

### PMI Gold Corporation (TSXV: PMV) – Completes a \$3.65 million financing; Evaluating potential for toll milling operation; Upgrading rating to BUY

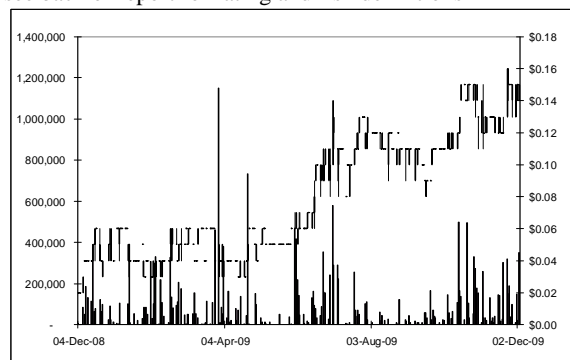
Sector/Industry: Junior Mining/Gold

[www.pmigoldcorp.com](http://www.pmigoldcorp.com)

#### Market Data (as of December 4, 2009)

Current Price	C\$0.14
Fair Value	C\$0.23 (↑)
Rating*	BUY (↑)
Risk*	5 (Highly Spec)
52 Week Range	C\$0.02 - C\$0.16
Shares O/S	187.44 mm
Market Cap	C\$26.24 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.83
YoY Return	600.0%
YoY TSXV	105.3%

\*see back of report for rating and risk definitions



#### Investment Highlights:

- At the end of FY2009 (12 month period ended June 2009), the company had a working capital deficit of \$5.27 million. Since then, the company has raised \$5.15 million. We estimate PMV's current working capital deficit has dropped to about \$1.1 million.
- We are pleased to see that the company was able to raise so much capital in such a short period of time. However, the company must at least raise an additional \$1.1 million before it can move to a working capital surplus.
- The company has paid in full all amounts outstanding to Trafalgar Capital Specialized Investment Fund with respect to a \$3.5 million bridge loan originally advanced on July 8, 2008.
- A new gold mineralized garnet zone has been intersected in recent drilling at the Kubi Gold Project in Ghana.
- The next phase of exploration drilling, to follow up on the new discovery, will initiate shortly
- The company is also commencing a third party review of near surface gold resources that may remain at the Obotan Gold project, with respect to a potential toll milling operation.
- We raised our valuation from \$0.14 per share, to \$0.23 per share, and upgraded our HOLD rating to a BUY.

#### Key Financial Data (FYE - June 30)

(C\$)	2009	Q1-2010
Cash	161,698	20,572
Working Capital	(5,270,377)	(4,434,631)
Mineral Properties	19,507,068	19,904,027
Total Assets	19,821,167	19,970,316
LT Debt	-	-
Net Income	(3,506,689)	(502,314)
EPS	(0.04)	(0.00)

PMI Gold Corporation controls two advanced stage gold properties in Ghana where they are exploring for gold under former open pit mines. The company is currently planning to pursue a lower CAPEX direct shipping option.

***Pays off bridge loan to Trafalgar Capital***

At the end of FY2009 (12 month period ended June 2009), the company was facing serious liquidity problems due to its bridge loan and other short-term liabilities, which had resulted in a working capital deficit of about \$5.27 million. Since July, PMV raised gross proceeds of \$5.15 million to pay down its liabilities, and to expand the drilling program at the Kubi Gold project. On October 21, 2009, the company announced that it has paid in full all amounts outstanding to Trafalgar Capital Specialized Investment Fund with respect to the \$3.5 million bridge loan.

The company has been successfully lowering its working capital deficit in the past few months through the following financings:

- In July 2009, PMV raised gross proceeds of **\$1.50 million by issuing 30 million units at \$0.05 per unit**. Each unit consists of one common share and one warrant (exercise price: \$0.10 per share; and maturity date: July 2011).
- In October 2009, PMV raised gross proceeds of **\$3.65 million by issuing 36.46 million units at \$0.10 per unit**. Each unit is comprised of one common share and one warrant (exercise price: \$0.15 per share; and maturity date: October 2011).

Although these financings were completed at low prices (leading to significant share dilution), they helped the company to retire its outstanding secured debt, which we believe was a bigger problem than share dilution. As a result of the above financings, we estimate the company has lowered its working capital deficit to \$1.10 million (of which \$0.25 million is due to related parties). Therefore, PMV must continue to raise capital to move to a working capital surplus position.

***Stock Options and Warrants***

We estimate the company currently has 14.47 million options (weighted average exercise price of \$0.12) outstanding. In addition, the company has a total of 105.58 million warrants outstanding with a weighted average exercise price of \$0.11 per share; 66.57 million of these are currently ‘in-the-money’. **The company can raise up to \$5.95 million if all the ‘in-the-money’ options and warrants are exercised.**

0.52 million warrants expiring on March 10, 2010, and 2.66 million warrants expiring on August 28, 2010, have a forced exercise provision: warrant holders must exercise the warrants within 30 days if the closing price is greater than \$0.12 for 10 consecutive trading days or the warrants will expire. **We believe there is a high probability that most of these warrants are already exercised, as the forced exercise provision was likely triggered on October 26, 2009. The company would have raised up to \$0.32 million if these warrants were exercised.**

***Direct Shipping Option for Kubi and Obotan***

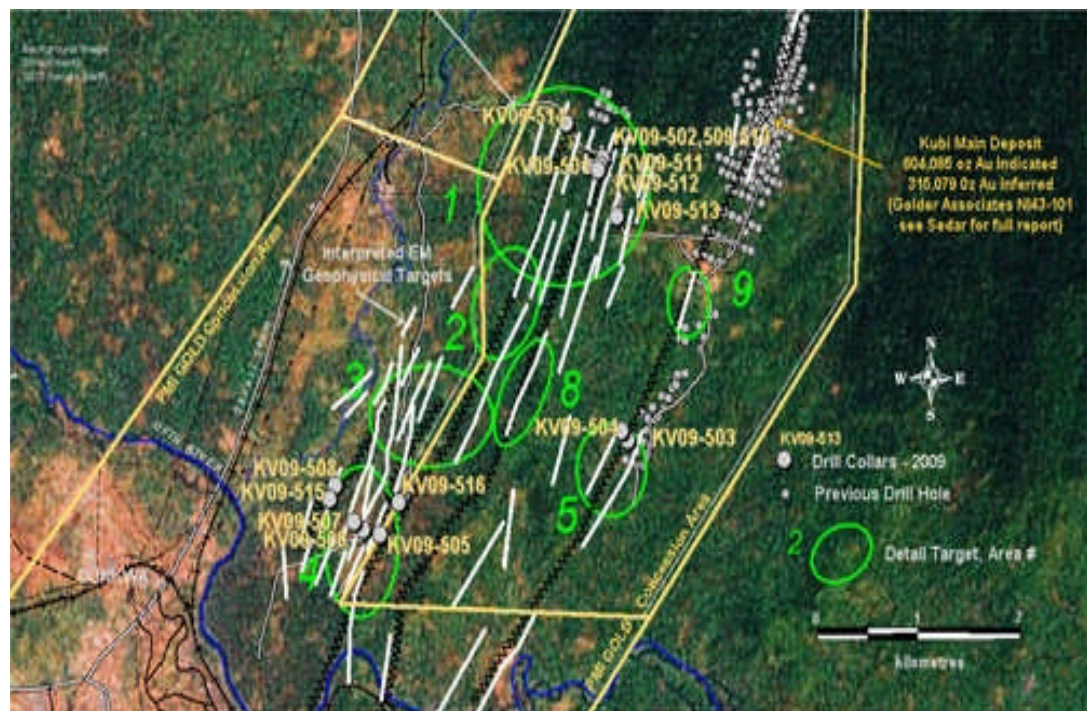
The company is currently focusing on raising US\$25 million to develop the Kubi Gold mine, and to prepare its other gold projects for production. In our previous reports, we had discussed the company’s plans to use the proceeds to direct ship ore from its Kubi property to third party mills, and start generating cash flows. According to management, to commence direct shipping, pre-production expenditures of about US\$20 million are required.

Near surface mineralization at the Obotan property is also under review for direct shipping. PMI is currently contracting an engineer to re-estimate the resources at the Obotan Mine (Nkra, Adubiaso and Abore pits), since Resolute Mining Ltd (ASX: RSG) last estimated them in 2005. Resolute reported Australian JORC compliant resources totaling 596,257 oz @ 2.74 g/t gold in the measured, indicated and inferred categories.

PMI is currently in discussions with third party plants with regard to the possibility of shipping ore from Obotan. **This option benefits the company in three ways – 1) near-term cash flow potential, 2) lower capital expenditures, and 3) potential to utilize the generated cash flows to build the Kubi and Nkran underground mines.**

***New gold mineralized garnet zone intersected***

In September 2009, PMV announced that a new gold mineralized garnet zone was intersected in the second phase of its 2009 drilling program at the Kubi Gold project in Ghana. The second phase consisted of a 903 meter, 8 hole program.



*Drill holes KV-09-509, 510, 511, 512 and 515 were step outs following up on anomalous gold results from the Phase 1 program; and drill holes 513, 514 and 516 were 'wildcat' holes testing additional ground and airborne EM conductors*

*Source: PMI Gold*

Gold mineralization was noted in hole KV-09-513 (which is located 1.2 km from the Kubi main deposit) from 69.0m to 75.8m. Best assays were 2.57 g/t Au over a core length of 1.75m at a depth of 72.0m, within the mineralized garnet zone assaying 1.07 g/t Au over its full 6.8m length. True widths were estimated at 70% to 80% of the indicated core lengths.

Hole KV-09-517 (25m step out to the north of KV-09-513) also intersected the mineralized garnet zone grading 3.76 g/t Au over a core length of 4.75m at a depth of 85.0m.

PMV also reported that ground geophysical surveys were completed with favorable EM, high IP and resistivity responses for several hundred meters to the south of the new discovery. There were no other significant assays from the drill program.

In November 2009, the company started a 2,800 meter, 28 hole diamond drilling program on the Abore, Adubiaso, African Star and Edubia targets. The object of the program is to confirm the extensive previous drilling database, and allow for the preparation of an initial NI 43-101 resource estimate of any remaining, potentially direct shippable, surface gold resources. The drilling program is expected to be completed by the end of January 2010.

### **Outlook on Gold**

Our short-term forecasts are US\$975/oz for 2010, and US\$850/oz for 2011. We expect prices to converge to our long-term (2012+) forecast of US\$750/oz (up from US\$600/oz at the time of our previous report), as the US economy recovers and investor confidence improves. Both these factors will result in a drop in the investment demand for gold as investors move their capital from ‘capital preservation’ assets to investments with higher expected returns.

### **Valuation**

In our previous report, we had valued the company’s projects based on the assumption of a central processing plant, and that the company will process its ore on-site. Our revised Discounted Cash Flow (DCF) model assumes the company will direct ship ore from both Kubi and Obotan in the first four years. We have assumed the company would be able to setup its own facility (funded by cash flows in the first four years from direct shipping, and external financings), and start processing ore on-site from Year 5. The following table shows a summary of our revised DCF model.

<b>DCF Valuation Summary</b>	
Resource (in tonnes)	15,690,113
Recovery (%)	90.0%
Recovered Metal (in troy oz)	1,255,409
Production Commencement	2,011
Mine Life (in years)	14
Long-Term Au Price (US\$/oz)	\$750
Average Operating Costs (US\$/t) - toll milling	\$48.6
Average Operating Costs (US\$/oz) - on-site	\$336
Capital Costs (in \$) - toll milling	\$20,000,000
Capital Costs (in \$) - on-site operation - 3,000tpd	\$58,500,000
Discount Rate	14.5%
<b>Net Present Value</b>	<b>\$34,213,792</b>
Working Capital	-\$1,094,974
LT Debt	-
<b>Net Fair Value</b>	<b>\$33,118,818</b>
No. of Shares (diluted)	223,758,649
<b>Value per Share</b>	<b>\$0.15</b>

*Note - Resource estimates include 100% of measured and indicated, and 50% of inferred*

Our revised valuation increased from \$20.58 million (\$0.12 per share), to \$33.19 million (\$0.15 per share) primarily because of higher gold price forecasts, and short-term cash flows (from direct shipping), offset by slightly higher operating cost estimates, and an increase in royalties from 3% to 6% (Ghana recently announced its plans to double mineral royalties to 6%). In our previous report, we had deducted our estimate of the probable bankruptcy costs from our fair value estimate, considering the significant working capital deficit at that time. As the company has considerably lowered its working capital deficit in the past few months, we no longer apply bankruptcy costs to our fair value estimate.

The sensitivity of our DCF valuation to gold prices is shown below.

Gold (US\$/oz)	Fair Value
\$450	-\$0.26
\$600	-\$0.06
\$750	\$0.15
\$900	\$0.35
\$1,050	\$0.56
\$1,200	\$0.76

As shown in the table, our valuation ranges from (\$0.26) per share, to \$0.76 per share, as gold price forecasts range from US\$450 to US\$1,200/oz.

Our revised real options valuation increased from \$0.16 to \$0.27 per share.

Real Options Valuation			
Inputs relating to the underlying asset			
Estd. Value of Minerals if extracted today (\$)		\$98,623,102	
Annualized Standard Deviation of Mineral prices		19%	
Capital Investment (\$)		\$64,409,310	
Estd. Mine Life (years)		14	
Riskfree Rate		3.5%	
Output			
Stock Price	\$98,623,102	T.Bond rate	3.55%
Strike Price	\$64,409,310	Variance	0.04
Expiration (in years)	14	Annualized div yield	0%
d1 =	1.654	Value of Option	\$61,372,345
N(d1) =	0.951	Working Capital	-\$1,094,974
d2 =	0.943	<b>Fair Value</b>	<b>\$60,277,371</b>
N(d2) =	0.827	No of shares (Dil.)	223,758,649
		<b>Value per share</b>	<b>\$0.27</b>

Our comparables valuation model (which we introduced in this report) gave a fair value estimate of \$0.28 per share (based on an average enterprise value to resource ratio of \$46/oz).

	<b>Company</b>	<b>SYM</b>	<b>EV / Resources</b>
<b>1</b>	US Gold Corporation	AMEX: UXG	<b>\$102.2</b>
<b>2</b>	Silverado Gold Mines Ltd.	OTCBB: SLGLF	<b>\$51.8</b>
<b>3</b>	NioGold Mining Corporation	TSXV: NOX	<b>\$70.4</b>
<b>4</b>	J-Pacific Gold Inc.	TSXV: JPN	<b>\$53.7</b>
<b>5</b>	Golden Band Resources Inc.	TSXV: GBN	<b>\$42.4</b>
<b>6</b>	Harvest Gold Corp.	TSXV: HVG	<b>\$35.0</b>
<b>7</b>	Garson Gold Corp.	TSXV: GG	<b>\$34.0</b>
<b>8</b>	Sutter Gold Mining Inc	TSXV: SGM	<b>\$28.7</b>
<b>9</b>	Rye Patch Gold Corp.	TSXV: RPM	<b>\$22.8</b>
<b>10</b>	Midway Gold Corp.	TSXV: MDW	<b>\$21.3</b>
	<b>Average EV / Resources</b>		<b>\$46.2</b>
	<b>Fair Value of PMI</b>		<b>\$0.28</b>

\* Resources include all measured and indicated, and half of inferred and historical resources

The average revised valuation on the company (based on our DCF, real options and comparables valuation models) is \$0.23 per share (up from \$0.14 per share at the time of our previous report).

<b>Valuation Summary</b>	
DCF	\$0.15
Real Options	\$0.27
Comparables	\$0.28
<b>Average</b>	<b>\$0.23</b>

### **Conclusion & Rating**

We are pleased with the company's progress since our previous report in August 2009. Management's ability to raise a significant amount of cash in times of distress has significantly raised our confidence in the company. Although the company is still in a working capital deficit (of about \$1.1 million), we do not believe it is a major concern primarily because - a) the company continues to spend money on its properties which, we believe, indicates management's confidence that they will be able to raise additional capital very quickly, or delay its current payables; b) we believe it is likely the company will be able to raise additional capital in the near-term because of the strong gold market and the company's near-term cash potential.

**Therefore, based on our revised valuation and review of the company's progress since our previous report, we raise our fair value estimate from \$0.14 per share, to \$0.23 per share, and upgrade our rating from HOLD to BUY.**

**Risks** The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The success of drilling, project studies, and project development are important long-term success factors for the company.
- Liquidity risks – the company is still in a working capital deficit.
- The value of the company depends on commodity prices.
- The company does not currently have any operating mines.
- Access to capital and share dilution.

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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