



Expanding the universe of exploration capital.

Analyst Note

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Detour Gold Corp (DGC-T)

Q2/16 operational and exploration results: Keeping the long-term view.

Event: Detour Gold announced its Q2/16 production results and reported positive results from the 2016 winter drilling program at Lower Detour.

Impact: Mix. No fatal flaws in Q2 with production at ~140,000oz. Au, but recovery issues. Cash and short term investments at ~\$154M and debt reduction exceeded, putting the Detour operations on solid footings. Lower Detour 58N Zone gaining confidence as an organic growth potential underground mine target. A 25,000m drill program in progress on Lower Detour as well as scoping work.

Analysis

- **On July 28, 2016, Detour provided its Q2/2016 operating results.** Q2 2016 results show some consistency on the operational level as total gold production for Q2/16 was 139,349oz (Q1/2016 was 127,136oz) and was the second best quarter in the company's history (Q4/2015 146,417oz). Mill throughput rates averaged 58,466tpd (Q1/16 was 52,000tpd) and mill operating time at 87% (Q1/2016 at 88%) was in-line with expectations but recovery was lower.
- **Processing plant performance average; tinkering budgeted.** The processing plant continues to operate above the nameplate design capacity of 55,000 tpd as it achieved mill throughput of an average of 58,466 tpd and this despite a significant planned shutdown in the first half of April to replace the 410-conveyor system. Following the successful installation and commissioning of the 410-conveyor system, throughput rates averaged nearly 65,000tpd in May and June. **But recoveries were lower (2%) than planned due to operational issues in the recovery circuit.** For Q2/2016, the mill facility processed 5.3Mt of ore (0.92 g/t Au) with recoveries at 89% (Q1/2016 at 91%). Detour is planning to make adjustments to the back-end of the circuit including upgrading the oxygen system and introducing lead nitrate. These improvements are expected to be completed by mid-2017 and shall require a ~\$5M increase in sustaining capital expenditures.

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• **Mine operations going in right direction.** Mining rates averaged 241,000tpd (21.9 Mt ore and waste) and with the transfer of a rope shovel (CAT7495) into waste mining at the end of June, mining rates are expected to average between 250,000 and 270,000tpd for H2/2016. Run-of-mine stockpiles stood at 6.5Mt grading 0.62 g/t (~130,000oz) providing operational flexibility. Due to slower mining progress in the area of the Campbell pit in H1/2016, Detour confirmed that it shall not access the higher grade ore in that area during the H2/2016 and hence negatively impact gold production by 15,000 to 20,000oz. This leads to new operational expectations for the H2/ 2016 with an upper end of the annual production guidance brought down from 490,000 to 470,000oz. We believe this a short term setback for long term advancement.

• **Detour's financial position continues to strengthen with reduction of debt levels.** Gold sales for Q2 were ~\$US167M, for 131,606oz. at an average realized price of \$US1,230/oz. Operating cash flow were \$US45.8M (Q1/16 : US\$51M) with sustaining capital expenditures of \$US27.6M, including \$US18.5M (Q1/16: \$US7.1M) for the mine as one additional haul truck and major components on loading equipment were acquired. As of June 30, 2016, cash and short-term investments balance was \$US153.7M (vs \$US214M on March 30, 2016). Detour's \$85M revolving credit facility remains fully undrawn. Detour continues on improving its financial position by paying down its debt (~\$US300M remaining of the notes maturing in November 2017). Detour has accelerated its debt reduction program by buying back \$82M of debt from cash flow in Q2.

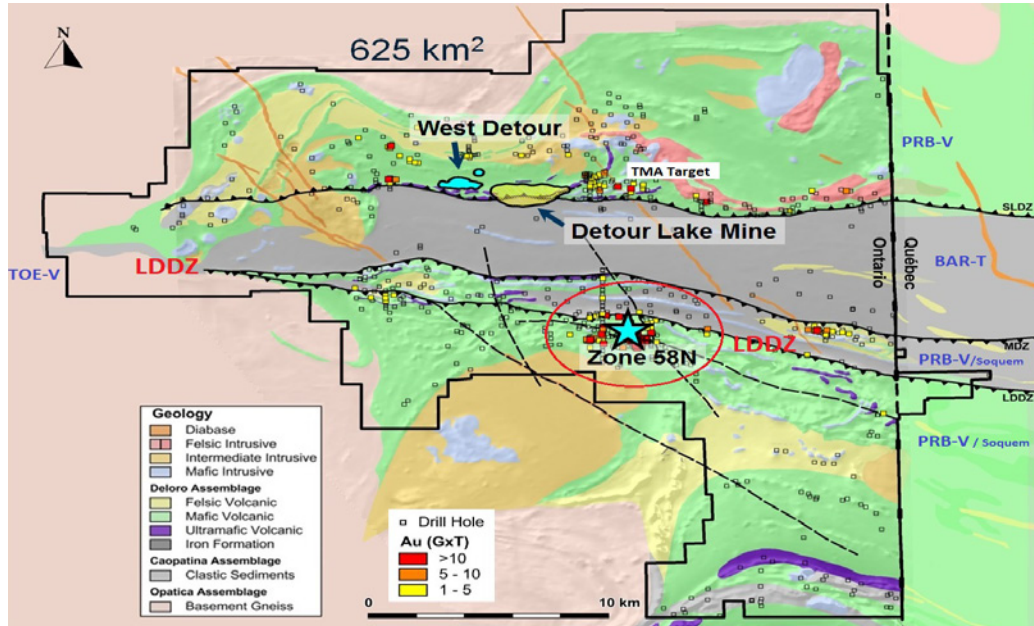
• **Lower Detour drilling program positive.** Results from the delineation drilling (36,830m in 119 holes) at Lower Detour's Zone 58N are quite exceptional (see Exhibits 1 and 2). Indeed significant intercepts range from 5.2m @ 9.58 g/t Au (cut) (DLD-16-190), 18m @ 4.99 g/t Au (cut) (DLD-16-197), 13m @ 10.79 g/t Au (cut) (DLD-16-205), 8m @ 11.26 g/t Au (cut) (DLD-16-233A), 6m @ 11.32 g/t Au (cut) (DLD-16-245), 9m @ 16.34 g/t Au (cut) (DLD-16-248), 4m @ 7.85 g/t Au (cut) (DLD-16-250), 13m @ 6.87g/t Au (cut) (DLD-16-270), and 9m @ 13.32 g/t Au (cut) (DLD-16-278A). We estimate 57 holes gave an incredible grade (cut) x true thickness metric of 26.25 g/t Au x meter and see a 0.75M oz. gold target emerging. Detour has delineated Zone 58N at 25m drill spacing above 250m and at a 50m spacing below 250m and is demonstrating continuity. We highlight that the Zone 58N is open at depth (see Exhibit 3). The phase 2 of the infill drilling program totaling ~25,000m resumed in July and may test lateral and deeper extensions. Metallurgical work has progressed with confirmation of the amenability of the mineralized material from Zone 58N to be processed at the existing Detour Lake mill. An independent engineering firm from Montreal continues the economical assessment of the 58N Zone with the surface and underground infrastructure scoping work for the development of an underground exploration program. The design, timeline and cost estimate are expected to be completed in Q4/2016. We anticipate an underground exploration program by Q4/2017.

• **More to be discovered:** We also highlight that property scale drill program has also been completed (36 holes totalling 9,977m) with results of 2m @ 5.69 g/t Au (DLD-16-247A), 4m @ 2.65 g/t Au and 3.9m @ 1.91 g/t Au (DLD-16-226). The Lower Detour Deformation Zone (LDDZ) is emerging as highly prospective trend for high grade gold mineralized structures centered on quartz veins with associated biotite and phyllic alteration. A regional drilling program resumed recently with a ~6,500m of drilling in an area east of the current tailings facility where grab and channel samples from several showings returned significant gold mineralization (TMA target). We highlight companies such as Probe Metals (PRB-V), Balmoral Resources (BAR-T) and Midland Exploration (MD-V) on the Québec side of the LDDZ, and Tri Origin Exploration (TOE-V) on the Ontario side, covering potential western extensions of the LDDZ (see Exhibit 1). We also have confidence in the potential of finding other high grade mineralization along this under-explored trend.



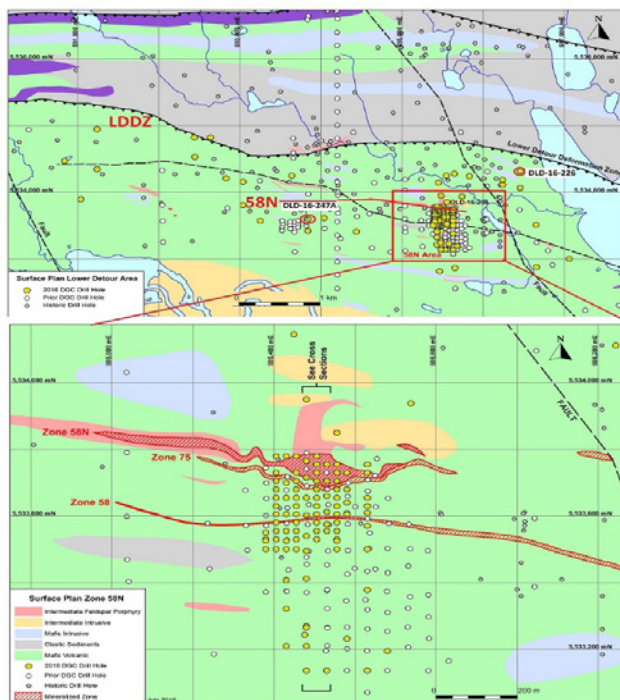
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Exhibit 1: Detour Lake Property - Zone 58N location.



Source: modified from Detour Gold Corp.

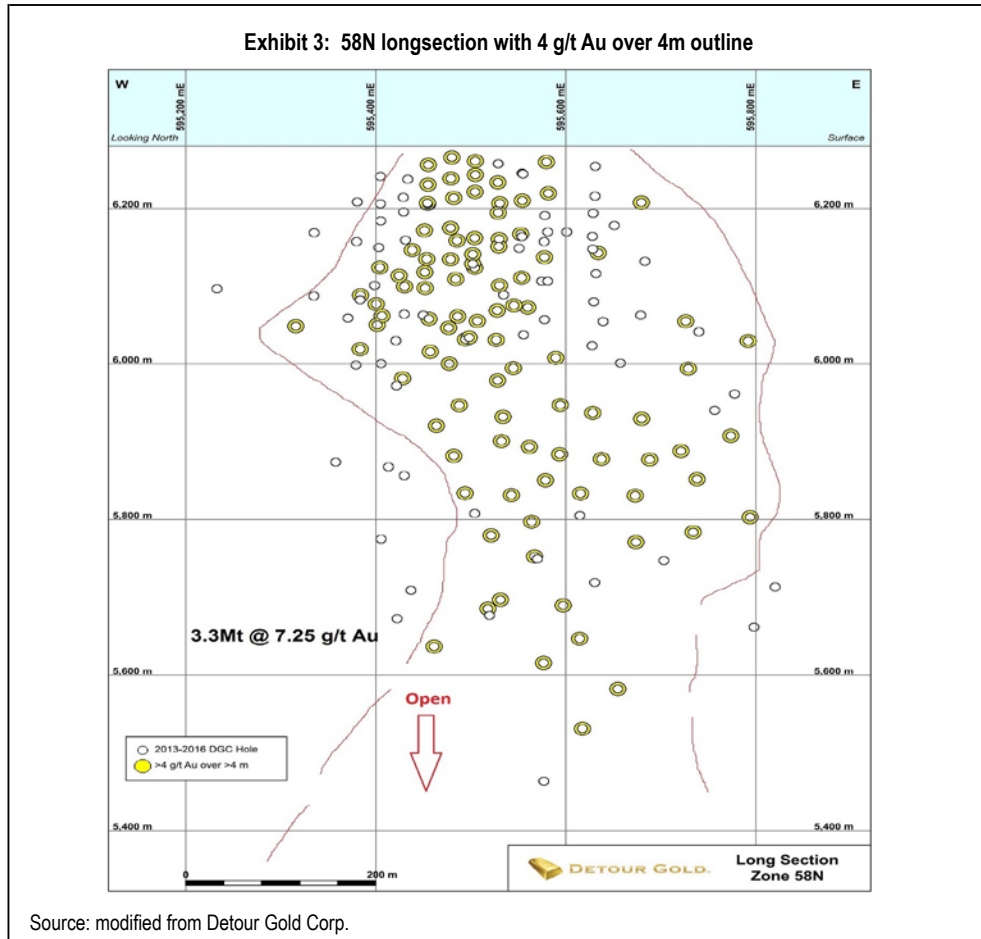
Exhibit 2: plan maps Zone 58N with drill pattern



Source: modified from Detour Gold Corp.



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