

Ticker: PGM CN/LN

Net cash: (C\$64m)

Project: Madsen

Market cap: C\$306m

Price: C\$0.63/sh

Country: Canada, Red Lake

RECOMMEND. (dwn): HOLD TARGET (down): C\$0.85/sh RISK RATING: HIGH

We are impressed by the operational focus of new management, and are encouraged that lower than desired grades could just be the results of a tougher ore body at McVeigh (western decline, 83koz @ 6.7g/t). As this only represents 8% of reserves, once mining ramps up on the easier eastern ore body at Austin (eastern decline, 676koz @ 8.6g/t), itself representing 67% of reserves, grades should improve. In the LT, 8 Zone's 228koz @ 17g/t, and extensions thereof, are the holy grail of course. While sufficient development is into the eastern decline for drill cubbies, we don't think there is sufficient development just yet for the operational flexibility required to maintain when inevitable sub-prime stopes emerge. Today's equity covers just that. However, ~C\$25m pq site opex implies mining costs potentially approaching C\$300/t against C\$169/t DFS. While this will of course drop considerably once steady-state is reached, it is unclear if this will occur fast enough to ensure no further equity is required. Specifically, 80koz pa and spot US\$1,792/oz implies C1/AISC of ~US\$500/800/oz would be required to cover current outgoings, pre tax, royalties, finance costs, G&A and debt principle. In the short term, the equity will fund additional sustaining capex and opex burn during ramp up, but long-term mining costs are very hard to forecast with a NAV of anywhere for C\$700m to C\$950m at C\$169-300/t mining costs. As such, we lower our NAV multiple from 0.9x to 0.7x to reflect our uncertainty until more visibility is provided on sustainable operating metrics / costs. On that basis, **we lower our recommendation from BUY to HOLD and lower our PT from C\$1.60/sh to C\$0.85/sh** based mainly on the higher opex and lower NAV multiple. Of course we hope for investor's sake that this is the last equity, but that wasn't the case several times last year. We remain positive in the long term, as (i) completing East ramp development for higher grades at Austin, and (ii) medium-term access to 8 Zone, have the potential to shift this operation from loss-making to profitable.

Management update and equity issue, lowering recommendation from BUY to HOLD

Pure Gold announced an equity raise for gross proceeds of ~C\$25m, including a bought deal private placement for ~C\$9.0m (16.9m shares @ C\$0.53/sh) and concurrent private placement with AngloGold Ashanti for ~C\$15.9m (30.2m shares @ C\$0.53/sh). Earlier this month the company noted only essential staff remained on site in response to covid cases. In early January, Troy Fierro replaced Darin Labrenz as CEO, while Chris Haubrich replaced Sean Tetslaff as CFO.

Why we like Pure Gold

1. Existing 1Moz @ 9g/t reserve in favourable jurisdiction
2. 80koz pa DFS lifts to 110koz pa with satellite 271koz @ 6.7g/t mineable in PEA
3. Permitting precedent to expand mill from DFS 800tpd to 1,089tpd, but potential 1,600tpd
4. Exploration upside: Wedge satellite(s), high-grade 8 Zone up-dip and down-dip

Catalysts

1. Ongoing quarterly performance
2. 2H22: access to drill 8 Zone from underground
3. SCPe 2022: Expansion sizing and design

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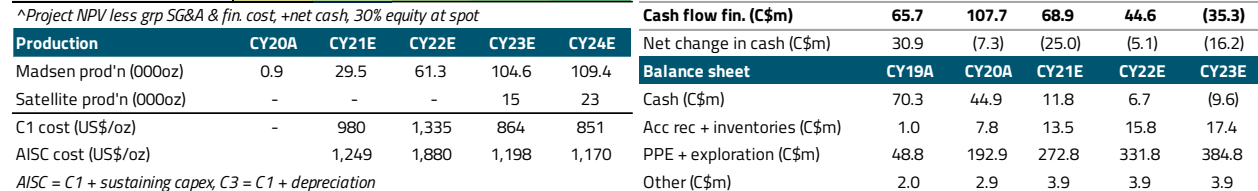
Ticker: PGM CN	Price / mkt cap: C\$0.63 C\$306m	Market P/NAV	0.56x	Asset: Madsen
Author: B Salier	Rec / 0.7xNAV PT: HOLD C\$0.85	PT / 1xNAV _{Q123} FF FD:	C\$1.19/sh	Country: Ontario, Canada

SOTP project valuation					Resources				
	C\$m	O/ship	NAVx	C\$/sh	Au (koz)	Au (g/t)	Rsvs	Au (koz)	Au (g/t)
Madsen (4Q21)	708	100%	1.0x	1.32	Madsen global	2,098koz	8.93g/t	Madsen	1,000koz
SCPe net cash + rse (1Q22)	(64.4)	-	1.0x	(0.12)	Satellites global	431koz	7.6g/t		
Central costs	(86.2)	-	1.0x	(0.16)	Share data				
Cash from options	42.9	-	1.0x	0.08	Basic shares (m)	486.1	FD for options / warrants (m)		
1xNAV5% 1Q22 US\$1850/oz	600			1.12				536.1	
* Shares diluted for options and mine build					Commodity price				
Market P/NAV _{5%} 0.56x						CY20A	CY21E	CY22E	CY23E
Project NPV @ build start (C\$m, ungeared)*					Gold price (US\$/oz)	1,519	1,817	1,813	1,840

Ratio analysis					Income statement				
	CY19A	CY20A	CY21E	CY22E	CY23E		CY19A	CY20A	CY21E
Average shares out (m)	536.1	536.1	536.1	536.1	536.1	Revenue (C\$m)	-	-	38.0
EPS (C\$/sh)	(0.03)	(0.03)	(0.03)	0.01	0.13	COGS (C\$m)	-	-	36.7
CFPS before w/c (C\$/sh)	(0.06)	(0.22)	(0.19)	(0.08)	0.04	Gross profit (C\$m)	-	-	1.3
EV (C\$m)	286.5	384.1	447.4	472.1	453.1	D&A (C\$m)	0.1	0.2	4.7
FCF yield (%)	-	-	-	-	6%	Admin + share comp (C\$m)	7.2	11.5	6.8
PER (x)	-	-	-	108.7x	4.9x	Finance cost (C\$m)	(0.5)	(0.6)	2.5
EV/EBITDA (x)	-	87.5x	-	17.6x	3.9x	Expl'n + eval'n (C\$m)	8.9	6.6	3.7
Exit value: 1xNAV/sh company @ 1Q23 post ramp up (C\$m, geared)^					Tax (C\$m)				
1xNAV (C\$/sh)	1.08	1.19	1.25	1.31	1.27	Net income (C\$m)	(15.7)	(18.5)	(14.5)
0.7xNAV PT:	0.83					Cash flow statement	CY19A	CY20A	CY21E
SOTP company valuation^					EBITDA (C\$m)				
	1Q22	1Q23	1Q24	1Q25	1Q26		(20.7)	4.4	(8.0)
Madsen - group (C\$m)	731	808	810	759	611	Less tax (C\$m)	-	(0.8)	2.0
Central costs (C\$m)	(86.2)	(78.0)	(65.4)	(54.8)	(45.7)	Less finance costs (C\$m)	0.5	0.6	(2.5)
Net cash prior qtr (C\$m)	(109.7)	(134.4)	(115.4)	(46.1)	71.2	Less change in wrk cap (C\$m)	0.1	(5.2)	(5.9)
Cash from options (C\$m)	42.9	42.9	42.9	42.9	42.9	Cash flow ops (C\$m)	(20.1)	(1.1)	(14.4)
NAV (C\$m)	578	638	672	701	679	PP&E - build / maint (C\$m)	(14.7)	(113.9)	(79.5)
1xNAV5%/sh FF FD (C\$/sh)	1.08	1.19	1.25	1.31	1.27	Cash flow inv. (C\$m)	(14.7)	(113.9)	(79.5)
0.7xNAV PT:	0.83					Share issue (C\$m)	52.7	34.8	43.9

Exit value: 1xNAV/sh company @ 1Q23 post ramp up (C\$m, geared)^					Debt draw (repay) (C\$m)				
	1Q22	1Q23	1Q24	1Q25	1Q26		CY19A	CY20A	CY21E
1xNAV (C\$/sh)	1.08	1.19	1.25	1.31	1.27	Cash flow fin. (C\$m)	65.7	107.7	68.9
9% discount	0.88	1.02	1.15	1.29	1.42	Net change in cash (C\$m)	30.9	(7.3)	(25.0)
7% discount	0.95	1.10	1.24	1.39	1.52	Balance sheet	CY19A	CY20A	CY21E
5% discount	1.03	1.19	1.34	1.50	1.64		CY19A	CY20A	CY21E
1xNAV5% (\$1850/oz, C\$/sh)	1.03	1.19	1.34	1.50	1.64	Cash (C\$m)	70.3	44.9	11.8
Sat ounces 7g/t: 271koz	1.03	1.19	1.34	1.50	1.64	Acc rec + inventories (C\$m)	1.0	7.8	13.5
Sat ounces 7g/t: 371koz	1.09	1.26	1.42	1.57	1.72	PPE + exploration (C\$m)	48.8	192.9	272.8
Sat ounces 7g/t: 471koz	1.16	1.33	1.49	1.65	1.80	Other (C\$m)	2.0	2.9	3.9
^Project NPV less grp SG&A & fin. cost, +net cash, 30% equity at spot					Total assets (C\$m)				
Production						130.5	248.5	302.0	358.2
	CY20A	CY21E	CY22E	CY23E	CY24E	Debt (C\$m)	19.0	91.3	121.5
Madsen prod'n (000oz)	0.9	29.5	61.3	104.6	109.4	Acc pay + others (C\$m)	61.9	93.5	88.2
Satellite prod'n (000oz)	-	-	-	15	23	Total liabilities (C\$m)	80.9	188.0	214.2
C1 cost (US\$/oz)	-	980	1,335	864	851	Share capital account (C\$m)	156.8	192.9	235.4
AISC cost (US\$/oz)	-	1,249	1,880	1,198	1,170	Retained earnings + rsvs (C\$m)	(107.2)	(132.4)	(147.6)
AISC = C1 + sustaining capex, C3 = C1 + depreciation					Total equity (C\$m)				
						49.6	60.5	87.8	117.2
					Liabilities + equity (C\$m)				
						130.5	248.5	302.0	358.2

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Summary of Recommendations as of January 2022	
BUY:	49
HOLD:	1
SELL:	0
UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	51

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