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Analyst Note

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Detour Gold Corp (DGC-T)

Q1/16 operational results: *Assez bien*, but watch the upside in exploration

Event: Detour Gold announced its Q1/16 production results and program update for the 58N Zone.

Impact: Generally Positive. Ramp-up progressing somewhat well, though Q1/2016 fell a bit short, still no major flaws and improvements at several levels. We expect drilling results to confirm depth and infill continuity of significant high-grade gold mineralization at Lower Detour 58N Zone.

Analysis

• **On April 27, 2016, Detour provided its Q1/2016 operating results.** Gold production totaled 127,136 oz., lower end of guidance but at reduced total cash costs of \$US637/oz and AISC of \$US824/oz sold. The pace of decrease in costs at the Detour operations is encouraging. Total cash costs benefitted from a favourable foreign exchange rate and lower than budgeted prices for electricity and diesel fuel, and AISC from a slower capital expenditure profile during the quarter. **Detour reaffirmed its 2016 guidance of between 540,000 and 590,000oz. of gold at total cash costs of \$US675 to \$US750 /oz. and AISC of \$US840 to \$US940 / oz. sold.** We view the lesser production as a step back but pace should pick up as winter has passed and we expect an improved curve similar to Canadian Malartic Osisko's start-up (see Exhibit 1).

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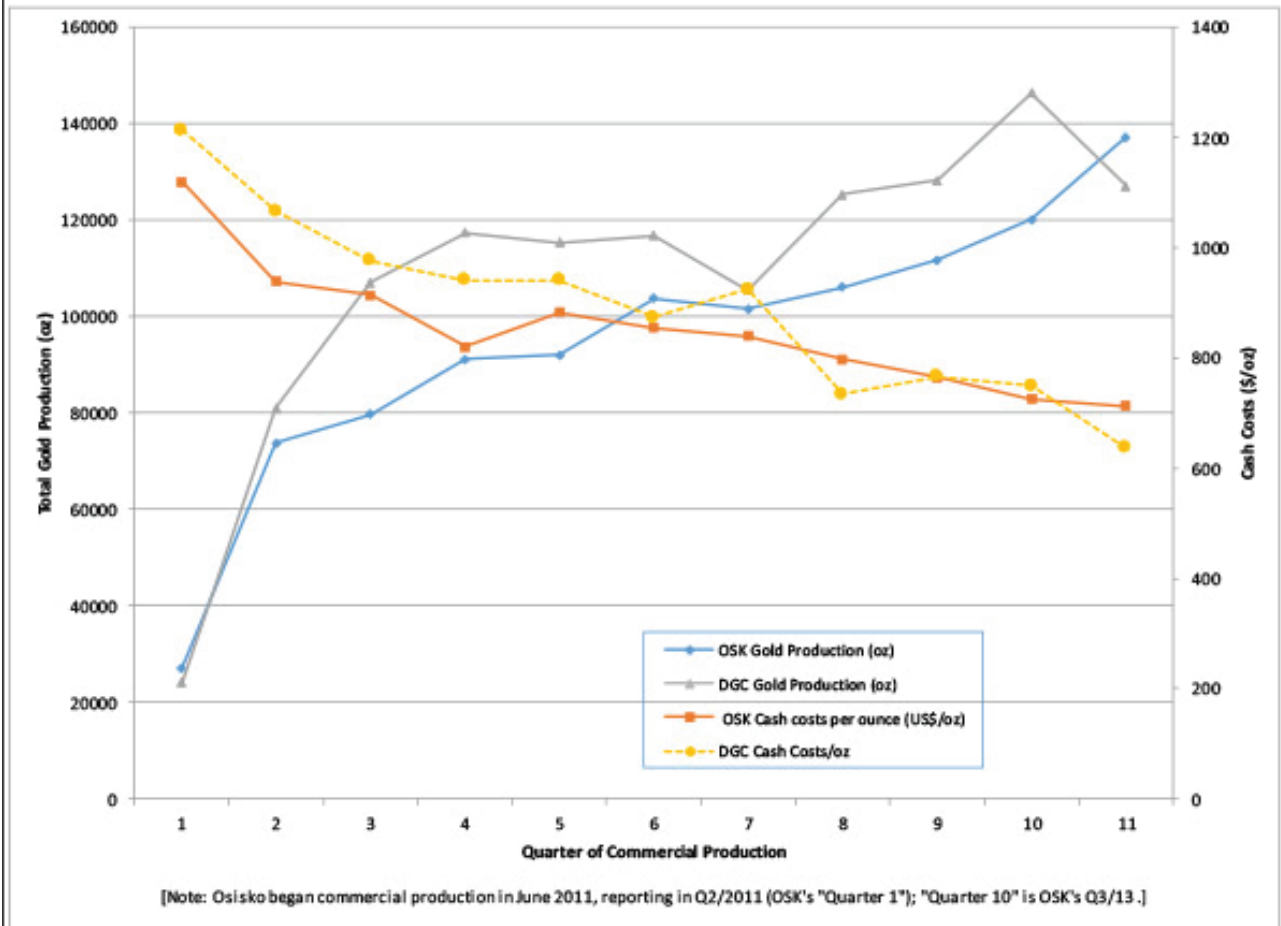
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- **Operational challenges in mill and mine, but outlook on solid footings.** Q1 2016 was essentially adequate on the operational level, as total gold production for Q1/16 was 127,136 oz (Q4/15 was 146,417oz., Q3/15 was 128,222oz., Q2/15 was 125,348oz, and Q1/15 was 105,572oz), slightly below expectations. For the Q1/2016, the mill facility processed 4.7Mt of ore at recoveries of 91.4% and processed grade was 0.91g/t Au. The mill throughput rate at over 52,000tpd was ~5% below the design rate during Q1, primarily due to limited power draw on one of the SAG mills (pinion vibrations) and coarser material being processed which impacted milling rates. We understand however that the SAG mill is back to full power following the April planned shutdown. The 410 conveyor is now split in two, permitting reduced time to replace belts (maintenance) and increasing the crushing rate (5,000tpoh). A total of 21Mt (ore and waste) was mined in Q1 (equivalent to mining rates of 231,000 tpd), lower than planned, mainly due to lower availability of rope shovel, as well as slower progress in Phase 2 to remove the old mining and plant infrastructure and to mine around the former Campbell mine and pit. At the end of Q1, run-of-mine stockpiles increased to 6.1 Mt grading 0.64 g/t (~125,000 oz).
- **Detour's financial position continues to strengthen with reduction of debt levels.** Gold sales for Q1 were \$US163M, for 137,608oz. at an average realized price of \$US1,172/oz. Operating cash flow improved to \$US51M as a result of higher gold sales and a lower cost structure with sustaining capital expenditures of \$US14.8M, including \$US7.1M for the mine, \$US6.1M for the tailings facility, and \$US1.1M for the mill plant. As of March 31, 2016, cash and short-term investments balance were \$US214M. We highlight that Detour announced on April 27 the repurchased of \$US75M convertible notes for an aggregate purchase price (including principal and premium) of \$US76.M, from Paulson & Co. Recall that in December 2010, Detour sold \$US500M of convertible notes to finance the development of the Detour Lake gold mine. Detour is working on improving its financial position, by paying down its debt (~\$US300M remaining of the notes maturing in November 2017) and keeping its \$85M revolving credit facility undrawn.
- **Lower Detour drilling program *et autres* forging ahead.** Results from the delineation drilling at Lower Detour's Zone 58N are expected to continue being positive. Of note, Detour is proceeding with a preliminary cost estimate and infrastructure design to support an underground exploration program. Detour has completed 36,830m of infill drilling in 119 holes, (~ 61% of the planned 60,000m 2016 program) and is delineating the Zone 58N at 25m drill spacing above 250m and at a 50m spacing below 250m (see Exhibits 2 and 3). We highlight that the Zone 58N is open at depth and that a property scale drill program has also been completed (36 holes totalling 9,977m) with results expected before Q3/2016. Drilling shall resume this summer and we anticipate positive results to be disclosed in coming weeks. Metallurgical testing is progressing with confirmation of the amenability of the mineralized material from Zone 58N to be processed at the existing Detour Lake plant and an independent engineering firm has commenced an assessment as to the potential economic value and cost estimates for the infrastructure to undertake an underground exploration program. An additional 5,000 to 7,000m of drilling is planned this summer to test additional targets on the Lower Detour trend and in the area of the tailings facility. Recall new life of mine plan for the Detour Lake operation was released back on January 25, 2016. Detour is expecting to file an environmental assessment for West Detour with the Ontario Ministry of Natural Resources in Q3/2016. **All said, Detour is advancing on several fronts.**



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Exhibit 1: Comparison between Osisko and Detour Gold in terms of production profile after declaring commercial production

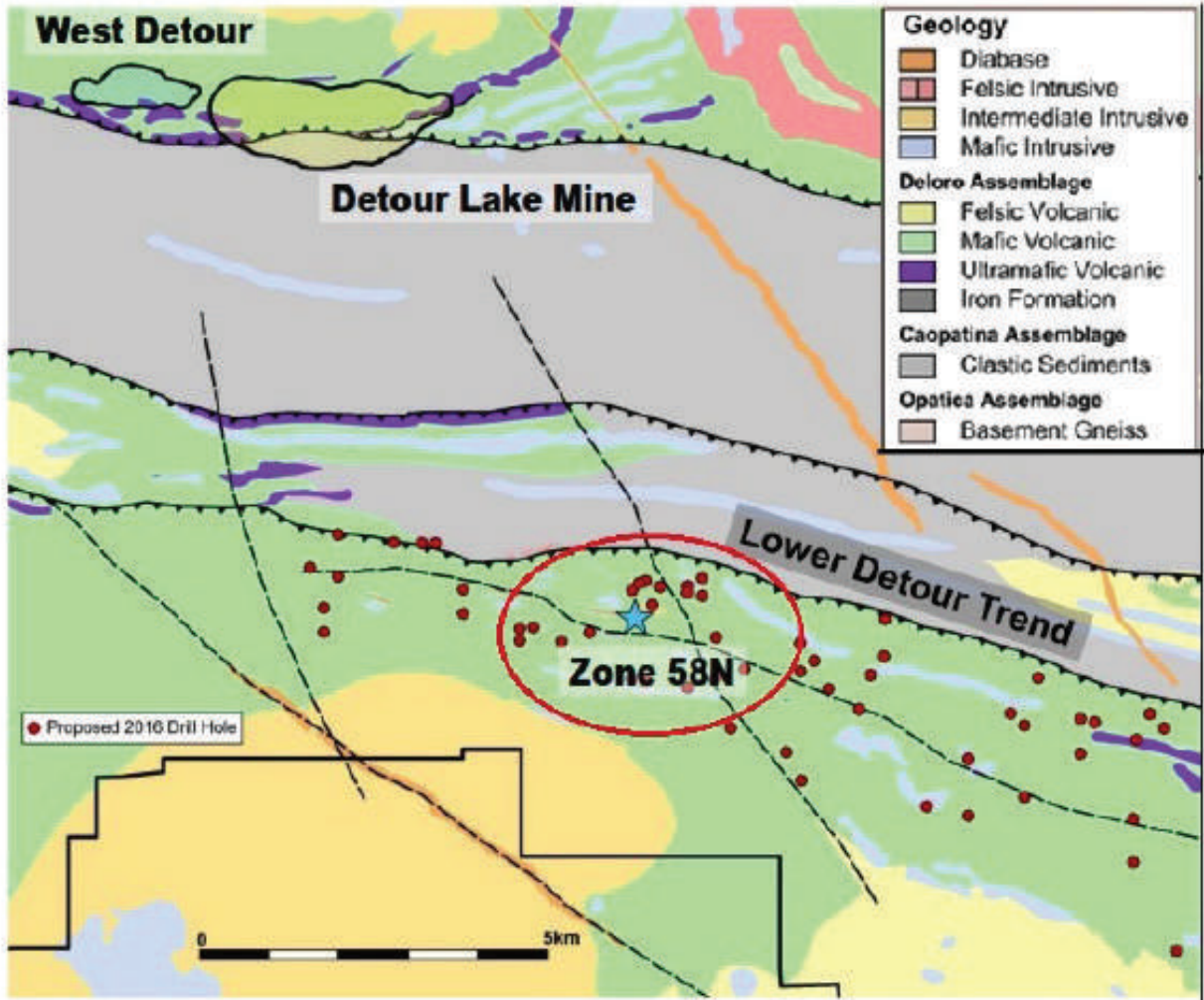


Source: PearTree Securities Inc.



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Exhibit 2: Detour Lake Property - 58N Zone location.

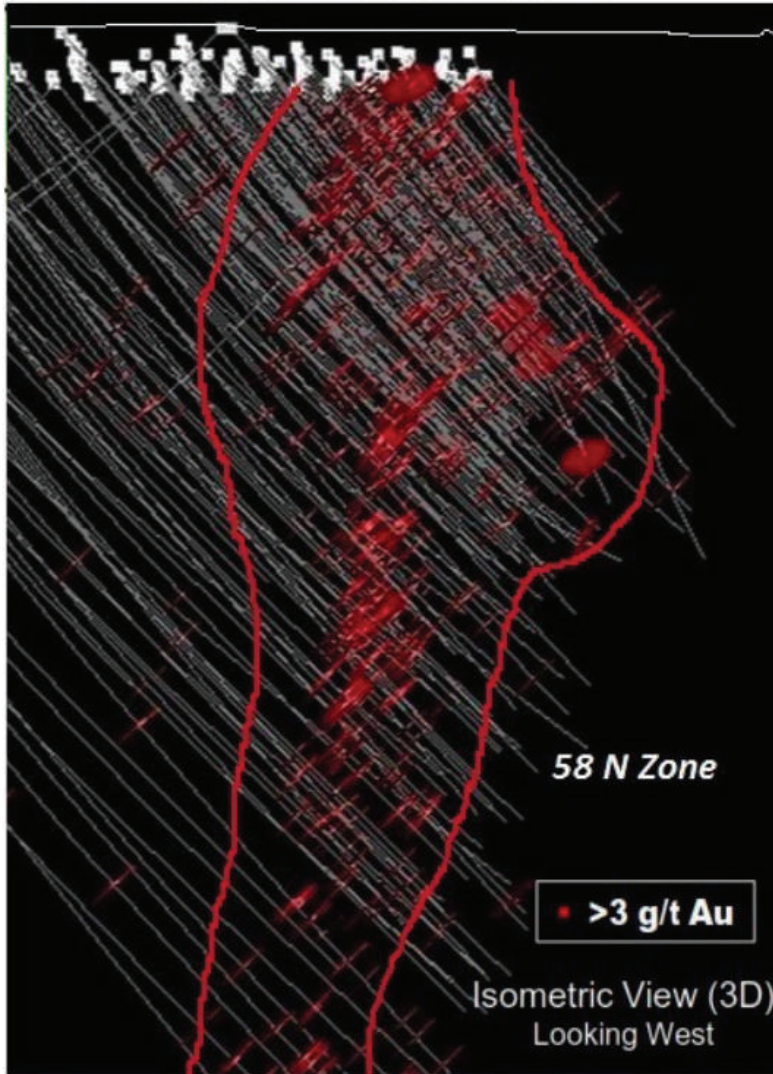


Source: modified from Detour Gold Corp.



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Exhibit 3: Isometric view of Zone 58N.



Source: modified from Detour Gold Corp.