

PMI Gold Corp (PVM)

COMPANY REPORT – INITIATION OF COVERAGE

RECOMMENDATIONS

Rating	Buy ▲
Risk	Very High
Price Target	\$1.57
Share Price	\$1.05

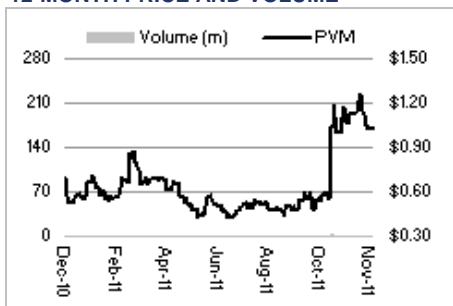
SNAPSHOT

Monthly Turnover	\$14.4mn
Market Cap	\$226mn
Shares Issued	215mn
52-Week High	\$1.30
52-Week Low	\$0.42
Sector	Gold

BUSINESS DESCRIPTION

PMI Gold Corporation (PVM) is a Canadian-based gold mining company with a focus on West Africa. Ghana is the largest gold producer in West Africa and the company controls four previous operating mines in one of Ghana's major gold belts.

12-MONTH PRICE AND VOLUME



RESEARCH ANALYST

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Disclosure

The author owns no shares in PVM.

Recommendations

Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of ±10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

Successful explorer takes big step forward

- PMI Gold (PVM) is a successful Ghana-based gold explorer that holds land packages comprising 530 square kilometres. Its land is surrounded by a number of mammoth multi-million ounce gold deposits – predominantly owned by major mining companies – putting it in an exciting location.
- PMI Gold's share price was re-rated last month when it announced the expansion of its resource base at its flagship Obotan Project by 270 percent to 4.5 million ounces (moz). This was a staggering increase and raised PMI Gold's total delineated resources up to 4.86 million ounces.
- **Outlook:** We expect PMI Gold will complete its prefeasibility study (PFS) on the Obotan project by the end of calendar year 2011, at which time we will receive more detailed guidance on the production scenarios it has progressed through scoping and PFS. PMI Gold is then hoping to initiate work on a bankable feasibility study (BFS) and secure a decision to mine by 30 June 2012. The PFS and subsequent BFS will significantly narrow the range in our assumptions between our modelled production scenarios and will offer a clearer indication as to the ultimate viable scale and likely metrics of any operation that is potentially developed.
- **Proposed tax change:** The proposed amendments to Ghana's mining tax law would see the corporate tax rate increase from its current 25 percent to 35 percent from 1 January 2012. Obviously motivated by the increase in global mining rents, we consider this increase to be reasonable and have therefore already included it in our set of base case assumptions (lowering our base case valuation from \$1.73 to \$1.57 per share).
- **Early success:** PMI Gold has quickly positioned itself as an explorer of impressive scale. Its 4.86 million ounces of gold resources is well ahead of the vast majority of its West African peers – Gryphon Minerals (GRY): 2 moz, Ampella Mining (AMX): 2.2 moz, and Azumah Resources (AZM): 1.7 moz.
- **Rating:** We initiate coverage of PMI Gold with a Buy rating and a \$1.57 per share 12-month price target. We maintain the view that PMI Gold will be able to achieve this upside upon completion of its PFS and BFS, with upside potential beyond our numbers a strong possibility from the Company's large ongoing (and so far successful) exploration program.

INVESTMENT SUMMARY

Year End: 30 June		2010 (A)	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Revenue	\$mn	0	0	0	0	145
EBITDA	\$mn	-2.7	-5.6	-1.5	-1.5	73.0
EBIT	\$mn	-2.7	-5.6	-3.2	-5.5	60.7
Reported Profit	\$mn	-2.8	-4.9	-1.8	-13.6	56.9
Adjusted Profit	\$mn	-3.0	-5.7	-1.8	-13.6	56.9
EPS (Reported)	¢	-1.3	-1.8	-0.6	-4.5	19.0
EPS (Adjusted)	¢	-1.4	-2.0	-0.6	-4.5	19.0
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Reported)	x	N/A	N/A	N/A	N/A	5.4
PER (Adjusted)	x	N/A	N/A	N/A	N/A	5.4
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial summary

Analyst:	Adrian Prendergast
Date:	01 Dec 2011
Share Price (\$A):	\$1.03

FINANCIAL PERFORMANCE (\$mn)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Sales Revenue	0.0	0.0	0.0	145.0
EBITDA	-5.6	-1.5	-1.5	73.0
Depreciation & Amortisation	0.0	1.7	4.0	12.3
EBIT	-5.6	-3.2	-5.5	60.7
Net Interest	0.5	1.3	-8.2	-3.8
Pre-Tax Profit	-5.0	-1.8	-13.6	56.9
Tax	-0.1	0.0	0.0	0.0
Reported NPAT	-4.9	-1.8	-13.6	56.9
Significant Items	0.0	0.0	0.0	0.0
Discontinued/Unusual Items	0.0	0.0	0.0	0.0
Adjusted Profit	-5.7	-1.8	-13.6	56.9

BALANCE SHEET (\$ mn)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Cash	28.7	34.1	93.7	79.0
Receivables	0.5	0.5	0.5	0.5
Other	0.2	0.2	0.2	0.2
Current Assets	29.4	34.9	94.4	79.7
Property, Plant & Equipment	34.1	66.8	189.1	245.7
Intangibles (Net)	0.0	0.0	0.0	0.0
Other	0.5	0.5	0.5	0.5
Non-Current Assets	34.6	67.3	189.6	246.2
Total Assets	64.0	102.2	284.1	326.0
Payables	1.5	1.5	1.5	1.5
Borrowings	0.0	0.0	117.3	102.3
Provisions & Other	2.2	2.2	2.2	2.2
Total Liabilities	3.7	3.7	121.0	106.0
Net Assets	60.3	98.5	163.0	220.0
Share Capital	76.7	116.7	194.9	194.9
Reserves	6.4	6.4	6.4	6.4
Retained Profits	-22.8	-24.6	-38.3	18.6
Total Equity	60.3	98.5	163.0	220.0
Total Funds Employed	60.3	98.5	280.4	322.3
Net Debt	-28.7	-34.1	23.6	23.3

CASH FLOW (\$mn)

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Receipts from Customers	0.0	0.0	0.0	145.0
Payments to Suppliers	-5.6	-1.5	-1.5	-72.0
Other	4.5	1.3	-8.2	-3.8
Operating Cash Flow	-1.0	-0.1	-9.6	69.2
Capital Expenditure	-10.3	-34.4	-126.3	-68.9
Other	-0.3	0.0	0.0	0.0
Investing Cash Flow	-10.7	-34.4	-126.3	-68.9
Proceeds from Issues	41.7	40.0	78.2	0.0
Net Borrowings	0.0	0.0	117.3	-15.0
Dividends	0.0	0.0	0.0	0.0
Other	-3.9	0.0	0.0	0.0
Financing Cash Flow	37.7	40.0	195.5	-15.0
Net Change in Cash	25.8	5.4	59.6	-14.7
Cash at End of Year	28.7	34.1	93.7	79.0

Rating:	Buy
Valuation:	\$1.57
Price Target:	\$1.57

EARNINGS

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
Basic EPS (¢)	-1.8	-0.6	-4.5	19.0
Adjusted EPS (¢)	-2.0	-0.6	-4.5	19.0
EPS Growth (%)	0.0	0.0	0.0	100%
DPS (¢)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
CFPS (¢)	-0.4	0.0	-3.2	23.1

VALUATION

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
P/E (x)	N/A	N/A	N/A	5.4
EV/EBIT (x)	-4.5	-6.2	-14.2	1.3
EV/EBITDA (x)	-4.5	-13.5	-53.0	1.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Price to Book (X)	0.9	0.5	0.3	0.2

RETURNS

Year End: 30 June	2011 (A)	2012 (E)	2013 (E)	2014 (E)
EBITDA Margin (%)				50.3
EBIT Margin (%)				41.9
NPAT Margin (%)				39.3
Return on Assets (%)	0.8	1.3	-2.9	-1.2
Return on Equity (%)	-9.4	-1.9	-8.4	25.9
Asset Turnover (x)	0.0	0.0	0.0	0.4
Equity Multiplier (x)	1.1	1.0	1.7	1.5

RESOURCE SUMMARY (Moz)

Project – Deposit	M+I	I	Total	Grade (gpt)
Obotan Project:				
Nkran Deposit	2.50	1.02	3.52	2.54
Adubiaso Deposit	0.28	0.05	0.33	2.37
Abore Deposit	0.38	0.18	0.56	1.79
Asuadai Deposit	0.06	0.04	0.10	1.80
Total Obotan Project	3.22	1.29	4.51	2.38
Kubi Project:				
Total Kubi Project	0.23	0.12	0.35	5.42
Total PMI Gold Resource	3.45	1.41	4.86	2.60

KEY ASSUMPTIONS

Year End: 31 December	2011 (E)	2012 (E)	2013 (E)	2014 (E)
Exchange Rate (A\$/US\$)	1.02	0.985	0.92	0.87
Spot Gold Price (US\$/oz)	1,490	1,652	1,682	1,494

OVERVIEW

- We expect PMI Gold will complete its pre-feasibility study (PFS) on the Obotan project by the end of calendar year 2011, at which time we will receive more detailed guidance on the production scenarios it has progressed through scoping and PFS. PMI Gold is then hoping to initiate work on a bankable feasibility study (BFS) and secure a decision to mine by 30 June 2012. The PFS and subsequent BFS will significantly narrow the range in our assumptions between our modelled production scenarios and will give a better indication as to the ultimate viable scale and likely metrics of any operation that is potentially developed.
- We anticipate that PMI Gold will continue to make additional updates to its delineated resource estimates over the next twelve months as it progresses its work on both the PFS and BFS. The Company is also continuing to aggressively explore its early stage exploration prospects at Kubi and Asanko which are likely to also see resource updates this fiscal year.
- PMI Gold has quickly positioned itself as an explorer of impressive scale, with 4.86 million ounces of delineated gold resources elevating it above the majority of its West African peers in terms of resource size – Gryphon Minerals (GRY): 2 moz, Ampella Mining (AMX): 2.2 moz, and Azumah Resources (AZM): 1.7 moz.

PMI will continue to make additional updates to its delineated resource estimates over the next twelve months.

VALUATION

- We have valued PMI Gold using a range of operating scenarios. Given the early stage of development held by PMI Gold's flagship Obotan project (as an exploration project at a PFS stage), there is a high chance for variability that may arise between the subjective assumptions we have made (based on the size of the delineated resource) and what actual metrics the operation might ultimately have once it has progressed through feasibility to development. Given the likelihood for a high degree of variability we have valued PMI Gold through a number of different techniques to gain a perspective on its potential absolute and relative value, supported by some sensitivity analysis.

Risk

- The variability outlined above represents a significant portion of risk assigned to our estimates and is why we attribute a Very High risk rating to PMI Gold; typical for a Company at this stage of development.
- Although earlier in its development than some of its peers, we do not rate PMI Gold as being speculative in nature given the Company has already delineated a gold resource of 4.86 million ounces (much of which sits in higher confidence categories above inferred). While other key metrics are yet to be determined (such as cost), this means that PMI Gold is not as reliant on high risk greenfield exploration in order to potentially justify sustainable mining activities compared to some of its peer group who are undertaking aggressive drill campaigns focussed on locating new gold deposits.

Base Case

- Our set of base case assumptions have been made using a combination of PMI Gold's current size and grade of in situ resources, preliminary/scoping estimates, and detailed analysis of comparable gold operations in Ghana and other parts of West Africa.
- From this analysis, our base case assumptions include an operating mill with an annual throughput capacity of 3 million tonnes, an average grade through the mill of 2.5 grams per tonne (gpt), average recovery through the mill of 93 percent, gold output of approximately 200,000 ounces per annum, development capital expenditure (CAPEX) of \$230 million (including a 20 percent contingency), life-of-mine (LOM) unit operating cost (OPEX) of US\$670 per ounce and an estimated start up period for Obotan of early FY14.
- Our base case also assumes PMI Gold funds the development through a 60:40 Debt/Equity split, believing PMI Gold will have access to debt financing upon completion of its BFS on the Obotan project. This leaves it to follow a similar route to other emerging producers in the region: Perseus Mining (PRU) and Resolute Mining (RSG).

- This set of base assumptions is largely subjective and likely to change or evolve as the engineering and economic studies on the project advance; however, it does give us some indication of what value would be generated from an operation scaled to the in situ resource size PMI Gold has.

Upside Case

- The high case production scenario assumes increased throughput capacity of 4 million tonnes per annum (mtpa), with grade of 2.5 grams per tonne (grams per tonne), average recoveries of 93 percent and gold output capacity of approximately 250,000 ounces per annum. Our upside case also assumes that the current proposed tax changes released by the Ghanaian government are not implemented (with the corporate tax rate in Ghana remaining 25 percent).

Valuation Method #1 – P/NAV

- Judging the current share price relative to the net present value (NPV) of the Obotan project (base case) and the Company's delineated resources, assets, liabilities and likely funding outcomes generates an implied net asset value (NAV) of \$1.57 per share (Figure 1).
- The current share price therefore is trading at a discount to the Company's NAV with a current multiple (P/NAV) of 0.65 times. We note in our analysis of PMI Gold's peer group that the average P/NAV for West African explorers is 0.84 times, suggesting the stock is likely to re-rate significantly upon the release of the PFS and BFS (which could see our NAV revised).

FIG.1: VALUATION METHOD #1

P/NAV		
NAV Summary	A\$m	A\$/share
Obotan Project - NPV	448.22	1.52
Other Exploration Assets - in situ value	18.96	0.06
Total value of gold projects	467.17	1.59
Cash & cash equivalents	34.08	0.12
Working capital	1.26	0.00
Total financial assets	35.34	0.12
Net capital requirement estimate (\$230m capex est - \$24.9m cash balance)	195.52	
Equity funding		
Equity funding	78.21	0.27
<i>Equity % of financing mix</i>	<i>40%</i>	
Current number of shares on issues	m.shares	214.45
Additional shares to be issued (@ 5% discount)		79.92
Total shares on issue post estimated raisir	m.shares	294.37
Debt funding		
Debt funding	117.31	-0.40
<i>Debt % of financing mix</i>	<i>60%</i>	
Net Asset Value (fully funded/diluted)	463.41	1.57
Current share price (A\$/share)	1.03	
P/NAV (times)	0.65x	

Valuation Method #2 – DCF

- Constructing a theoretical discounted cash flow (DCF) model based on the assumptions in our base and high case scenarios gives us a valuation range for PMI Gold of \$1.54 to \$1.95 per share (Figure 2). This would indicate that the current share price of \$1.05 is trading at a 33 percent discount to the DCF on our base case production scenario. In this case our DCF valuation is very similar to our NAV.

FIG.2: VALUATION METHOD #2

DCF Method		
Valuation Summary	A\$m	A\$/share
Obotan Project (3mtpa throughput)	448.2	1.49
Kubi Project	19.0	0.06
Cash	24.9	0.08
Corporate	-30.0	-0.10
Total	462.1	1.54

Upside Valuation Summary		
	A\$m	A\$/share
Obotan Project (4mtpa throughput)	572.9	1.91
Kubi Project	19.0	0.06
Cash	24.9	0.08
Corporate	-30.0	-0.10
Total	586.7	1.95

If PMI Gold was unable to secure a decision to mine or critical project financing it would still be likely to re-rate to levels enjoyed by its peer group on news of subsequent exploration success.

Valuation Method #3 – Estimated In Situ Valuation

- Attempting to value PMI Gold as a pure explorer would suggest an estimated in situ valuation of \$2.07 per share. This is derived without considering a development scenario; by applying a reserve conversion factor to the existing delineated resource base, then attributing a 'residual value in the ground' to it of US\$120 per ounce (equivalent to 10 percent of our long-term gold price assumption of US\$1,200/oz) and spot currency. We maintain an assumption that additional capital would needed to be sourced to remain in business even as an explorer.
- This valuation is much higher than that of our other valuation methods given it is based on a multiple for gold priced in 'the ground' that does not apply as steep a risk weighting as that incorporated into our model.
- If PMI Gold was unable to secure a decision to mine or critical project financing it would still be likely to re-rate to levels enjoyed by its peer group on news of subsequent exploration success after some time (increasing the size and confidence of its resource estimates).

FIG.3: VALUATION METHOD #3

Estimated In Situ Valuation				
Summary	Moz	A\$m	Un-Financed	Fully Financed
			A\$/share	A\$/share (diluted)
Nkran	3.52	173.28	0.81	0.59
Adubiaso	0.33	16.66	0.08	0.06
Abore	0.56	27.31	0.13	0.09
Asuadai	0.10	4.42	0.02	0.02
Kubi	0.35	221.66	1.03	0.75
Total	4.86	443.33	2.07	1.51

Resource conversion factors applied:

- Measured resources	52%
- Indicated resources	40%
- Inferred resources	32%

Value per in situ ounce of gold A\$/oz 120

Current number of shares on issues m.shares 214.4
Shares on issue post estimated capital raising 294.4

Valuation Method #4 – Market Implied In Situ Valuation

- Applying a simple enterprise value (EV) per ounce of in situ resource (oz) indicates PMI Gold is currently trading on an EV/oz multiple of just A\$44.60 per ounce. This is at a deep discount to the average for its West African peer group which we estimate to be closer to \$129.30 per ounce.
- This sees PMI Gold trading at roughly one third its potential value based on the gold resources it has already delineated and justifies the more steady appreciation witnessed in the Company's share price since announcing its recent major resource upgrade.
- We recognise limiting factors to PMI Gold trading on the same multiple as the average as being associated with its near-term funding requirements. Given the present state of the market, funding has generally been considered expensive and not well received by risk-adverse investors in the market.

FIG.4: VALUATION METHOD #4

Market Implied In Situ Valuation

Summary		
Gold Resource Base	Moz	4.51
PMI Market Capitalisation	A\$m	226.0
Current Debt Balance		-
Cash Balance		24.9
Enterprise Value (EV)	A\$m	201.1
EV per In Situ Resource Ounce		
	A\$/oz	44.6
West African Peer Average - Explorer		144.3
West African Peer Average - Producer (excl. majors)		129.3
West African Peer Average (excl. majors)	A\$/oz	139.3
Discount to WA peer average	x	0.32x

Conclusion

- Given the size of PMI Gold's resource base it is unsurprising that the two in situ valuation methods indicate a larger discount to value in the current share price.
- Holding confidence that the management team will be able to successfully reach a decision to mine and establish mining activities at Obotan, we therefore rely on the P/NAV of 0.65 times (on an NAV of \$1.57/share) to derive our valuation of PMI Gold's business. This does not factor in any additional exploration success and we believe this discount represents suitable value for the Company at its current stage of development.
- We base our 12-month price target on our \$1.57 per share valuation, believing the Company can make significant progress towards development by mid-FY13, at which point our valuation could rise on a lower risk weighting.

Proposed Tax Change

- The proposed amendments to Ghana's mining tax law would see the corporate tax rate increase from its current 25 percent to 35 percent, from 1 January 2012. Obviously motivated by a global increase in mining rents, we consider this increase to be reasonable and have therefore already included it in our set of base case assumptions (lowering our base case valuation from \$1.73 to \$1.57 per share).
- Remaining an unknown factor is the proposed 'windfall profits tax', reportedly to be 10 percent. We await more detail on this as it comes to light however.

PROJECT OVERVIEW

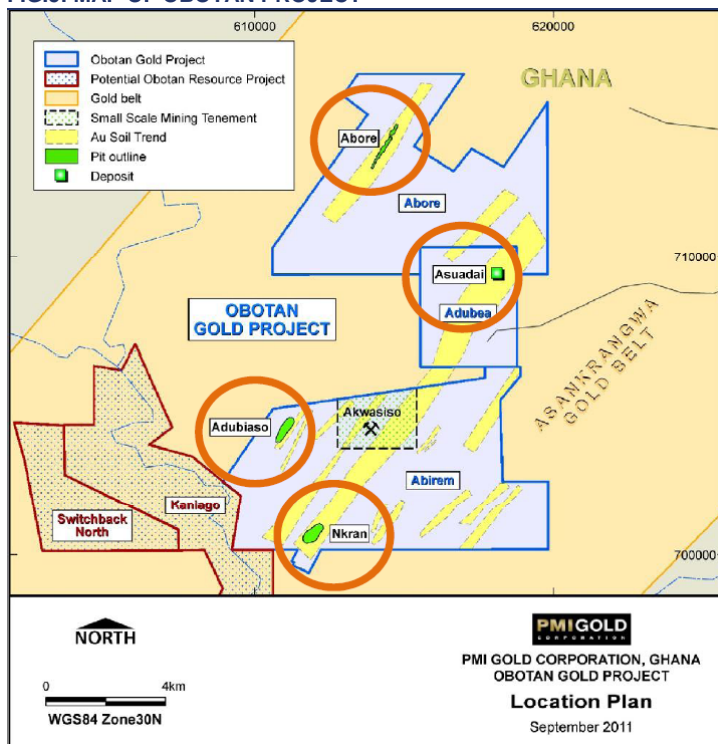
OBOTAN PROJECT

- The most advanced of PMI gold projects is Obotan which consists of a collection of adjacent neighbouring deposits (Nkran, Abore, Asuadai and Adubiaso) totalling a combined strike length of 17 kilometres (contained in a contiguous tenement package extending over 70 kilometres within the Asankrangwa Gold belt).
- The concessions are situated in the Amansie West District of the Ashanti Region of Ghana.
- The Company is currently advancing a prefeasibility study (PFS) on the project that is due to be completed by calendar year end 2011; it then intends to go straight into a bankable feasibility study (BFS) to be finished by mid 2012. This will hopefully coincide with the granting of mining approvals and a final investment decision (FID) and could conceivably see the project come on for first gold pour during 2013.
- **Location:** Obotan is located approximately 250 kilometres northwest of the Ghana capital, Accra. PMI Gold's collection of concessions lies within and is adjoining to a northern part of the Asankrangwa Gold Belt.

Throughout this region's history, a staggering 186 million ounces of gold has been delineated; hence it has been aptly named the 'Gold Triangle'.

This is where large accumulations of gold mineralisation have been encountered along the upper and lower Birimian age greenstone structures that are a dominant feature in southwest Ghana. Throughout this region's history, a staggering 186 million ounces of gold has been delineated; hence it has been aptly named the 'Gold Triangle'. The Birimian greenstone belts trend northeast and southwest through Ghana, Côte d'Ivoire, Burkina Faso, Mali and Guinea.

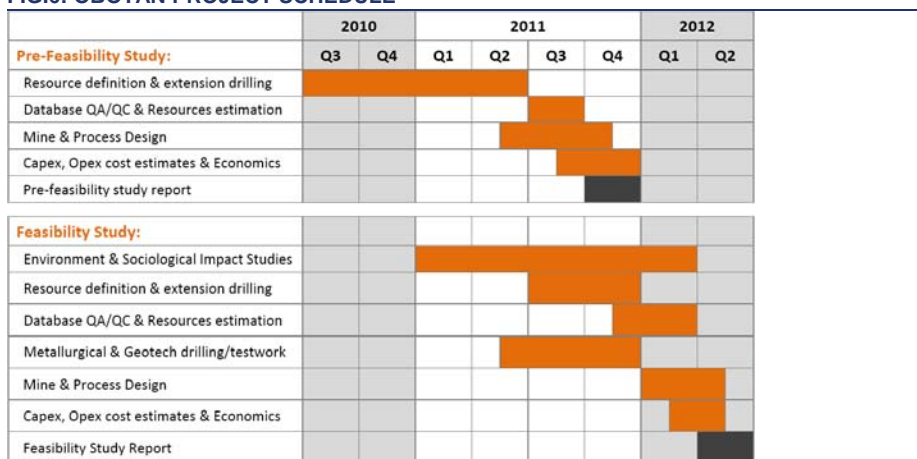
FIG.5: MAP OF OBOTAN PROJECT



Source: PVM

- **Geology:** The bulk of PMI Gold’s identified gold mineralisation and accumulated gold deposits sit within northeast trending shear zones associated with various intrusions and alterations that occur along or in close proximity to the boundaries of the Birimian greenstone structures/belts.
- The land is far from unexplored, having been previously explored and mined by its previous owners who collectively carried out substantial air, rotary and diamond core drilling on the tenements to identify and test geological mapping and resource development.
- The knowledge gained from this data collection has been used by PMI Gold to identify its targets and successfully grown its resource at Obotan to more than 4.5 million ounces.

FIG.6: OBOTAN PROJECT SCHEDULE



Source: PVM

History

- The Obotan project was developed and brought on for gold production in May 1997 by its past owner, Resolute Amansie Pty Ltd, a subsidiary of ASX-listed Company, Resolute Mining (RSG). Mining activities were carried out between 1997 and 2002 with around 730,000 ounces being mined at a recovered grade of approximately 2.2 grams per tonne (gpt). The gold ore was sourced from four open pits. The predominantly oxide ore posted extremely good recovery rates of approximately 95 percent during the plant’s time in operation.
- Resolute operated Obotan through drill and blast mining to a maximum depth of 171 metres by the end of the pit’s five year mine life. Resolute considered establishing an underground operation with deeper drilling demonstrating that gold mineralisation continued down plunge below their pit design – however plans were stalled by a then gold price of US\$350 per ounce and the land was handed back to the Ghanaian government in 2006.
- The plant Resolute used was designed and constructed by ASX-listed Lycopodium Limited (LYL) from Western Australia, a company that continues to do a lot of engineering and construction work for the mining industry in the region. The plant had throughput capacity of 1.4 million tonnes per annum (mtpa) and gold output of 120,000 ounces per annum (later expanded to 1.8mtpa throughput capacity).
- At the end of the mining activities, the plant was disassembled with large items sold off and the land given back to the Ghanaian government.

The current gold price is now six times what it was when the project was first developed.

Current Activities

- The economics of the deposit has grown inline with the steady rise of the gold price in recent years. The current gold price is now six times what it was when the project was first developed. PMI picked up the land from the Ghanaian government with a view that the operations could restart under much easier project economics thanks to the gold price. PMI

plans to expand the existing open pit and subsequently establish underground operations, which also remains a key focus of the PFS and BFS.

- PMI Gold is progressing a preliminary concept study and considering a typical CIL plant (carbon-in-leach). At this stage we anticipate the ultimate scale of the plant will be similar to that of historical operations and have modelled life-of-mine (LOM) throughput of 3 mtpa for the plant at an average recovery of 93 percent.
- **Early stage:** Prior to PMI Gold declaring a maiden reserve and completing a pre-feasibility and bankable feasibility study on the project, we are unable to accurately pinpoint and measure the ultimate profitability of a mining operation being established at Obotan. As a result the confidence level we hold in our theoretical discounted cash flow (DCF) model is very low and as a consequence we have instead treated our DCF model as just one of a number of methods used to determine a likely valuation range for the business, from which we derive our price target – discussed later in this report.

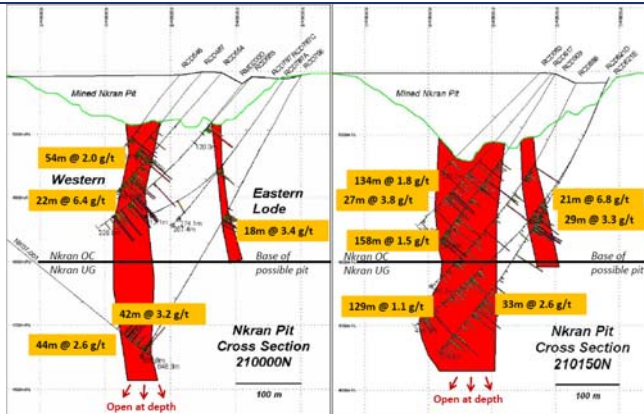
Resource

- When PMI Gold first listed on the ASX it already had a delineated resource estimate of 1.2 million ounces at an average grade of 2 grams per tonne (gpt), the result of historical mining/exploration activities. Confidence in these estimates was derived by detailed confirmation drilling carried out by PMI Gold after it acquired the project. This involved 62 additional diamond core drill holes sunk into the various deposits that make up the Obotan project to 'refresh' the existing resource estimates. The drilling also offered greater confidence to the 1.2 million in situ ounces PMI estimated at the time of listing on the ASX (October 2010). PMI Gold has been a very busy explorer as it progresses the PFS, with 29,000 metres of drilling completed in 2011 from its 40,000 metre program.
- Last month PMI Gold announced that it had more than tripled its previous resource estimate as part of its drill program supporting the PFS. The results saw an interim delineated resources rise to an impressive 4.51 million ounces at an average in situ grade of 2.4 gpt, at a 0.5 gpt cut-off grade (JORC/NI 43-101 compliant). 72 percent of the resource at Obotan sits within the measured and indicated resource categories, showing some reasonable continuity of the identified mineralised zones.

Nkran Deposit

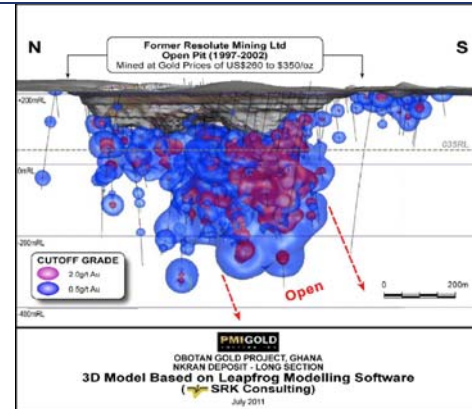
- Just over 75 percent of the 4.51 million ounce resource at Obotan sits within the Nkran deposit, which was also the focus of mining activities of its past owners.
- PMI Gold is not looking to reinvent the wheel with the Obotan project, but rather expand the operating and resource scale of the previous project under a much healthy gold pricing environment that has allowed a dramatic drop off in cut-off grades and a sustainable increase in operating and capital costs.
- **Resource upside remains:** Sample results from an additional 75 holes drilled (18,783 metres) are yet to come back from the labs.
- This drilling was a mix of in-fill and step-out drilling that could see subsequent resource gains in terms of size and estimate confidence. Beyond the work already being done in this drill program, additional resource potential remains at depth and to the south along strike.

FIG.7: NKARAN DEPOSIT CROSS SECTION



Source: PVM

FIG.8: NKARAN DEPOSIT LONG SECTION



Source: PVM

KUBI PROJECT

- Kubi comprises the Kubi Mining Leases and the Dunkwa Gyimigya prospecting licence in the Ashanti and central regions of Ghana 170 kilometres northwest of Accra.
- PMI Gold acquired the Kubi project in September 2007 from Canadian miner Nevsun Resources Ltd, located just 20 kilometres south of AngloGold Ashanti's mammoth Obuasi mine (60 Moz) and 65 kilometres southeast of the Obotan project.

Geology:

- The Kubi project sits directly on top of the contact between the northeast and southwest Birimian and Tarkwaian structures and a major north to south trending fault line, with the main deposit at Kubi sitting adjacent to the Birimian-Tarkwaian trend. The mineralisation is much thinner in occurrence relative to Obotan.
- A key feature in the Kubi project is the garnet structures that is prevalent across the concessions and constitutes 85 percent of the main resource at Kubi in quartz veins that occur within shear zones.

History

- 59,000 ounces of gold from surface oxide ore at an average grade of 3.65 gpt was mined out of two shallow pits at Kubi between 1999 and 2006 by AngloGold Ashanti. Since PMI Gold took ownership of Kubi, it has retained the mining licence and a 90 percent interest in the project with the Ghanaian government retaining a 10 percent free carry interest (as is common practice in Ghana).

Progress

- PMI Gold is currently progressing its highly active 2011 exploration drill campaign on Kubi following up on gold anomalies identified during geochemical and geophysical mapping. A resource update at Kubi was not announced as part of the major interim resource released to the market last week at the Obotan project – PMI Gold is continuing an aggressive exploration program designed to assess the resource potential at Kubi to support a standalone mine of approximately 100,000 ounce per annum mine operation.
- The project is currently the subject of resource development to determine if mining activities can be viably developed. The success of the resource development is due to be evaluated in mid-2012, with an aim at determining whether the project should progress to a pre-feasibility study.
- The basis of the pre-feasibility study would be to determine whether (if developed) Kubi will be more value accretive as either a standalone project with its own mill (dependent on

additional feed sources), or as a direct shipping ore (DSO) producer of unprocessed gold ore.

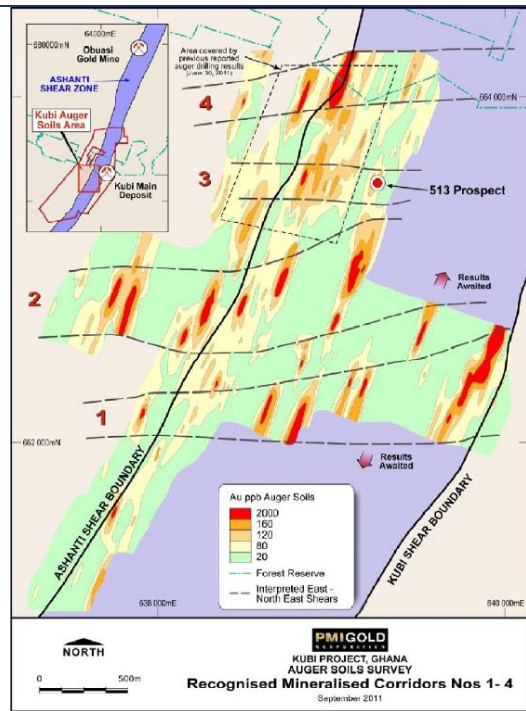
- We currently value the early stage Kubi project at just \$0.06 per share, assuming a conservative amount of recovered gold to be fed into the Obotan mill as a satellite deposit. Considerable potential for the project to be developed as a standalone remains present, dependent on additional exploration success from activities and studies now being carried out.

FIG.9: KUBI PROJECT MAP



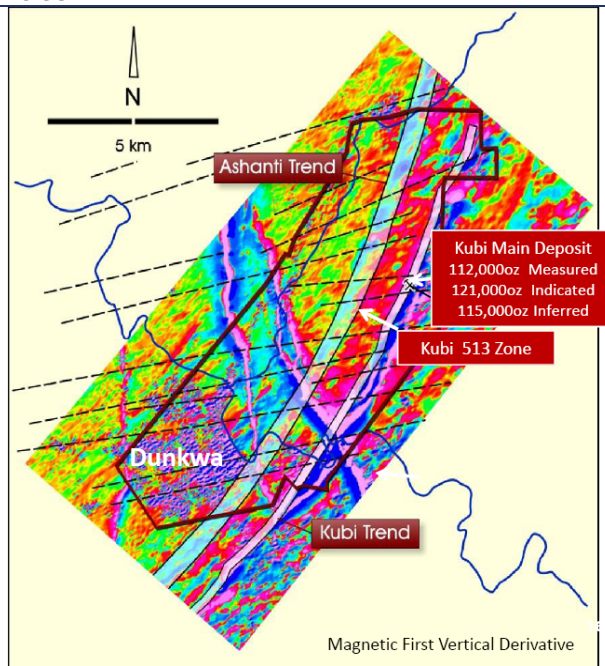
Source: PVM

FIG.10: KUBI GOLD ANOMALISM



Source: PVM

FIG.11: KUBI PROJECT AEROMAGNETIC SURVEY



Source: PVM

ASANKO (ASANKRANGWA) PROJECT

- **Regional exploration:** PMI Gold has also stepped up its exploration work on regional targets in an attempt to locate new gold deposits. This could potentially be used to support the economic incentive for the company to progress feasibility work on both the Obotan and Kubi projects. At present the Asanko project is not incorporated into our base case valuation of PMI Gold given its early stage of exploration.

ROYALTIES

- If it reaches active mining, PMI Gold will be subject to a five percent royalty imposed by the Ghanaian government and an additional two percent royalty to Goknet Mining Company Limited (or other original vendors) for the Obotan project. Meanwhile, its Kubi project will incur the Ghanaian government royalty in addition to a three percent royalty to Canadian-group, Royal Gold.
- In addition to the government royalty, the government of Ghana will also take a free-carry 10 percent interest in the project – as is common practice in Ghana/West Africa.

Ghana has a modernised and transparent tax regime, a progressive legal system, a mature mining industry and subsequently a growing highly skilled labour force.

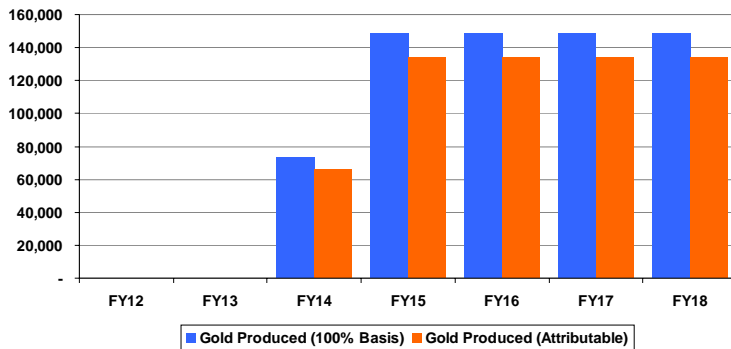
GHANA

- While Ghana has enjoyed stability in recent years and is viewed by many institutions as one of the lowest risk African countries, the Country still remains a much higher risk environment compared to Australia. Ghana has a modernised and transparent tax regime, a progressive legal system, a mature mining industry and subsequently a growing highly-skilled labour force (in mining).
- Given the years of stability and the last political elections (that were conducted peacefully) we attribute a much lower risk rating to Ghana as a mining environment, relative to some of its neighbours – such as Côte d'Ivoire; however we continue to recognise Ghana's remaining underlying issues such as corruption.
- The proposed amendments to Ghana's mining tax law would see the corporate tax rate increase from its current 25 percent to 35 percent, from as soon as 1 January 2012. Obviously motivated by the global increase in mining rents, we consider this increase to be reasonable and have therefore already included it in our set of base case assumptions (lowering our base case valuation from \$1.73 to \$1.57 per share).
- Remaining an unknown factor is the proposed 'windfall profits tax', reportedly to be 10 percent. We await more detail on this as it comes to light however.

PRODUCTION SCENARIOS

- We have valued PMI Gold using two potential production scenarios, based on a plant with throughput capacity of 3-4 mtpa. This in our view can be used as reasonable estimates to model based on the size of the delineated ore body. On our assumptions of an average mined grade of 2.5 gpt we see PMI Gold producing gold of between 200,000 and 250,000 ounces per annum from Obotan on a 100 percent basis.
- It is important to note that these are just ballpark assumptions based on preliminary exploration data and observations from comparables in the region. We have attributed an increased risk weighting to our numbers to try and accommodate for the added risk of attempting to model a non-producing asset.

FIG.12: PRODUCTION OUTLOOK



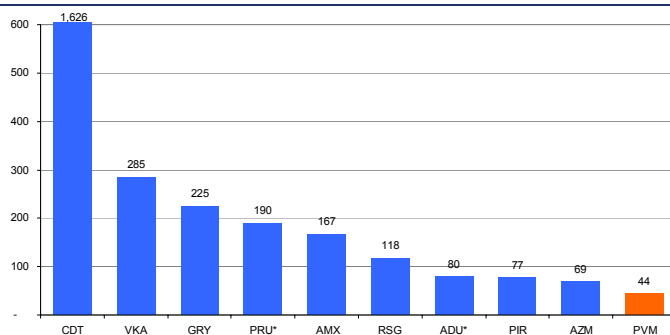
We like PMI Gold for the strategic advantage it holds over its fellow West African gold explorers given the size and grade of its delineated resource.

Source: Baillieu Research

KEY COMPARABLES

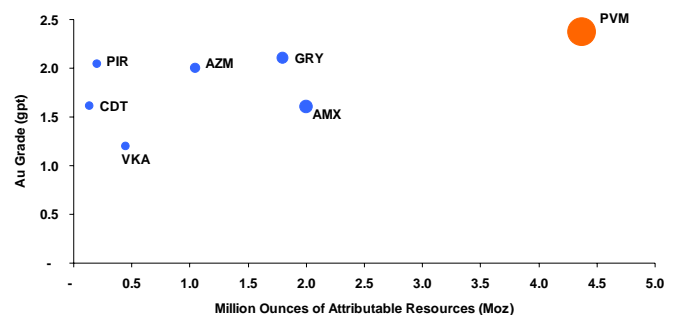
- We like PMI Gold for the strategic advantage it holds over its fellow West African gold explorers given the size and grade of its delineated resource. This has left PMI Gold with the cheapest enterprise value to resource ounce multiple of any of the West African gold explorers we cover.
- We identify some of PMI Gold’s more advanced peers that successfully reached production in recent years (such as Resolute Mining (RSG) and Perseus Mining (PRU)), as supplying a blueprint for PMI Gold to follow to production. We view these comparables as being indicative of the kind of multiple PMI Gold might ultimately be capable of achieving should the Company succeed in developing sustainable mining operations.
- While early stage in terms of mining development, the size of the resource PMI Gold has developed at the Obotan project has already elevated the Company above some of its exploring peer group. With exploration risk extremely high amongst greenfield explorers, this delivers a clear strategic and competitive advantage to PMI Gold.

FIG.13: EV PER ATTRIBUTABLE RESOURCE OUNCE (A\$/oz)



Source: Company Data, Baillieu Research

FIG.14: EXPLORERS RESOURCE BASE COMPARISON (ATTRIBUTABLE OUNCES BASIS)



Source: Company Data, Baillieu Research

INVESTMENT VIEW

- PMI Gold's share price saw a strong re-rating last month when it announced that it had expanded its resource base at Obotan by 270 percent. This is a staggering increase and has elevated PMI Gold significantly ahead of its exploring peers in West Africa under our research coverage.
- While appearing cheap on a basis of enterprise value per ounce of resource, we recognise that PMI Gold is already trading at a 16 percent discount to our base case valuation of \$1.57 per share. This reinforces our view that the stock is unlikely to re-rate strongly prior to the results of the PFS (in the absence of an unexpected gold price rally).
- At this stage there is some justification for this discount, with the Company yet to secure funding or complete feasibility studies on any potential operation. However, we view the large number of more advanced comparables, the magnitude of its resource base and its reasonable in situ grades as supporting a compelling case to assume development will proceed.
- We maintain the view that while PMI Gold is young in its development, progression of its PFS and subsequent BFS will see the stock re-rated as development risk is progressively mitigated.
- We expect the Company will be able to form a viable basis to justify investment and establishment of a mining operation at Obotan, which will help the Company's shareholders to realise its compelling value as the development is gradually de-risked.
- **Rating:** We initiate coverage of PMI Gold with a Buy rating and a \$1.57 per share 12-month price target. We maintain the view that PMI Gold will be able to achieve this upside upon completion of its PFS and BFS, with upside potential beyond our numbers a strong possibility due to the Company's large ongoing (and so far successful) exploration program.

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TOP 10 SHAREHOLDERS (ASX & TSX)

- PMI is widely held by North American institutions through its Toronto (TSX) listing, where the Company has long been listed. PMI Gold first listed in Australia on the ASX in December 2010 at an initial listing price of \$0.70 per share.
- The TSX listing is host to a collection of mostly North American institutions with the Top 20 shareholders of the PMI Gold shares listed in Toronto (PMV CN) holding 50 percent of its listed shares. The register in Australia meanwhile remains open.

Top 10 shareholders

- 1.) Waratah Investments – 12.68% (TSX)
- 2.) Macquarie Group – 12.25% (TSX)
- 3.) Mr. James Miller – 7.10% (TSX)
- 4.) Commonwealth Bank – 2.81% (TSX)
- 5.) US Global Investors – 2.67% (TSX)
- 6.) US Global Investors – 2.53% (ASX)
- 7.) RBC Global Asset Management – 2.11% (TSX)
- 8.) Westpac Banking Corporation – 2.02% (TSX)
- 9.) Nestor Investment Management – 1.86% (TSX)
- 10.) Mr. Ross Ashton (PMI Director) – 1.19% (TSX)

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Hold: The stock's total return is expected to trade within a range of $\pm 10-15$ percent from the current share price over the next 12 months.

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