' ATTENDANCE AT MEETINGS

Nine Board meetings were held during the financial year. Graham Ascough, Peter Watson, David Hillier, and James Fox attended all nine, and Paul Dowd attended eight meetings.

Three Audit Committee meetings were held during the financial year. Audit Committee members David Hillier, Graham Ascough and Peter Watson attended all three. James Fox attended all three meetings by invitation, and Paul Dowd attended one meeting by invitation.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 38.

NON-AUDIT SERVICES

During the year, no services other than the external audit were provided by the Company's auditor Grant Thornton.

REMUNERATION REPORT – AUDITED

This Report outlines the remuneration arrangements in place for the Directors, Company Secretary and key management personnel of the Group.

Where this report refers to the 'Grant Date' of Shares, Options or Performance Rights, the date mentioned is the date on which those Shares, Options or Performance Rights were agreed to be issued (whether conditionally or otherwise) or, if later, the date on which key terms of the Shares, Options or Performance Rights (e.g. subscription or exercise price) were determined.

DIRECTORS AND KEY MANAGEMENT PERSONNEL DETAILS

The following persons acted as Directors of the Company during and since the end of the financial year:

- Graham Ascough (Non-executive Chairman)
- Paul Dowd (Non-executive Director)
- Peter Watson (Non-executive Director)
- David Hillier (Non-executive Director)
- James Fox (Managing Director & CEO)

The following persons were key management personnel of the Company and Group during and since the end of the financial year:

- Tim Moran (Company Secretary & Chief Financial Officer)
- Andy Bennett (Exploration Manager)

RELATIONSHIP BETWEEN REMUNERATION POLICY AND GROUP PERFORMANCE

There is no direct link between the Group's financial performance and the setting of remuneration except as discussed below in relation to Performance Rights.

REMUNERATION PHILOSOPHY

The performance of the Group depends on the quality of its Directors and management and therefore the Group must attract, motivate and retain appropriately qualified industry personnel. The Group embodies the following principles in its remuneration framework:

- provide competitive rewards to attract and retain high calibre executives, directors and employees;
- link executive rewards to Group financial performance and shareholder value by the granting of Performance Rights with performance-based vesting conditions; and
- ensure total remuneration is competitive by market standards.

The Group does not currently have a policy on trading in derivatives that limit exposure to losses resulting from share price decreases applicable to Directors and employees who receive part of their remuneration in securities of the Company. The Board is not aware of any member of the Company's directors or key management personnel ever conducting such activity.

REMUNERATION POLICY

The Group does not have a separately established remuneration committee. The full Board acts as the Group's remuneration committee. The Board is responsible for determining and reviewing remuneration arrangements for non-executive Directors, the Managing Director & CEO, the Company Secretary and other senior management. The Board assesses the appropriateness of the nature and amount of remuneration of such persons on a periodic basis with reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. External advice on remuneration matters is sought when the Board deems it necessary.

The remuneration of non-executive Directors and senior management is not dependent on the satisfaction of performance conditions, except in relation to Performance Rights as described below.

In 2010, the Company replaced its Employee Share Option Plan with an Employee Performance Rights Plan. In accordance with the Performance Rights Plan the Directors can, at their discretion, grant Performance Rights to eligible participants. Upon a grant of Performance Rights, the Board may set vesting conditions, determined at the Board's discretion, which if not satisfied will result in the lapse of the Performance Rights granted to the particular employee.

Each Performance Right granted converts into one ordinary share in PNX on vesting. No amounts are paid or payable by the recipient on receipt of the Performance Right, nor at vesting. Performance Rights have no entitlement to dividends or voting rights.

The Performance Rights Plan offers employees the possibility of reward without monetary cost and is less dilutive than the previous Employee Share Option Plan due to the lesser number of Performance Rights that need to be issued to achieve a similar level of reward or incentive.

NON-EXECUTIVE DIRECTOR REMUNERATION

The Board seeks to set remuneration of non-executive Directors at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is appropriate at this stage of the Company's development.

As non-executive Chairman, Graham Ascough is entitled to receive $75,000 per annum inclusive of superannuation and non-executive directors are each entitled to receive $40,000 per annum inclusive of superannuation. Non-executive Directors are entitled to be paid reasonable travelling, accommodation and other expenses incurred as a consequence of their attendance at meetings of Directors and otherwise in the execution of their duties as Directors. Non-executive Directors are also entitled to additional remuneration for extra services or special exertions, in accordance with the Company's Constitution. There are no schemes for retirement benefits other than government mandated superannuation.

As noted in the remuneration table on page 36, certain non-executive directors elected to forego part of their fees during the year to assist the Company to minimise corporate costs.

Summary details of remuneration for non-executive Directors are given in the table on pages 36 and 37. Remuneration is not dependent on the satisfaction of performance conditions. The maximum aggregate remuneration of non-executive Directors, other than for extra services or special exertions, is presently set at $500,000 per annum.

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER REMUNERATION

The Group aims to reward the Managing Director & Chief Executive Officer (MD & CEO) with a level and mix of remuneration commensurate with his position and responsibilities within the Group to:

- align the interests of the MD & CEO with those of shareholders;
- through Performance Rights, link reward with the strategic goals and performance of the Group; and
- ensure total remuneration is competitive by market standards.

James Fox has been Chief Executive Officer of PNX since 1 May 2012 and assumed the title Managing Director & CEO on 26 November 2014 with his appointment to the Board. Mr Fox is entitled to an annual salary of $250,000 plus mandated superannuation contributions as well as 20 days annual leave and 10 days sick leave per annum.

At 30 June 2016 and as of the date of this report, Mr Fox held no Shares in the Company. A related party of Mr Fox holds 3,825,000 Shares in the Company. During the year 825,000 Performance Rights held by Mr Fox lapsed as the performance conditions were not met. Mr Fox no longer holds any Performance Rights.

James Fox's employment with the Company may be terminated on 3 months written notice or on summary notice if he:

- is charged with any criminal offence or is guilty of any other conduct which, in the reasonable opinion of the Board, is prejudicial to the interests of the Group;
- is negligent in the performance of his duties;
- is incapacitated from performing his duties as Chief Executive Officer by illness or injury for a period of two consecutive months;
- materially breaches any term of his contract of employment and this is not remedied within 14 days of notice of the breach to him by the Company;
- materially contravenes any share dealing code relating to shares;
- is the subject of, or causes the Company or Group to be the subject of, a material penalty or serious reprimand imposed by any regulatory authority; or
- independently acts in a manner contravening the directives and expressed wishes of the Board.

COMPANY SECRETARY & CHIEF FINANCIAL OFFICER REMUNERATION

Tim Moran has been Chief Financial Officer and Company Secretary since January 2012. In June 2013, Mr Moran ceased as an employee of the Company and from July 2013 has provided CFO and Company Secretary services on a contract basis, and is therefore not entitled to any employee benefits. During the 2016 financial year, Mr Moran's fees were $152,700.

EXPLORATION MANAGER REMUNERATION

Andy Bennett commenced as Exploration Manger on 1 January 2015. Mr Bennett is entitled to an annual salary of $195,000 plus mandated superannuation contributions, as well as 20 days annual leave and 10 days sick leave each year.

During the year 675,000 Performance Rights held by Mr Bennett lapsed as the performance conditions were not met. Mr Bennett no longer holds any Performance Rights.

Andy Bennett's employment with the Company may be terminated on 4 weeks written notice or on summary notice if he:

- commits any act of misconduct or acts in a way which in the reasonable opinion of the Company may injure or be likely to injure the business or reputation of the Company or other employees of the Company;
- is convicted of any criminal offence or is guilty of any other conduct which, in the opinion of the Company, may bring the Company into disrepute or affect his ability to perform his duties;
- commits a serious, persistent or material breach of the terms and conditions of his employment contract;
- refuses to carry out a lawful and reasonable instruction by the Company;
- is negligent in the performance of his duties;
- becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under laws relating to mental health;
- becomes incapacitated by illness or injury which prevents him from performing his duties as Exploration Manager for a period of 3 consecutive months or any periods aggregating 3 months in any 12 month period of employment; or
- is the subject of, or causes the Company or Group to be the subject of, a material penalty or serious reprimand imposed by any regulatory authority.

REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directors', Company Secretary and key management personnel remuneration (all amounts are paid or payable) for the year ended 30 June 2016:

	Short term employment benefits	Post-Employment	Equity		
	Salary & Fees	Superannuation	Performance Rights	Total	% of total remuneration consisting of equity
Directors					
Graham Ascough	$75,000	-	-	$75,000	0%
Paul Dowd[1]	-	$30,000	-	$30,000	0%
Peter Watson[1]	$27,397	$2,603	-	$30,000	0%
David Hillier	$40,000	-	-	$40,000	0%
James Fox	$250,000	$23,750	($5,542)[2]	$268,208	0%
Company Secretary & Chief Financial Officer					
Tim Moran	$152,700	-	-	$152,700	0%
Other key management personnel					
Andy Bennett	$195,000	$18,525	($3,620)[2]	$209,905	0%
TOTALS	$740,097	$74,878	($9,162)	$805,813	

1 *Mr Dowd and Mr Watson waived 25% of their fees for each quarter of the financial year (total $10,000 waived each)*

2 *Reflects the reversal of previously recorded equity-based compensation related to Performance Rights that ultimately did not vest*

Directors', Company Secretary and key management personnel remuneration (all amounts are paid or payable) for the year ended 30 June 2015:

	Short term employment benefits	Post-Employment	Equity		
	Salary & Fees	Superannuation	Performance Rights	Total	% of total remuneration consisting of equity
Directors					
Graham Ascough	$75,000	-	-	$75,000	0%
Paul Dowd[1]	$13,699	$16,301	-	$30,000	0%
Peter Watson[1]	$27,397	$2,603	-	$30,000	0%
David Hillier	$40,000	-	-	$40,000	0%
James Fox	$250,000	$23,750	$7,177	$280,927	2.5%
Company Secretary & Chief Financial Officer					
Tim Moran	$173,940	-	-	$173,940	
Other key management personnel					
Andy Bennett[2]	$97,500	$9,263	$3,620	$110,383	
Nicole Galloway Warland[3]	$100,367	$8,478	-	$108,845	
TOTALS	$777,903	$60,395	$10,797	$849,095	

1 *Mr Dowd and Mr Watson waived 25% of their fees for each quarter of the financial year (total $10,000 waived each).*

2 *From 1 January 2015.*

3 *Until 20 November 2014.*

Other than the amounts disclosed in the columns for equity, all other remuneration amounts are fixed.

EQUITY HOLDINGS OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

i) Fully paid ordinary shares issued by PNX Metals Limited:

	Balance 01/07/15	Net Changes	Balance 30/06/16
Directors			
Graham Ascough	439,933	1,923,077	2,363,010
Paul Dowd	3,095,000	3,073,077	6,168,077
Peter Watson[1]	7,998,000	769,231	8,767,231
David Hillier[2]	510,000	920,000	1,430,000
James Fox[3]	-	-	-
Key management personnel			
Tim Moran	-	-	-
Andy Bennett	-	-	-

1 *Additional shares held by related parties: 1,350,000 (2015: 1,350,000)*
2 *Subsequent to year-end, an entity related to Mr Hillier acquired 570,000 shares on-market*
3 *Shares held by related party: 3,825,000 (2015: 3,325,000)*

ii) Performance rights issued by PNX Metals Limited:

2015	Balance 01/07/15	Granted	Vested	Lapsed	Balance 30/06/16
James Fox	825,000	-	-	825,000	-
Andy Bennett	675,000	-	-	675,000	-

OTHER RELATED PARTY TRANSACTIONS

During the financial year the Group engaged Watsons Lawyers, an entity in which a Director (Peter Watson) was a partner, to advise on legal matters. The amount paid in the financial year for these services inclusive of GST was $46,833 (2015: $134,788). $2,200 was owed at year end (2015: nil).

END OF REMUNERATION REPORT

Signed on 20th September 2016 in accordance with a resolution of the Board made pursuant to section 298(2) of the *Corporations Act 2001*.

Graham Ascough
CHAIRMAN

Grant Thornton

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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 audit of PNX Metals Limited for the year ended 30 June 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 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, 20 September 2016

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

CORPORATE GOVERNANCE STATEMENT

The Board has adopted a Corporate Governance Charter (Charter), which includes a code of conduct, an audit committee charter, a shareholder communication policy, a continuous disclosure policy and a securities dealing policy. The Charter is available on the Company's website. The Company's corporate governance principles and policies and this corporate governance statement are structured with reference to the ASX Corporate Governance Principles and Recommendations, 3rd Edition (Principles and Recommendations). This Corporate Governance statement is current as of 7 October 2016 and has been approved by the Board.

FUNCTIONS AND OPERATION OF THE BOARD

The Board is responsible for the corporate governance of the Company. The Board's primary responsibility is to shareholders but it also has regard for the interests of other stakeholders and the broader community.

The Board is comprised of an independent Chairman, independent non-executive directors, and the Managing Director and Chief Executive Officer (MD & CEO). The most important responsibilities of the Board include:

- Providing oversight and strategic direction to the Company, including reviewing and approving business and project development plans and monitoring the achievement of the Company's strategic goals and objectives;
- Identifying and managing material business and legal risks, including sources of capital, regulatory, safety and environmental. This process includes ensuring an effective Risk Management system is in place to monitor material risks and review the effectiveness of the Company's internal controls to manage these risks;
- Appointing, removing and monitoring the performance of the Chairman, MD & CEO, senior executives, consultants and the Company Secretary;
- Approving the remuneration of Directors, senior executives and consultants;
- Evaluating the Board's performance and recommending the appointment and removal of Directors;
- Reporting to and communicating with shareholders;
- Reviewing, approving and monitoring the progress of budgets, financial plans, acquisitions, divestments and major capital expenditure;
- Monitoring the financial performance of the Company and approving all external financial reporting including the annual and half-year reports; and
- Improving and protecting the reputation of the Company.

The Board has delegated the day-to-day management of the Company to its senior executives, and in particular the MD & CEO. Only the tasks of Director remuneration, MD & CEO appointment, removal and remuneration, Director appointment and removal, and Board performance evaluation are expressly reserved to the Board. The appointment of the Company Secretary is also finalised by the Board, and the Company Secretary is accountable directly to the Board on matters to do with the proper functioning of the Board.

Appointment

The Directors may appoint any person as a Director to fill a casual vacancy or as an addition to the existing Directors. Unless the Director is an Executive Director and the ASX Listing Rules do not require that Director to be subject to retirement, a Director so appointed will hold office until the end of the next annual general meeting of the Company, at which time the Director may be re-elected but he or she will not be taken into account in determining the number of Directors who must retire by rotation at the meeting. A detailed description of the background, qualifications and experience of a Director nominated for appointment or re-election, as well as his or her financial interest in the Company, is provided to the Company's security holders via the Notice of Meeting prior to the relevant annual general meeting at which the appointment or re-election will be voted on.

The Board does not have a separate Nominations Committee as the Board considers it is not necessary or practical for the Company given its current small size and low level of complexity. The full Board is responsible for the duties and responsibilities typically delegated to a nomination committee. The Board undertakes background checks and evaluates the qualifications, skills and experience of any Directors before making an appointment. The Company has an informal induction process for new Directors that includes meetings with other Directors and senior executives, as well as the provision to a new Director of relevant governance (including the Code of Conduct), financial and project related information.

Each Director has entered into a services agreement with the Company that sets out the terms of his or her appointment including fees and responsibilities and matters of independence. Each Director has also entered into a Deed of Access, Insurance and Indemnity with the Company. Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense where prior written or email approval has been obtained from the Chairman. Such approval will not be unreasonably withheld.

Retirement and removal

A person, other than a Director retiring by rotation or because he or she is a Director appointed by the other Directors and is seeking re-election, is not eligible for election as a Director at a general meeting unless:

- the person is proposed as a candidate by at least 50 Members or Members holding between them at least 5% of the votes that may be cast at a general meeting of the Company; and
- the proposing Members leave a notice at the Company's registered office not less than 35 business days before the relevant general meeting which nominates the candidate for the office of Director and includes the signed consent of the candidate.

The retirement by rotation of Directors is governed by the Company's Constitution, the *Corporations Act 2001* and the ASX Listing Rules. Clause 2.5 of the Company's Constitution specifies that one-third of the Directors (excluding any executive Directors) must retire from office at the end of each annual general meeting. A retiring Director remains in office until the end of the meeting and will be eligible for re-election at the meeting. The Directors to retire by rotation at an annual general meeting are those Directors who have been longest in office since their last election.

According to the Company's Constitution, the Company may, subject to the Corporations Act, pass a resolution in a general meeting to:

- remove any Director before the end of the Director's term of office; and
- if the outgoing Director is a non-executive Director, elect another person to replace the Director.

STRUCTURE OF THE BOARD: SKILLS, QUALIFICATION, EXPERIENCE & DIVERSITY

The names, term of office, skills, experience and expertise of the Directors in office are set out at the beginning of the Directors' Report. As part of the Director appointment process, the Board considers the necessary balance of skills and knowledge of the Board as a whole to ensure the Board is able to discharge its duties effectively.

The Board looks to maintain an appropriate balance of geological, minerals processing, capital project management, financial, legal and funding skills and experience that is relevant for a minerals exploration company.

The Board does not keep a formal 'skills matrix' of current Directors; however, the Board considers that collectively the Directors have the appropriate range of skills and experience to guide and direct the Company toward achieving its business objectives.

The Board recognises the benefits of diversity in terms of both the composition of the Board and senior executives of the Company. However, the Board does not have specific objectives in relation to the gender, age, cultural background or ethnicity of its Board or senior executives. Board members and senior executives are appointed or employed based on their skills and experience and candidates are not discriminated against based on age, gender or background.

The Board currently has no female representation. Of the Company's four permanent employees and one contractor, three are male and two are female.

PERFORMANCE EVALUATION AND REMUNERATION

The performance of the Board, Audit Committee and individual Directors is informally reviewed on an ongoing basis by self-assessing whether or not the Company is achieving its strategic objectives, and by assessing the Company's exploration success, project development, financial performance and movement in its market capitalisation. A policy has recently been drafted which outlines a more formal process to evaluate the performance of the Board. This policy will be finalised by the end of calendar 2016 and a formal evaluation will take place thereafter.

A performance appraisal process exists regarding the Company's senior executives, whereby the performance of executives is formally reviewed once per year against previously set goals relating to both Company and individual performance. The performance of the MD & CEO is monitored by the Board. A formal performance review of the MD & CEO has not occurred since his appointment to the Board on 26 November 2014, although an informal review has occurred.

The performance of the Company's Chief Financial Officer/Company Secretary and Exploration Manager is monitored by the MD & CEO. A formal evaluation of the Exploration Manager has not occurred since his appointment on 1 January 2015. The Chief Financial Officer/Company Secretary works on a contract basis.

The Board considers that a separate remuneration committee is not necessary for the Company given its current size and complexity. The full Board acts as the Company's remuneration committee. All senior executives of the Company have entered into written agreements with the

Company outlining their responsibilities, remuneration arrangements, and other terms of their employment.

Remuneration arrangements for non-executive Directors are structured separately from those of the MD & CEO and senior executives. Non-executive directors are entitled to fixed fees for services, whereas the MD & CEO and senior executives can earn equity-based remuneration (performance rights) at the Board's discretion, in addition to fixed salary arrangements. Details of the Company's remuneration policies and levels are provided in the Remuneration Report in the Directors' Report.

The Company's Constitution states that, subject to the *Corporations Act 2001*, the Company may provide a retirement benefit to persons retiring from the Board or from employment with the Company.

COMMUNICATION

Communication with the Company's shareholders occurs through ASX announcements, updates to the Company's website, in person at the Annual General Meeting and other general meetings (when held), through its share registry, and through other means as appropriate including the channels of investor relations consultants. The Company, via its share registrar, provides an option to shareholders to receive Company communications by electronic means.

The Board is mindful of its obligations under the Continuous Disclosure rules set by the ASX, and also of its disclosure requirements under the *Corporations Act 2001*. The Board has delegated the day-to-day management of public disclosure to its MD & CEO and Company Secretary. All price sensitive information is disclosed to the ASX before being disclosed to any party outside the Company.

AUDIT COMMITTEE

The Audit Committee consists of three Non-executive directors David Hiller, Peter Watson and Graham Ascough and is chaired by David Hillier. All three members are considered to be independent. Peter Watson is a consultant at the Company's legal advisor Piper Alderman and prior to 1 July 2016 Mr Watson was the principal at Watsons Lawyers, the Company's previous legal advisors. However, as Peter Watson is not actively engaged in the day-to-day management of the Company's key business activity (mineral exploration and project development), he is considered by the Board to be independent. The qualifications of the Audit Committee members are set out at the beginning of the Directors' Report.

All members of the Board are encouraged to attend Audit Committee Meetings.

The Audit Committee's responsibilities are set out in the Company's Corporate Governance Charter and include:

- establishing a framework for identifying and managing the Company's key business risks;
- reviewing, at least twice annually including once with the Company external auditors, the Company's risk management systems, controls and procedures, ensuring these controls are regularly tested for effectiveness, and that recommended improvements are implemented;
- recommending the appointment, liaising with, and reviewing the performance of the external auditors;
- evaluating the independence of the external auditor, including considering the auditor's policy on rotating the external audit engagement partner;
- reviewing the Company's annual reports and half year reports and ensuring that the financial reports comply with accounting standards and the law;
- evaluating the adequacy and effectiveness of the Company's accounting policies through ongoing communication with management and the Company's external auditors; and
- investigating any matters raised by the external auditors.

The Audit Committee discharges its responsibilities by making recommendations to the Board. The Audit Committee does not have any executive powers to commit the Board or management to implement its recommendations.

Three Audit Committee meetings were held during the year. David Hillier attended each of the Audit Committee meetings and Peter Watson and Graham Ascough each attended two of the three meetings.

The Company's auditor Grant Thornton was appointed at the 2014 Annual General Meeting in accordance with section 327B of the *Corporations Act 2001*. Any subsequent appointment or rotation of external auditors will occur in accordance with the *Corporations Act 2001*. The auditor is available at each annual general meeting of the Company to answer questions related to the audit from shareholders.

RISK MANAGEMENT

Whilst the Board is ultimately responsible for identifying and managing areas of significant business risk, it has delegated the management of this function to the Audit Committee as noted above. The Audit Committee is responsible for maintaining effective Risk Management systems, identifying and managing key Company risks, establishing and maintaining effective controls, ensuring compliance with risk management policies and reporting of any non-compliance occurrences. The Company has created a Corporate Risk Register which lists and rates these risks in terms of likelihood and consequence, and also documents the controls in place to manage these risks.

The key areas of risk that have been identified are as follows:

- Financial
- Statutory/regulatory
- Legal
- Personnel and safety
- Asset management and protection
- Tenement management
- Information Technology and Security
- Community
- Environmental

The Company has no material exposure at present to economic, social, or sustainability risks. The Company is exposed to environmental risks as a mineral exploration company with one project at Hayes Creek progressing toward development. Environmental matters are identified and addressed by management and communicated to the Board as part of normal business activities. External consultants are utilised where considered appropriate; for example, as part of the Hayes Creek Project Pre-Feasibility Study which commenced in 2016.

All risks facing the Company are managed on an ongoing basis and are reviewed at least annually by the Board and Audit Committee.

Management ensures that the Risk Register is kept up-to-date on an 'as needs' basis so as to reflect changes in the Company's business activities and risks, the law and current best practice within the mining industry. A thorough review of the Corporate Risk Register is undertaken by the management and the Audit Committee each year to identify any further risks, evaluate existing controls and, if necessary, develop and implement further strategies and action plans for minimising and controlling the risks.

The Audit Committee, in conjunction with management, has developed specific cost-effective strategies, controls and action plans for minimising and treating the risks. The current control measures and improvement actions for minimising and managing each risk are noted in detail on the Company's Corporate Risk Register and followed by employees and contractors.

The Board requires management to report to it at least annually in a comprehensive manner, and by exception at each Board meeting, on compliance with the Company's Risk Management policies and whether the Company's material business risks are being managed effectively. While the Company does not have an Internal Audit function, the comprehensive risk review process is seen by the Board as an effective and appropriate substitute for the Internal Audit function.

The Board has received assurance from the MD & CEO and Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

ONGOING MONITORING AND IMPROVEMENT

The Corporate Governance policies of the Company are reviewed on an ongoing basis by the Directors to ensure they meet the standards set by the Board, as well as those required by ASX, ASIC and other stakeholders.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Note	Year ended 30/06/16 $	Year ended 30/06/15 $
Other income	4(a)	17,733	68,520
Employee benefits		(217,826)	(265,286)
Professional fees		(298,462)	(337,855)
Directors' fees		(175,000)	(175,000)
Exploration – tenement maintenance	11	(101,310)	(53,207)
Occupancy	4(c)	(63,919)	(66,954)
Insurance		(34,649)	(41,865)
Share registry and regulatory		(61,219)	(51,127)
Communication		(11,183)	(5,289)
Audit fees	23	(28,340)	(33,385)
Equity-based remuneration	21	9,162	(10,797)
Other expenses		(69,942)	(49,462)
Depreciation	4(b)	(3,351)	(32,370)
Impairment - Exploration and evaluation assets	4(d), 11	-	(1,717,891)
Impairment – financial assets	10	-	(1,229,448)
Interest charges	14	(100,000)	(100,000)
Loss before income tax		(1,138,306)	(4,101,416)
Income tax benefit	5	245,905	-
Loss for the year – continuing operations		(892,401)	(4,101,416)
Loss from discontinued operations, net of tax	6	(90,060)	(229,883)
Total loss for the year		(982,461)	(4,331,299)
Other comprehensive loss:			
Change in fair value of investment – reclassified to impairment loss (tax: nil)	10,19	-	327,007
Change in fair value of investment – may be reclassified subsequently to profit or loss (tax: nil)	10,19	(128,920)	128,920
Total comprehensive loss for the year, attributable to equity holders of the parent		(1,111,381)	(3,875,372)
Loss per share – continuing operations			
Basic and diluted (cents per share)	28	(0.2)	(1.3)
Loss per share - total			
Basic and diluted (cents per share)	28	(0.2)	(1.4)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	Note	30/06/16 $	30/06/15 $
CURRENT ASSETS			
Cash and cash equivalents	7	1,643,632	868,865
Trade and other receivables	8	260,880	14,607
Prepayments/deposits	9	77,913	54,927
Other financial assets	10	257,840	386,761
Assets held for sale	6	-	-
Total current assets		2,240,265	1,325,160
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	11	4,688,184	3,293,812
Plant and equipment	12	37,470	54,154
Total non-current assets		4,725,654	3,347,966
Total assets		6,965,919	4,673,126
CURRENT LIABILITIES			
Trade and other payables	13	194,683	235,269
Provisions	15	66,149	45,606
Total current liabilities		260,832	280,875
NON-CURRENT LIABILITIES			
Provisions	15	28,086	9,932
Loan	14	1,200,000	1,200,000
Deferred Revenue	16	1,600,000	-
Total non-current liabilities		2,828,086	1,209,932
Total liabilities		3,088,918	1,490,807
Net assets		3,877,001	3,182,319
EQUITY			
Issued capital	17	28,377,292	26,562,067
Other contributed equity	18	600,000	600,000
Reserves	19	-	347,193
Accumulated losses	20	(25,100,291)	(24,326,941)
Total equity		3,877,001	3,182,319

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Issued capital $	Other Equity $	Reserves $	Accumulated losses $	Total $
Balance at 30 June 2014	23,557,745	600,000	(91,555)	(19,995,642)	4,070,548
Total loss for the year	-	-	-	(4,331,299)	(4,331,299)
Other comprehensive income	-	-	455,927	-	455,927
Total comprehensive Loss for the year	-	-	455,927	(4,331,299)	(3,875,372)
Shares issued	3,142,847	-	-	-	3,142,847
Share issue costs	(108,525)	-	-	-	(108,525)
Interest on convertible notes	(30,000)	-	-	-	(30,000)
Fair value of equity settled payments	-	-	10,797	-	10,797
Transfer from reserve on vesting of performance rights	-	-	(27,976)	-	(27,976)
Balance at 30 June 2015	26,562,067	600,000	347,193	(24,326,941)	3,182,319
Total loss for the year	-	-		(982,461)	(982,461)
Other comprehensive loss	-	-	(128,920)	-	(128,920)
Total comprehensive loss for the year	-	-	(128,920)	(982,461)	(1,111,381)
Shares issued	1,863,250	-	-	-	1,863,250
Share issue costs	(18,025)	-	-	-	(18,025)
Interest on convertible notes	(30,000)	-	-	-	(30,000)
Fair value of equity settled payments	-	-	(9,162)	-	(9,162)
Reclassification on expiry of options		-	(209,111)	209,111	-
Balance at 30 June 2016	28,377,292	600,000	-	(25,100,291)	3,877,001

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	Inflows/(outflows) Year ended 30/06/16 $	Inflows/(outflows) Year ended 30/06/15 $
Cash flows relating to operating activities		
Receipts from customers	-	-
Payments to suppliers and employees	(1,093,243)	(1,194,653)
Net operating cash flows	(1,093,243)	(1,194,653)
Cash flows relating to investing activities		
Interest received	19,127	36,507
Payments for exploration activities	(1,476,342)	(1,288,747)
Payments for plant and equipment	-	(47,551)
Proceeds from sale of plant and equipment	-	14,300
Net investing cash flows	(1,457,215)	(1,285,491)
Cash flows relating to financing activities		
Proceeds from metal streaming transactions	1,600,000	-
Proceeds from share issues	1,738,250	3,009,871
Payments for capital raising costs	(13,025)	(108,525)
Net financing cash flows	3,325,225	2,901,346
Net increase/(decrease) in cash	774,767	421,202
Cash at beginning of financial year	868,865	447,663
Cash at end of financial year	1,643,632	868,865
Loss for the year	(982,461)	(4,331,299)
Interest income	(17,733)	(38,638)
Equity-based remuneration	(9,162)	10,797
Interest expense – equity settled	90,000	90,000
Cash-settled interest on convertible notes – accounted for in equity	-	(15,000)
Depreciation and amortisation	3,351	32,370
Other income from asset disposals	-	(14,300)
Impairment charges – exploration and evaluation assets	-	1,717,891
Impairment charges – investment (other financial asset)	-	1,229,448
Impairment charges – discontinued operations	-	150,000
(Increase)/decrease in operating receivables	(246,798)	14,349
(Increase)/decrease in other current assets	1,216	4,323
Increase/(decrease) in operating payables	29,647	(44,743)
Increase/(decrease) in employee provisions	38,697	149
Net operating cash flows	(1,093,243)	(1,194,653)

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

1 GENERAL INFORMATION AND BASIS OF PREPARATION

PNX Metals Limited ("Company") is a for-profit Australian publicly listed company, incorporated and operating in Australia. Its registered office and principal place of business is Level 1, 135 Fullarton Road, Rose Park, South Australia 5067. Effective December 2015, the Company's name was changed from Phoenix Copper Limited to PNX Metals Limited.

The consolidated financial statements of PNX Metals Limited comprises the Company and its controlled entities ("Group") and is a general purpose financial report prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on the basis of historical cost, which is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The financial statements were authorised for issue by the Directors on 19th September 2016.

2 NEW AND REVISED ACCOUNTING STANDARDS

None of the standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 had any material effect on any amounts recognised or disclosed in the current or prior period and are not likely to affect future periods.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on several issued but not yet effective standards that may be relevant to the Group's financial statements in future periods is provided below.

Year ended 30 June 2017: AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

The amendments to AASB 11 Joint Arrangements state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in AASB 3 Business Combinations, should:

- » apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not re-measured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and provide disclosures for business combinations as required by AASB 3 and other Australian Accounting Standards.

When these amendments are first adopted for the year ending 30 June 2017, it is not expected that there will be a material impact on the transactions and balances recognised in the financial statements or on the notes to the financial statements.

Year ended 30 June 2017: AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

This standard makes amendments to AASB 101 Presentation of Financial Statements. The amendments:

- » clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- » clarify that AASB 101's specified line items in the statement of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- » add requirements for how an entity should present subtotals in the statement of profit and loss and other comprehensive income and the statement of financial position
- » clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- » remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

When these amendments are first adopted for the year ending 30 June 2017, it is not expected that there will be a material impact on the transactions and balances recognised in the financial statements or on the notes to the financial statements.

Year ended 30 June 2019: AASB 9: Financial Instruments

This standard introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

» Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.

» Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.

» Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

» Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

» Where the fair value option is used for financial liabilities the change in fair value is to be accounted by presenting changes in credit risk in other comprehensive income (OCI) and the remaining change in the statement of profit or loss.

When this standard is first adopted for the year ending 30 June 2019, it is not expected that there will be a material impact on the transactions and balances recognised in the financial statements.

Year ended 30 June 2019: AASB 15 Revenue from Contracts with Customers

This standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. The new standard:

» establishes a new revenue recognition model

» changes the basis for deciding whether revenue is to be recognised over time or at a point in time

» provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing)

» expands and improves disclosures about revenue

When this standard is first adopted for the year ending 30 June 2019, it is not expected that there will be a material impact on the transactions and balances recognised in the financial statements.

Year ended 30 June 2020: AASB 16 Leases

This standard replaces AASB 117 Leases and some lease-related Interpretations. The new standard:

» requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases

» provides new guidance on the application of the definition of lease and on sale and lease back accounting

» largely retains the existing lessor accounting requirements in AASB 117

» requires new and different disclosures about leases

When this standard is first adopted for the year ending 30 June 2020, it is not expected that there will be a material impact on the transactions and balances recognised in the financial statements or on the notes to the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described below, management is required to make judgements, estimates and assumptions. Key areas of judgement and estimation uncertainty are discussed in Note 3(u).

The following significant accounting policies have been adopted in the preparation of the financial report:

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 year ended 30 June 2016, the Group made a comprehensive loss of $1,111,381 (2015: loss of $3,875,372) and recorded a net cash outflow from operating and investing activities of $2,550,458 (2015: net cash outflow of $2,480,144). At 30 June 2016, the Group had cash of $1,643,632 (2015: $868,865), net current assets excluding the investment in Avalon Minerals Ltd of $1,721,593 (2015: $657,524) and net assets of $3,877,001 (2015: $3,182,319).

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 and administrative activities to continue over at least the next 12 months. Subsequent to year-end, the Company raised $1.5 million via the placement of 79 million shares at $0.019 each to sophisticated and institutional investors, and received a commitment for a further share placement of $0.25 million to be approved by shareholders at the Company's 2016 annual general meeting.

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) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of are included in the Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition and up to the effective date of disposal.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses, and cash flows are eliminated in full on consolidation.

c) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, payables to the vendors, and any equity instruments issued by the Group in exchange for control of the acquired entity. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income taxes and AASB 119 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquired entity, or share-based payment arrangements of the Group that are entered into to replace share-based payment arrangements of the acquired entity, are measured in accordance with AASB 2 Share-based Payment at the acquisition date; and
- Assets (or disposals groups) classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the subsequent measurement period, or, if applicable, additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

d) Discontinued operations & assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset or disposal group to fair value less costs to sell. Non-current assets that are part of a disposal group are not depreciated or amortised while they are classified as held for sale.

Assets of the disposal group held for sale are presented separately from other assets in the Statement of Financial Position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operation. The results of discontinued operations are presented separately in the Statement of Profit or Loss and Other Comprehensive Income.

e) Revenue

Revenue is measured at the fair value of consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Royalties based on revenue from the sale of goods are accrued as payables in the same period as the related revenue is recognised.

Deferred Revenue

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

Interest

Interest income is accrued on a time basis, with reference to the principal balance and at the effective interest rate applicable, which is that rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

f) Government grants

Government grants that are received or receivable as direct compensation for mineral exploration expenditure already incurred are recognised as a reduction in the accumulated cost of the relevant exploration and evaluation asset.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash held at financial institutions and bank deposits with a maturity of less than 3 months.

h) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held to maturity investments', 'loans and receivables', and 'available for sale financial assets'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Other financial assets – available for sale

Other financial assets are those that are not held for trading and have no fixed maturity date. These assets are initially measured at fair value and any subsequent changes in fair value prior to disposal are recognised in other comprehensive income. Upon disposal, the cumulative balance in the reserve in equity is reclassified to the income statement.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Trade and other receivables'. Trade and other receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition of the financial asset.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows have been impacted.

For available for sale (AFS) financial assets carried at fair value, the amount of any impairment is recorded in profit and loss, including any cumulative loss carried in other comprehensive income with the latter recorded as a reclassification adjustment. Any further decline in the fair value of the AFS asset is recorded as an impairment loss. Subsequent increases in the carrying value of the AFS asset are not reversed back through profit and loss, but rather are recorded in other comprehensive income.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets except trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is determined to be uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was first recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

i) Exploration and evaluation expenditure and mineral rights

Exploration and evaluation expenditure and mineral rights in relation to each separate area of interest are recognised as an asset in the year in which they are incurred or acquired and where the following conditions are satisfied:

i. the rights to tenure of the area of interest are current; and

ii. at least one of the following conditions is also met:

  › the exploration and evaluation expenditure is expected to be recouped through successful development of the mineral exploration project, or alternatively, by its sale;

  or

  › exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets and mineral rights are initially measured at cost and include the acquisition cost of rights to explore, studies, exploration drilling, trenching and sampling and associated activities. General and administrative costs are only included in the measurement of exploration and evaluation assets where they relate directly to operational activities in a particular area of interest.

Exploration and evaluation assets and mineral rights are assessed for impairment when facts and circumstances (as defined in AASB 6 Exploration for and Evaluation of Mineral Resources) suggest that the asset's carrying amount may exceed its recoverable amount. The recoverable amount of exploration and evaluation assets and mineral rights (or the cash-generating unit to which they have been allocated, being no larger than the relevant area of interest), is determined in accordance with AASB 136 Impairment of Assets, being the higher of fair value less costs to sell and value in use. If the recoverable amount as determined is less than the carrying amount, an impairment loss is recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment, reclassified to development properties, and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

j) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

Estimated useful lives of 3-5 years are used in the calculation of depreciation for plant and equipment.

k) Impairment of assets (other than financial assets, exploration and evaluation assets and mineral rights)

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset which have not already been incorporated into the future cash flows estimates.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in profit or loss.

l) Trade and other payables

Liabilities for goods and services provided to the Group are recognised initially at their fair value and subsequently at amortised cost using the effective interest method. Trade and other payables are unsecured.

m) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Contracts settled via the delivery of a fixed number of equity instruments in the Company in exchange for cash or other assets are accounted for as equity instruments. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

n) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and amounts are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. The present value is calculated using a discount rate that references market yields on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash flows.

Contributions to accumulated benefit superannuation plans are expensed when incurred.

o) Site restoration and rehabilitation provision

Provision for the costs of mine and environmental restoration and rehabilitation are recognised when the Group has a present obligation (legal or constructive) to perform restoration activities, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Restoration and rehabilitation provisions are measured as the present value of estimated future cash flows to perform the rehabilitation activities, discounted at pre-tax rate that reflects market assessments of the time value of money and risks specific to the rehabilitation obligation.

p) Share-based payments

Equity-settled share-based payments made to employees and directors are measured at fair value at the grant date, which is the date on which the equity instruments were agreed to be issued (whether conditionally or otherwise) or, if later, the date on which key terms (e.g. subscription or exercise price) were determined. Fair value is determined using the Black-Scholes model or another binomial model, depending on the type of equity instrument issued.

The fair value of the equity instruments at grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest, with a corresponding increase to the equity settled benefits reserve in shareholders' equity.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case the transactions are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the service.

q) Leases

Operating lease payments made by the Group are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

r) Income tax

Income tax expense represents the sum of tax currently payable and deferred tax.

Current tax

Current tax is calculated with reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the financial year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for accounting purposes and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period(s) when the assets or liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax recognition

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited directly to equity (in which case the deferred tax is also recognised directly in equity), or where it arises from the initial accounting for a business combination.

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The members of the tax consolidated group are disclosed in Note 29. PNX Metals Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as the head entity in the tax-consolidated group).

Under a tax funding arrangement between the entities in the tax-consolidated group, amounts transferred from entities within the tax consolidated group and recognised by the Company ('tax contribution amounts') are recorded in intercompany accounts in accordance with the arrangement.

Where the tax contribution amount recognised by a member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) the group member.

s) Goods and service tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, in which case it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

t) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company (excluding any costs of servicing equity other than ordinary shares) by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

¬ the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and

¬ the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

u) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets, liabilities and equity. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis for making judgements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only the current period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment

Determining whether assets are impaired requires an estimation of the value in use or fair value of the assets or cash-generating units to which assets are allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the asset or cash-generating unit and apply a suitable discount rate in order to calculate present value.

In the prior year, an impairment loss of $1,717,891 was recognised in relation to Exploration and Evaluation Assets and a prior year impairment charge of $150,000 was also recorded in relation to Assets Held for Sale. Details of the prior year impairment loss calculations are provided in Notes 11 and 6 respectively.

Restoration and rehabilitation provision

The site restoration and rehabilitation provision require estimates of future cash flows to meet the costs of rehabilitation activities and the application of a discount rate in order to determine the present value of those cash flows. Refer to Note 6 Assets Held for Sale (loss from discontinued operations) for further detail on the basis for the restoration and rehabilitation provision.

Equity-based payments

The determination of the fair value at grant date of options and performance rights utilises a financial asset pricing model with a number of assumptions, the most critical of which is an estimate of the Company's future share price volatility. Refer to Note 21 for detail on assumptions made regarding equity-based payments made during the year.

4 LOSS FROM CONTINUING OPERATIONS

	Year ended 30/06/16 $	Year ended 30/06/15 $
a) Other income		
Interest on bank deposits	17,733	38,638
Asset sales	-	14,300
Exploration personnel & equipment hire	-	5,460
Other	-	10,122
	17,733	68,520
a) Depreciation		
Depreciation of plant and equipment	3,351	32,370
c) Occupancy		
Operating lease rental expenses	63,919	66,954
d) Impairment		
Exploration and evaluation assets	-	1,717,891

5 INCOME TAX

	Year ended 30/06/16 $	Year ended 30/06/15 $
a) Income tax recognised in profit or loss		
Current tax expense/(benefit)	-	-
Deferred tax expense/(benefit)	(245,905)	-
Total tax expense/(benefit)	(245,905)	-
The prima facie income tax benefit on the loss before income tax reconciles to the tax expense/(benefit) in the financial statements as follows:		
Total loss for the year before tax	(1,228,366)	4,331,299
Income tax benefit calculated at 30%	(368,510)	(1,299,390)
Equity-based remuneration	(2,749)	3,239
Current year tax losses and movements in temporary differences not recognised	371,259	1,296,151
Recognition of research and development tax refund related to the previous tax year	(245,905)	-
Tax expense (benefit)	(245,905)	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	Year ended 30/06/16 $	Year ended 30/06/15 $
b) Recognised tax assets and liabilities		
Deferred tax assets and (liabilities) are attributable to the following:		
Other financial assets	-	330,158
Exploration and evaluation expenditure	(1,372,829)	(956,944)
Plant and equipment	(11,241)	(16,246)
Mineral rights*	(123,075)	(69,037)
Trade and other payables	13,717	12,741
Employee benefits	28,271	16,661
Restoration and rehabilitation provision*	168,075	168,075
Share issue costs	25,015	49,867
Net deferred tax liabilities	(1,272,068)	(464,725)
Tax losses recognised	1,272,068	464,725
Net deferred tax assets / (liabilities)	-	-

* *part of Assets Held for Sale in the Statement of Financial Position*

c) Unrecognised tax losses

A deferred tax asset has not been recognised in respect of the following:

	30/06/16 $	30/06/15 $
Tax losses – operating, at 30% potential benefit	7,284,639	7,406,862
Tax losses – capital, at 30% potential benefit	115,307	115,307

Of the total operating tax losses in the Group at 30 June 2016 of approximately $28.5 million, $25.5 million are unrecognised as shown above ($7.3 million tax effected at 30%). A deferred tax asset has not been recognised in respect of these losses because it is not considered probable at this time that future taxable profit will be available against which to utilise the losses.

6 ASSETS HELD FOR SALE

	30/06/16 $	30/06/15 $
Assets held for sale	-	-

In 2014, the Company formally commenced a sale process for its three mining leases near Leigh Creek, and associated assets and liabilities. The preferred manner of sale is through a 100% disposition of the Company's subsidiary Leigh Creek Copper Mine Pty Ltd ('LCCM').

Mining and production operations at Leigh Creek have been on care and maintenance since January 2012, during which time the Company conducted studies into alternative copper leaching methods before formally putting the assets for sale.

In April 2015, the Company executed an Option and Sale Agreement with Hillsgold Resources Pty Ltd, now Resilience Mining Australia Limited (RMA), regarding LCCM. Under the Agreement, RMA has the option to acquire LCCM as well as two exploration licences held by the Company near LCCM's mining leases, in return for preparing and submitting to the State government updated environmental plans (PEPRs) for the three mining leases, and also preparing certain feasibility studies on the leases, within 9 months of the date of the Agreement. These obligations were fulfilled by RMA in January 2016.

RMA has yet to exercise the option, which expires in mid-October 2016.

Should RMA exercise the option, it will acquire LCCM, and the two exploration licences mentioned, from the Company for nil up-front consideration (other than the assumption of the rehabilitation obligations at Mountain of Light) and a contingent payment to the Company of $100,000 if and when 3,000 tonnes of copper are produced from future operations at the three mining leases.

As a formal sale process is ongoing, the disposal group has been classified as a single current asset in the Statement of Financial Position, and the loss incurred on these discontinued operations has been shown in the Statement of Comprehensive Income as a separate line.

Detail of the loss from discontinued operations:

	30/06/16 $	30/06/15 $
Mine site maintenance	90,060	79,883
Impairment	-	150,000
Loss – discontinued operations	90,060	229,883
Loss per share (cents) basic and diluted	0.02	0.10
Cash outflows	90,060	79,883

Prior year impairment

Given the continuing lack of interest in small-scale mining projects both within the industry and in the wider investment community, the fair value of the Leigh Creek net asset disposal group was re-assessed during the previous financial year. It was determined that based on estimated net disposal proceeds from an arm's length transaction of nil (ie disposal of assets and liabilities for a net nil sum), the fair value was zero and as such an impairment charge of $150,000 was recorded.

That figure continues to be management's best estimate at 30 June 2016 of the overall recoverable amount, and is consistent with what would be received from RMA, should they exercise the option to acquire LCCM.

Detail of the assets and liabilities of the disposal group at 30 June 2016:

	30/06/16 $	30/06/15 $
Assets		
Environmental deposit[1]	150,000	150,000
Plant & equipment – cost	3,634,902	3,634,902
Plant & equipment – accumulated depreciation	(3,634,902)	(3,634,902)
Mineral rights[2]	410,250	410,250
Total assets	560,250	560,250
Liabilities		
Rehabilitation[3]	(560,250)	(560,250)
Net asset carrying value	-	-

1 *The environmental deposit is held by the South Australian government as a condition of the mining leases held by the Group. The deposit will be returned to the Group upon satisfactory rehabilitation of its mining leases. Interest on the deposit does not accrue to the Group.*

2 *Mineral rights are amortised as the resource is mined. No mining has occurred since 2011.*

3 *The provision for site restoration and rehabilitation is based on the estimated future costs of dismantling plant and equipment and performing site rehabilitation at the Group's Mountain of Light copper mine, discounted at a risk-adjusted risk-free rate.*

7 CASH AND CASH EQUIVALENTS

	30/06/16 $	30/06/15 $
Cash at bank	493,632	218,865
Term deposits	1,150,000	650,000
	1,643,632	868,865

At year end, term deposits were invested for 90 days earning 2.9% annual interest.

8 TRADE AND OTHER RECEIVABLES

	30/06/16 $	30/06/15 $
Interest	1,918	3,312
Research & Development Tax Incentive	245,905	-
Goods & Services Tax	12,046	11,179
Other	1,011	116
	260,880	14,607

9 PREPAYMENTS AND DEPOSITS

	30/06/16 $	30/06/15 $
Prepayments	19,018	22,167
Environmental deposits – Northern Territory	26,135	-
Deposit – office bond	32,760	32,760
	77,913	54,927

Environmental deposits are required to be lodged with the Department of Mines and Energy in the Northern Territory prior to the commencement of exploration activities on mineral leases and exploration licences.

The office bond is invested in a 365 day term deposit maturing February 2017 and earning 2.9% interest.

10 OTHER FINANCIAL ASSETS

	30/06/16 $	30/06/15 $
Investment in Avalon Minerals Ltd	257,840	386,761

The Company continues to hold 12,892,013 shares in ASX listed Avalon Minerals Limited (Avalon).

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 the half year, the investment was revalued down $128,920 through Other Comprehensive Income/Loss (OCI), reducing the fair value movements reserve in Equity to zero.

At 30 June 2016, the investment fair value had not materially changed from that at the half year.

Prior year impairment

In the prior year, an impairment charge of $1,229,448 was recorded to reduce the carrying value of the investment in Avalon to fair value, based on the market value of Avalon Minerals Limited's shares at that time. The impairment was recorded in profit or loss in accordance with AASB 139 Financial Instruments: Recognition and Measurement, due to the significant and prolonged decline in Avalon's share price in comparison to the Company's average cost of the investment. The impairment charge included a reclassification of $327,007 from OCI representing the decline in the value of the Avalon investment initially recorded in OCI as a loss in the 2014 financial year.

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.

11 EXPLORATION AND EVALUATION EXPENDITURE

	30/06/16 $	30/06/15 $
Costs brought forward	3,293,812	3,633,957
Expenditure incurred during the year	1,495,682	1,430,953
Recognised as an expense (tenements previously impaired)	(101,310)	(53,207)
Impairment charges	-	(1,717,891)
	4,688,184	3,293,812

Virtually all expenditure during the year related to exploration activity and project development on the Group's Northern Territory projects.

In August 2014, the Company executed an agreement with Crocodile Gold Australia Pty Ltd, now Newmarket Gold NT Holdings Pty Ltd (Newmarket Gold), a subsidiary of Canadian-listed Newmarket Gold Inc., for the acquisition of 14 mineral leases in the Northern Territory, and a farm-in arrangement whereby the Company can earn up to 90% in 21 (now 19) exploration licences and four mineral leases, also in the Northern Territory.

Consideration for the purchase of the mineral leases was $1 plus a 2% royalty on the market value of any future production of gold and silver from the leases (all other metals are excluded from the royalty). Payment of $500,000, either in cash or shares at the Company's election, is due if a bankable feasibility study is completed on any of the acquired or farm-in tenements.

Newmarket Gold retains a 30% claw-back right over the acquired tenements by paying PNX three times the Company's accumulated expenditure on the tenements, and can also re-acquire 90% of any gold or silver deposits with a JORC compliant resource on the farm-in tenements by paying PNX three times the Company's accumulated expenditure on the deposit(s).

The acquired mineral leases include the Iron Blow and Mt Bonnie base metals and gold deposits contained within the Hayes Creek project.

The farm-in tenements include the Burnside, Moline and Chessman base metals and gold exploration projects. Under the terms of the farm-in, PNX can earn a 51% interest in the farm-in tenements with expenditure of $2 million over 2 years (to 15 December 2016) , and can then elect to increase its interest to 90% with expenditure of an additional $2 million over a further 2 year period. $500,000 of the expenditure requirements for each 2 year period may be spent on the acquired mineral leases. As at 30 June 2016, total expenditure for the purposes of the farm-in was approximately $1.5 million.

Prior year impairment

At 30 June 2015, an impairment charge of $1,717,891 was recognised in relation to the Group's Burra Central and Yorke Peninsula exploration tenements in South Australia. The fair value less costs to sell of these projects was assessed as $2 million, based on their estimated value in an arms-length sale transaction in market conditions at that time.

The fair value of the Company's South Australian tenements continues to be assessed at $2 million on the same basis, given market conditions are largely similar to that of one year ago and there have been no events otherwise impacting on the assessed fair value.

12 PLANT AND EQUIPMENT

Cost	$
Balance at 30 June 2014	489,216
Additions	47,551
Disposals	(96,532)
Balance at 30 June 2015	440,235
Additions	-
Disposals	-
Balance at 30 June 2016	440,235
Accumulated depreciation	
Balance at 30 June 2014	450,243
Depreciation expense	32,370
Disposals	(96,532)
Balance at 30 June 2015	386,081
Depreciation expense	(3,351)
Depreciation capitalised to exploration assets	(13,333)
Disposals	-
Balance at 30 June 2016	402,765
Net book value – plant and equipment	
Balance at 30 June 2015	54,154
Balance at 30 June 2016	37,470

The useful lives applied in the determination of depreciation for all items of plant and equipment is 3-5 years.

13 TRADE AND OTHER PAYABLES

	30/06/16 $	30/06/15 $
Trade payables	87,525	134,083
Accrued expenses	82,072	78,319
Other payables	25,086	22,867
	194,683	235,269

Average credit period on trade payables is 30 days.

14 LOAN

	30/06/16 $	30/06/15 $
Loan	1,200,000	1,200,000

The key terms of the Company's $1.2 million loan are as follows:

» Loan funding must be used to acquire shares in Avalon Minerals Limited

» Maturity date of 6 November 2019 (extended from 6 November 2016 in May 2016)

» 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 may 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 in cash.

Interest charges of $100,000 (2015: $100,000) were incurred on the loan during the year, of which $10,000 (2015: $10,000) consisted of withholding tax remitted to the Australian Taxation Office. Interest payable on a 6-monthly basis was settled on both occasions by issuing shares; refer to Note 17(b) for further detail.

15 PROVISIONS

	30/06/16 $	30/06/15 $
Current		
Employee benefits	66,149	45,606
Non-current		
Employee benefits	28,086	9,932

16 DEFERRED REVENUE

	30/06/16 $	30/06/15 $
Metal streaming receipts	1,600,000	-

On 7 June 2016, the Company entered into identical metal streaming and royalty agreements with two investors. The key terms of the agreements are as follows:

» $800,000 received from each investor for the forward sale of 112,000 troy ounces of silver ($7.14/oz)

» Silver to be delivered at a rate of 14,000 oz per quarter (56,000 oz per year) for 2 years once commissioning and ramp up of the Hayes Creek Project is complete

» At the end of the two year silver delivery period, each investor receives a 0.24% Net Smelter Return (NSR) royalty. The NSR royalty applies in respect of gold and silver produced from the Hayes Creek Project, and will be paid for a 5 year period from the end of the silver delivery period. PNX can buy back the NSR royalty from an investor prior to production commencing for $0.27 million.

» Each investor has an option, to be exercised within 3 months of completion of the pre-feasibility study over the Hayes Creek Project, to purchase an additional 56,000 oz of silver for $0.4 million. This silver is to be delivered over a further one year period. In this scenario the NSR increases to 0.36% and buy-back amount increases to $0.4 million

» If production at the Hayes Creek Project has not commenced within 5 years and PNX or an investor elects to terminate the agreement, the forward payment made by that investor ($0.8 million, or $1.2 million, if the option has been exercised) converts to PNX shares based on a 30 day VWAP. The NSR royalty will also apply in these circumstances for 5 years from when production commences on any of the mineral leases making up the Hayes Creek project

» If shareholder approval and/or Foreign Investment Review Board approval is required but not received in relation to the conversion to shares then the applicable forward payment is to be repaid in cash

The $1.6 million of cash received has been 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.

Approximately $28,000 in legal fees were incurred in finalising the agreements, which have been recorded in profit and loss.

17 ISSUED CAPITAL

	30/06/16 $	30/06/15 $
507,783,980 fully paid ordinary shares (2015: 357,256,457)	28,377,292	26,562,067

Movement in ordinary shares for the year:

		No.	30/06/16 $	No.	30/06/15 $
Ref	**Balance at beginning of year**	357,256,457	26,562,067	210,052,258	23,557,745
a	Shares issued to settle interest on convertible notes	2,382,318	30,000	872,094	15,000
b	Shares issued to settle interest on loan	7,029,817	90,000	4,152,926	90,000
c	Shares issued at 1.3 cents	114,865,388	1,493,250	-	-
c	Shares issued at 0.95 cents	26,250,000	250,000	-	-
d	Shares issued on vesting of performance rights, and transfer from equity settled benefits reserve to share capital	-	-	750,000	27,976
e	Shares issued at 1.3 cents	-	-	24,300,000	315,900
f	Shares issued at 2.3 cents, rights Issue	-	-	117,129,179	2,693,971
g	Interest on convertible notes – reduction in share capital	-	(30,000)	-	(30,000)
	Share issue costs	-	(18,025)	-	(108,525)
	Balance at end of year	507,783,980	28,377,292	357,256,457	26,562,067

Fully paid shares carry one vote per share and a right to dividends.

a) Shares were issued in November 2015 and May 2016 at the Company's preceding 30 day volume-weighted average share price (VWAP) of 1.2 and 1.3 cents respectively to settle a total of $30,000 of interest payable on convertible notes.

In the prior year, shares were issued in May 2015 at the Company's preceding 30 day VWAP of 1.7 cents to settle $15,000 of interest payable on convertible notes.

b) Shares were issued in November 2015 and May 2016 at the Company's 30 day VWAP of 1.4 cents and 1.2 cents respectively (2015: 2.9 cents and 1.7 cents) to settle a total of $90,000 of interest payable on the Company's $1.2 million loan.

c) During the year shares were issued to sophisticated investors and company directors at 1.3 cents (September and November 2015, 114,865,388 shares) raising $1.49 million before costs and to sophisticated investors at 0.95 cents (April 2016, 26,250,000 shares), raising $250,000.

d) *Prior year:* 375,000 ordinary shares were issued to a related party of the Company's Chief Executive Officer in August 2014 following the vesting of an equivalent number of performance rights that were originally issued in September 2013. A further 375,000 ordinary shares were issued to a related party of the Company's CEO in November 2014 following the vesting of an equivalent number of performance rights that were issued in September 2014.

e) *Prior year:* 24,300,000 ordinary shares were issued to sophisticated and professional investors in August 2014 at 1.3 cents raising $315,900 before costs.

f) *Prior year:* 117,129,179 shares were issued in October and November at 2.3 cents raising $2.69 million before costs under a one-for-two non-renounceable pro-rata Rights Issue, including 6,260,693 shares placed with sophisticated investors within 90 days of the closing of the offer.

g) Interest paid by issuing shares on convertible notes has been accounted for as a reduction in share capital, consistent with the treatment of the convertible notes as an equity item (refer Note 18 for further detail).

18 OTHER CONTRIBUTED EQUITY

	30/06/16 $	30/06/15 $
Convertible notes – equity settled	600,000	600,000

The Group has on issue 600,000 unsecured convertible notes at a price of $1 per note. The key terms of the notes are as follows:

» Convertible at the option of either the Company or the note holders, for 20 ordinary fully paid shares per note

» Interest accrues at 5% per annum, payable in cash or ordinary shares (based on the Company's 30 day VWAP preceding the end of each interest period) semi-annually at the option of the Company

» Any unconverted notes automatically convert into ordinary shares, at the rate of 20 ordinary shares per note, on the maturity date of 22 May 2019 (extended from 22 May 2016 in May 2016)

» Redeemable in cash at the option of the Company at the end of each calendar quarter during the 18 month period after issuance (subject to an interest premium of 2.5% for early redemption)

As the notes will be settled by way of the issue of a fixed number of shares in the Company (unless the Company elects to settle in cash as noted above), the notes have been accounted for as a separate component of shareholders' equity.

Semi-annual interest payable of $15,000 was settled in November 2015 and in May 2016 by issuing shares as outlined in Note 17(a).

19 RESERVES

	30/06/16 $	30/06/15 $
Equity-settled benefits reserve	-	218,273
Fair value movements reserve	-	128,920
	-	347,193

The equity-settled benefits reserve arises on the vesting of performance rights and share options granted to employees, consultants and executives under the Employee Performance Rights Plan and (previous) Employee Share Option Plan. It also reflects the fair value at grant date of options issued in conjunction with ordinary shares for capital raising purposes.

Amounts are transferred out of the reserve and into issued capital when the rights are converted into shares or options are exercised, or to accumulated losses when rights or options lapse. Further information on share based payments is disclosed in Note 21.

The decrease in the equity settled benefits reserve for the year consists of:

» $209,111 reclassified to accumulated losses on the expiry of options (refer Note 21)

» $9,162 recorded in profit and loss as an expense recovery upon the lapsing of performance rights that did not vest as the performance conditions were not met (Note 21)

The fair value movements reserve relates to the Company's investment in Avalon Minerals Ltd. During the year the reserve decreased $128,920 reflecting the downward movement in the market value of the investment in Avalon since 30 June 2015, as outlined in Note 10.

20 ACCUMULATED LOSSES

	30/06/16 $	30/06/15 $
Balance at beginning of year	24,326,941	19,995,642
Loss for the year	982,461	4,331,299
Transfer from equity settled benefits reserve regarding options that expired unexercised	(209,111)	-
Balance at end of year	25,100,291	24,326,941

21 SHARE OPTIONS AND PERFORMANCE RIGHTS

In 2010, the Group replaced the Employee Share Option Plan with the PNX Metals Limited Employee Performance Rights Plan (PRP). Under the PRP, the Directors may issue performance rights to Company executives, employees and consultants. Performance rights are granted for no monetary consideration and entitle the holder to be issued one fully paid ordinary share per performance right upon vesting.

September 2014 rights

In September 2014, 1,200,000 Performance Rights were issued to the Company's CEO, with performance conditions covering the period to 30 June 2016:

- achievement of a capital raise in excess of $2 million by 30 December 2014 (375,000 Rights);
- a discovery defined by two drill holes spaced a minimum of 75 metres apart with ore-grade mineralisation by 30 June 2016 (375,000 Rights); and
- at the Hayes Creek project, double the contained metal of the existing foreign resource estimate at Iron Blow through the definition of additional resources within a 10km radius of the existing deposit by 30 June 2016 (450,000 Rights).

The achievement of each of the performance conditions was subject to Board approval. The Board also had discretion to amend the allocation of Performance Rights to each condition by up to 50%; however, the total number of Performance Rights that could vest was fixed at 1,200,000.

375,000 shares were issued in November 2014 as the performance condition of a minimum $2 million capital raise prior to 30 December 2014 was met on 7 November 2014, following the issue of shares under a non-renounceable rights issue.

The remaining 825,000 rights lapsed on 30 June 2016 as the performance conditions were not met.

January 2015 rights

In January 2015, 750,000 performance rights were issued to the Company's Exploration Manager with the following performance conditions:

- Completion of a scoping study on the Hayes Creek project including defining an initial resource estimate at Mount Bonnie of greater than 1 million tonnes by 31 December 2015 (187,500 Rights);
- Increase in the market capitalisation of the Company to >$20 million, measured on a 20 day VWAP basis, by 30 June 2015 (75,000 Rights);
- A discovery, defined by two drill holes spaced a minimum of 75 metres apart with ore-grade mineralisation, at a new prospect by 30 June 2016 (225,000 Rights); and
- At the Hayes Creek project, double the contained metal of the current JORC 2012 resource estimate at Iron Blow through the definition of additional resources within a 10km radius by 30 June 2016 (262,500 Rights).

The achievement of each of the performance conditions was subject to Board approval. The Board also had discretion to amend the allocation of Performance Rights to each condition by up to 50%; however, the total number of Performance Rights that could vest was fixed at 750,000.

At 30 June 2015, it was determined that the performance conditions relating to 75,000 rights (second bullet point above) were not met and therefore the rights lapsed at that time.

The remaining 675,000 rights lapsed on 30 June 2016 as the performance conditions were not met.

During the year, share-based payment expense of negative $9,162 (2015: 10,797) was recorded in relation to the Performance Rights described above, effectively reversing the majority of the expense recorded in the previous year related to those Rights that ultimately did not vest.

Options

At the discretion of the Directors, and subject to shareholder approval, Options to acquire shares can and have been issued, for example as part of corporate and asset acquisitions or as part of a capital raising process.

The following table reconciles outstanding Options from the beginning to the end of the financial year:

Options	30/06/16 Number of options	30/06/16 Weighted average exercise price $	30/06/15 Number of options	30/06/15 Weighted average exercise price $
Balance at beginning of the year	1,250,000	0.27	1,250,000	0.27
Options granted	-	-	-	-
Options exercised or lapsed	(1,250,000)	(0.27)	-	-
Balance at end of the year	-	-	1,250,000	0.27

22 KEY MANAGEMENT PERSONNEL DISCLOSURE

The key management personnel of the Group during the year were:

- » Graham Ascough (Non-executive Chairman)
- » Paul Dowd (Non-executive Director)
- » Peter Watson (Non-executive Director)
- » David Hillier (Non-executive Director)
- » James Fox (Managing Director & Chief Executive Officer)
- » Tim Moran (Chief Financial Officer and Company Secretary)
- » Andy Bennett (Exploration Manager)

The aggregate compensation of Key Management Personnel of the Group is set out below:

	Year ended 30/06/16 $	Year ended 30/06/15 $
Short-term employee benefits	740,097	777,903
Post-employment benefits	74,878	60,395
Share-based payments	(9,162)	10,797
	805,813	849,095

Details of key management personnel compensation are disclosed within the Remuneration Report in the Directors' Report.

23 REMUNERATION OF AUDITOR

	30/06/16 $	30/06/15 $
Paid or payable for the following services:		
Audit and review of the financial reports	28,340	33,385
Tax return preparation and advice	-	6,825
	28,340	40,210

Audit fees in the prior year include $27,000 paid and payable to Grant Thornton, appointed as the Company's auditor at the 2014 Annual General Meeting. Remaining audit fees in 2015 and fees for the preparation of the tax return and other advice were paid to the previous auditor.

24 RELATED PARTY DISCLOSURES

a) Subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 29.

b) Other related party transactions

During the year the Company engaged Watsons Lawyers (now part of Piper Alderman), an entity in which a Director (Peter Watson) was a partner, to advise on legal matters. The amount paid in the financial year for these services inclusive of GST was $46,833 (2015: $134,788). $2,200 inclusive of GST was owed at year end (2015: nil).

25 COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES

a) Expenditure commitments

The Group has certain obligations to perform exploration work and expend minimum amounts of money on mineral exploration tenements in South Australia in order to retain the full tenement lease. There are no minimum expenditure requirements on the Company's mineral leases in the Northern Territory.

These obligations vary from time to time, subject to statutory approval. The terms of current and future joint ventures, the grant or relinquishment of licences and changes to licence areas at renewal or expiry will alter the expenditure commitments of the Company.

Total expenditure commitments at 30 June 2016 in respect of minimum expenditure requirements not provided for in the financial statements are approximately:

	30/06/16 $	30/06/15 $
Minimum exploration expenditure on SA tenements	900,000	1,000,000

The Group's office lease in Rose Park, South Australia, with annual lease payments exclusive of GST of $66,900, extends to August 2017.

b) Reilly Tenement Acquisition Agreement

By the Reilly Tenement Acquisition Agreement dated 19 October 2007 between the Company and Matthew Reilly, as amended by deed dated 19 November 2007 (RTAA), the Company agreed to purchase mineral exploration licence EL 3161 (now EL 5382) from Mr Reilly.

Contingent consideration pursuant to this agreement:

- the issue and allotment to Mr Reilly of 800,000 Shares and 800,000 Options upon grant of an Exploration Licence over some or all of the area within EL 3161 (now EL5382) reserved from the operation of the Mining Act 1971 (SA), comprising the area, and immediate surroundings, of the historic Burra Mine and the historic Burra Smelter, as gazetted in March 1988;
- the payment of $100,000 upon commencement of processing of any tailings, waste residues, waste rock, spoiled leach materials and other materials located on the surface of the land the subject matter of EL 3161 or derived from that land by or on behalf of the Company; and
- the payment of $200,000 upon the Company announcing an ore reserve, prepared in accordance with the JORC Code, on EL 3161 of at least 15,000 tonnes of contained copper.

c) Royalty agreements

The Company has granted the following royalties:

- to Mr Matthew Reilly – 6% of the aggregate net revenue in respect of all metals derived from EL 3161 (now EL 5382).
- to Avanti Resources Pty Ltd – 2.5% of the net smelter return on all metals derived from EL 3604, EL 3716 and EL 3686 (now ELs 4807, 4970, and 4886 respectively).
- to Marathon Resources Limited – 2.5% net smelter return on all metals derived from EL 3164 (now EL 5411).
- to Copper Range (SA) Pty Limited – 1.5% net smelter return on all metals derived from EL 3459 (now EL 4809).
- to Copper Range (SA) Pty Limited – 2.0% net smelter return on all metals derived from EL 3971 and EL 3451 (now ELs 5169 and 4626 respectively).
- to Copper Range (SA) Pty Limited – 50% of a 1.5% net smelter return on all metals derived from EL 4370 (now EL 5557).
- to Flinders Mines Limited – 50% of a 1.5% net smelter return on all metals derived from EL 4370 (now EL 5557).

The Company's subsidiary Leigh Creek Copper Mine Pty Ltd has a royalty agreement with Mount Gunson Mines Pty Ltd whereby a 1% royalty is payable to Mount Gunson in respect of copper produced from operations at ML 5467, ML 5498, and ML 5741.

d) Native title

A native title claim application has been lodged with the Federal Court of Australia over land on which the majority of the Group's tenements in South Australia are located. The Group is unable to determine the prospects of success or otherwise of the claim application, and to what extent an approved claim might affect the Group or its projects.

e) Newmarket Gold

As outlined in Note 11, Newmarket Gold is entitled to a 2% royalty on the market value of any future production of gold and silver from the 14 mineral leases in the Northern Territory acquired by the Company in 2014. A payment of $500,000, either in cash or shares at the Company's election, is also due if a bankable feasibility study is completed on any of the acquired or farm-in tenements.

In addition, Newmarket Gold holds a 30% claw-back right over the acquired tenements by paying PNX three times the Company's accumulated expenditure on the tenements, and can also re-acquire 90% of any gold or silver deposits with a JORC compliant resource on the farm-in tenements by paying PNX three times the Company's accumulated expenditure on the deposit(s).

26 FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT

Categories of financial instruments

	30/06/16 $	30/06/15 $
Financial assets		
Cash and cash equivalents	1,643,632	868,865
Deposits	58,895	32,760
Trade and other receivables	260,880	14,607
Other financial assets – Investment in Avalon	257,840	386,761
Financial liabilities		
Trade and other payables	194,683	235,269
Loan	1,200,000	1,200,000

The Group's activities expose it to several financial risks which impact on the measurement of and potentially could affect the ultimate settlement amount of its financial instruments: market risk, credit risk, and liquidity risk.

Market risk

The Group's activities, up to 31 December 2011 when copper production ceased, were exposed to the financial risks of changes in US dollar exchange rates and global copper prices. Since then, price and currency risk is minimal.

The Group is exposed to movements in the share price of Avalon Minerals Ltd, as the Company's investment of 12,892,013 shares in Avalon is carried at fair value, and price movements are reflected through other comprehensive income or loss. Each one cent change in the market value of Avalon's shares changes the fair value of the Company's investment by $128,920. Movement in the fair value of the investment in Avalon, as an indicator of its realisable value, also affects the number of shares the Company may have to issue to settle any shortfall in the Company's $1.2 million loan before it matures in November 2019 (refer Note 14).

The Group's exposure to interest rate movements is limited to increases or decreases in interest earned on cash, cash equivalents, and deposits.

If interest rates had been 50 basis points higher or lower during the financial year and all other variables were held constant, the Group's net loss would increase/decrease by approximately $3,000 and $3,000 respectively (2015: increase/decrease by approximately $5,000 and $5,000 respectively).

As the Group's exposure to market risks is not significant, management of these risks is limited to monitoring movements in commodity prices, foreign exchange rates, interest rates, and the market value of the shares of Avalon Minerals Ltd.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from activities.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Liquidity risk

Ultimate responsibility for managing liquidity risk rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk by continuously monitoring forecast and actual cash flows, and raising capital as needed, primarily through new equity issuances, in order to meet the Group's exploration expenditure commitments and corporate and administrative costs.

Liquidity and interest risk tables

The following table details the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than one month $	1-3 months $	3-12 months $	1-5 years $
2016					
Non-interest bearing	-	158,333	19,500	16,850	-
Fixed interest bearing	7.5	-	-	90,000	1,425,000
2015					
Non-interest bearing	-	175,021	43,398	16,850	-
Fixed interest bearing	7.5	-	-	90,000	1,245,000

Fair value of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of debt and equity balances. Due to the nature of the Group's activities (primarily exploration), the Directors believe that the most appropriate and advantageous way to fund activities is through equity issuances, and all capital raised to date with the exception of the $1.2 million loan (which funded the acquisition of shares in Avalon Minerals Ltd) and the $1.6 million metal streaming transactions (Note 16) has been equity based.

The Group closely monitors and forecasts its cash flow and working capital to ensure that adequate funds are available in the future to meet exploration and administrative activities.

27 SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is both activity and project based. The principal activity is mineral exploration in the Northern Territory and in South Australia. Exploration projects are evaluated individually, and the decision to allocate resources to individual projects in the Group's overall portfolio is predominantly based on available cash reserves, technical data and expectations of resource potential and future metal prices.

The Group's reportable segments under AASB 8 are therefore as follows:

» Exploration in the Northern Territory

» Exploration in South Australia

» Mining and production of copper in Australia (now discontinued)

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

	Revenue Year ended 30/06/16 $	Revenue Year ended 30/06/15 $	Segment loss Year ended 30/06/16 $	Segment loss Year ended 30/06/15 $
Exploration – SA	-	-	(101,310)	(1,771,097)
Exploration – NT	-	-	-	-
Mining – discontinued operation	-	-	(90,060)	(229,883)
Unallocated	-	-	(1,036,996)	(2,330,319)
Total loss before tax			(1,228,366)	(4,331,299)
Income tax benefit			245,905	-
Total loss for the year			(982,461)	(4,331,299)

Segment loss represents the loss earned by each segment without allocation of corporate administration costs, interest income and income tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

	30/06/16 $	30/06/15 $
Assets		
Exploration – SA	2,000,000	2,000,000
Exploration – NT	2,739,486	1,330,479
Mining (held for sale)	-	-
Unallocated assets	2,226,433	1,342,647
Total assets	6,965,919	4,673,126
Liabilities		
Exploration – SA	-	-
Exploration – NT	42,400	101,965
Mining (held for sale)	-	-
Unallocated liabilities	3,046,518	1,388,842
Total liabilities	3,088,918	1,490,807

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments except for cash/cash equivalents, other financial assets, prepayments/deposits, and corporate office equipment.

All liabilities are allocated to reportable segments other than employee provisions, loan, deferred revenue and corporate/administrative payables.

28 EARNINGS PER SHARE

	Year ended 30/06/16 Cents per share	Year ended 30/06/15 Cents per share
Basic and Diluted loss per share- continuing operations	(0.2)	(1.3)
Basic and Diluted loss per share – discontinued operations	(0.0)	(0.1)
Total loss per share	(0.2)	(1.4)

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	$	$
Loss after tax – continuing operations $	(892,401)	(4,101,416)
Loss after tax – discontinued operations $	(90,060)	(229,883)
Weighted average number of ordinary shares	451,064,157	311,671,557

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

29 CONTROLLED ENTITIES

Name of entity		Country of Incorporation	Ownership Interest 2016 %	Ownership Interest 2015 %
Parent entity				
PNX Metals Limited	(i)	Australia		
Subsidiaries				
Wellington Exploration Pty Ltd	(ii)	Australia	100%	100%
Leigh Creek Copper Mine Pty Ltd	(ii)	Australia	100%	100%

i) Head entity in tax consolidated group

ii) Members of tax consolidated group

The ultimate parent entity in the wholly-owned group is PNX Metals Limited. During the financial year, PNX Metals Limited provided accounting and administrative services at no cost to the controlled entities and advanced interest free loans. Tax losses have been transferred to PNX Metals Limited by way of inter-company loans.

PNX Metals Limited has entered into a deed of cross guarantee with its wholly-owned subsidiaries, Leigh Creek Copper Mine Pty Ltd and Wellington Exploration Pty Ltd, and therefore these latter entities are relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. As there are no other entities in the Group other than those party to the deed of cross guarantee, the consolidated financial statements of the entities party to the deed of cross guarantee are the same as those of the Group.

30 PARENT ENTITY DISCLOSURES

Financial position	30/06/16 $	30/06/15 $
Assets		
Current assets	2,240,265	1,325,160
Non-current assets	4,725,654	3,347,966
Total assets	6,965,919	4,673,126
Liabilities		
Current liabilities	260,832	280,875
Non-current liabilities	2,828,086	1,209,932
Total liabilities	3,088,918	1,490,807
Net assets	3,877,001	3,182,319
Equity		
Issued capital	28,377,292	26,562,067
Other equity	600,000	600,000
Reserves	-	347,193
Accumulated losses	(25,100,291)	(24,326,941)
Total equity	3,877,001	3,182,319

Financial performance	Year ended 30/06/16 $	Year ended 30/06/15 $
Loss for the year	(982,461)	(4,331,299)
Other comprehensive income/loss	(128,920)	455,927
Total comprehensive loss	(1,111,381)	(3,875,372)

Commitments for expenditure and contingent liabilities of the parent entity

Note 25 discloses the Group's commitments for expenditure and contingent liabilities, all of which are applicable to the parent entity also.

31 SUBSEQUENT EVENTS

In August 2016, the Group raised $1.5 million via the placement of 79 million shares at $0.019 each to sophisticated and institutional investors. The Group also received a commitment for a further share placement of $0.25 million if approved by shareholders at the Company's 2016 annual general meeting.

Also subsequent to year-end, the Board resolved to issue 1,000,000 Shares to Company MD & CEO James Fox and grant him 1,250,000 Performance Rights, with both awards subject to shareholder approval at the Company's 2016 AGM. The proposed share issuance is considered by the Directors to be an appropriate bonus for Mr Fox's performance over the past year as the Company's Managing Director & CEO, and in particular for his leadership in advancing the Hayes Creek Project into a Pre-Feasibility Study.

The 1,250,000 Performance Rights to be offered to Mr Fox have the following performance conditions:

» The Company's share price performance for the year ended 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 or more for 15 consecutive trading days prior to 30 June 2018.

There are no other matters or circumstances otherwise that have arisen since 30 June 2016 and have significantly affected or may significantly affect:

» the Group's operations in future financial years;

» the results of those operations in future financial years; or

» the Group's state of affairs in future financial years.

DIRECTORS' DECLARATION

In the Directors' opinion:

a) the consolidated financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including

   i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

   ii) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;

b) the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;

c) 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

d) at the date of this declaration, there are reasonable grounds to believe that the members of the Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 29.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001*.

Graham Ascough
Chairman

20th September 2016

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

Report on the financial report

We have audited the accompanying financial report of PNX Metals Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

Grant Thornton

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

a the financial report of PNX Metals Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as going concern

Without qualifying our opinion, we draw attention to Note 3(a) in the financial report which indicates that the consolidated entity incurred a comprehensive loss of $1,111,381 and operations were funded by a net cash outlay of $2,550,458 from operating and investing activities. These conditions, along with other matters as set forth in Note 3(a), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of PNX Metals Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner - Audit & Assurance

Adelaide, 20 September 2016

ADDITIONAL SHAREHOLDER INFORMATION

SHARES

The total number of shares issued as at 7 October 2016 was 588,691,875 held by 774 registered shareholders.

None of these shares are subject to escrow.

188 shareholders hold less than a marketable parcel, based on the market price of a share as at 30 September 2016.

Each share carries one vote.

PERFORMANCE RIGHTS/OPTIONS

As at 7 October 2016, the Company had no Performance Rights or options on issue.

TWENTY LARGEST SHAREHOLDERS

As at 7 October 2016, the twenty largest Shareholders were as shown in the following table and held 70.6% of the Shares.

Rank	Name	Shares	% of shares
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	58,364,278	9.91
2.	MARILEI INTERNATIONAL LIMITED	54,222,048	9.21
3.	SOCHRASTEM SA	49,798,921	8.46
4.	ASIA IMAGE LIMITED	43,802,204	7.44
5.	TALIS SA	37,891,032	6.44
6.	POTEZNA GROMADKA LIMITED	30,799,159	5.23
7.	LONG FORTUNE LIMITED	27,075,000	4.60
8.	JP MORGAN NOMINEES AUSTRALIA LIMITED	19,421,801	3.30
9.	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	14,188,179	2.41
10.	KOMON NOMINEES PTY LTD <OWEN SUPER FUND A/C>	13,446,154	2.28
11.	MR ROGER DOUGLAS STABLES <THE CELLAR A/C>	7,881,578	1.34
12.	LITTLEJOHN EMBREY ENGINEERING PTY LTD	7,777,473	1.32
13.	LWP TECHNOLOGIES LTD <INVESTMENT PORTFOLIO A/C>	7,700,000	1.31
14.	MR PAUL DOSTAL	7,500,000	1.27
15.	MR PETER JAMES WATSON + MS JUDITH WATSON <SUPER FUND A/C>	7,000,000	1.19
16.	AMALGAMATED DAIRIES LIMITED	6,797,242	1.15
17.	ESM LIMITED	6,000,000	1.02
18.	PJ & BA DOWD INVESTMENTS PTY LTD <THE DOWD SUPER FUND A/C>	5,668,077	0.96
19.	MR BIN LIU	5,338,662	0.91
20.	DEERING NOMINEES PTY LTD	5,263,157	0.89
	Total	**415,934,965**	**70.65**

SUBSTANTIAL SHAREHOLDERS

As at 7 October 2016, the substantial Shareholders as disclosed in substantial holding notices given to the Company are:

	Holding	%
Asia Image Limited	80,302,204	13.64%
Marilei International Limited	54,222,048	9.21%
Sochrastem SA	48,607,762	10.22%
Potezna Gromadka Limited	30,799,159	5.23%
Long Fortune Limited	35,075,000	5.96%
Talis SA	37,891,032	6.44%

DISTRIBUTION SCHEDULES

A distribution schedule of the number of Shareholders, by size of holding, as at 30 September 2016 is set out below:

Size of holdings	Number of shareholders
1 – 1000	35
1,001 – 10,000	101
10,001 – 100,000	301
100,001 and over	233
Total	**670**

There is no current on-market buy-back.

ENQUIRIES FROM SHAREHOLDERS

Shareholders wishing to record a change of address or other holder details or with queries regarding their Shareholding should contact the Company's share registry, Computershare, as detailed in the Corporate Directory at the front of this Annual Report. Shareholders with any other query are invited to contact the Company's registered office as detailed in the Corporate Directory at the front of this Annual Report.