

**Ticker:** PGM CN/LN    **2Q21 cash:** C\$20m    **Project:** Madsen  
**Market cap:** C\$517m    **Price:** C\$1.25/sh    **Country:** Canada, Red Lake  
**RECOMMEND.** (unc): BUY    **TARGET** (down): C\$1.85/sh    **RISK RATING:** HIGH

We look at the progressive de-risking of Madsen from two angles; (i) ability to produce **tonnes** at planned grades, with (ii) **in-line costs**. Today's 2H21 guidance of 27-32koz is pleasingly ahead of our own 25koz forecast, a great start. Although the East Ramp is only recently accessing HG ore, at this stage it certainly appears to be the key to unlocking any tonnage bottlenecks given guidance. Whilst only guidance, we think that near-nameplate was achieved with a single ramp points to TPD being close to 'in the bag' now. Next is costs – like any underground ramping up, the key to TPD is in-advance development, and right now that is what is eating up all the cash, as reflected in US\$1,600-1,750/oz 4Q21 cost guidance. We agree this should abate next year as mine-efficiencies combine with a more 'steady state' development capex, although of course only time will tell. Grade is the 'piggy in the middle', being symptomatic not just of the ore body but amount of in-advance development (reducing reliance on lower-grade stopes), although also reflecting mining dilution, a second aspect for which only time will tell, and a key future de-risking check-box for CY22. We lift our 2H21 forecast from 25koz @ US\$1,401/oz AISC to 26koz @ US\$2,219/oz (US\$1,665/oz 4Q). This is simply a reflection of continuing the ~C\$30m pq capex seen in 1H21 through 3Q21, tapering toward the targeted ~C\$10m pq steady state (hence our 2H21 C1 costs of only US\$1,113/oz). Maintaining our CY22 forecast 81koz @ US\$1,124/oz **we maintain our BUY rating and lower our PT from C\$2.05 to C\$1.85sh PT** based on 1xNAV<sub>5%-1850</sub> given higher costs but also lower gold price and FX.

## 2H21 guidance: East ramp rides to the rescue as production pressure eases, now to costs

Pure Gold reported **production** of 3.7koz in July (45koz pa) at an average head grade of 5.6g/t with the last two weeks of the month averaging 6.9g/t from long-hole and cut and fill stopes. **Throughput** for the month averaged 703tpd towards targeted 800tpd in 2H21. Pure Gold is guiding **2H21 production of 27-32koz** with the first full quarter of commercial production in 4Q expected to see **cash costs** of US\$1,025-1,125/oz and **AISC** between US\$1,600-1,750/oz as increased development goes in. The company expects production to steadily increase into 2022 and drive costs lower.

## 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. 2H21: access to drill 8 Zone from underground
3. SCPE 2022: Expansion sizing and design

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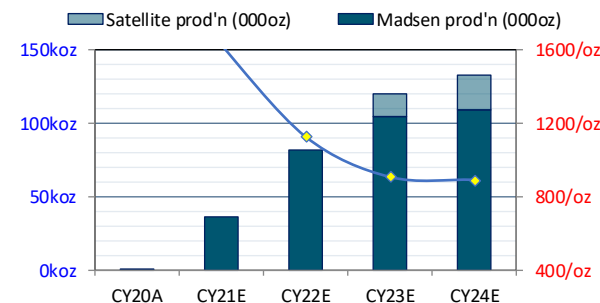
Ticker: PGM CN		Price / mkt cap: C\$1.25 C\$517m				Market P/NAV 0.72x		Asset: Madsen					
Author: B Salier		Rec / 1.0xNAV PT: BUY C\$1.85				PT / 1xNAV <sub>Q321</sub> FF FD: C\$1.94/sh		Country: Ontario, Canada					
Commodity price		CY20A	CY21E	CY22E	CY23E	CY24E	Resources		Au (koz)	Au (g/t)	Rsvs	Au (koz)	Au (g/t)
Gold price (US\$/oz)		1,519	1,791	1,795	1,831	1,850	Madsen global		2,098koz	8.93g/t	Madsen	1,000koz	9.0g/t
SOTP project valuation							Satellites global		431koz	7.6g/t			
		C\$m	O/ship	NAVx	C\$/sh		Share data						
Madsen (3Q21)		938	100%	1.0x	2.03		Basic shares (m)		413.7	FD for options / warrants (m)		462.2	
Cash (2Q21)		(99.2)	-	1.0x	(0.21)		Total uses		Total sources				
Central costs		(80.9)	-	1.0x	(0.17)		3Q20 FS capex		C\$141m	Current cash (C\$m)		C\$57m	
Cash from options		40.9	-	1.0x	0.09		Publish spend to 3Q20		-C\$102m	Undrawn debt (C\$m)		C\$44m	
1xNAV5% 3Q21 US\$1850/oz		799			1.73		Residual capex		C\$39m	Undrawn stream (C\$m)		C\$0m	
* Shares diluted for options and mine build		Market P/NAV <sub>5%</sub> 0.72x				SCPe 1H21 capitalised opex		C\$61m	Total funding available (C\$m)		C\$101m		
SCPe 1H21 sustaining UG dev						C\$0m							
Cash finance costs (C\$m)						C\$2m							
Wkg cap pre commercial pro						C\$22m							
Residual spend 4Q20 onward						C\$123m		Buffer (C\$m)		-C\$22m			
Ratio analysis		CY19A	CY20A	CY21E	CY22E	CY23E							
Average shares out (m)		462.2	462.2	462.2	462.2	462.2							
EPS (C\$/sh)		(0.03)	(0.04)	0.01	0.17	0.23							
CFPS before w/c (C\$/sh)		(0.08)	(0.28)	(0.35)	(0.00)	0.16							
EV (C\$m)		526.5	624.2	736.6	734.3	661.6							
FCF yield (%)		-	-	-	-	13%							
PER (x)		-	-	236.8x	7.3x	5.4x							
P/CF (x)		-	-	-	-	8.0x							
EV/EBITDA (x)		-	-	73.9x	6.7x	4.2x							
Income statement		CY19A	CY20A	CY21E	CY22E	CY23E							
Revenue (C\$m)		-	-	56.6	180.0	236.5							
COGS (C\$m)		-	-	37.3	65.6	75.8							
Gross profit (C\$m)		-	-	19.3	114.5	160.8							
D&A (C\$m)		0.1	0.2	6.3	23.5	37.5							
Admin + share comp (C\$m)		7.2	11.5	6.6	6.0	6.0							
Finance cost (C\$m)		(0.5)	(0.6)	0.5	5.8	9.6							
Expl'n + eval'n (C\$m)		8.9	6.6	5.5	-	-							
Tax (C\$m)		-	0.8	(2.0)	-	-							
Net income (C\$m)		(15.7)	(18.5)	2.4	79.2	107.6							
Cash flow statement		CY19A	CY20A	CY21E	CY22E	CY23E							
EBITDA (C\$m)		(20.7)	(3.0)	10.0	109.9	156.2							
Less tax (C\$m)		-	(0.8)	2.0	-	-							
Less finance costs (C\$m)		0.5	0.6	(0.5)	(5.8)	(9.6)							
Less change in wrk cap (C\$m)		0.1	(5.2)	(31.7)	(4.4)	(0.3)							
Cash flow ops (C\$m)		(20.1)	(8.4)	(20.2)	99.6	146.3							
PP&E - build / maint (C\$m)		(14.7)	(113.9)	(112.0)	(97.2)	(73.6)							
Cash flow inv. (C\$m)		(14.7)	(113.9)	(112.0)	(97.2)	(73.6)							
Share issue (C\$m)		52.7	34.8	19.6	-	-							
Debt draw (repay) (C\$m)		13.0	72.9	34.5	21.8	(28.5)							
Cash flow fin. (C\$m)		65.7	107.7	54.1	21.8	(28.5)							
Net change in cash (C\$m)		30.9	(14.7)	(78.1)	24.1	44.2							
Balance sheet		CY19A	CY20A	CY21E	CY22E	CY23E							
Cash (C\$m)		70.3	44.9	(38.4)	(14.3)	29.9							
Acc rec + inventories (C\$m)		1.0	7.8	32.9	36.6	38.1							
PPE + exploration (C\$m)		48.8	192.9	287.3	361.1	397.1							
Other (C\$m)		2.0	2.9	3.5	3.5	3.5							
Total assets (C\$m)		130.5	248.5	285.3	386.8	468.7							
Debt (C\$m)		19.0	91.3	120.4	142.2	113.7							
Acc pay + others (C\$m)		61.9	93.5	77.4	76.5	77.8							
Total liabilities (C\$m)		80.9	188.0	202.3	223.3	196.1							
Share capital account (C\$m)		156.8	192.9	211.2	212.7	214.1							
Retained earnings + rsvs (C\$m)		(107.2)	(132.4)	(128.3)	(49.1)	58.5							
Total equity (C\$m)		49.6	60.5	83.0	163.6	272.6							
Liabilities + equity (C\$m)		130.5	248.5	285.3	386.8	468.7							

Satellite prod'n (000oz)

Madsen prod'n (000oz)

Year	Satellite prod'n (000oz)	Madsen prod'n (000oz)	Total (000oz)
CY20A	0	0	0
CY21E	0	36.1	36.1
CY22E	0	81.2	81.2
CY23E	15	104.6	120
CY24E	23	109.4	132

Source: SCP estimates



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HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	45

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