

Premier Gold Mines Limited (TSX: PG)

Disappointing 2019 / Shares remain undervalued relative to comparables

BUY

Current Price: C\$0.95

Fair Value: C\$2.99

Implied Upside: 214%

Risk: 4

Sector / Industry: Mining

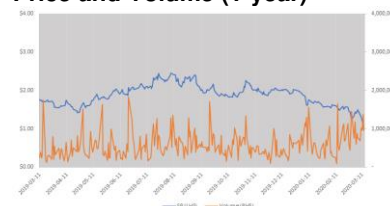
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Highlights

- In 2019, Premier Gold Mines Limited (“Premier”, “company”) produced 67.5 Koz of gold, including 60 Koz from the Mercedes mine (100% owned) and 7.5 Koz from the South Arturo mine (60% owned by Nevada Gold Mines of Newmont Corporation / NYSE: NEM and Barrick Gold / TSX: ABX). **Mercedes’ production fell significantly below expectations, while South Arturo’s production beat our expectations.**
- 2019 revenue was down 18% YoY to \$94 million versus our estimate of \$99 million. EBITDA was down 67% YoY to \$10 million versus our estimate of \$14 million.
- An unexpected decline in grades resulted in the lower production at Mercedes. We are revising our 2020 gold production forecast from 87.5 Koz to 77.5 Koz, including 60 Koz from Mercedes and 17.5 Koz from South Arturo.
- **Our revised 2020 net loss estimate is \$20 million (EPS: -\$0.10) vs \$18 million (EPS: -\$0.09) previously.** We are using a gold price forecast of \$1,550 per oz in 2020, versus our previous estimate of \$1,350 made in November 2019.
- Despite a \$80 per oz drop in the price of gold today, gold continues to outperform other mainstream commodities as investors pursue capital preservation to combat rising panic from the coronavirus. **We speculate gold prices will be very volatile in the next couple of quarters.**
- In December 2019, the company suffered a setback on the flagship Greenstone Gold project in Ontario when its partner Centerra Gold (TSX: CG), commenced a claim stating that a feasibility study completed on the project did not meet the agreed criteria. A trial has been scheduled to begin in October 2020. Although disappointing, we believe the parties are likely to come to an agreement, especially considering that Centerra has already paid Premier C\$96 million, and spent over C\$140 million on the project.
- **Premier’s shares are undervalued based on five of the six industry average valuation metrics we used for our analysis.** Premier’s forward Enterprise Value (“EV”) to Revenue is 1.5x versus the Gold Producers’ average of 2.3x. Premier’s EV / reserve is \$55 per oz versus the Gold Producers’ average of \$365.

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Price and Volume (1-year)



	YTD	12m
Ret.	-50.8%	-44.3%
TSX	-24.0%	-19.4%

Company Data (as of March 11, 2020)

52 Week Range	C\$0.93 - C\$2.55
Shares O/S	237,295,482
Market Cap.	C\$225.43 million
Yield (forward)	N/A
P/E (forward)	N/A
P/B	0.6x

Key Financial Data (FYE - Dec 31)

US\$ millions except EPS	2017	2018	2019	2020E	2021E
Revenues	\$200.31	\$113.87	\$93.75	\$117.25	\$124.36
Net Income	\$16.17	(\$20.43)	(\$19.95)	(\$19.60)	(\$20.64)
EPS	\$0.08	(\$0.10)	(\$0.10)	(\$0.08)	(\$0.09)
Cash and cash equivalents	\$103.05	\$43.88	\$58.41	\$16.07	\$8.16
Working Capital	\$85.83	\$53.56	\$16.22	\$4.93	(\$26.73)
LT Debt	\$22.51	\$11.39	\$19.37	\$26.31	\$19.75

*See last page of this report for important disclosures, rating and risk definitions. All figures in US\$ unless otherwise specified.

* Moz: million ounces / Koz: thousand ounces / AT – NPV: After Tax - Net Present Value / AT – IRR: After Tax – Internal Rate of Return

Overview

A snapshot of Premier's portfolio is shown below. The portfolio (unchanged from our previous report) includes **eight projects** including two operating mines, two advanced development stage projects, and four exploration stage projects. Among the eight projects, one is in Mexico, four in Nevada, and three in Ontario.

Premier's Portfolio

Producing	Advanced Stage Development	Exploration
1. Mercedes Mine, Mexico	1. Cove, Nevada	1. Rahill-Bonanza (44% interest)
* 100% Premier (acquired from Yamana)	* 100% Premier	* Red Lake, Ontario, Canada
* Underground Mine	* Completed PEA in 2018	2. Hasaga Gold Property (Premier 100%)
* Production 2019: 60 Koz	:AT - NPV @ 5% of \$142M at \$1,250 per oz gold	* Red Lake, Ontario, Canada
	:Cash cost of \$790 per oz	*1.1 Moz M&I + 0.6 Moz Inferred Resource
		3. McCoy - Cove, Nevada
2. South Arturo Mine, Nevada, U.S.	2. Greenstone Gold, Ontario	* 100% Premier
* 60% Nevada Gold Mines / 40% Premier (acquired from Goldcorp)	Premier 50% / Centerra 50%	4: Rye - Goldbanks, Nevada
* Open Pit and Underground	Centerra sole-funding C\$185M (C\$140M spent by the end of 2019)	* Premier earning a 100% of Goldbanks from Kinross
* Production 2019: 7.5 Koz	* Completed FS in 2016	* Premier earning a 100% of Rye from Nevada Gold Mines
	:AT - NPV @ 5% of C\$709M at \$1,250 per oz gold	
	:AISC of C\$780 per oz	

Source: Company / FRC

The company's portfolio has combined reserves and resources (measured, indicated, and inferred) of **10.1 Moz** gold (unchanged from our previous report). Resources are spread across five of Premier's eight properties. **2019 year-end reserve / resource numbers are expected shortly.**

Global Reserves (attributable to Premier)

PROPERTY	PROVEN RESERVES			PROBABLE RESERVES			PROVEN+PROBABLE RESERVES		
	Tonnes Mt.	Grade g/t Au	Au Ounces '000s	Tonnes Mt.	Grade g/t Au	Au Ounces '000s	Tonnes Mt.	Grade g/t Au	Au Ounces '000s
Greenstone (Hardrock)*	-	-	-	70.85	1.02	2,142	70.85	1.02	2,142
Mercedes**	0.19	3.32	27	3.19	3.31	329	3.38	3.63	395
South Arturo***	1.51	3.20	155	1.34	2.79	120	2.84	3.01	275
TOTAL	1.70	3.87	211	75.38	1.15	2,783	77.08	1.21	2,994

PROPERTY	PROVEN RESERVES			PROBABLE RESERVES			PROVEN+PROBABLE RESERVES		
	Tonnes Mt.	Grade g/t Au	Ag Ounces '000s	Tonnes Mt.	Grade g/t Au	Ag Ounces '000s	Tonnes Mt.	Grade g/t Au	Ag Ounces '000s
Greenstone (Hardrock)*	-	-	-	-	-	-	-	-	-
Mercedes**	0.19	80.97	503	3.19	21.67	2,222	3.38	25.05	2,725
South Arturo***	-	-	-	-	-	-	-	-	-
TOTAL	0.19	80.97	503	3.19	21.67	2,222	3.38	25.05	2,725

Global Resources (attributable to Premier)

PROPERTY	MEASURED RESOURCES			INDICATED RESOURCES			MEASURED+INDICATED RESOURCES			INFERRED RESOURCES		
	Tonnes Mt.	Grade g/t Au	Au Ounces '000s	Tonnes Mt.	Grade g/t Au	Au Ounces '000s	Tonnes Mt.	Grade g/t Au	Au Ounces '000s	Tonnes Mt.	Grade g/t Au	Au Ounces '000s
Greenstone*	2.85	1.30	118.5	70.90	1.51	3,434	73.75	1.50	3,553	12.75	3.77	1,548
Mercedes**	0.25	3.32	27	3.00	3.41	329	3.25	3.40	356	1.72	4.18	231
South Arturo***	2.40	1.06	81	6.82	1.03	228	9.22	1.03	309	0.76	1.03	32
McCoy-Cove****	-	-	-	0.95	11.22	342	0.95	11.22	342	3.66	11.24	1,322
Hasaga*****	-	-	-	42.79	0.83	1,124	42.79	0.83	1,124	25.14	0.78	631
TOTAL	5.50	1.29	226.5	123.96	1.54	5,457	129.46	1.54	5,684	44.03	3.35	3,764

PROPERTY	MEASURED RESOURCES			INDICATED RESOURCES			MEASURED+INDICATED RESOURCES			INFERRED RESOURCES		
	Tonnes Mt.	Grade g/t Au	Ag Ounces '000s	Tonnes Mt.	Grade g/t Au	Ag Ounces '000s	Tonnes Mt.	Grade g/t Au	Ag Ounces '000s	Tonnes Mt.	Grade g/t Au	Ag Ounces '000s
Greenstone*	-	-	-	-	-	-	-	-	-	-	-	-
Mercedes**	0.25	51.23	417	3.00	36.94	3,564	3.25	38.05	3,981	1.72	36.11	1,997
South Arturo***	-	-	-	-	-	-	-	-	-	-	-	-
McCoy-Cove****	-	-	-	0.95	29.53	900	0.95	29.53	900	3.66	20.89	2,457
Hasaga*****	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	0.25	51.23	417	3.95	35.16	4,464	4.2	36.13	4,881	5.38	25.76	4,454

* Hardrock resources are inclusive of reserves.

Source: Company

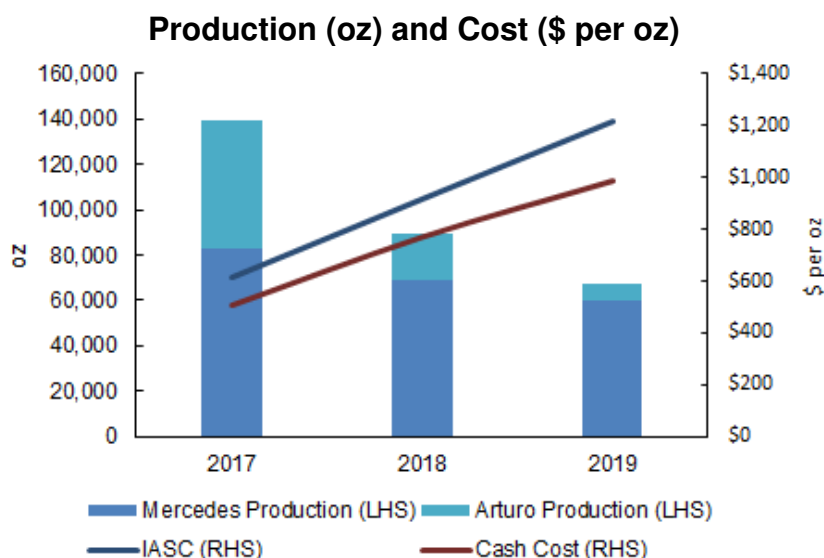
2019 year-end reserves / resources to be completed shortly

Financials

In 2019, Premier reported revenue of \$93.8 million – a YoY decrease of 18%, and below our \$98.5 million estimate. The decline in revenue is attributed to lower production from both the Mercedes and South Arturo mines.

The following chart and tables summarize the company's results. A detailed review of production by mine is presented later in this report.

Production dropped at both mines 2019



	US\$	US\$	US\$
\$M	2017	2018	2019
Mercedes Revenues	\$112.1	\$86.1	\$83.4
Cost of Sales	-\$60.6	-\$62.7	-\$65.2
Gross Profit	\$51.5	\$23.4	\$18.2
Gross Margin	45.9%	27.1%	21.9%
South Arturo Revenues	\$88.2	\$27.8	\$10.4
Cost of Sales	-\$25.0	-\$9.0	-\$5.0
Gross Profit	\$63.2	\$18.7	\$5.3
Gross Margin	71.7%	67.5%	51.5%
Total Revenues	\$200.3	\$113.9	\$93.8
Cost of Sales	-\$85.6	-\$71.8	-\$70.2
Gross Profit	\$114.7	\$42.1	\$23.6
Gross Margin	57.3%	37.0%	25.1%
Consolidated	2017	2018	2019
Gold Production (oz)	139,658	89,699	67,427
Silver Production (oz)	357,901	321,814	192,829
Gold Sold (oz)	155,727	87,036	67,973
Silver Sold (oz)	338,831	299,819	201,374
Realized Gold Price (\$/oz)	\$1,254	\$1,264	\$1,332
Realized Silver Price (\$/oz)	\$17	\$16	\$16
Cash costs per ounce of gold (\$/oz)	\$508	\$771	\$987
AISC per ounce of gold sold (\$/oz)	\$615	\$917	\$1,215
CAPEX (sustaining) - \$M	\$9.6	\$7.0	\$10.7
CAPEX (expansary) - \$M	\$9.8	\$18.8	\$41.5
Total CAPEX - \$M	\$19.4	\$25.8	\$52.2

Source: Company, FRC

In 2019, as a result of the significant drop in production, the cash cost increased YoY from \$771 to \$987 per oz gold sold. As a result, gross margins dropped to 25.1% (our estimate: 29.8%) and EBITDA margins dropped to 10.4% (our estimate: 14.1%). Gross and EBITDA margins were also lower than gold industry averages.

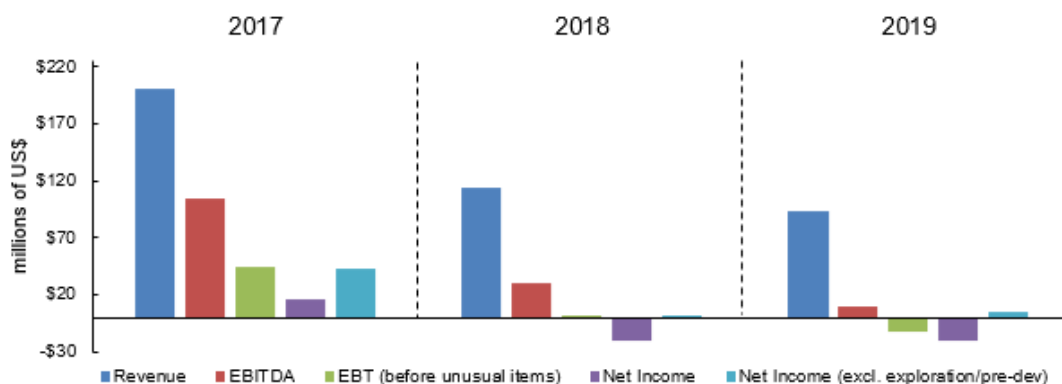
Margins	2017	2018	2019	Gold Industry Average
Gross	57.3%	37.0%	25.1%	42.9%
EBITDA	51.8%	26.1%	10.4%	29.5%
EBIT	26.5%	3.7%	-11.0%	18.7%
EBT	22.1%	0.4%	-13.9%	
Net	8.1%	-17.9%	-21.3%	-27.2%

Source: Company, S&P Capital IQ, FRC

2019 EBITDA was \$9.74 million (our estimate: \$13.9 million), down 67% YoY. The deterioration in EBITDA was due to lower top-line revenue and a weaker gross margin. **The company reported a net loss of \$20 million (EPS: -\$0.10) in 2019, a comparable figure to 2018.** We had expected a net loss of \$19 million (EPS: -\$0.09) for 2019. Despite the significant YoY decline in EBITDA, the company reported comparable net losses in 2019, due to a decline in net spending on exploration and pre-development from \$12 million to \$7 million. This is because Centerra is funding 100% of the expense on the Greenstone Gold project.

2019 EBITDA of \$10M, down 67% YoY

Operating Performance



Source: Company Data, FRC

Free Cash Flow (“FCF”) improved from -\$39 million in 2018, to -\$24 million in 2019, because of a \$34 million increase in accounts payables primarily due to the timing of Premier’s contribution obligations to partner Nevada Gold Mines. 2019 capital expenditures (“CAPEX”) were \$52 million compared to \$27 million for 2018. Of the \$52 million in CAPEX, \$28 million relates to the South Arturo mine and \$19 million relates to the Mercedes mine.

Cash Flows (\$M)	2017	2018	2019
Funds Flow from Operations	\$67.25	(\$2.79)	(\$12.38)
Cash Flow from Operations	\$64.05	(\$10.69)	\$23.23
Cash Flow from Investing	(\$21.23)	(\$27.98)	(\$46.99)
Cash Flow from Financing	(\$30.07)	(\$20.75)	\$36.18
FOREX	\$1.14	\$0.25	\$2.11
Net Change in Cash	\$13.89	(\$59.16)	\$14.53
Free Cash Flows	\$42.82	(\$38.67)	(\$23.76)

Source: Company, S&P Capital IQ, FRC

Balance Sheet

At the end of 2019, the company reported a cash position of \$58 million, working capital of \$16 million and a current ratio of 1.2x.

Liquidity Analysis (\$M)	2017	2018	2019	Gold Industry Average
Cash and Equivalents	\$103.0	\$43.9	\$58.4	
Working Capital	\$85.8	\$53.6	\$16.2	
Current Ratio	2.5	2.6	1.2	1.4
Debt / Capital	15.2%	7.8%	13.5%	60.2%
LT Debt / Capital	6.2%	3.6%	6.0%	55.3%
EBIT to Interest	6.0	1.1	-3.7	0.9

Source: Company, S&P Capital IQ, FRC

At the end of 2019, Premier had approximately \$43 million (\$36 million at the end of Q3-2019) in deferred revenue (gold prepay agreement) and debt, reflecting a debt to capital of 14%, versus the industry average of 60%. The deferred revenue and debt include:

- **\$19 million** (\$8 million at the end of Q3) drawn from a \$50 million secured revolving term credit facility,
- **\$6 million** (\$8 million at the end of Q3) related to a gold prepay agreement for 2,450 troy ounces of gold per quarter for 15 quarters; at the end of 2019, the company had delivered 31,850 oz (13 quarters) of a total required 36,750 oz. The remaining required payment on this is 4,900 oz. Subsequent to the year-end, the company received another \$15.5 million from Orion Mine Finance in return for delivery of 1,000 oz of gold every quarter from Q3-2020 to Q2-2023, for a total of 12,000 oz.
- **\$19 million** (comparable to Q3) related to a silver stream agreement, which requires delivery of 100% of Premier's share of silver production

Reasonably healthy balance sheet

C\$38M equity financing in early 2020

Mercedes' production fell well below expectation

from the Mercedes and the South Arturo mines until the delivery of 3.75 Moz of silver, after which, the delivery will be reduced to 30% of the silver production in perpetuity. Premier will receive 20% of the prevailing silver price.

Subsequent to the year, Premier completed an equity offering at C\$1.50 per share for gross proceeds of C\$38 million. We do not believe the company has to pursue any additional financing this year.

Stock Options and Warrants: The company had 11.91 million options (weighted average exercise price of C\$2.48) and 3.50 million warrants (weighted average exercise price of C\$2.10) outstanding at the end of 2019. **Currently, nil options and warrants are in the money.**

Mercedes, Mexico

Mercedes' 2019 gold production declined 13% YoY to 60 Koz versus our estimate of 68 Koz. Management's guidance, at the beginning of 2019, was 75 Koz – 85 Koz. Production declined due to a decline in grade from 3.34 to 2.91 gpt, due to an unexpected dilution in several zones, and a large natural void in the Rey de Oro zone - one of the five key mining areas.

Production			
Mercedes	2017	2018	2019
Tonnes processed	683,545	665,522	667,723
Gold Grade (gpt)	3.9	3.3	2.9
Silver Grade (gpt)	37.6	35.3	26.2
Gold Recovery	95.6%	96.0%	95.8%
Silver Recovery	40.9%	40.9%	34.0%
Gold Production (oz)	82,534	68,719	59,901
Silver Production (oz)	337,983	309,165	191,306
Realized Gold Price (\$/oz)	\$1,254	\$1,251	\$1,319
By-Product Cash costs per ounce of gold (\$/oz)	\$676	\$885	\$1,022
AISC per ounce of gold sold (\$/oz)	\$832	\$1,060	\$1,260

Source: Company, FRC

South Arturo, Nevada

The El Nino underground mine was completed in October 2019, and commercial production began shortly thereafter. South Arturo mine's 2019 gold production, and gold grade, was 7.5 Koz (our estimate was 5 Koz) and 6.16 gpt, respectively.

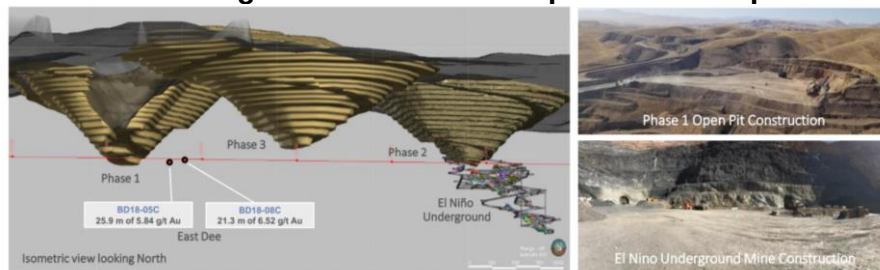
South Arturo's production exceeds expectations

South Arturo (Premier's 40%)	2017	2018	2019
Tonnes processed	390,881	195,536	45,082
Gold Grade (gpt)	5.2	4.0	6.2
Silver Grade (gpt)			
Gold Recovery	87.0%	84.1%	84.2%
Silver Recovery			
Gold Production (oz)	57,124	20,980	7,526
Silver Production (oz)	19,918	12,649	1,523
Realized Gold Price (\$/oz)	\$1,253	\$1,305	\$1,438
By-Product Cash costs per ounce of gold (\$/oz)	\$304	\$419	\$692
AISC per ounce of gold sold (\$/oz)	\$351	\$478	\$836

Source: Company, FRC

Although the company was planning to advance the Phase 1 pit to production in H2-2020, the company has now decided to reassess its mine plan. **Also, identification of mineralization outside of the Phase 3 pit design has prompted management to plan additional drilling prior to advancing Phase 3 to production.** Currently, ore is being processed at the Goldstrike roaster, and heap leach ore is being separated for possible processing in the future. Premier is also evaluating the potential of operating a heap leach facility.

El Nino Underground and Phase 1 Open Pit Developments



Source: Company

Management has not provided any production guidance for 2020. Due to the uncertainties in grade at Mercedes, we are lowering our gold production forecast for 2020 from 77.5 Koz to 60 Koz. We are introducing our 2021 estimate, which is 65 Koz. As for South Arturo, based on Q4-2010 production of 4.6 Koz, we are raising our 2020 estimate from 10 Koz to 17.5 Koz. Our 2021 forecast is 20 Koz. **Our consolidated revised gold production estimate for 2020 is 77.5 Koz versus our previous estimate of 87.5 Koz. Our 2021 estimate is 85 Koz.**

Greenstone Gold, Ontario - 50/50 partnership between Premier and Centerra

In December 2019, Centerra commenced a claim against Premier stating that a feasibility study completed on the project in 2019, did not meet the agreed criteria. Premier submitted a statement of defence and counterclaim in January 2020. A trial has been scheduled to begin in October 2020. Although disappointing, we believe the parties are likely to come to an agreement, especially considering that Centerra has already paid Premier C\$96 million, and spent over C\$140 million on the project. Centerra has committed to invest C\$185 million into the project. Spending will be split 50/50 after Centerra invests the full C\$185 million.

The Greenstone Gold project remains Premier's flagship asset. An updated resource estimate (October 2019) showed a measured and indicated resource of 7.11 Moz, and an inferred resource of 3.10 Moz. A 2016 FS had shown a 14.5 year mine life for total production of 4.2 Moz. The initial CAPEX was estimated to be C\$1.25 billion, with an average operating cost of C\$705 per oz, and an average AISC of C\$780 per oz. Based on a long-term gold price of \$1,250/oz and a C\$/US\$ exchange rate of 1.3, the FS showed an AT-NPV at 5% of C\$709 million, and an AT-IRR of 14.4%. The project has already received federal and provincial EA approval. Management's timeline for the project is a pre-production period (including construction) of 3.5 years

Our discussions with management indicated that, Centerra is continuing to fund 100% of the project's expenses, despite the lawsuit.

Cove, Nevada

At the time of our previous update, the company was planning an infill drill program to support a pre-feasibility study. **However, this has been pushed out as the company focuses all its efforts / capital on the Mercedes mine this year.**

A 2018 PEA had shown a **measured and indicated resource of 342 Koz (11.21 gpt) and an inferred resource of 1.32 Moz (11.23 gpt) - making it one of the highest grade undeveloped gold deposits in the U.S.** A eight year underground mine scenario returned an **AT- NPV at 5% of \$142 million**, and a **very high AT-IRR of 48%**, using a \$1,250 per oz gold price. The average annual production was estimated at 92 Koz. The initial CAPEX was estimated at \$73 million, and the cash cost was estimated at \$790 per oz.

Considering the robust economics and attractive grades, we feel Cove can be monetized more efficiently if the company brings in a JV partner.

On the **McCoy-Cove land package** (which surrounds the Cove property), Premier has gained back its 100% interest after Nevada Gold Mines dropped their earn in option. According to management, Barrick had spent approximately \$8

Disappointing developments regarding Greenstone project / we are speculating a positive outcome

No immediate plans on Cove

million and identified seven targets, of which, only one was drilled. Premier will look to test three targets in 2020.

FRC Estimates

Since our previous report in November 2019, we have raised our gold price forecast for 2020 from \$1,350 to \$1,550 per oz. Our 2021 forecast is \$1,500 per oz. Based on gold sales of 77.5 Koz (previously 87.5 Koz), we estimate 2020 revenues of \$117 million versus our previous estimate of \$122 million. Our 2021 forecast is \$124 million.

We are also adjusting our net loss estimate from \$18 million (EPS: -\$0.09) to \$20 million (EPS: -\$0.08) in 2020. Our 2021 estimate is a loss of \$21 million (EPS: -\$0.09). A higher net loss in 2021 is because of our higher exploration / pre-development expense estimate in 2021.

Valuation and Rating

Premier's shares are undervalued based on five of the six industry average valuation metrics we used for our analysis.

Gold Producers	EV / Annual Production \$ /oz	EV / Reserves \$ /oz	EV / Resources \$ /oz	EV / R (forward)	EV / EBITDA (forward)	P / B	Debt / EBITDA
1 Barrick	\$7,420	\$1,361	\$826	3.60	7.40	1.80	1.20
2 Newmont	\$6,558	\$413	\$447	3.60	8.10	2.00	1.60
3 Polyus	\$6,635	\$293	\$119	4.10	6.10	n/a	1.90
4 Agnico Eagle	\$6,497	\$536	\$402	3.90	9.10	2.50	1.80
5 AngloGold	\$2,641	\$321	\$93	2.00	3.80	3.30	1.80
6 Kinross Gold	\$2,587	\$266	\$168	1.70	3.90	1.30	1.40
7 Gold Fields	\$1,984	\$126	\$68	1.80	3.50	2.10	1.70
8 Sibanye	\$5,429	\$329	\$48	0.70	1.70	3.40	1.70
9 Yamana	\$4,736	\$511	\$215	2.50	4.90	1.00	1.60
10 B2Gold	\$3,454	\$582	\$175	2.20	3.70	2.30	0.40
11 Alamos	\$3,391	\$172	\$167	2.40	5.60	0.90	0.00
12 Harmony	\$1,314	\$52	\$16	0.90	3.10	1.40	0.90
13 Eldorado Gold	\$3,681	\$89	\$28	1.60	3.40	0.50	2.40
14 Premier Gold	\$2,521	\$57	\$22	1.45	7.24	0.60	4.46
Average (Mar 2020)	\$4,203	\$365	\$200	2.32	5.11	1.78	1.63
Min	\$1,314	\$52	\$16	0.70	1.70	0.50	0.00
Max	\$7,420	\$1,361	\$826	4.10	9.10	3.40	4.46

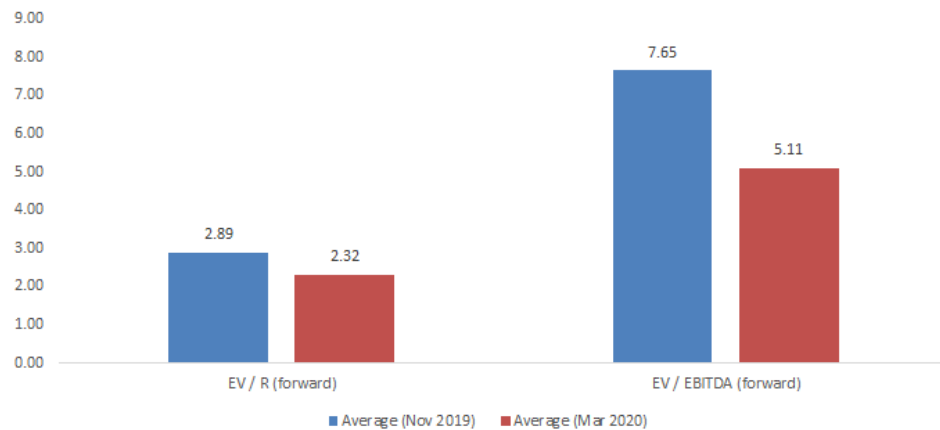
Source: S&P Capital IQ / Various Companies / FRC

As shown below, the average forward EV / Revenue and EV / EBITDA ratios of gold producers have declined 20% and 33%, respectively, since our previous report in November 2019, implying the market's weaker sentiment on gold equities despite the strong run in gold prices.

Higher gold price forecasts partially offset lower production forecasts

Premier's shares continue to be undervalued on a comparables' basis

Gold Producers



Source: S&P Capital IQ / FRC

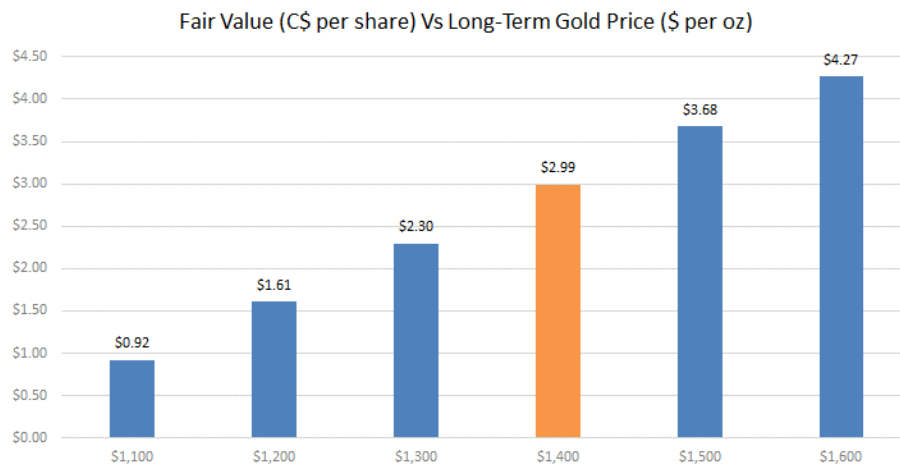
Due to uncertainties on the Greenstone Gold project, we have decided to discount our valuation on the project by 25% for conservatism. Also, since our previous report in November 2019, we have raised our long-term gold price forecast from \$1,300 to \$1,400 per oz. However, due to the discount on the Greenstone Gold project, and our lower near-term production forecasts, our revised valuation on Premier is C\$2.99 versus our previous estimate of C\$3.24 per share.

Lowering fair value estimate

Valuation Summary	\$M	\$ per Share
South Arturo (40%): AT-NPV at 10%	\$31.12	\$0.13
Mercedes (100%): AT-NPV at 10%	\$181.95	\$0.77
Hardrock (50%): AT-NPV at 10% / discounted by 25%	\$162.69	\$0.69
Cove (100%): AT-NPV at 11.5%	\$120.80	\$0.51
Hasaga (100%): M&I + 50% Inf. Resource @ \$30 / oz	\$31.58	\$0.13
Working Capital, net of Debt	-\$3.15	-\$0.01
Fair Value Estimate (US\$)	\$524.98	\$2.21
Fair Value Estimate (CS) - 1.35x CS/US\$	\$692.98	\$2.99

Source: FRC

The sensitivity of our fair value estimate to long-term gold prices is shown below:



Source: FRC

We reiterate our BUY rating and adjust our fair value estimate to C\$2.99 per share. We will be closely monitoring the following developments:

Critical items to monitor

- Ramp up of production at South Arturo
- Lawsuit pertaining to Greenstone
- Management's plans to improve grades at Mercedes
- Updated 2019 year-end reserve / resource estimates

Risks

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

- The value of the company is highly dependent on gold prices.
- Ability to ramp up production.
- Lawsuit pertaining to the Greenstone Gold project.
- There is no guarantee that the company will be able to extend South Arturo's mine life.
- Development / permitting risks related to Hardrock and Cove deposits.
- Exploration success.
- Foreign exchange risks.

We rate Premier's shares a risk of 4 (Speculative).

APPENDIX

Income Statement	US\$	US\$	US\$	US\$	US\$
\$ millions except EPS	2017	2018	2019	2020E	2021E
Revenues	\$200.31	\$113.87	\$93.75	\$117.25	\$124.36
Other Revenue					
Total Revenue	\$200.31	\$113.87	\$93.75	\$117.25	\$124.36
Cost Of Goods Sold	\$85.57	\$71.76	\$70.18	\$79.25	\$84.15
Gross Profit	\$114.74	\$42.10	\$23.57	\$38.00	\$40.21
G&A	\$7.89	\$9.53	\$9.93	\$10.43	\$10.95
Property Maintenance	\$0.33	\$0.24	\$0.44	\$0.46	\$0.49
SBC	\$2.72	\$2.57	\$3.46	\$3.63	\$3.81
Total	\$10.94	\$12.34	\$13.83	\$14.52	\$15.25
EBITDA	\$103.80	\$29.76	\$9.74	\$23.48	\$24.96
Depreciation & Amort.	\$50.73	\$25.57	\$20.01	\$20.03	\$22.03
EBIT	\$53.07	\$4.19	-\$10.27	\$3.45	\$2.93
Interest	\$8.89	\$3.74	\$2.80	\$2.92	\$3.79
EBT (before unusual items)	\$44.19	\$0.45	-\$13.07	\$0.53	-\$0.86
Exploration / Pre-Development	-\$26.25	-\$22.23	-\$24.09	-\$20.00	-\$20.00
Unusual / Non-Recurring	\$2.63	\$2.19	\$18.53		
EBT	\$20.56	-\$19.60	-\$18.63	-\$19.47	-\$20.86
Income Tax	\$4.39	\$0.83	\$1.32	\$0.13	-\$0.21
Net Income	\$16.17	-\$20.43	-\$19.95	-\$19.60	-\$20.64
Basic EPS	\$0.08	-\$0.10	-\$0.10	-\$0.08	-\$0.09

Balance Sheet (US\$M)	2017	2018	2019	2020E	2021E
ASSETS					
Cash and Equivalents	\$103.05	\$43.88	\$58.41	\$16.07	\$8.16
Accounts Receivable	\$11.81	\$23.57	\$13.32	\$22.28	\$23.63
Inventory	\$26.37	\$17.38	\$22.52	\$23.78	\$25.25
Prepaid Exp./ Others	\$2.34	\$1.89	\$2.29	\$2.35	\$2.49
Total Current Assets	\$143.57	\$86.72	\$96.54	\$64.46	\$59.51
Cash in Trust	\$4.72	\$5.58	\$6.60	\$6.60	\$6.60
Inventory	\$5.61	\$2.27	\$3.28	\$3.28	\$3.28
Others	\$2.93	\$2.93	\$1.78	\$1.78	\$1.78
PP&E	\$270.76	\$268.98	\$300.44	\$330.41	\$348.38
Total Assets	\$427.59	\$366.49	\$408.64	\$406.53	\$419.56
LIABILITIES					
Accounts Payable	\$18.47	\$17.87	\$51.97	\$27.74	\$29.45
Line			\$18.51	\$25.00	\$50.00
Taxes	\$4.13	\$1.12	\$0.43	\$0.43	\$0.43
Deferred Revenues	\$13.78	\$12.98	\$5.61		
Debt	\$19.21			\$2.56	\$2.56
Others	\$2.16	\$1.19	\$3.80	\$3.80	\$3.80
Total Current Liabilities	\$57.74	\$33.16	\$80.33	\$59.53	\$86.25
Taxes	\$12.92	\$10.72	\$10.50	\$10.50	\$10.50
Deferred Revenues	\$22.51	\$11.39		\$9.50	\$5.50
Debt			\$19.37	\$16.81	\$14.25
Others	\$25.93	\$23.39	\$20.15	\$20.15	\$20.15
Total Liabilities	\$119.10	\$78.65	\$130.35	\$116.49	\$136.65
Share Capital	\$536.48	\$538.13	\$548.24	\$575.95	\$585.65
Reserves	-\$16.71	-\$18.24	-\$17.94	-\$14.31	-\$10.50
Retained Earnings/Deficit	-\$211.29	-\$232.05	-\$252.00	-\$271.60	-\$292.25
Total Common Equity	\$308.49	\$287.84	\$278.30	\$290.04	\$282.91
Total Liabilities And Equity	\$427.59	\$366.49	\$408.65	\$406.54	\$419.56

Cash Flow	US\$	US\$	US\$	US\$	US\$
	2017	2018	2019	2020E	2021E
Net Income	\$16.17	-\$20.43	-\$19.95	-\$19.60	-\$20.64
Depreciation & Amort.	\$50.96	\$25.91	\$20.73	\$20.03	\$22.03
SBC	\$2.43	\$2.27	\$2.43	\$3.63	\$3.81
Others	-\$2.30	-\$10.54	-\$15.59		
Working Capital	-\$3.20	-\$7.90	\$35.61	-\$34.50	-\$1.25
Cash from Ops.	\$64.05	-\$10.69	\$23.23	-\$30.44	\$3.95
Mining Interests / PPE	-\$21.61	-\$26.87	-\$52.03	-\$50.00	-\$40.00
Sale	\$0.39	-\$1.10	\$5.04		
Cash from Investing	-\$21.23	-\$27.98	-\$46.99	-\$50.00	-\$40.00
Debt	-\$31.85	-\$22.03	\$25.16	\$10.38	\$18.44
Equity	\$1.78	\$1.29	\$11.02	\$27.71	\$9.70
Other					
Cash from Financing	-\$30.07	-\$20.75	\$36.18	\$38.10	\$28.14
FOREX	\$1.14	\$0.25	\$2.11		
Net Change in Cash	\$13.89	-\$59.16	\$14.53	-\$42.34	-\$7.91

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.

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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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