

**Ticker:** PGM CN /LN    **SCPe cash:** C\$23m    **Project:** Madsen  
**Market cap:** C\$537m    **Price:** C\$1.27/sh    **Country:** Canada, Red Lake  
**RECOMMEND. (unc):** BUY    **TARGET (unc):** C\$2.05/sh    **RISK RATING:** HIGH

Puregold's 46% QoQ production lift to 6.3koz comes close to SCPe 7.7koz driven by grade, as mill throughput dipped. UG grades benefitted from an improved blend of development and stope ore as mining lifted from four active stopes to seven. June saw 577tpd – the opportunity here is to process over the permitted 800tpd peak in 2H21 to accelerate production. Key to this is the East Ramp, where ore is scheduled to come online in August, as well as minor mill modifications where new screens should be installed on a similar timeframe to enable this. It is good to see reconciliation is in line with the reserve model as ~7g/t stope ore this quarter compared to DFS Y1-2 6.7g/t. We update our CY21 production forecast from 39koz to 35koz, **and maintain our BUY rating and C\$2.05/sh PT** based on production lifting to 81koz next year then to 110koz by CY24. If commercial production is declared in 3Q21, that should improve investor confidence along with coincident guidance on 2H21 and CY22, plus ~25km of surface drilling this year, improved by 8 Zone access around year-end for likely bonanza grade drill results in 1H22.

**Table 1. 2Q21 production against prior quarter and SCP estimates**

Operations	1Q21A	2Q21E	2Q21A	QoQ	vs. SCPe
UG ore mined (000t)	n/a	54	n/a	-	-
UG grade mined (g/t)	n/a	5.00	n/a	-	-
Ore milled (000t)	48.4	46.3	46.3	-4%	0%
Head grade (g/t)	2.80	4.20	4.20	50%	0%
Recovery (%)	95.0%	95.6%	95.6%	1%	0%
<b>Group production (000oz)</b>	<b>4.3</b>	<b>6.3</b>	<b>6.260</b>	<b>46%</b>	<b>0%</b>

Source: Pure Gold, SCP

## Production up 46% to 6.3koz, Eastern Decline ore access and mill upgrades targeted for August

Pure Gold reported 6.3koz 2Q21 production; AISC are not reported ahead of commercial production. Mill throughput was ~flat as development ramped up, with seven stopes mined, up from four QoQ. Mining rates should accelerate in August as the East Decline enables production there, coincident with mill upgrades to allow throughput at over 800tpd in 2H21. The lift in grade was driven, in part, by an improved stope-development mix, while recovery stayed very high at 96%. Reconciliation to reserves remains good. Extensive production drilling is underway, with extension drilling of Eight Zone potentially possible before year end, and access to that high-grade ore body now scheduled for 3Q24, 8M ahead of prior Y4 target.

### 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. Late 2Q21: commercial production and CY21 guidance
2. 2H21: access to drill 8 Zone from underground
3. SCPE 2022: Expansion sizing and design

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<b>Ticker:</b> PGM CN	<b>Price / mkt cap:</b> C\$1.34 C\$552m	<b>Market P/NAV</b> 0.69x	<b>Asset:</b> Madsen
<b>Author:</b> B Salier	<b>Rec / 1.0xNAV PT:</b> BUY C\$2.05	<b>PT / 1xNAV<sub>Q321</sub> FF FD:</b> C\$2.13/sh	<b>Country:</b> Ontario, Canada

  

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Gold price (US\$/oz)	1,519	1,806	1,825	1,847	1,850

  

SOTP project valuation	C\$m	O/ship	NAVx	C\$/sh
Madsen (3Q21)	973	100%	1.0x	2.11
Cash (1Q21)	(79.5)	-	1.0x	(0.17)
Central costs	(32.5)	-	1.0x	(0.07)
Cash from options	41.4	-	1.0x	0.09
1xNAV5% 2Q21 US\$1850/oz	903			1.96

\* Shares diluted for options and mine build Market P/NAV<sub>5%</sub> 0.69x

  

Project NPV @ build start (C\$m, ungeared)*					
NPV (+350koz, C\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	759	829	897	963	1,038
7% discount	828	904	978	1,050	1,132
5% discount	908	991	1,072	1,150	1,240
Ungeared project IRR:	38%	40%	43%	45%	48%

  

NAV5% (C\$m)					
	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
Sat ounces 7g/t: 271koz	908	991	1,072	1,150	1,240
Sat ounces 7g/t: 371koz	941	1,025	1,108	1,189	1,280
Sat ounces 7g/t: 471koz	974	1,060	1,145	1,228	1,321

\*Project level NPV, excl. grp SG&A & fin. cost, discounted to build start

  

SOTP company valuation^	3Q21	3Q22	3Q23	3Q24	3Q25
Madsen - group (C\$m)	973	1,012	999	958	832
Central costs (C\$m)	(32.5)	(30.4)	(20.9)	(16.6)	(5.8)
Net cash prior qtr (C\$m)	(89.8)	(84.2)	(37.3)	70.7	189.3
Cash from options (C\$m)	41.4	41.4	41.4	41.4	41.4
NAV (C\$m)	893	938	982	1,053	1,057
1xNAV5%/sh FF FD (C\$/sh)	1.93	2.03	2.13	2.28	2.29
ROI (% pa)		52%	26%	19%	14%

  

Exit value: 1xNAV/sh company @ 2Q21 post ramp up (C\$m, geared)^					
1xNAV (C\$/sh)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	1.54	1.70	1.86	2.01	2.18
7% discount	1.67	1.85	2.01	2.18	2.36
5% discount	1.83	2.01	2.19	2.37	2.57

  

1xNAV5% (\$1850/oz, C\$/sh)					
	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
Sat ounces 7g/t: 271koz	1.83	2.01	2.19	2.37	2.57
Sat ounces 7g/t: 371koz	1.90	2.09	2.28	2.46	2.66
Sat ounces 7g/t: 471koz	1.98	2.17	2.36	2.54	2.75

^Project NPV less grp SG&A & fin. cost, +net cash, 30% equity at spot

  

Production	CY20	CY21	CY22	CY23	CY24
Madsen prod'n (000oz)	0.9	35.3	81.3	104.6	109.4
Satellite prod'n (000oz)	-	-	-	15	23
C1 cost (US\$/oz)	-	663	635	571	570
AISC cost (US\$/oz)	-	1,134	938	814	802
C3 cost (US\$/oz)	-	828	824	807	822

AISC = C1 + sustaining capex, C3 = C1 + depreciation

  

Year	Madsen prod'n	Satellite prod'n
CY20	0.9	0
CY21	35.3	0
CY22	81.3	0
CY23	104.6	15
CY24	109.4	23

  

Resources	Au (koz)	Au (g/t)	Rsvs	Au (koz)	Au (g/t)
Madsen global	2,098koz	8.93g/t	Madsen	1,000koz	9.0g/t
Satellites global	431koz	7.6g/t			

  

Share data					
	CY19A	CY20A	CY21E	CY22E	CY23E
Basic shares (m)	412.2	412.2	412.2	412.2	412.2
FD for options / warrants (m)					461.6
3Q20 FS capex	C\$141m				C\$57m
Publish spend to 3Q20	-C\$102m				C\$44m
Residual capex	C\$39m				C\$0m
SCPe 1H21 capitalised opex	C\$30m				
SCPe 1H21 sustaining UG dev	C\$7m				
Cash finance costs (C\$m)	C\$2m				
Wkg cap pre commercial pro	C\$22m				
Residual spend 4Q20 onward	C\$100m				C\$1m
Buffer (C\$m)					C\$1m

  

Ratio analysis					
	CY19A	CY20A	CY21E	CY22E	CY23E
Average shares out (m)	461.6	461.6	461.6	461.6	461.6
EPS (C\$/sh)	(0.03)	(0.04)	0.02	0.20	0.26
CFPS before w/c (C\$/sh)	(0.08)	(0.28)	(0.25)	0.06	0.20
EV (C\$m)	567.3	664.9	721.8	690.6	598.8
FCF yield (%)	-	-	-	5%	15%
PER (x)	-	-	62.2x	6.8x	5.2x
P/CF (x)	-	-	-	21.6x	6.7x
EV/EBITDA (x)	-	-	37.2x	5.9x	3.7x

  

Income statement					
	CY19A	CY20A	CY21E	CY22E	CY23E
Revenue (C\$m)	-	-	55.8	183.4	238.5
COGS (C\$m)	-	-	29.7	65.6	75.8
<b>Gross profit (C\$m)</b>	-	-	26.1	117.8	162.7
D&A (C\$m)	0.1	0.2	6.7	19.6	31.5
Admin + share comp (C\$m)	7.2	11.5	3.5	2.0	2.0
Finance cost (C\$m)	(0.5)	(0.6)	0.9	5.8	9.6
Expl'n + eval'n (C\$m)	8.9	6.6	7.1	-	-
Tax (C\$m)	-	0.8	(2.0)	-	-
<b>Net income (C\$m)</b>	<b>(15.7)</b>	<b>(18.5)</b>	<b>9.9</b>	<b>90.4</b>	<b>119.6</b>

  

Cash flow statement					
	CY19A	CY20A	CY21E	CY22E	CY23E
EBITDA (C\$m)	(20.7)	(3.0)	19.4	117.8	162.7
Less tax (C\$m)	-	(0.8)	2.0	-	-
Less finance costs (C\$m)	0.5	0.6	(0.9)	(5.8)	(9.6)
Less change in wrk cap (C\$m)	0.1	(5.2)	(40.1)	(2.6)	0.3
<b>Cash flow ops (C\$m)</b>	<b>(20.1)</b>	<b>(8.4)</b>	<b>(19.6)</b>	<b>109.4</b>	<b>153.3</b>
PP&E - build / maint (C\$m)	(14.7)	(113.9)	(57.3)	(78.2)	(61.6)
<b>Cash flow inv. (C\$m)</b>	<b>(14.7)</b>	<b>(113.9)</b>	<b>(57.3)</b>	<b>(78.2)</b>	<b>(61.6)</b>
Share issue (C\$m)	52.7	34.8	18.7	-	-
Debt draw (repay) (C\$m)	13.0	72.9	25.4	21.8	(28.5)
<b>Cash flow fin. (C\$m)</b>	<b>65.7</b>	<b>107.7</b>	<b>44.1</b>	<b>21.8</b>	<b>(28.5)</b>
Net change in cash (C\$m)	30.9	(14.7)	(32.8)	53.0	63.3

  

Balance sheet					
	CY19A	CY20A	CY21E	CY22E	CY23E
Cash (C\$m)	70.3	44.9	8.1	61.0	124.3
Acc rec + inventories (C\$m)	1.0	7.8	33.1	36.8	38.1
PPE + exploration (C\$m)	48.8	192.9	243.2	301.9	332.0
Other (C\$m)	2.0	2.9	2.3	2.3	2.3
<b>Total assets (C\$m)</b>	<b>130.5</b>	<b>248.5</b>	<b>286.7</b>	<b>402.0</b>	<b>496.8</b>
Debt (C\$m)	19.0	91.3	111.3	133.1	104.6
Acc pay + others (C\$m)	61.9	93.5	77.7	78.8	80.4
Total liabilities (C\$m)	80.9	188.0	194.1	217.0	190.2
Share capital account (C\$m)	156.8	192.9	197.6	199.5	201.5
Retained earnings + rsvs (C\$m)	(107.2)	(132.4)	(120.6)	(30.1)	89.5
Total equity (C\$m)	49.6	60.5	77.0	169.4	291.0
<b>Liabilities + equity (C\$m)</b>	<b>130.5</b>	<b>248.5</b>	<b>271.1</b>	<b>386.4</b>	<b>481.2</b>

Source: SCP estimates

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BUY:	44
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SELL:	0
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TENDER:	0
NOT RATED:	0
TOTAL	44

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