

**Ticker:** PDM CN      **1Q21 cash:** \$19m      **Project:** LK Project / Tyko  
**Market cap:** C\$55m      **Price:** C\$0.23/sh      **Country:** Finland / Canada, ON

RECOMMEND. (unc): BUY      TARGET (unc): C\$0.70/sh      RISK RATING: HIGH

We see today's Haukiahho MRE as a 'taster' of what is to come at Kaukua South. Haukiahho's MRE came quickly given the historic wide-spaced drilling, still seeing an impressive like-for-like 24% increase in ounces from <2km drilling, itself talking to the simplicity of these layered intrusions. For the sake of simplicity, the 1.1Moz @ 1.08g/t AuEq at spot is a nice beat on the prior 920koz @ 1.23g/t AuEq (850koz @ 1.14g/t PdEq lifts to 1.1Moz @ 1.00g/t PdEq). Haukiahho is far from done yet, with a sparsely drilled +2km strike likely to convert with modest drilling, and perhaps more interestingly, a further 15km trend with limited exploration. However, we think the center of gravity will remain further north at Kaukua for two simple reasons of size and grade. Kaukua Main's 1Moz @ 1.5g/t PdEq is materially higher grade, although at a higher cut-off, Haukiahho does host ~750koz @ 1.45g/t AuEq for example. However, layering in size, adding our own published estimate of Kaukua South of 1.6Moz @ 1.1g/t PdEq (2.2Moz @ 1.24g/t AuEq at spot) could take that area to ~2.5Moz PdEq already. Nearby, smaller Murtolampi shouldn't be forgotten with its 79m @ 2.9g/t PdEq likely to add several hundred thousand ounces in our view. If Kaukua South is booked at or over our estimate, this would take group resource to 3.6Moz @ 1.1g/t PdEq (3.9Moz @ 1.22g/t AuEq), in line with our original investment thesis: **3-5Moz potential**. Even then, this system is growing given newly surveyed, very significant, bulls-eye geophysical anomalies both east and west of Kaukua South, and of course the Tyco nickel asset in Canada adds material value too. As such, **we maintain our BUY rating and C\$0.70/sh PT** based on SCPe 3.6Moz PdEq (3.9Moz AuEq) including our SCPe resource for Kaukua South of 1.6Moz @ 1.1g/t PdEq (1.7Moz @ 1.2g/t AuEq) ahead of the 1H22 (or sooner) maiden MRE there. Combined with a scarcity premium on size and jurisdiction, and our estimate of the stock trading at <0.1xNAV now with 1xNAV FF FD of ~C\$1.50-2.00/sh approaching production makes this a conviction name for us.

**Table 1. (A) New Haukiahho resource against and (B) constraining inputs**

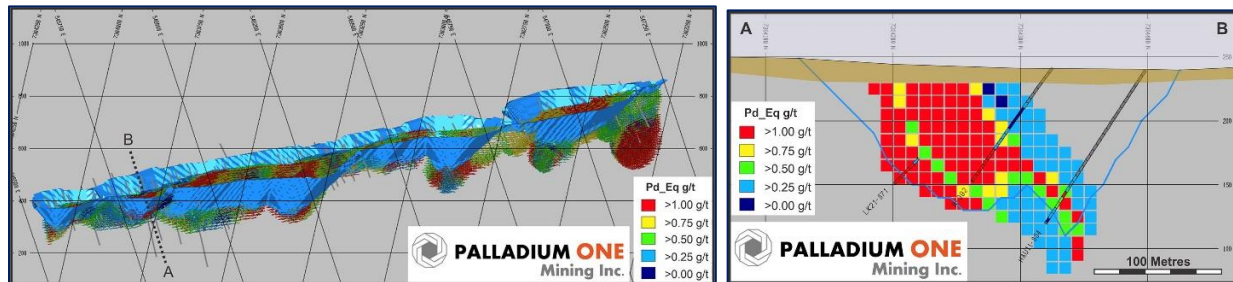
LK Project (100%)	Tonnes (Mt)	Δ (%)	Grade (g/t PdEq*)	Δ (%)	Ounces [koz PdEq*]	Δ (%)	Grade (g/t AuEq^)	Ounces (koz AuEq)^
Kaukua Main: M&I	11.0	-	1.49	-	528	-	1.62	571
Kaukua Main: inferred	10.9	-	1.22	-	427	-	1.32	462
Haukiahho: inferred	32.7	41%	1.00	-12%	1052	24%	1.08	1137
<b>Total</b>	<b>54.6</b>	<b>21%</b>	<b>1.14</b>	<b>-8%</b>	<b>2,007</b>	<b>11%</b>	<b>1.24</b>	<b>2170</b>
SCPe Kaukua South	44.4	-	1.11	-	1582	-	1.20	1711
<b>GRAND TOTAL</b>	<b>99.0</b>	<b>11%</b>	<b>1.13</b>	<b>-4%</b>	<b>3,590</b>	<b>6%</b>	1.22	3881
Conversion (%)	68%	-10%			68%			
<b>SCP ROM @ 75% conv.</b>	<b>67.1</b>	-	<b>1.13</b>	<b>-4%</b>	<b>2,433.72</b>	<b>-4%</b>	<b>1.22</b>	<b>2631</b>

Source: SCP, 3Q19 Kaukua MRE, 3Q21 Haukiahho, delta to 2013 Haukiahho non-compliant; \*PdEq @ LT: \$2,000/oz Pd, \$1,100/oz Pt, 1,850/oz Au, \$8.00/lb Ni and \$4.00/lb Cu, ^AuEq @ spot today

### Haukiahho resource lifts 24% to 1.2Moz @ 1.1g/t PdEq ahead of YE21 Kaukua Area MRE

Palladium One has released a maiden compliant 43-101 resource of 1.21Moz @ 1.15g/t PdEq (1.26g/t AuEq at spot for reference) based on 1,942m of infill / confirmation drilling last year. The resource, extending over 3km strike of the 17km trend, is ~2/3 base-metal and 1/3 Pd+P. A further +2km strike contains some historic drilling over IP anomalies that, with a modest amount of new drilling could be upgraded. The 0.25g/t PdEq (\$15/t) cut-off resource is pit-constrained at \$1,650/oz Au, \$3.50/lb Cu, \$7.50/lb Ni, \$20.00/lb co, \$1,600/oz Pd and \$1,100/oz Pt. An elevated cut-off of 0.6g/t PdEq (\$25/t) was used to report the base-case despite the pit-shell models using 0.25g/t (\$15/t).

Figure 1. (A) Isometric and (B) cross-section views of Haukiahö MRE block model



Source: Palladium One

## Why we like Palladium One

1. Existing 2Moz @ 1.14g/t PdEq pitable resource in Finland with cheap power and low 20% tax
2. SCPe +1.6Moz @ 1.1g/t PdEq on new Kaukua south asset
3. Brand new undrilled conductors east and west of Kaukua South
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. 1H22: Kaukua South maiden MRE
3. CY22: Regional drilling over new Kaukua anomalies and untested 15km strike at Haukiahö

## Research

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<b>Ticker:</b> PDM CN	<b>Price / mkt cap:</b> C\$0.23/sh, C\$55m	<b>Project PNAV today:</b> 0.08x	<b>Asset:</b> LK Project
<b>Author:</b> B.Salier / B.Gaspar	<b>Rec / 0.25xNAV PT:</b> BUY, C\$0.7/sh	<b>1xNAV<sub>3Q24</sub> FF FD:</b> C\$1.85/sh	<b>Country:</b> Finland

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	2,368	Kaukua Main 3Q19 resource	22Mt	1.36g/t	955koz	1032koz
Platinum Price	1,100	1,100	1,100	1,100	1,002	SCPe Kaukua South	44Mt	1.11g/t	1582koz	1711koz
Gold price	1,850	1,850	1,850	1,850	1,796	SCP mining invty @ 75% conv.	67Mt	1.13g/t	2434koz	2631koz
Nickel Price	17,632	17,632	17,632	17,632	19,570	Haukiahho 3Q21 MRE	33Mt	1.00g/t	1052koz	1137koz
Copper Price	8,926	8,926	8,926	8,926	9,363					

SOTP project valuation*	C\$m	O/ship	NAVx	C\$/sh	Project: USES	Funding: SOURCES
Ungeared @ build start (3Q23)	693.6	100%	1.00x	2.48	Pre-DFS exploration / G&A: C\$20m	Cash + pre first Au op.: C\$30m
Cash @ 2Q21	16.7	100%	1.00x	0.06	Build capex: C\$380m	Pre-build equity: C\$30m
Cash from options + warrants	13.4	100%	1.00x	0.05	Fin. cost + WC over DFS: C\$18m	Build equity @ 0.6xNAV: C\$133m
SCPe resources ex invty @ US\$25/oz	36.6	100%	1.00x	0.13	TOTAL USES: C\$418m	65% geared debt @ 8%: C\$247m
Murtolampi sat. 200koz @ US\$50/oz	12.7	100%	1.00x	0.05	Buffer / drill budget: C\$22m	TOTAL SOURCES: C\$440m
Tyko nominal upside (C\$m)	10.0	100%	1.00x	0.04		

Share data	Basic	FD with options	FD for build
Basic shares (m)	241.2	279.7	490

Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	237.2	458.8	490.5	490.5	490.5

Asset value: 1xNPV project @ build start (C\$m, ungeared)*	Project NPV (C\$m)	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz
Discount rate: 9%	428	556	681	931	1,180	
Discount rate: 7%	503	644	<b>783</b>	1,060	1,337	
Discount rate: 5%	591	749	904	1,213	1,522	
Ungeared project IRR:	23%	28%	33%	41%	49%	

Project NPV (C\$/sh)	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz
Discount rate: 9%	1.53	1.99	2.43	3.33	4.22
Discount rate: 7%	1.80	2.30	<b>2.80</b>	3.79	4.78
Discount rate: 5%	2.11	2.68	3.23	4.34	5.44

\*Project NPV, ex fin. costs and cent G&A, discounted to build start

Group NAV over time^	3Q21	3Q22	3Q23	3Q24	3Q25
LK Project NPV (C\$m)	598	640	694	997	1,181
G&A and finance costs (C\$m)	(88.3)	(82.6)	(76.7)	(76.3)	(58.5)
Net cash prior qtr (C\$m)	16.7	36.0	25.3	(76.2)	(211.5)
Cash from options (C\$m)	13.4	13.4	13.4	13.4	13.4
Resource / exlo nom. (C\$m)	49.2	49.2	49.2	49.2	49.2
NAV FF FD (C\$m)	589	656	705	907	974
Shares in issue (m)	280	411	411	490	490
1xNAV7%/sh FF FD (C\$/sh)*	<b>2.11</b>	<b>1.60</b>	<b>1.71</b>	<b>1.85</b>	<b>1.99</b>

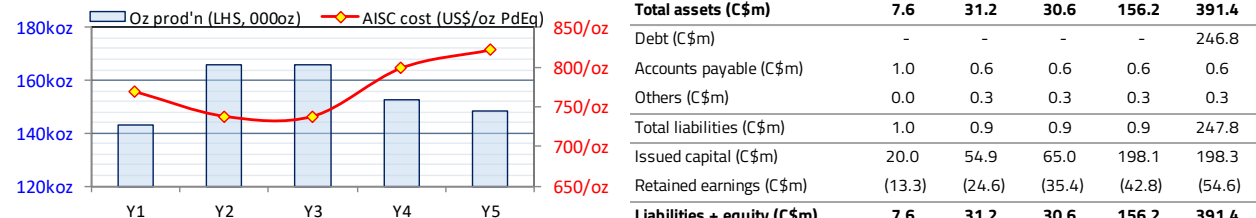
Geared NAV at first con, diluted for build, net G&A and fin. costs^	NAV at first con (C\$m)	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz
Discount rate: 9%	596	748	897	1,195	1,492	
Discount rate: 7%	651	815	<b>974</b>	1,294	1,613	
Discount rate: 5%	716	891	1,064	1,409	1,753	
Geared project IRR:	21%	26%	30%	39%	46%	

NAV at first con (C\$/sh)*	\$1500oz	\$1750oz	\$2000oz	\$2500oz	\$3000oz
Discount rate: 9%	1.07	1.43	1.79	2.50	3.22
Discount rate: 7%	1.22	1.61	<b>1.99</b>	2.75	3.52
Discount rate: 5%	1.39	1.80	2.22	3.05	3.88

^Project NPV incl grp SG&A & fin. cost, +net cash; \*diluted for build equity

Production	Y1	Y2	Y3	Y4	Y5
PdEq production (000oz)	143	166	166	153	148
AISC cost (US\$/oz PdEq)	769	738	738	799	822

AISC = C1 + sustaining capex, Y1 = CY25



Source: SCP estimates

Project: USES	Funding: SOURCES
Pre-DFS exploration / G&A: C\$20m	Cash + pre first Au op.: C\$30m
Build capex: C\$380m	Pre-build equity: C\$30m
Fin. cost + WC over DFS: C\$18m	Build equity @ 0.6xNAV: C\$133m
TOTAL USES: C\$418m	65% geared debt @ 8%: C\$247m
Buffer / drill budget: C\$22m	TOTAL SOURCES: C\$440m

Share data	Basic	FD with options	FD for build
Basic shares (m)	241.2	279.7	490

Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	237.2	458.8	490.5	490.5	490.5

EPS (C\$/sh)	-	-	-	-	-
CFPS (C\$/sh)	-	-	-	-	-
EV (C\$m)	47.3	74.2	82.2	36.4	347.7
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	-
P/CF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	-

Income statement	CY20E	CY21E	CY22E	CY23E	CY24E
Net revenue (C\$m)	-	-	-	-	-
COGS (C\$m)	-	-	-	-	-
Net income (C\$m)	(5.0)	(11.2)	(10.9)	(7.4)	(11.8)

Cash flow, attrib.	CY20E	CY21E	CY22E	CY23E	CY24E
EBIT (C\$m)	(1.3)	(2.5)	(2.1)	(3.2)	(4.2)
Add back D&A (C\$m)	-	-	-	-	-
Less tax + net interest (C\$m)	3.7	8.7	8.7	4.3	7.6
Net change in wkg cap (C\$m)	0.5	0.1	-	(0.2)	-
Other non-cash (C\$m)	(8.4)	(17.4)	(17.3)	(8.0)	(15.1)
Cash flow ops (C\$m)	<b>(5.5)</b>	<b>(11.1)</b>	<b>(10.7)</b>	<b>(7.1)</b>	<b>(11.6)</b>

Cash flow inv. (C\$m)	(0.5)	-	-	(80.0)	(299.7)
Share issue (C\$m)	7.9	35.3	10.0	132.9	-
Debt draw (repay) (C\$m)	-	-	-	-	246.8
Cash flow fin. (C\$m)	<b>7.9</b>	<b>35.3</b>	<b>10.0</b>	<b>132.9</b>	<b>246.8</b>
Net change in cash (C\$m)	1.9	24.2	(0.7)	45.8	(64.5)

EBITDA (C\$m)	(4.9)	(11.5)	(10.9)	(7.4)	(4.1)
Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (C\$m)	7.2	31.3	30.6	76.4	11.9
Acc rec., inv, prepaid (C\$m)	0.3	0.2	0.2	-	-
PP&E + other (C\$m)	0.1	(0.2)	(0.2)	79.8	379.5
Total assets (C\$m)	<b>7.6</b>	<b>31.2</b>	<b>30.6</b>	<b>156.2</b>	<b>391.4</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	0.3	0.3	0.3	0.3
Total liabilities (C\$m)	1.0	0.9	0.9	0.9	247.8
Issued capital (C\$m)	20.0	54.9	65.0	198.1	198.3
Retained earnings (C\$m)	(13.3)	(24.6)	(35.4)	(42.8)	(54.6)
Liabilities + equity (C\$m)	<b>7.6</b>	<b>31.2</b>	<b>30.6</b>	<b>156.2</b>	<b>391.4</b>

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

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BUY:	46
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	46

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