

Pretium Resources Inc.^{1,7}

BUY

PVG-TSX

August 25, 2014

 Last: **C\$7.49**
 Target: **C\$12.50**

Brucejack site visit

New look at VOK – combination of traceable high-grade structures and disseminated electrum suggest mix of selective and bulk methods

We recently visited Pretium's Brucejack project in northwest B.C. – the focus was on the past year's progress at the high-grade VOK zone and PVG's development plans.

Most importantly, we came away from this second view of the underground at VOK with the view that the deposit will likely ultimately be mined via a combination of longhole stoping (as per the company's DFS) and more selective methods to exploit narrow, discrete ultra-high-grade zones.

With ore now developed on the 1345L the company is planning to ramp down to 1260L where it can continue detailed definition drilling and have near-term access to a second mining horizon.

Pretium hopes to receive key permits in 1H15, and to make a construction decision by mid-year. The 2015 summer construction season would be key for getting a jump on surface development to allow mill construction in summer 2016. This is designed to allow a 2H17 production start.

In July and August Pretium completed financings totalling \$US60.4mm (with a further US\$10.5mm worth of shares sold by major shareholder Silver Standard). Working capital at 6/30/14 was C\$23mm, and with a 1H14 spend of C\$27mm, Pretium should be fixed through 1Q15, but clearly needs to raise money before or during 1Q next year to maintain its proposed schedule.

In spite of the Mt. Polley tailings issue we see Brucejack as a relatively simple project to permit.

Sizeable high-quality (i.e. high grade/low cost) projects in favorable mining jurisdictions are rare, and we expect PVG to attract interest of larger producers, but feel it is also setting itself up to go it alone if necessary. C\$12.50 target price represents 0.66x our NAV10% of \$16.97 at \$1,350 gold.

What's Changed	Old	New
Rating	BUY	n.c.
Target	C\$12.50	n.c.
Gold production 2014E (k oz)	0	n.c.
Gold production 2015E (k oz)	0	n.c.
Gold production 2016E (k oz)	77	n.c.

Share Data	
Share o/s (mm, basic/f.d. itm)	105 / 115
52-week high/low	C\$2.83 / C\$10.67
Market cap (m)	C\$787
EV (m)	\$924
Net debt (m)	\$204
Projected return	67%
NAV0%/share	\$49.06
NAV10%/share	\$16.98
P/NAV0%	0.1
P/NAV10%	0.4

Financial Data	2014E	2015E	2016E
YE Dec. 31			
Gold production (k oz)	0	0	77
Cash costs (\$/oz)	\$0	\$0	\$432
Capex (m)	\$210	\$253	\$152
Free cashflow (m)	-\$214	-\$257	-\$86
EPS	(\$0.09)	(\$0.09)	\$0.46
CFPS	(\$0.04)	(\$0.04)	\$0.57
P/E	-75.7	-79.0	15.1
P/CF	-169.7	-177.3	12.0
EV/EBITDA	-237.9	-299.2	22.2

All figures in US\$ unless otherwise noted


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Brucejack site visit

We recently visited Pretium's Brucejack project in northwest British Columbia as the company ran a series of trips for analysts and investors. We had last been at the site in late June of last year (see our note of July 9, 2013), at which point the underground bulk sampling/diamond drilling program on the high-grade VOK zone was still at a relatively early stage. On the recent occasion there were significantly more underground openings at VOK, which include the originally planned drifts and cross-cuts, as well as a number of drifts and two raises which had been excavated to trace specific (ultra) high-grade structures. The drilling carried out as part of this program was very detailed, giving essentially 7.5m x 7.5m spacing around the existing 1345L.

Our main conclusion after last year's trip was that the vast bulk of gold contained at VOK was in the form of narrow, discrete, traceable high-grade structures, and that a case could be made for mining VOK on a very small scale (≤ 750 tpd), rather than the company's plan for a 2,700 tpd operation employing longhole stoping. As we'll discuss below we have somewhat modified our view based on examining the full suite of underground exposures we saw on this visit.

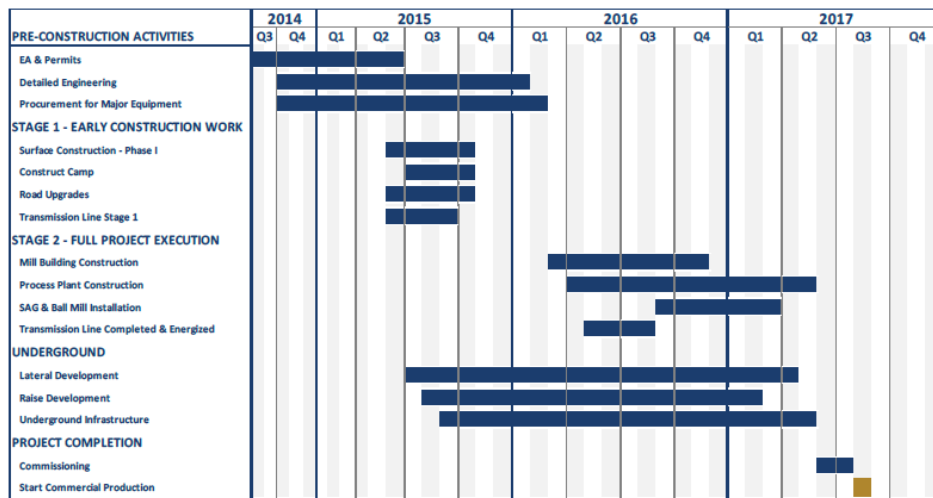
In the intervening 14 months since our last trip, Pretium completed the underground bulk sampling and drilling program (publishing the results in detail), endured a significant public controversy (and sharp share price drop) when one of its geological consultants resigned from the file, re-estimated the VOK resource, and published a revised DFS for Brucejack. The company also realized gold sales proceeds of C\$11mm from the 5.9k oz recovered from the 10,000 tonne bulk sample, as well as 3,120 oz recovered from a 1000 tonne batch of ore extracted under the company's permits (at an average grade of ± 100 g/t gold!).

More latterly Pretium completed share sales for \$US71 mm (of which gross proceeds to the company were \$US60 mm as major shareholder Silver Standard used the opportunity to modestly reduce its stake), and submitted its main permit application (the 180-day review period started in mid-August). The recent tailings dam failure at Imperial Metals Mt. Polley mine (located some 350km southeast of Brucejack) caused some angst over Brucejack permitting, but as we will discuss below we see essentially no read through for Pretium.

The existing underground workings on VOK are at the 1345m elevation, and PVG is now planning to ramp down to the 1260L, which (assuming a positive production decision) would function as a second mining horizon. This would be carried out under the existing exploration permits (and there is potential for an additional 1000 tonne sample for processing). The company's ambition is to have the first 5 years of ore drilled off at nominal 10m spacing from the two levels.

During the site visit the company discussed its projected timeline for development of the estimated \$750mm project. In brief (and assuming permits follow as hoped for), a production decision is planned for 1H15, with a significant phase of early construction planned for the summer construction season in 2015 (especially the construction camp), as well as beginning full-bore underground development. The main phase of surface construction would take place in summer 2016, with the mill building enclosed before winter starts to allow mechanical installation supporting a 2H17 startup.

Figure 1. Proposed development timeline for Brucejack



Source: Company presentation

One of the implications for this timeline is that Pretium needs to establish a financing plan (ideally) by YE2014 – the company will need to raise substantial funds by 2Q15, as next year’s project spend will likely be in the \$150mm range. Further, it would be tough to see a company begin to make a significant investment without knowing where the full amount would come from. With \$C23mm in working capital at 6/30, and ±\$C65mm in net proceeds from the financings the company is well-positioned to pursue its current program (spend in 1H14 was approximately C\$27mm) but will need to raise money (presumably a combination of equity, debt, and possibly gold pre-sale) over the next ±6 months.

Overall we come back from our visit happier with the company’s approach to resource estimation than we were before, while still expecting that the ultimate mine plan will have a (possibly significant) component of selective mining. Pretium at the corporate level is putting the pieces in place to build the mine on a “go it alone” basis, but we continue to see Brucejack as an attractive acquisition target (there’s lots of exploration potential beyond the currently drilled resource).

Development plans

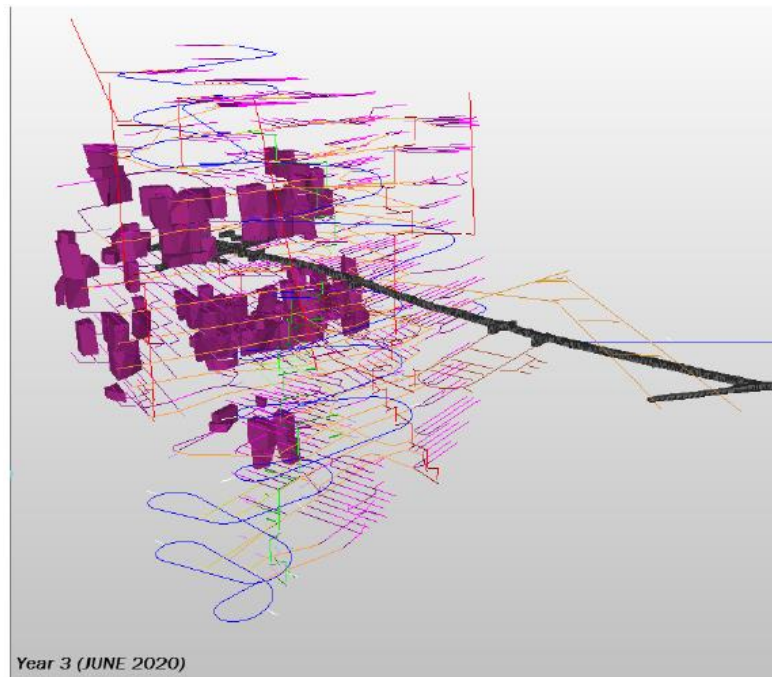
After last year’s detailed drilling and bulk sampling program Pretium released an updated resource estimate on December 19, 2013 – this took into account the new (and much more detailed) information gained from the underground program. Compared to the prior (Nov 2012) estimate the contained M&I ounces increased to 8.7mm oz from 8.5mm oz and the grade increased to 17.6 g/t from 16.4 g/t.

This was followed up by a revised DFS on June 19, 2014 (filed on SEDAR on July 2, 2014) which foresaw recoveries of 96.7% gold and 90% silver from a combination of gravity recovery (to be poured as doré on site) and a high-grade (ca. 180 g/t gold) flotation concentrate that would be shipped off-site to smelters. As before mining is planned as long-hole stoping with paste backfill (about 50% of tailings to be placed back underground). The stopes are designed with 30m level spacing and 15m width.

Initial capex for the project is budgeted at \$747 mm – including \$69 mm in contingencies (see our Flash note of June 20, 2014) and at \$1,100/oz gold the project shows a robust after-tax IRR of 28.5% and NPV5% of US\$1.45bn. In the study life of mine cash costs are forecast at \$398/oz, with LOM AISC of \$448/oz.

At present the 1345m level is developed and on-site personnel indicated that the plan is to ramp down to the 1260m level to provide another mining horizon (with the 1200m level to follow). The plan is to have the initial three to five years of ore blocked out in detail (Fig. 2).

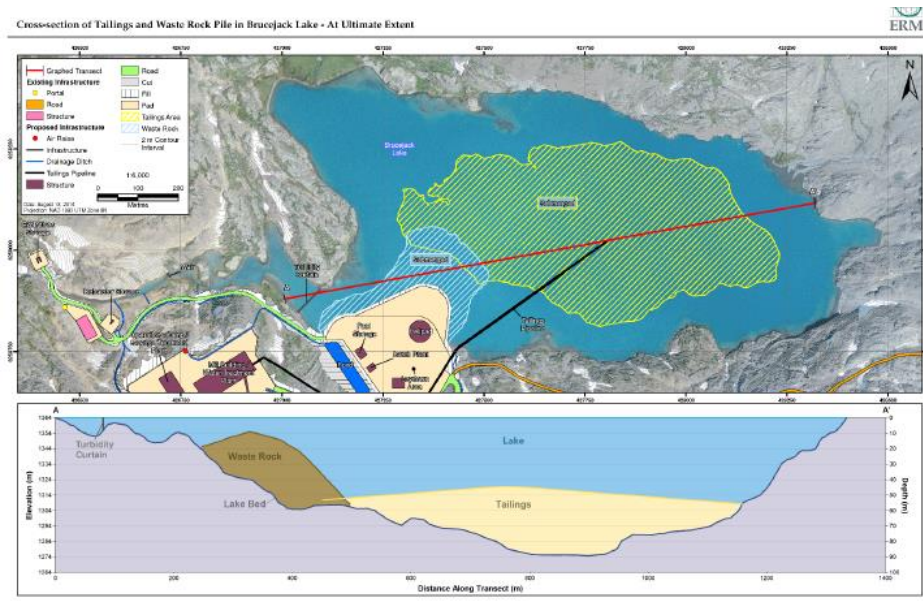
Figure 2. Initial three year ore blocks – heavy line is existing 1345L



Source: company presentation

The tailings NOT sent to pastefill would be spigoted to the bottom of Brucejack Lake (Figure 3), with waste rock also placed into the lake (at a depth that would prevent oxidation of sulfides and associated acid formation).

Figure 3. Illustration of planned disposal of waste rock and tailings in Brucejack Lake



Source: company presentation

We feel this is an important aspect of the permitting and a key differentiating factor with projects requiring conventional tailings dams. Brucejack Lake is a natural (but lifeless) body of water and there is no need to construct an artificial dam (the lake could hold a multiple of the planned tailings). We also highlight that there are no fish downstream from Brucejack for ca. 20km, and that Sulphurets Creek, which drains the Brucejack project area, is already “blessed” with high levels of dissolved metals on account of the active oxidation of the widespread mineralization and alteration in the area. With the 180 day review period for the EA already kicked off we believe the company’s expectation of 1H15 permits is reasonable (a possible timing risk would be diversion of manpower at the provincial ministry to Mt. Polley and/or reviewing other projects that do employ conventional tailings dams).

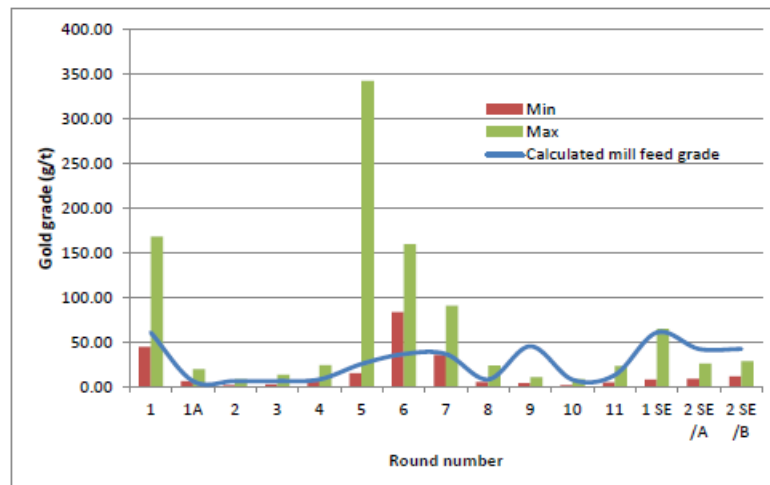
Grade experience from 2013 bulk sampling

The major controversy that erupted in October 2013 when consultant Strathcona Mineral Services (very publically) resigned from its role with Pretium was based around the usefulness of the “sample tower” sampling versus results from bulk processing of the material taken in the 10,000 tonne bulk sample. Prior to taking the sample PVG indicated that it expected to recover approximately 4,000 oz from the sample, for an average grade of 12.4 g/t gold. In the end the recovered gold totalled 5,865 oz for an appreciably higher grade of 17.7 g/t. What also emerged is that the sample tower data showed wide scatter, and often failed to jive well with the recovered grades from the bulk sample (which was processed on a drill round by drill round basis). This is seen in Figure 4, below, where it is apparent that there were rounds with significant (in the range of 50 g/t gold) grade, where the sample tower (and the original diamond drill data) would have suggested the presence of essentially no gold. On the other hand, of course, there were cases where the sample tower indicated higher grades than recovered, but in the end the grades averaged AS A WHOLE 42% above the model – not a bad outcome in our view.

This relationship, combined with observations underground (see the following section) leave us more willing to accept the geostatistical approach taken by Pretium’s main consultant (Snowden).

Figure 4. Comparison of mill grades vs sample tower grade

Figure 9.9 Crosscut 615 L - maximum and minimum sample tower grades vs. mill feed grade per round

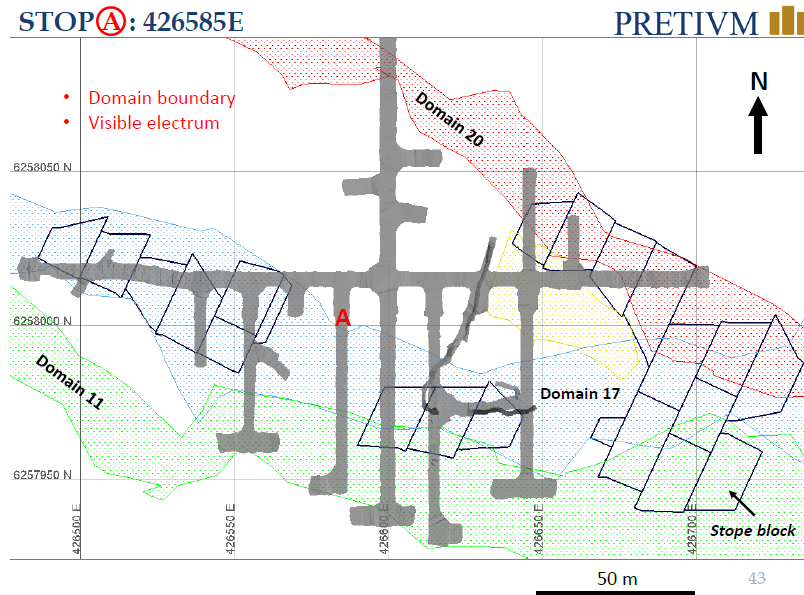


Source: Company 43-101 report

Underground in the Valley of Kings

In the following figures we illustrate our observations underground in the VOK zone. Figure 5 shows a map of the existing underground workings on the 1345L. The main areas we examined were Domains 17 and 20 as well as the Cleopatra vein (demarked by the NNE-trending workings in the center of the figure) and a second parallel zone shown by short NNE-trending drifts near the western edge of the openings. The raise we examined on an E-W high-grade zone is just below and to the left of the words “Domain 17”.

Figure 5. Level 1345 underground workings, VOK zone



Source: Company presentation

Overall we (as last year) saw two principal sets of discrete shear/vein zones that carried abundant coarse visible electrum, with a dominant set striking WNW to essentially E-W, and a less common set striking NNE (this includes the Cleopatra vein).

Figure 6. Through-going E-W electrom-rich vein 615L West Raise



Source: GMP photo

In the photos we reproduce here we show two examples of through-going structures – in Figure 6 is the high-grade vein that forms the core of Domain 17 on the 1345L – while no single vein is continuous we did see similar shear/vein zones over the 150m of strike exposed in the workings. This is multi-kilo material and we see blebs of gold/electrum as big as a person’s hand.

In Figure 7 we show Cleopatra which is a shear/vein zone striking at least 60-70m NNE – it runs into the main E-W shear and does not appear to persist south of where those structures intersect.

In Figures 8 and 9 we show examples of visible gold/electrum that made us re-examine our stance. In Figure 8 we show a narrow quartz veinlet with a central streak of electrum. This veinlet is part of the WNW-trending stockwork that makes up Domain 17 but does not appear to be part of a through-going electrum rich structure. We only show one example but saw numerous such occurrences.

In Figure 9 we show a quartz-rich stockwork zone from Domain 20 (which we saw in several places in the eastern part of the 1345L). What we saw in Domain 20 was quite different from Domain 17 and there was much more dispersed electrum as opposed to the “seams” we mainly observed in Domain 17.

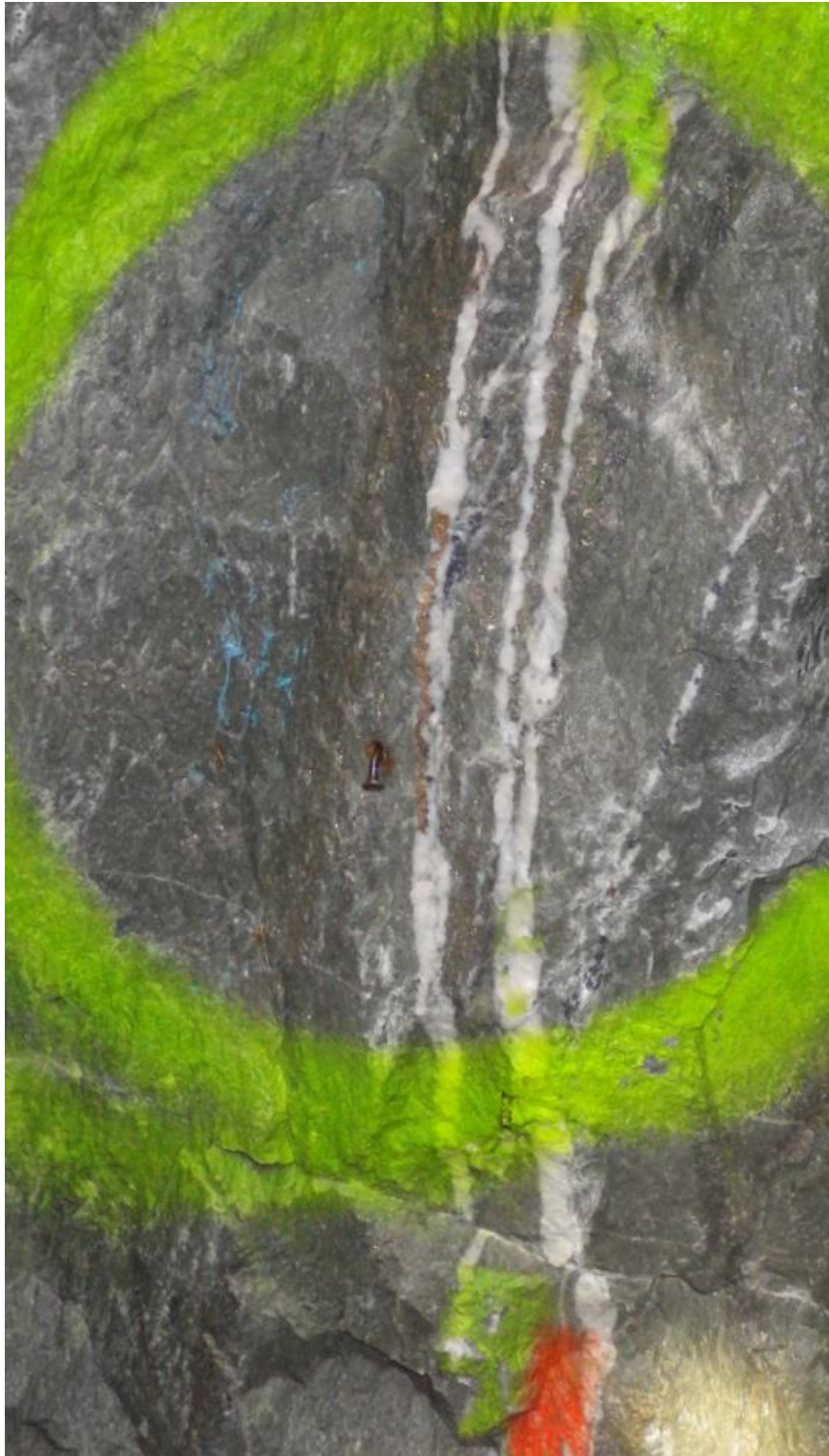
It is on the basis of these types of more dispersed visible electrum, combined with the data from the bulk sample, that makes us more open to the modelling of VOK on a bulk basis using geostatistical tools.

Figure 7. Cleopatra structure looking north from main (8015N) drift



Source: GMP photograph

Figure 8. Streak of electrum (brown) in an early stage stockwork vein



Source: GMP photo

Figure 9. Quartz breccia zone in Domain 20 showing dispersed visible electrum (green circles)



Source: GMP photo

Model updates

At this point we are not changing our model. More color on PVG's financing plans is expected to come later this year.

Summary

An asset like Brucejack is a rarity today – high-grade, manageable capex and in a good location. We believe this will make Pretium of interest to existing mid/large-cap producers. The company also, however, seems to be preparing the way to build the project on its own. Financing would likely include a range of sources including equity, debt, and metal pre-sales and/or streams. We expect this to become clearer by year-end or the end of 1Q15 at the latest.

Where we HAVE changed our opinion is that we are now more comfortable with the geostatistically based approach for resource estimation. This comes from our direct observations of coarse electrum as streaks in narrow veinlets that are not part of the throughgoing structures which we focused on last year. Those structures ARE there and we expect that a large part of the gold to be mined will come from them, and that ultimately a mine plan will encompass both selective mining of such zones AND bulk mining of the type envisaged in the DFS. C\$12.50 target price represents 0.66x our NAV10% of \$16.97 at \$1,350 gold.

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