

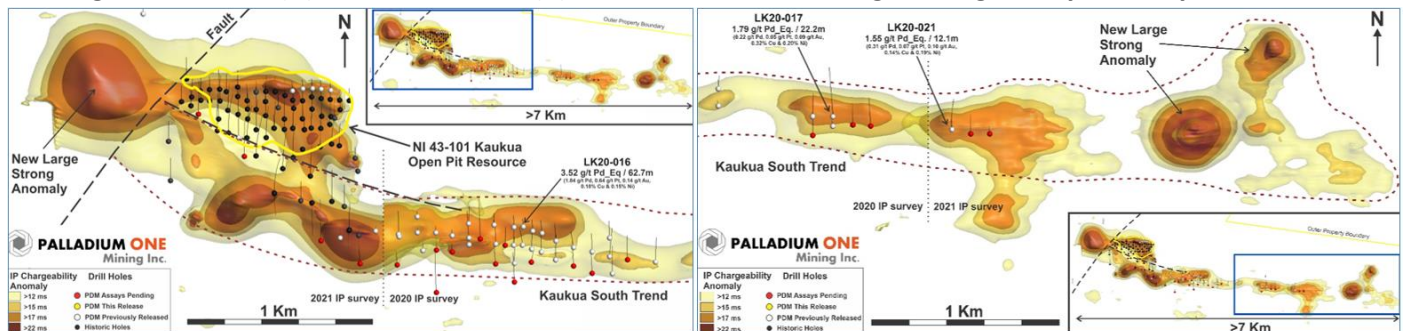
<b>Ticker:</b> PDM CN	<b>1Q21 cash:</b> \$19m	<b>Project:</b> LK Project / Tyko
<b>Market cap:</b> C\$69m	<b>Price:</b> C\$0.28/sh	<b>Country:</b> Finland / Canada, ON
<b>RECOMMEND.</b> (unc): BUY	<b>TARGET</b> (unc): C\$0.70/sh	<b>RISK RATING:</b> HIGH

Kaukua South is already very big with SCPe 1.6Moz PdEq to just 225m (>2Moz accounting for dip); that twin new bullseye anomalies are even larger than this is clearly exciting. Whilst IP is not a ‘smoking gun’ as conductors used for massive sulphides, they are clearly working on the existing disseminated mineralization to date, so we think it is fair to say that these large ‘blobs’ along strike are hot targets. Looking to the **west**, the large and strong anomaly is entirely unexpected as the prime focus was to link Kaukua South to Kaukua (which it did) – going a little further could be a game changer. Going **east**, Kaukua South tapers off in thickness and grade to the east, but today’s anomaly extension shows the potential for it to come back again, analogous to regional ‘potholes’ where nickel pools in ‘puddles’ in the bottom of layered intrusions. Stepping back, if every hole dusts from here, we have SCPe 5Moz @ 1.7g/t AuEq at spot, if Kaukua South gets deeper than our modelled 225m pit, or any of the anomalies come into play, we’re looking at potentially 6-8Moz in low-risk low-tax Finland. As such, **we maintain our BUY rating and C\$0.70/sh PT** based on SCPe 3.6Moz PdEq (5.2Moz AuEq) including our SCPe resource for Kaukua South of 1.6Moz @ 1.1g/t PdEq (1.8Moz @ 1.3g/t AuEq) ahead of the 1H22 maiden MRE. Combined with a scarcity premium on size and jurisdiction, the stock’s 0.1xNAV now, and 1xNAV FF FD of ~C\$2.05/sh in production makes this a conviction name for us.

**Big just got bigger as IP survey highlights new unexpected bullseyes at Kaukua over 3km**

Two new IP surveys across the greater Kaukua designed to extend the 4km long Kaukua South IP anomaly have highlighted new anomalies at either end, taking the total strike to >7km long. The first large (and strongest) anomaly has been discovered immediately west of the Kaukua resource area (Figure 1A). A second anomaly lies along strike to the east of Kaukua South. Further, the survey shows the potential connection between Kaukua South and the Kaukua resource pit pointing to potential expansions of the existing Kaukua pit-constrained resource.

**Figure 1. Kaukua (A) western half and (B) eastern half of >7km long IP chargeability anomaly**



**Why we like Palladium One**

1. SCPe 3.4Moz PdEq (5Moz @ 1.7g/t AuEq at spot) already identified
2. Tier 1 country Finland; access to infrastructure, cheap power and low 20% tax
3. Depth extensions, E/W anomalies and satellites to take to 3-5Moz PdEq potential
4. SCPe 23kt Ni contained at Ontario high-grade sulphide discovery ‘in for free’ and growing
5. Fully funded 27,000m program underway

**Catalysts**

1. CY21: Ongoing drill results from planned 27,000m (Finland – 23,000m, Canada – 4,000m)
2. 1H21 / 2H21: BHEM and EM at Tyko / NI 43-101 Haukiahio MRE
3. 1H22: Kaukua South maiden MRE
4. CY25: SCPe first production

## Research

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Commodity price	CY21E	CY22E	CY23E	CY24E	SPOT	Resource / Reserve	Tonnes	PdEq Grade	PdEq oz	AuEq oz	
Palladium price	2,000	2,000	2,000	2,000	2,593	Kaukua Main 3Q19 resource	22Mt	1.36g/t	955koz	1387koz	
Platinum Price	1,100	1,100	1,100	1,100	1,086	SCPe Kaukua South	44Mt	1.11g/t	1582koz	2299koz	
Gold price	1,850	1,850	1,850	1,850	1,784	SCP mining invty @ 75% conv	67Mt	1.18g/t	2541koz	3692koz	
Nickel Price	17,632	17,632	17,632	17,632	17,830	Haukiahoh historical resource	23Mt	1.14g/t	851koz	1236koz	
Copper Price	8,926	8,926	8,926	8,926	9,342						
<b>SOTP project valuation*</b>						<b>Project PNAV today:</b>		<b>Asset:</b>		<b>LK Project</b>	
Ungeared @ build start (3Q23)	<b>724</b>	100%	1.00x	2.53		<b>1xNAV<sub>2024</sub> FF FD:</b>	C\$1.94/sh	<b>Country:</b>		Finland	
Cash @ 1Q21	19.4	100%	1.00x	0.07				<b>Price / mkt cap:</b>		C\$0.28/sh, C\$69m	
Cash from options + warrants	15.9	100%	1.00x	0.06				<b>Rec / 0.25xNAV PT:</b>		BUY, C\$0.7/sh	
SCPe resources ex invty @ US\$25/oz	26.8	100%	1.00x	0.09				<b>Resource / Reserve</b>			
Murtolampi sat. 200koz @ US\$50/oz	12.7	100%	1.00x	0.04				<b>Tonnes</b>			
Tyko nominal upside (C\$m)	10.0	100%	1.00x	0.03				<b>PdEq Grade</b>			
Asset NAV7% US\$2000/oz Pd	<b>809</b>			<b>2.83</b>				<b>PdEq oz</b>			
*Shares diluted for options mine build						Market P/NAV <sub>7%</sub> Q20		0.10x			
<b>Asset value: 1xNPV project @ build start (C\$m, ungeared)*</b>						<b>Project USES</b>		<b>Funding: SOURCES</b>			
Project NPV (C\$m)	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz	Pre-DFS exploration / G&A:	C\$19m	Cash + pre first Au op.:	C\$35m		
Discount rate: 9%	441	572	699	955	1,210	Build capex:	C\$380m	Pre-build equity:	C\$30m		
Discount rate: 7%	522	667	<b>809</b>	1,094	1,378	Fin. cost + WC over DFS:	C\$18m	Build equity @ 0.6xNAV:	C\$133m		
Discount rate: 5%	618	781	940	1,259	1,578	TOTAL USES:	C\$417m	65% geared debt @ 8%:	C\$247m		
Ungeared project IRR:	24%	28%	33%	41%	49%	Buffer / drill budget:	C\$28m	TOTAL SOURCES:	C\$445m		
Project NPV (C\$/sh)	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz	<b>Share data</b>					
Discount rate: 9%	1.54	2.00	2.44	3.34	4.23	Basic shares (m)	248.0	FD with options	286.1	FD for build	472
Discount rate: 7%	1.82	2.33	<b>2.83</b>	3.82	4.82	<b>Ratio analysis</b>					
Discount rate: 5%	2.16	2.73	3.29	4.40	5.52	Average shares out (m)	237.2	CY20E	442.2	CY21E	471.5
*Project NPV, ex fin. costs and cent G&A, discounted to build start						EPS (C\$/sh)	-	-	-	-	-
<b>Group NAV over time^</b>						CFPS (C\$/sh)	-	-	-	-	-
NAV at first con (C\$m)	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz	EV (C\$m)	59.2	90.8	99.1	53.0	364.3
Discount rate: 9%	598	751	900	1,200	1,498	FCF yield (%)	-	-	-	-	-
Discount rate: 7%	660	826	<b>987</b>	1,311	1,634	PER (x)	-	-	-	-	-
Discount rate: 5%	734	914	1,090	1,442	1,794	P/CF (x)	-	-	-	-	-
Geared project IRR:	21%	26%	30%	39%	46%	EV/EBITDA (x)	-	-	-	-	-
NAV at first con (C\$/sh)*	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz	<b>Income statement</b>					
Discount rate: 9%	1.11	1.49	1.86	2.61	3.36	Net revenue (C\$m)	-	-	-	-	-
Discount rate: 7%	1.28	1.69	<b>2.09</b>	2.91	3.72	COGS (C\$m)	-	-	-	-	-
Discount rate: 5%	1.48	1.93	2.37	3.25	4.14	Gross profit (C\$m)	-	-	-	-	-
^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for build equity						D&A, attrib (C\$m)	-	-	-	-	-
<b>Production</b>						G&A + sh based costs (C\$m)	1.3	1.3	1.4	2.7	4.0
PdEq production (000oz)	143	166	166	153	148	Finance cost (C\$m)	3.7	6.3	8.7	4.3	7.6
AISC cost (US\$/oz PdEq)	769	738	738	799	822	Taxes (C\$m)	-	-	-	-	-
AISC = C1 + sustaining capex, Y1 = CY25						<b>Net income (C\$m)</b>	(5.0)	(7.7)	(10.1)	(7.0)	(11.6)
<b>Balance sheet</b>						Cash flow, attrib.	CY20E	CY21E	CY22E	CY23E	CY24E
Oz prod'n (LHS, 000oz)   AISC cost (US\$/oz PdEq)						EBIT (C\$m)	(1.3)	(1.3)	(1.4)	(2.7)	(4.0)
180koz   850/oz						Add back D&A (C\$m)	-	-	-	-	-
160koz   800/oz						Less tax + net interest (C\$m)	3.7	6.3	8.7	4.3	7.6
140koz   750/oz						Net change in wkg cap (C\$m)	0.5	-	-	(0.2)	-
120koz   700/oz						Other non-cash (C\$m)	(8.4)	(12.7)	(17.4)	(8.2)	(15.2)
						<b>Cash flow ops (C\$m)</b>	<b>(5.5)</b>	<b>(7.7)</b>	<b>(10.1)</b>	<b>(6.8)</b>	<b>(11.6)</b>
						PP&E - build + sust. (C\$m)	0.5	-	-	80.0	299.7
						PP&E - expl'n (C\$m)	-	-	-	-	-
						<b>Cash flow inv. (C\$m)</b>	<b>(0.5)</b>	-	-	<b>(80.0)</b>	<b>(299.7)</b>
						Share issue (C\$m)	7.9	20.0	10.0	132.9	-
						Debt draw (repay) (C\$m)	-	-	-	-	246.8
						<b>Cash flow fin. (C\$m)</b>	<b>7.9</b>	<b>20.0</b>	<b>10.0</b>	<b>132.9</b>	<b>246.8</b>
						Net change in cash (C\$m)	1.9	12.3	(0.1)	46.1	(64.5)
						EBITDA (C\$m)	(4.9)	(7.7)	(10.1)	(7.0)	(3.9)
						<b>Total assets (C\$m)</b>	<b>7.6</b>	<b>33.1</b>	<b>33.0</b>	<b>158.9</b>	<b>394.2</b>
						Debt (C\$m)	-	-	-	-	246.8
						Accounts payable (C\$m)	1.0	0.6	0.6	0.6	0.6
						Others (C\$m)	0.0	0.0	0.0	0.0	0.0
						Total liabilities (C\$m)	1.0	0.6	0.6	0.6	247.5
						Issued capital (C\$m)	20.0	40.0	50.0	182.9	182.9
						Retained earnings (C\$m)	(13.3)	(21.0)	(31.1)	(38.0)	(49.6)
						<b>Liabilities + equity (C\$m)</b>	<b>7.6</b>	<b>19.6</b>	<b>19.5</b>	<b>145.5</b>	<b>380.7</b>

Source: SCP estimates

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UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

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