

Ticker: PDM CN **Cash:** ~C\$13m **Project:** LK Project / Tyko
Market cap: C\$29m **Price:** C\$0.09/sh **Country:** Finland / Canada, ON
REC. (unc): BUY **TARGET (unc):** C\$0.50/sh **RISK RATING (unc):** HIGH

We see today's definitive agreement of business consolidation between Palladium One and MetalCorp as offering a triple play of simple cash addition, and dual optionality on both new exploration projects, and potential future FCF. For a gross consideration of C\$3.3m (C\$1.5m net after deducting C\$1.8m cash/near cash) PDM adds to Hemlo East, a highly prospective project, adjacent to Barrick's producing Hemlo mine with Barrick still earning-in to its 80%, leaving Palladium One with digestible FCF optionality on a Hemlo satellite after Barrick spends the next C\$4.5m. For now, **we maintain our BUY rating and C\$0.50/sh PT** with our valuation based on $0.35 \times \text{NAV}_{7\% - 2000\text{Pd}}$ of a 2.7Moz @ 1.2g/t PdEq mining inventory in Finland. However, the Tyko project, which we only hold at a nominal C\$10m, is clearly the key driver forward now in our view. With today's acquisition PDM now has a second share price catalyst in cheap valuations, leaving Barrick doing the work for them at Hemlo East. Looking ahead, we expect to see more step out drilling, and drilling on more conductors, here and on other targets at Tyko, with potential to connect West Pickle and RJ zones.

Figure 1. Map with Ontario properties. Red - critical mineral Ni-Cu project, Yellow - Au projects



Source: Palladium One

Acquires MetalCorp for C\$3.3m; earn-in with ABX at the newly acquired Hemlo East property

Palladium One announced that has come to a definitive agreement to acquire all of the issued and outstanding shares of MetalCorp for a gross consideration of C\$3.3m or C\$0.026/MTC share, a 28% premium for MTC shareholders. Palladium One will issue 38.7m shares upon completion of the transaction. Palladium One now owns MetalCorp's five assets; two critical mineral projects located in Ontario – North Rock Cu-Ni, with a historic MRE (1Mt @ 1.2% Cu) and Big Lake Cu-Au VMS-style project. The rest three projects include Playter (Mo-Re project), Black Bear (Au project) and Hemlo East, which has an earn-in agreement with Barrick Gold and is adjacent to Barrick's producing Hemlo gold mine. Palladium One, retains assessment credits of C\$4.4m from MetalCorp, resulting in no cash requirement for at least 10 years on the North Rock Cu-Ni, Big Lake Cu-Au VMS and the Black Bear Au projects.

Why we like Palladium One

1. Existing 4.0Moz @ 1.43g/t PdEq (spot, 5Moz @ 1.7g/t AuEq) in Finland, cheap power / 20% tax
2. SCPe +2-4Moz on Kaukua East and Haukiaho East, flyer on Kaukua West and Haukiaho deeps
3. Emerging high-grade 'domestic' nickel province in Ontario
4. Multiple high-grade discoveries made with future multi-line conductors to test

Catalysts

1. CY23: Drilling at Tyko project in Ontario
2. 1H23: SCPe PEA timing for Kaukua

Research

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|--|--|--|--------------------------|
| Ticker: PDM CN | Price / mkt cap: C\$0.09/sh, C\$29m | Project PNAV today: 0.06x | Asset: LK Project |
| Authors: B Salier, E Magdzinski | Rec / 0.35xNAV PT: BUY, C\$0.5/sh | 1xNAV_{3Q24}, FF FD: C\$1.01/sh | Country: Finland |

| Commodity price | CY21A | CY22E | CY23E | CY24E | SPOT | Resource / Reserve | Tonnes | PdEq Grade | PdEq oz | AuEq oz |
|-----------------|--------|--------|--------|--------|--------|---------------------------|--------|------------|---------|---------|
| Palladium price | 2,000 | 2,000 | 2,000 | 2,000 | 2,312 | Kaukua Area+ Murtolampi | 69 | 1.44g/t | 3202koz | 3865koz |
| Platinum Price | 1,100 | 1,100 | 1,100 | 1,100 | 931 | Haukiahio | 18.9 | 1.38g/t | 839koz | 1012koz |
| Gold price | 1,850 | 1,850 | 1,850 | 1,850 | 1,720 | Total | 87.9 | 1.43g/t | 4041koz | 4878koz |
| Nickel Price | 17,632 | 17,632 | 17,632 | 17,632 | 22,000 | SCP inventory @ 80% conv. | 70.3 | 1.19g/t | 2701koz | 2921koz |
| Copper Price | 8,926 | 8,926 | 8,926 | 8,926 | 7,685 | | | | | |

| SOTP project valuation* | C\$m | O/ship | NAVx | C\$/sh | Project: USES | Funding: SOURCES |
|-------------------------------------|-------|--------|-------|--------|----------------------------------|---------------------------------|
| Ungeared @ build start (3Q23) | 376.1 | 100% | 1.00x | 1.03 | Pre-DFS exploration / G&A: C\$5m | Cash + pre first Au op.: C\$26m |
| Pro-forma Cash 4Q22 | 13.0 | 100% | 1.00x | 0.04 | Build capex: C\$411m | Pre-build equity: C\$5m |
| Cash from options + warrants | 14.4 | 100% | 1.00x | 0.04 | Fin. cost + WC over DFS: C\$17m | Build equity @ 0.6xNAV: C\$144m |
| SCPe resources ex invty @ US\$50/oz | 92 | 100% | 1.00x | 0.25 | TOTAL USES: C\$432m | 65% geared debt @ 8%: C\$267m |
| Hemlo East nominal upside (C\$m) | 10 | 20% | 1.00x | 0.01 | Buffer / drill budget: C\$10m | TOTAL SOURCES: C\$442m |
| Tyko nominal upside (C\$m) | 10.0 | 100% | 1.00x | 0.03 | | |

| Share data | Basic | FD with options | FD for build |
|------------------|-------|-----------------|--------------|
| Basic shares (m) | 322.5 | 366.3 | 592 |

| Ratio analysis | CY20A | CY21A | CY22E | CY23E | CY24E |
|------------------------|-------|-------|-------|--------|-------|
| Average shares out (m) | 274.0 | 553.2 | 591.7 | 591.7 | 591.7 |
| CFPS (C\$/sh) | - | - | - | - | - |
| EV (C\$m) | 17.4 | 34.7 | 41.8 | (13.9) | 328.9 |
| FCF yield (%) | - | - | - | - | - |
| P/CF (x) | - | - | - | - | - |
| EV/EBITDA (x) | - | - | - | - | - |

| Income statement | CY20A | CY21A | CY22E | CY23E | CY24E |
|-----------------------------|-------|--------|-------|-------|--------|
| Net revenue (C\$m) | - | - | - | - | - |
| COGS (C\$m) | - | - | - | - | - |
| Gross profit (C\$m) | - | - | - | - | - |
| D&A, attrib (C\$m) | - | (0.4) | 0.0 | - | - |
| G&A + sh based costs (C\$m) | 1.3 | 2.3 | 3.0 | 4.3 | 4.5 |
| Finance cost (C\$m) | 3.7 | 8.3 | 6.6 | 4.5 | 7.8 |
| Taxes (C\$m) | - | - | - | - | - |
| Net income (C\$m) | (5.0) | (10.7) | (9.6) | (8.9) | (12.4) |

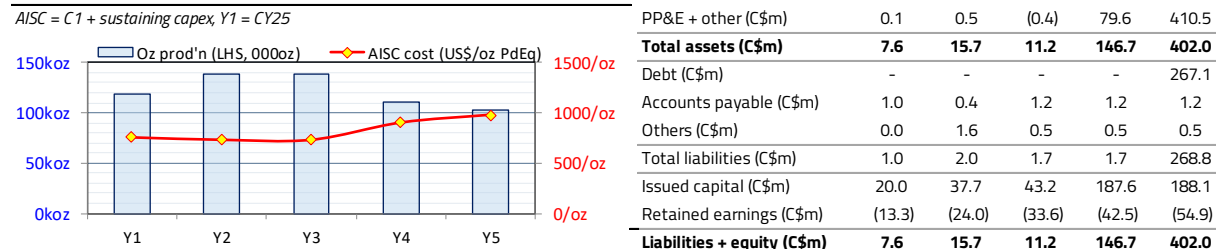
| Cash flow, attrib. | CY20A | CY21A | CY22E | CY23E | CY24E |
|--------------------------------|--------------|---------------|--------------|---------------|----------------|
| EBIT (C\$m) | (1.3) | (2.3) | (3.0) | (4.3) | (4.5) |
| Add back D&A (C\$m) | - | (0.4) | 0.0 | - | - |
| Less tax + net interest (C\$m) | 3.7 | 8.3 | 6.6 | 4.5 | 7.8 |
| Net change in wkg cap (C\$m) | 0.5 | 0.9 | (1.3) | (0.2) | - |
| Other non-cash (C\$m) | (8.4) | (18.0) | (10.4) | (8.1) | (15.1) |
| Cash flow ops (C\$m) | (5.5) | (11.5) | (8.0) | (8.1) | (11.8) |
| PP&E - build + sust. (C\$m) | 0.5 | 0.0 | 2.2 | 80.0 | 331.0 |
| PP&E - expl'n (C\$m) | - | - | - | - | - |
| Cash flow inv. (C\$m) | (0.5) | (0.0) | (2.2) | (80.0) | (331.0) |
| Share issue (C\$m) | 7.9 | 19.4 | 4.7 | 143.8 | - |
| Debt draw (repay) (C\$m) | - | - | - | - | 267.1 |
| Cash flow fin. (C\$m) | 7.9 | 19.4 | 4.7 | 143.8 | 267.1 |
| Net change in cash (C\$m) | 1.9 | 7.8 | (5.5) | 55.7 | (75.7) |
| EBITDA (C\$m) | (4.9) | (11.0) | (10.8) | (8.9) | (4.5) |

| Balance sheet | CY20A | CY21A | CY22E | CY23E | CY24E |
|------------------------------------|------------|-------------|-------------|--------------|--------------|
| Cash (C\$m) | 7.2 | 15.1 | 11.4 | 67.1 | (8.6) |
| Acc rec., inv, prepaid (C\$m) | 0.3 | 0.2 | 0.2 | - | - |
| PP&E + other (C\$m) | 0.1 | 0.5 | (0.4) | 79.6 | 410.5 |
| Total assets (C\$m) | 7.6 | 15.7 | 11.2 | 146.7 | 402.0 |
| Debt (C\$m) | - | - | - | - | 267.1 |
| Accounts payable (C\$m) | 1.0 | 0.4 | 1.2 | 1.2 | 1.2 |
| Others (C\$m) | 0.0 | 1.6 | 0.5 | 0.5 | 0.5 |
| Total liabilities (C\$m) | 1.0 | 2.0 | 1.7 | 1.7 | 268.8 |
| Issued capital (C\$m) | 20.0 | 37.7 | 43.2 | 187.6 | 188.1 |
| Retained earnings (C\$m) | (13.3) | (24.0) | (33.6) | (42.5) | (54.9) |
| Liabilities + equity (C\$m) | 7.6 | 15.7 | 11.2 | 146.7 | 402.0 |

| Production | Y1 | Y2 | Y3 | Y4 | Y5 |
|--------------------------|-----|-----|-----|-----|-----|
| PdEq production (000oz) | 119 | 138 | 138 | 111 | 102 |
| AISC cost (US\$/oz PdEq) | 757 | 734 | 734 | 904 | 980 |

| Group NAV over time^ | Mar-23 | Mar-24 | Mar-25 | Mar-26 | Mar-27 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| LK Project NPV (C\$m) | 357 | 481 | 866 | 815 | 718 |
| G&A and finance costs (C\$m) | (91) | (88) | (81) | (58) | (41) |
| Net cash prior qtr (C\$m) | 8 | (4) | (280) | (174) | (53) |
| Cash from options (C\$m) | 14.4 | 14.4 | 14.4 | 14.4 | 14.4 |
| NAV FF FD (C\$m) | 289 | 404 | 520 | 598 | 639 |
| Shares in issue (m) | 366 | 419 | 419 | 592 | 592 |
| 1xNAV7%/sh FF FD (C\$/sh)* | 0.79 | 0.96 | 1.24 | 1.01 | 1.08 |

| Geared NAV at first con, diluted for build, net G&A and fin. costs^ | \$1500oz | \$1750oz | \$2000oz | \$2500oz | \$3000oz |
|---|----------|----------|-------------|----------|----------|
| Discount rate: 9% | 244 | 397 | 543 | 824 | 1,103 |
| Discount rate: 7% | 279 | 442 | 598 | 899 | 1,198 |
| Discount rate: 5% | 321 | 495 | 663 | 987 | 1,309 |
| Geared project IRR: | 9% | 14% | 18% | 26% | 33% |
| NAV at first con (C\$/sh)* | \$1500oz | \$1750oz | \$2000oz | \$2500oz | \$3000oz |
| Discount rate: 9% | 0.25 | 0.56 | 0.87 | 1.50 | 2.14 |
| Discount rate: 7% | 0.33 | 0.67 | 1.01 | 1.69 | 2.38 |
| Discount rate: 5% | 0.43 | 0.80 | 1.17 | 1.91 | 2.66 |



Source: SCP estimates

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

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| Summary of Recommendations as of March 2023 | |
|---|----|
| BUY: | 52 |
| HOLD: | 1 |
| SELL: | 0 |
| UNDER REVIEW: | 1 |
| TENDER: | 1 |
| NOT RATED: | 0 |
| TOTAL | 55 |

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