
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 (unch): C\$1.85/sh RISK RATING: HIGH

Production looks to be moving in the right direction as 3.7koz ounces produced in July lifts to 5.5koz in August at flat 5.6g/t. We see this as driven by mill throughput increase, as the East Ramp only recently accessed ore, enabling a record 2ktpd UG ore lifted one day in August, but without the development in place yet to drive flexibility that allows higher-grade stope ore as grades stayed flat. To have mill guidance of 900tpd for the entire 4Q (ie with UG and mill running over nameplate) is pleasing also, with grade the final piece of the puzzle. The other key driver is the **balance sheet** – today's update gives good colour on the direction of mining and production, and by extension C1 costs. This is important, as the final push for Pure is the 'spider-webbing out' from the new East Decline which comes with additional development capex. The 4Q21 guidance of US\$1,600-1750/oz AISC includes development, but if today's underlying C1 costs (ie excluding development) are robust they should bolster the company's ability to flex finances and thus the most important driver, share count. We lift our **3Q forecast** from 8.5koz to 15koz, a pro-forma August rate. This takes our 2H21 forecast from 25koz to 30koz, the mid point of 27-32koz guidance. As such, **we maintain our BUY rating and C\$1.85/sh PT** based on 1xNAV_{5%-1850}. Working capital is tough to forecast and a key driver as we model a year-end cash low point, but flexibility from a likely improving C1 cost-base should mitigate this risk.

Mill upgrades drive >1,000tpd and 50% lift in MoM production to 66koz pa

After installation of screens, the mill daily record of 1,037tpd in August is ~30% over nameplate, and 703tpd and 870tpd over August and the last week, respectively. This should allow >800tpd *annualized* permitted cap to be run to year end to catch up with slower throughput in 1H21, with 900tpd targeted for 4Q21. With the East Ramp now accessing ore, a single-day record of 2,050t of ore-to-surface was set in August. With fixed costs and improving head grade schedule this should support lower AISC QoQ going forward. By year end the company will release a **MRE update**, and start-date for **8 Zone drilling**.

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

Brock Salier (London) M: +44 7400 666 913 bsalier@spratt.com

Justin Chan (London) M: +44 7554 784 688 jchan@spratt.com

Brandon Gaspar (Toronto) M: +1 437 533 3142 bgaspar@spratt.com

Eleanor Magdzinski (Toronto) M: +1 705 669 7456 emagdzinski@spratt.com

Ticker: PGM CN	Price / mkt cap: C\$1.25 C\$515m	Market P/NAV	0.69x	Asset:	Madsen
Author: B Salier	Rec / 1.0xNAV PT: BUY C\$1.85	PT / 1xNAV _{Q321} FF FD:	C\$1.95/sh	Country:	Ontario, Canada

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Gold price (US\$/oz)	1,519	1,806	1,826	1,847	1,850
SOTP project valuation					
	C\$m	O/ship	NAVx	C\$/sh	
Madsen (3Q21)	911	100%	1.0x	1.97	
Cash (1Q21)	(79.5)	-	1.0x	(0.17)	
Central costs	(31.1)	-	1.0x	(0.07)	
Cash from options	41.4	-	1.0x	0.09	
1xNAV5%2Q21 US\$1850/oz	842			1.82	

* Shares diluted for options and mine build Market P/NAV_{5%} 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

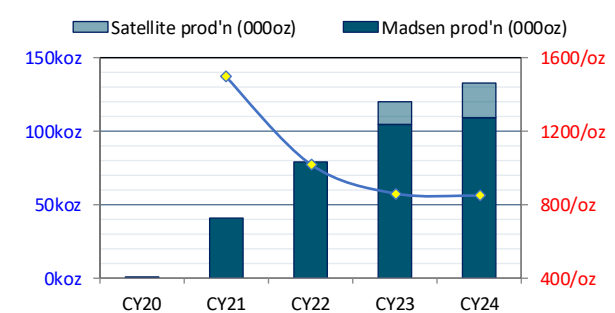
SOTP company valuation^	3Q21	3Q22	3Q23	3Q24	3Q25
Madsen - group (C\$m)	911	952	948	912	791
Central costs (C\$m)	(31.1)	(28.9)	(19.9)	(15.8)	(5.5)
Net cash prior qtr (C\$m)	(104.4)	(104.2)	(67.1)	28.9	146.3
Cash from options (C\$m)	41.4	41.4	41.4	41.4	41.4
NAV (C\$m)	817	860	902	967	973
1xNAV5%sh FF FD (C\$/sh)	1.77	1.86	1.95	2.09	2.11
ROI (%pa)		49%	25%	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	40.3	79.0	104.6	109.4
Satellite prod'n (000oz)	-	-	-	15	23
C1 cost (US\$/oz)	-	378	688	601	600
AISC cost (US\$/oz)	-	1,495	1,018	859	846
C3 cost (US\$/oz)	-	555	901	862	877

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



Source: SGP estimates

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					
Basic shares (m)	412.2	FD for options / warrants (m)		461.6	
Total uses					
Total sources					
3Q20 FS capex	C\$141m	Current cash (C\$m)		C\$57m	
Publish spend to 3Q20	-C\$102m	Undrawn debt (C\$m)		C\$42m	
Residual capex	C\$39m	Undrawn stream (C\$m)		C\$0m	
SCPE 1H21 capitalised opex	C\$31m	Total funding available (C\$m)		C\$99m	
SCPE 1H21 sustaining UG dev	C\$21m				
Cash finance costs (C\$m)	C\$2m				
Wkg cap pre commercial pro	C\$19m				
Residual spend 4Q20 onward	C\$112m	Buffer (C\$m)		-C\$13m	

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)	0.06	0.16	0.23
CFPS before w/c (C\$/sh)	(0.08)	(0.28)	(0.26)	0.02	0.18
EV (C\$m)	525.8	623.4	688.0	673.7	593.4
FCF yield (%)	-	-	-	2%	14%
PER (x)	-	-	20.8x	7.6x	5.4x
P/CF (x)	-	-	-	65.0x	7.1x
EV/EBITDA (x)	-	-	17.9x	6.5x	3.9x

Income statement	CY19A	CY20A	CY21E	CY22E	CY23E
Revenue (C\$m)	-	-	63.5	168.9	226.0
COGS (C\$m)	-	-	18.3	65.5	75.7
Gross profit (C\$m)	-	-	45.2	103.4	150.2
D&A (C\$m)	0.1	0.2	7.9	20.2	32.8
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	5.6	9.2
Expl'n + eval'n (C\$m)	8.9	6.6	7.1	-	-
Tax (C\$m)	-	0.8	(2.0)	-	-
Net income (C\$m)	(15.7)	(18.5)	27.7	75.6	106.2

Cash flow statement	CY19A	CY20A	CY21E	CY22E	CY23E
EBITDA (C\$m)	(20.7)	(3.0)	38.4	103.4	150.2
Less tax (C\$m)	-	(0.8)	2.0	-	-
Less finance costs (C\$m)	0.5	0.6	(0.9)	(5.6)	(9.2)
Less change in wrk cap (C\$m)	0.1	(5.2)	(33.4)	(5.4)	1.0
Cash flow ops (C\$m)	(20.1)	(8.4)	6.2	92.4	142.0
PP&E - build / maint (C\$m)	(14.7)	(113.9)	(91.0)	(78.1)	(61.7)
Cash flow inv. (C\$m)	(14.7)	(113.9)	(91.0)	(78.1)	(61.7)
Share issue (C\$m)	52.7	34.8	18.7	-	-
Debt draw (repay) (C\$m)	13.0	72.9	24.1	22.2	(27.6)
Cash flow fin. (C\$m)	65.7	107.7	42.8	22.2	(27.6)
Net change in cash (C\$m)	30.9	(14.7)	(41.9)	36.5	52.7

Balance sheet	CY19A	CY20A	CY21E	CY22E	CY23E
Cash (C\$m)	70.3	44.9	(1.0)	35.5	88.2
Acc rec + inventories (C\$m)	1.0	7.8	32.0	36.2	37.5
PPE + exploration (C\$m)	48.8	192.9	260.1	317.9	346.8
Other (C\$m)	2.0	2.9	2.3	2.3	2.3
Total assets (C\$m)	130.5	248.5	293.4	391.8	474.7
Debt (C\$m)	19.0	91.3	110.0	132.2	104.5
Acc pay + others (C\$m)	61.9	93.5	83.4	82.1	84.4
Total liabilities (C\$m)	80.9	188.0	198.6	219.4	194.1
Share capital account (C\$m)	156.8	192.9	197.6	199.5	201.5
Retained earnings + rsvs (C\$m)	(107.2)	(132.4)	(102.8)	(27.1)	79.1
Total equity (C\$m)	49.6	60.5	94.8	172.4	280.6
Liabilities + equity (C\$m)	130.5	248.5	293.4	391.8	474.7

DISCLOSURES & DISCLAIMERS

This research report (as defined in IIROC Rule 3400) is issued and approved for distribution in Canada by Sprott Capital Partners LP (“SCP”), an investment dealer who is a member of the Investment Industry Regulatory Organization of Canada (“IIROC”) and the Canadian Investor Protection Fund (“CIPF”). The general partner of SCP is Sprott Capital Partners GP Inc. and SCP is a wholly-owned subsidiary of Sprott Inc., which is a publicly listed company on the Toronto Stock Exchange under the symbol “SII”. Sprott Asset Management LP (“SAM”), a registered investment manager to the Sprott Funds and is an affiliate of SCP. This research report is provided to retail clients and institutional investors for information purposes only. The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of SCP’s research department. The information in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does SCP and/or affiliated companies or persons assume any responsibility or liability whatsoever. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any securities. SCP accepts no liability whatsoever for any loss arising from any use or reliance on this research report or the information contained herein. Past performance is not a guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance of any security mentioned in this research report. The price of the securities mentioned in this research report and the income they generate may fluctuate and/or be adversely affected by market factors or exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Furthermore, the securities discussed in this research report may not be liquid investments, may have a high level of volatility or may be subject to additional and special risks associated with securities and investments in emerging markets and/or foreign countries that may give rise to substantial risk and are not suitable for all investors. SCP may participate in an underwriting of, have a position in, or make a market in, the securities mentioned herein, including options, futures or other derivatives instruments thereon, and may, as a principal or agent, buy or sell such products.

DISSEMINATION OF RESEARCH: SCP’s research is distributed electronically through email or available in hard copy upon request. Research is disseminated concurrently to a pre-determined list of clients provided by SCP’s Institutional Sales Representative and retail Investment Advisors. Should you wish to no longer receive electronic communications from us, please contact unsubscribe@sprott.com and indicate in the subject line your full name and/or corporate entity name and that you wish to unsubscribe from receiving research.

RESEARCH ANALYST CERTIFICATION: Each Research Analyst and/or Associate who is involved in the preparation of this research report hereby certifies that:

- The views and recommendations expressed herein accurately reflect his/her personal views about any and all of the securities or issuers that are the subject matter of this research report;
- His/her compensation is not and will not be directly related to the specific recommendations or view expressed by the Research analyst in this research report;
- They have not affected a trade in a security of any class of the issuer within the 30-day period prior to the publication of this research report;
- They have not distributed or discussed this Research Report to/with the issuer, investment banking group or any other third party except for the sole purpose of verifying factual information; and
- They are unaware of any other potential conflicts of interest.

UK RESIDENTS: Sprott Partners UK Limited (“Sprott”) is an appointed representative of PillarFour Securities LLP which is authorized and regulated by the Financial Conduct Authority. This document has been approved under section 21(1) of the FMSA 2000 by PillarFour Securities LLP (“PillarFour”) for communication only to eligible counterparties and professional clients as those terms are defined by the rules of the Financial Conduct Authority. Its contents are not directed at UK retail clients. PillarFour does not provide investment services to retail clients. PillarFour publishes this document as non-independent research which is a marketing communication under the Conduct of Business rules. It has not been prepared in accordance with the regulatory rules relating to independent research, nor is it subject to the prohibition on dealing ahead of the dissemination of investment research. It does not constitute a personal recommendation and does not constitute an offer or a solicitation to buy or sell any security. Sprott and PillarFour consider this note to be an acceptable minor non-monetary benefit as defined by the FCA which may be received without charge. This is because the content is either considered to be commissioned by Sprott’s clients as part of their advisory services to them or is short term market commentary. Neither Sprott nor PillarFour nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in its preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services. All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. This document is intended for distribution only in those jurisdictions where PillarFour is permitted to distribute its research.

IMPORTANT DISCLOSURES FOR U.S. PERSONS: This research report was prepared by Sprott Capital Partners LP (“SCP”), a company authorized to engage in securities activities in Canada. SCP is not a registered broker/dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Sprott Global Resource Investments Ltd. (“SGRIL”), a broker dealer in the United States registered with the Securities Exchange Commission (“SEC”), the Financial Industry Authority (“FINRA”), and a member of the Securities Investor Protection Corporation (“SIPC”). Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through SCP.

SGRIL accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not licensed, registered, or qualified as a research analyst with FINRA and may not be an associated person of SGRIL and, therefore, may not be subject to applicable restrictions under FINRA Rule 2241 regarding communications by a research analyst with a subject company, public appearances by the research analyst, and trading securities held by a research analyst account. To make further inquiries related to this report, United States residents should contact their SGRIL representative.

ANALYST CERTIFICATION / REGULATION AC: The analyst and associate certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers. In addition, the analyst and associate certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

SPROTT CAPITAL PARTNERS EXPLANATION OF RECOMMENDATIONS: Should SCP issue research with recommendations, the research rating guidelines will be based on the following recommendations:

BUY: The stocks total returns are expected to be materially better than the overall market with higher return expectations needed for more risky securities markets

NEUTRAL: The stock's total returns are expected to be in line with the overall market

SELL: The stocks total returns are expected to be materially lower than the overall market

TENDER: The analyst recommends tendering shares to a formal tender offering

UNDER REVIEW: The stock will be placed under review when there is a significant material event with further information pending; and/or when the research analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

NOT RATED ((N/R): The stock is not currently rated

Research Disclosure		Response
1	SCP and its affiliates collectively beneficially owns 1% or more of any class of the issuer's equity securities ¹	NO
2	The analyst or any associate of the analyst responsible for the report or recommendation or any individual directly involved in the preparation of the report holds or is short any of the issuer's securities directly or through derivatives	NO
3	An SCP partner, director, officer or analyst involved in the preparation of a report on the issuer, has during the preceding 12 months provided services to the issuer for remuneration other than normal course investment advisory or trading execution services	NO
4	SCP has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the research report or recommendation	YES
5	Name of any director, officer, employee or agent of SCP who is an officer, director or employee of the issuer, or who serves in an advisory capacity to the issuer	NO
6	SCP is making a market in an equity or equity related security of the issuer	NO
7	The analyst preparing this report received compensation based upon SCP's investment banking revenue for the issuer	NO
8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	YES
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

Sprott Capital Partners Equity Research Ratings:

Summary of Recommendations as of September 2021	
BUY:	46
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	46

¹ As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month