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Market Capitalisation: US\$172.4m

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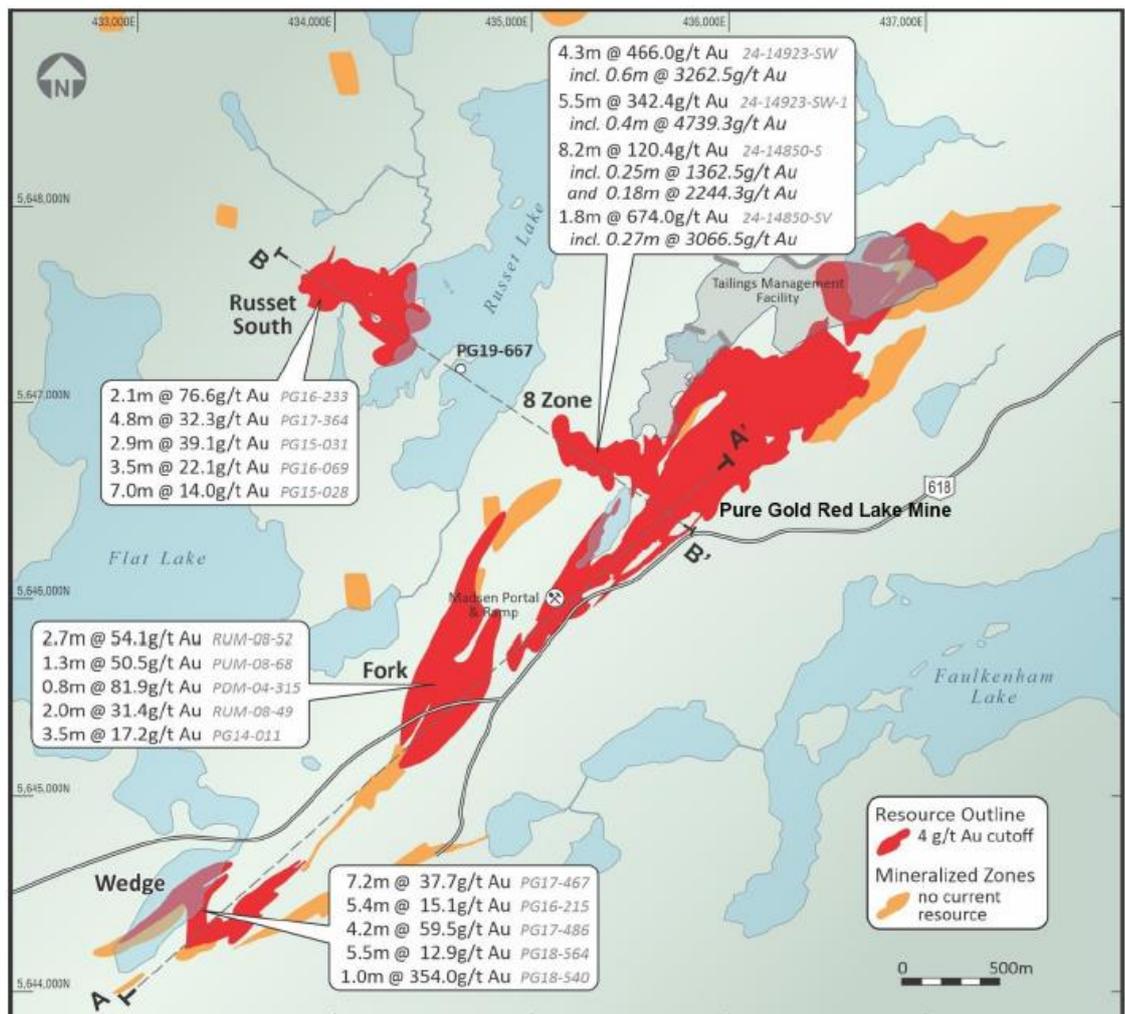
### Pure Gold Red Lake Mine Site Visit

#### Summary

The market should be in no doubt that Pure Gold will deliver first gold before the end of the year before ramping up to 66koz in 2021 through to 125koz in 2025 (the company is already looking at ways it can accelerate the ramp up). All critical path items are on track with long lead equipment on order, all license applications expected to be approved by Q2, and mine sequencing being planned. Management are already planning on how they might ramp up quicker, improving flexibility in the system with a new decline and tweaking metallurgical recoveries. Perhaps most importantly they are growing their knowledge of the geology with the team putting together a drill programme to start next year once in production. This will target extensions to the 1Moz, 9g/t reserve (will be the 17th highest grade mine in the world when in production) down dip, at satellite deposits and, most excitingly, at Zone 8 where there is already a 0.5Mt resource grading 21g/t.

Our current target price for Pure Gold is 54pps (40% above current share price) is derived from our NPV of C\$328 million. We continue to think though that such is the prospectivity of the company's 47km<sup>2</sup> land position in the world class Red Lake gold district that the shares should trade through NPV as production is confirmed. Using spot currency and commodity prices our NPV rises to C\$451.6 million or C\$1.20 or 67pps. If these prices are maintained we estimate the company will deliver C\$78.4 million EBITDA next year which leaves the shares trading on 2.0x EV/EBITDA which we believe is ridiculously undervalued.

Figure 1 – Pure Gold Red Lake Mine



Source: Pure Gold

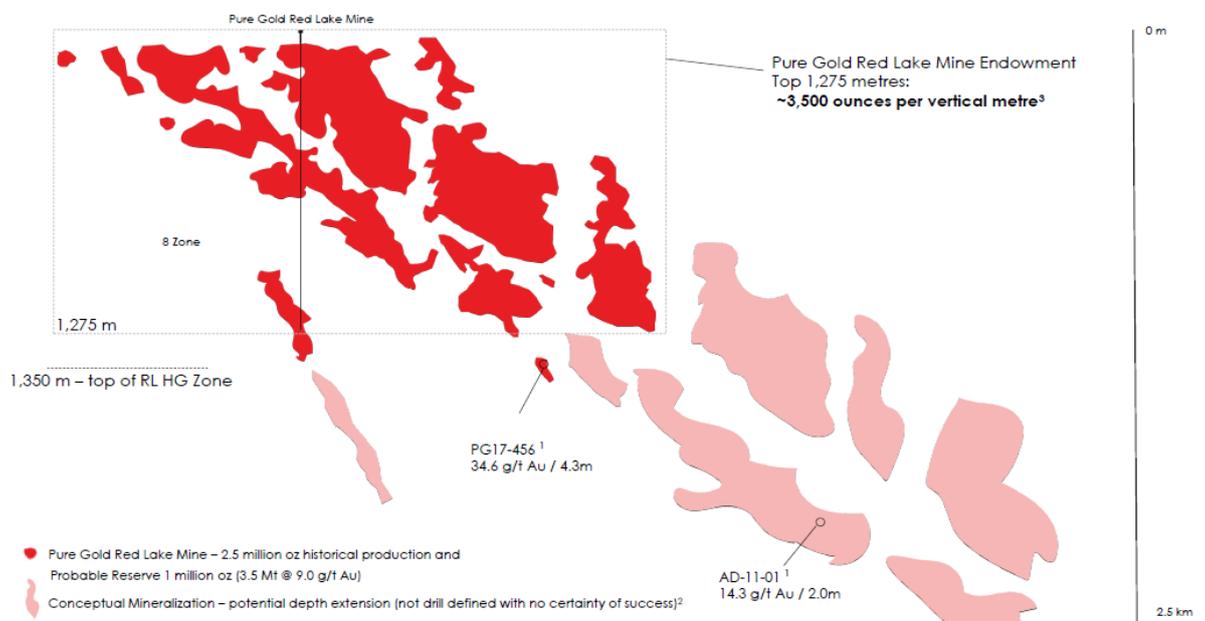
## Geography and Geology

The town of Red Lake, population 4500, is a 45 minute flight from international airport Winnipeg. From the Red Lake Airport it is a 25 minute drive to mine site on tarmac. This is not a remote mine as evidenced by the takeaway pizza for lunch. The work force, currently 60 on site growing to 340, will almost all be locals and they are keen given Pure Gold is the only new mine in the area for now. The winter has been relatively mild (albeit it was -31 degrees the week before our visit), which makes it tricky for exploration drilling that depends on ice roads. The flip side though is it has meant site work has progressed relatively unimpeded by the weather.

Much of the management presentation was taken up with geology. As a quick recap, the genesis of Pure Gold lies in the geological expertise of founders Darin Labrenz and Mark O’Dea who reinterpreted the findings of previous owners. Basically they realised the gold deposition was not limited to one stratigraphical unit thus extending far further than previously thought. This is not only being proven at the Madsen mine where there is a resource (measure and indicated) of 1.86Moz at 9g/t but also the three satellite ore bodies – Fork, Wedge and Russet South (See Figure 2) – where management believe there considerable potential to add to the resource already delineated (206koz of gold at 8.8g/).

Management are keen to point out the Madsen resource extends down to 1.35km but the gold is present down to 2.1km similar to the Red Lake mine that Evolution has just bought from Newmont, where mining occurs to 2.6km depth. Assuming a similar resource endowment of 3500oz per vertical metre that has been delineated thus far at Madsen delivers another 4Moz down to 2.5km.

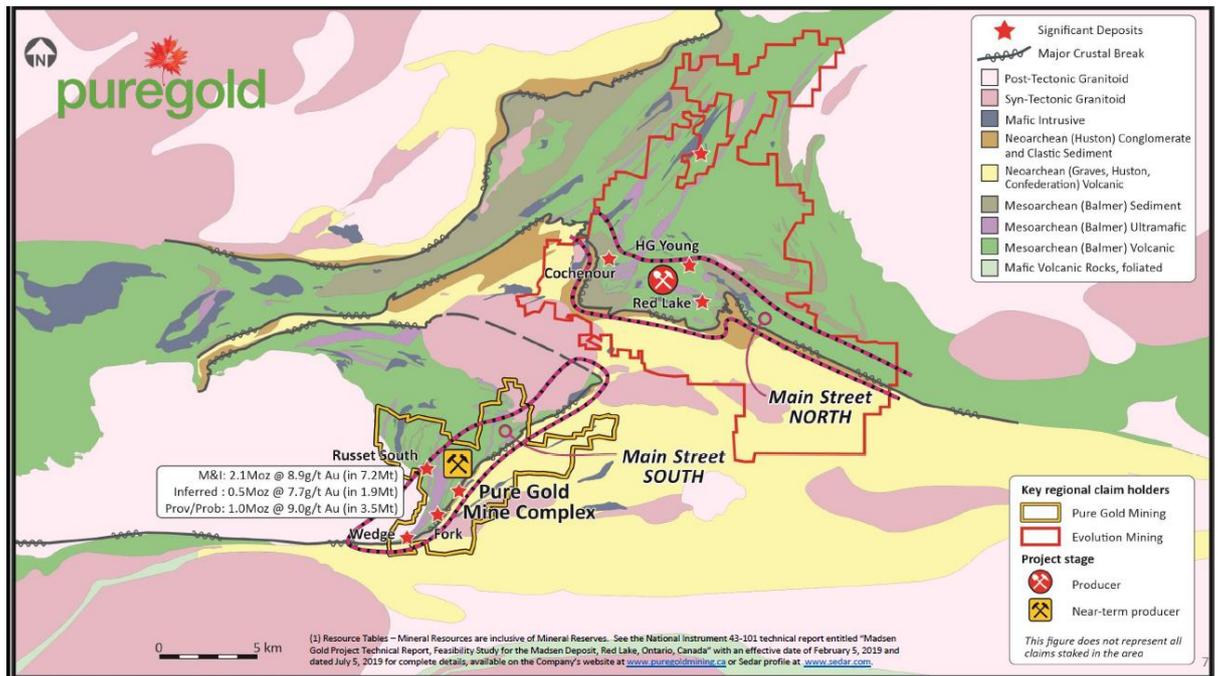
Figure 2 – Pure Gold Red Lake Mine Cross Section



Source: Pure Gold

The similarities with the Red Lake mine are striking with both ore bodies contiguous with the same crustal break – see Figure 3). Perhaps the most exciting aspect of the geology is the presence of Zone 8 (similar to the renowned High Grade zone at Red Lake.) which sits at a dept of 1.35km. Management are starting to understand the controlling features of this zone and believe the mineralogy could well run parallel to the existing system that has a strike length of 6-7km (taking Wedge and Fork into account). Remember too this is all in one localised area of the property. Management have encountered gold elsewhere so we can expect more scout holes as we go into next year.

Figure 3 – Pure Gold Red Lake Mine Cross Section

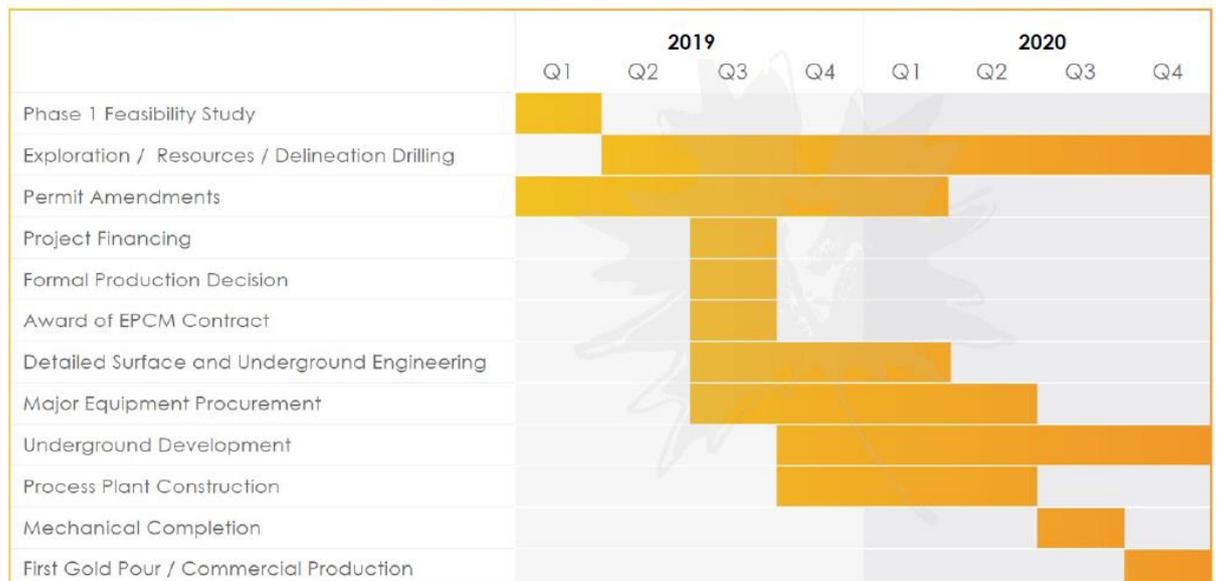


Source: Pure Gold

## Construction and Mining

Generally, it is a testament to management that, 6 yrs after completing the consolidation of the property to form Pure Gold and Madsen, the company is set to deliver first production. A simplified timetable of the run up is shown in Figure 4.

Figure 4 – Pure Gold Red Lake Mine Development Timeline



Source: Pure Gold

Again it is worth recalling the mine is being built on the site of an older operation which includes a 1.275km deep shaft and a processing plant as well as underground infrastructure. All basic engineering is complete with key components and long lead items ordered. 52% of detailed engineering has been finished leaving the company on track and in line with the C\$95 million low cost budget.

In the mine itself the company is developing/renewing the main ramp down and the cross cuts off into the auriferous lenses. We note that when we initiated on our coverage of Pure Gold there had been concerns that dewatering was required. This is entirely

misplaced – dewatering is occurring in the area of the shaft over a km away from the ramp portal and which will not come into contention for 18 months by which time the company will have completely cleared the underground. Equally concerns over ground control look overdone although we only visited selected areas obviously.

The key point in all this though is that by the time the ball mill is ready and the plant turned on there will be a 32kt stockpile grading c.10g/t ready to run through the plant equivalent to 6 weeks' worth of RoM. The risk to the big catalyst of first gold pore is therefore very low.

## Processing Plant

On the processing side management has conducted a mechanical audit of the mill, originally installed in the 1990s, with no big surprises. With each item in the mill the company is conducting 'refurb vs new' studies. So far there have been no big surprises. They are buying a new ball mill that effectively represents the biggest single item on the critical path. Overall they remain confident of a 95.8% recovery. Again, given it had historically operated with 94-96% recoveries, the risk to operation guidance remains very low.

Generally the plant is in decent order – see Figure 5 below:

*Figure 5 – Pure Gold Red Lake Mine Processing Plant*



Source: Pure Gold

## Permits

There are three permits that need final signature from local authorities. All three are in good order and the company believes they should be completed by end of Q2:

## Mine Closure Plan

This has been submitted for initial review following a consultation period. It's worth noting that Pure Gold will be leaving the site in better order than it found it given previous workings. Once final submission occurs, the authorities will open a 45 day review but management believe there is nothing outstanding.

## Air and Noise

The company's again been in consultation for some time and believe approval is 4-6 weeks away.

## **Industrial Sewage**

The company admitted this is the most complex of applications and permits. However they have been working closely with the authorities and have now submitted what they think is the final submission to which they believe they will receive approval in May. However, it should be noted that there is a maximum 12 month waiting time for this.

## **Beyond Phase 1**

Management are already looking to improve on the current mining plans as well as the geological endowment of the company. Top of the list is the speed with which they access Zone 8. In the BFS this is to take 60 months, however management are looking at 46 months options and even 31 month. The latter effectively halves the time in which they reach maximum production.

At the same time they are also considering starting another portal thus allowing flexibility as well as access to what they believe is the extension ore body to the North.

We have discussed the geological potential already and in greater depth in our initiation (available at [www.tamesispartners.com](http://www.tamesispartners.com)) but reiterate the point that the current plans of the company are only a first phase.

## **ESG**

Probably the first thing to note is that all the power on the mine is supplied from the grid which is entirely hydro powered therefore carbon free.

The second thing is that all the environmental work is cleaning up on previous operations. This includes tailings management facilities which will be progressively capped and closed out during operations. Water recycling is also a key feature and the company will be leaving the site in a far better condition than they found it. Generally too the carbon footprint of underground mining only is obviously superior to open cut operations.

As far as the social impact, Pure Gold is welcomed in Red Lake for the job opportunities. Aside from general employment the company is employing indigenous contractors for a number of supply contracts. Management are fully aware of their social obligations.

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