

## Marathon Gold Corporation

MOZ (TSX): C\$1.55

Stock Rating: Outperform

Target: C\$2.00

Risk Rating: Speculative

### M&I Resources Expanded 15% Including Impressive High Grade Component

#### Impact: Positive

This morning before market open, Marathon Gold announced an updated mineral resource estimate at its Valentine Lake project in Newfoundland, incorporating the 2019 in-fill drilling at the Marathon and Leprechaun deposits. **The company outlined an M&I resource of 54.9 million tonnes grading 1.75g/t for contained resources of 3,090koz, which represents a 400koz or 15% increase in ounces.** The company reported inferred resources of 16.8 million tonnes grading 1.78g/t for contained ounces of 960koz. Given the drill program was in-fill, the global resource total did not change significantly and now stands at 72 million tonnes grading 1.76g/t for contained ounces of 4,050koz (see Figure 1). The primary driver of the M&I resource growth was the Leprechaun deposit, where resources breached the 1moz level.

#### Key Takeaways

On the surface it doesn't look like a significant change from the prior resource, but what impressed us the most is the high grade open pit component of the M&I resource which is estimated at 30.6 million tonnes grading 2.62g/t for 2,580koz. This will form the basis of the Pre-feasibility study (PFS) expected to be released in 2Q20 and indicates that it should be a high-margin project. **The grade of 2.62g/t is 20% higher than the 2.18g/t mill feed forecasted in the latest PEA and this should lead to a resulting boost to the margins achieved at the project.**

The updated M&I resource is higher confidence with drill spacing at 10-15 metres and more restrictive capping on the high grade domains, and will allow for more confident mine planning, and ultimately, a higher likelihood of positive grade reconciliation once production begins.

#### Resource Estimate Details

The updated resource estimate is based on 270,000 metres of drilling and 190,000 assays, with the in-pit resources constrained for a US\$1,300/oz gold price and a lower cut-off grade of 0.30g/t. Management has subdivided the resource into a high grade and low grade component and the cut-off grade for the high grade, or mill feed component is 0.70g/t. The low grade material between 0.30 and 0.70g/t will be stockpiled for contemplation of processing later in the mine life.

#### Upcoming PFS

Marathon management previously indicated that the PFS will eliminate the heap leach, which was included in the latest PEA, and instead will focus on a conventional mill operation (see note [here](#)). It is the high grade resource of 2,580koz at a grade of 2.62g/t which will comprise the mill feed. Management expects that only the Marathon and Leprechaun deposits will be included in the PFS mine plan.

#### Our View

We base our target price on an equally weighted 0.90x NAV multiple and a US\$70/oz credit on global resources. **Marathon remains a preferred gold developer, and we expect the PFS release in 2Q20 to act as a significant catalyst, outlining a high margin, relatively low capex project located in a safe jurisdiction. We believe that the study could pique the interest of intermediate producers and view Marathon as a prime take out candidate in 2020.**

**Figure 1: Valentine Lake Resource Update and Changes**

<b>January 2020 Estimate</b>	<b>Tonnage (kt)</b>	<b>Grade Au (g/t)</b>	<b>Gold (koz)</b>
Leprechaun	16,900	1.99	1,080
Sprite	680	1.83	40
Marathon	36,200	1.65	1,920
Victory	1,080	1.44	50
<b>Total M&amp;I</b>	<b>54,860</b>	<b>1.75</b>	<b>3,090</b>
<b>Total Inferred</b>	<b>16,760</b>	<b>1.78</b>	<b>960</b>
<b>Total Global Resources</b>	<b>71,620</b>	<b>1.76</b>	<b>4,050</b>
<b>October 2018 Estimate</b>	<b>Tonnage (kt)</b>	<b>Grade Au (g/t)</b>	<b>Gold (koz)</b>
Leprechaun	8,915	2.25	644
Sprite	717	1.71	40
Marathon	34,503	1.77	1,958
Victory	1,009	1.54	50
<b>Total M&amp;I</b>	<b>45,144</b>	<b>1.85</b>	<b>2,691</b>
<b>Total Inferred</b>	<b>26,857</b>	<b>1.77</b>	<b>1,532</b>
<b>Total Global Resources</b>	<b>72,001</b>	<b>1.82</b>	<b>4,223</b>
<b>Difference (%)</b>			
Leprechaun	90%	-11%	68%
Sprite	-5%	7%	1%
Marathon	5%	-7%	-2%
Victory	7%	-7%	0%
<b>Total M&amp;I</b>	<b>22%</b>	<b>-6%</b>	<b>15%</b>
<b>Total Inferred</b>	<b>-38%</b>	<b>0%</b>	<b>-37%</b>
<b>Total Global Resources</b>	<b>-1%</b>	<b>-4%</b>	<b>-4%</b>

Source: Company reports, National Bank Financial

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