RESEARCH REPORT

January 14, 2019

Detour Gold Corporation

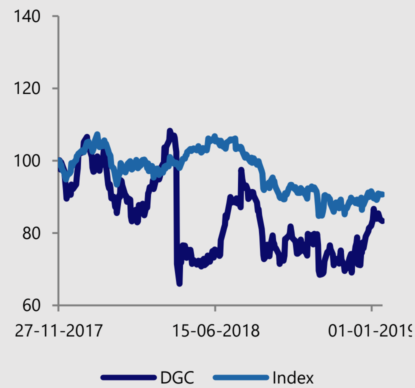
Re-Examining Detour Gold

The Metals & Mining team originally pitched Detour Gold Corporation in November 2017 and subsequently entered into the name. Since QUIC purchased Detour Gold the company has seen some major changes and mixed results in the market. At times it has showed its massive potential as one of the largest single-asset gold mines in the world, but the company continues to struggle with cost control and operational efficiency.

Detour Gold has faced significant adversity in the form of activist shareholder attacks from hedge fund Paulson & Co. The company found itself embroiled in a nasty proxy fight with the hedge fund, and at times John Paulson himself. The proxy fight culminated in Paulson successfully replacing the Detour Board of Directors and CEO.

The other major event since the original Detour report was the release of an updated Life of Mine plan, which included some major changes to cost assumptions and anticipated timelines for further development of the asset.

As a result of these two significant events, M&M felt that it was important to reevaluate our conviction in our original theses and in the name overall.



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Company Overview

Detour Gold is a Canadian gold producer headquartered in Toronto, Ontario. Their business revolves around the acquisition, exploration, development, and operation of mines in Northern Ontario, including their Flagship asset the Detour Lake Mine, one of the largest gold-producing mines in Canada, of which they have 100% ownership.

Detour Gold controls two groups of contiguous claims totaling 494 square kilometers, which create the Burntbush property, and stand 70 kilometers south of the Detour Lake mine. A geological mapping program and ground geophysical surveys started on the property in the third quarter of 2018.

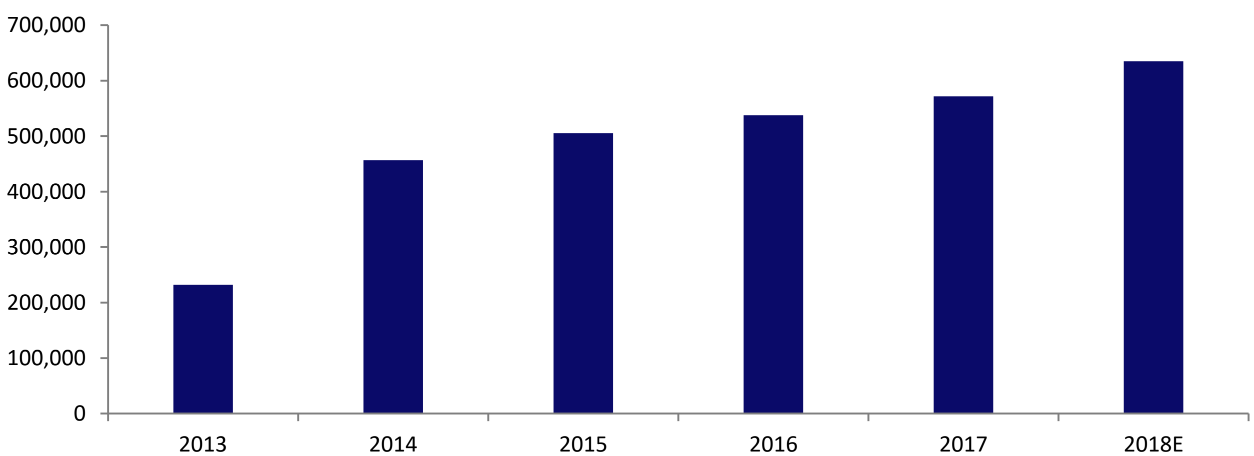
Along with these projects, Detour Gold also controls the West Detour project. The West Detour project consists of two pits with a mineral reserve of 1.8 million ounces of gold. The company is currently in the process of permitting the project, and submitted an Environmental Study Report in January 2017. Issues regarding obtaining these permits have delayed this project, with development scheduled to start in 2025 for the West Detour Pit and 2026 for the North Pit. Once depleted Detour gold also contemplates using the West Detour Pit for tailings and waste rock deposition.

On December 13, 2018, Detour Gold appointed Bill Williams as interim CEO, replacing Michael Kenyon. Mr. Williams was one of the five newly appointed board members following the companies December shareholders meeting. Mr. Williams is expected to bring over 30 years of industry experience with focuses on exploration and project development to Detour Gold while they search for their full time CEO.

Mr. Williams joins COO Frazer Bourchier who was appointed in 2017 and has extensive open pit mining experience, as well as CFO James Mavor who has 20+ years experience in mining and was former VP Finance at both Detour Gold and Barrick Gold.

EXHIBIT I

Detour Lake Mine Gold Produced (oz)



Company Filings

What is Gold?

A Brief Overview

Gold is a commodity that carries value through its unique physical properties which include high malleability, ductility, density, resistance to corrosion, and conductivity. As a strong conductor it is used as an input in circuit boards and other technology, as well as in medicinal treatments. A relatively rare element, Gold was historically used as currency, however, today it now stands as a safe haven investment utilized to diversify portfolios and government reserves.

History

Gold has held strong value over the last 5,000 years. In the early 1800's the gold standard was accepted in England and later spread to France, Germany, Switzerland, Belgium, and the US. Under this standard countries attached their paper currency to a fixed price of gold. However, as World War II and The Great Depression ensued in the early 20th century, the systems lack of flexibility during uncertainty, contributed to the acceptance of flat money by 1971. Currently many central banks invest in gold for its "safe-haven" characteristics.

Drivers of Demand and Price

U.S interest rates hold an integral role in gold demand due to the significance of the U.S economy in respect to global markets. As the U.S interest rates rise, bonds and other fixed income assets will boast stronger returns and therefore greater appeal than gold. Apart from this as the majority of gold is priced in USD across the world, USD

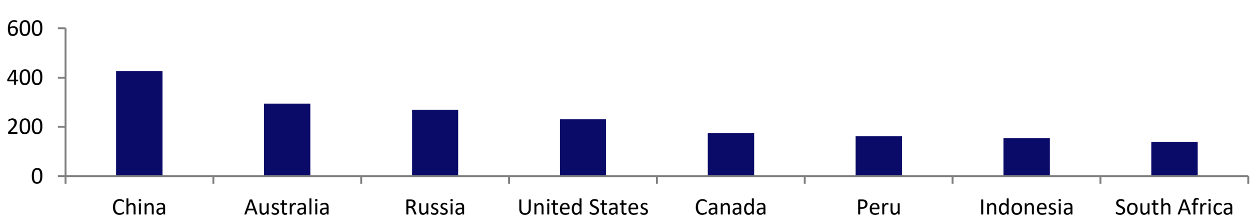
fluctuation can affect demand. A weaker dollar allows gold to be comparatively less expensive, which drives demand up. Political and economic uncertainty are also catalysts as golds high intrinsic value and low credit risk make it a valuable safe haven investment.

How Gold is Mined

Well before any gold can be extracted, a large amount of exploration and development must occur to determine the nature of the gold deposit. After exploration, extraction of ore begins, normally lasting 10-30 years. During the mines life the price of gold and input costs will affect which areas of an ore body are deemed profitable. The plans for a mine moving forward are consistently reassessed as market conditions change. Once the ore body is exhausted or deemed unprofitable a mine will cease operations where it is decommissioned, dismantled, and then rehabilitated. The scale of a mines production can range drastically from small scale operations to large scale mines with well over 600,000 ounces of production a year.

EXHIBIT II

2017 Gold Production by Country (Tonnes)



Forbes, World Gold Council

Key Developments: Q1 2018 & Updated LOM Plan

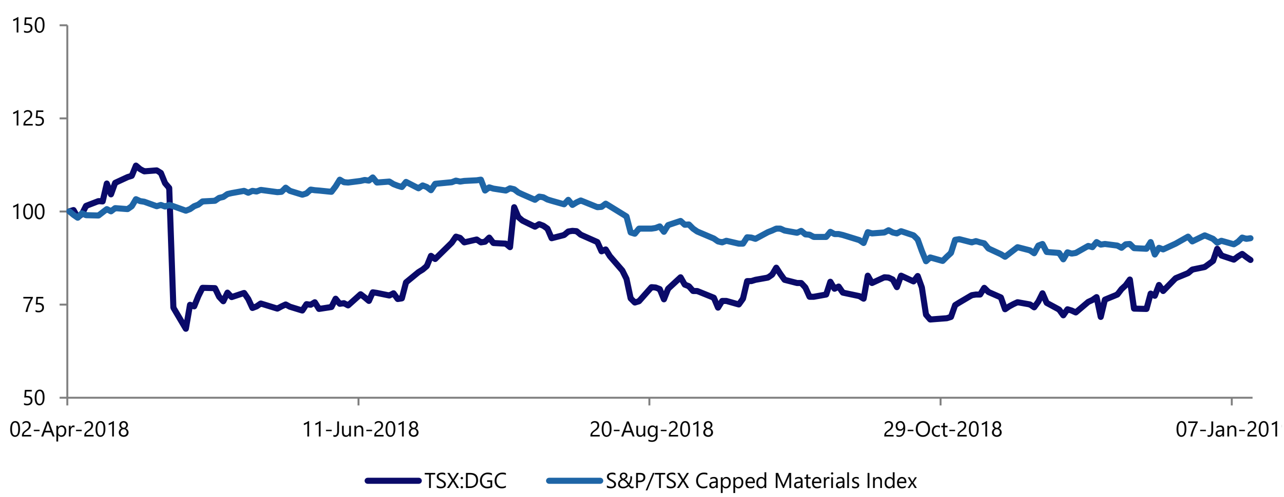
There were few major news items between M&M's entrance into Detour on November 27th, 2017 and their reporting of Q1 2018 results on April 26th, 2018. While Detour beat consensus street EPS estimates by US$0.01, the rest of the earnings report painted a grim picture for the company's near-term performance. Management guidance revised gold production guidance for FY2018 down by 10,000 ounces. Cash costs per ounce sold were revised upward to a range of US$700-750 from $670-730 and guidance on projected all-in sustaining costs per ounce were also revised upwards ~US$140 per ounce. These cost increases resulted in FCF guidance for FY2018 being cut to US$55M from US$115M.

An abnormally high average realized gold price of US$1330 per ounce and an average head grade of 1.17 g/t AU, compared to a long term average of 0.97 g/t AU, helped to cover up equipment issues and high costs for the quarter. The report also contained very unfavourable cost, production and average gold grade forecasts for the 2019-2023 time period. CIBC analysts cut estimates of the mine NAV from C$4.1B to C$3.4B. The market reacted very poorly to the report, with Detour shares down over 35% on the day.

On June 28, 2018 Detour released an updated life of mine (LOM) plan which confirmed and detailed much of the guidance originally provided in the Q1 2018 earnings report. The LOM outlined increases for every cost item compared to guidance in the 2017 LOM plan, with average mining, milling, G&A and sustaining capital costs increased by 9%, 8%, 16% and 4% respectively. The report also provided an update on the status of Detour's efforts to get permits to develop it's West Detour project, with timelines for the North pit pushed back 7 years to 2026. The market didn't react dramatically, as most information was consistent with expectations based on the Q1 report.

EXHIBIT III

Detour Gold Performance Relative to Materials Index (April 2018-Jan 2019)



Source(s): S&P Capital IQ

Key Developments: Paulson & Co. Proxy Fight

The majority of recent news about Detour Gold has been related to it's long and nasty proxy fight with the hedge fund and activist investor Paulson & Co. ("Paulson"), run by John Paulson.

May 18, 2018 – Paul Martin retires as President and CEO, Michael Kenyon assumes interim CEO role, Alex Morrison becomes Chairman of the Board.

June 22, 2018 – Paulson pens a letter to the Detour Board urging them to pursue a sale of the company, claiming that he has heard of interest from larger gold producers. Several large, institutional shareholders including Mackenzie Investments backs his message.

June 28, 2018 – Paulson threatens to replace the Detour board following the updated LOM plan, which he feels did not address his concerns. As part of the LOM plan management dug in it's heels on continued operation of the Detour mine, stating it believes this is the best way to maximize shareholder value.

July 18, 2018 – John Paulson releases a statement claiming that Detour has received a buyout offer from another gold miner, later rumored to be Barrick Gold. Detour responds saying statement was "false and misleading" and informs the Ontario Securities Commission of concerning and unlawful behaviour undertaken by John Paulson. The next day John Paulson announces he will call a special shareholder meeting.

August 27, 2018 – Detour announces a special shareholder meeting on December 11th, 2018. The next day John Paulson calls this "inexcusable" and labels it and "entrenchment tactic".

August 29, 2018 – Detour announces three new members of the Board of Directors, none of which have the support of Paulson.

October 12, 2018 – Detour reports that Paulson rejected a proposal that would have seen Kenyon step down as CEO, with half the Board refreshed. Paulson states that he wants a complete change of the Board and responds with alternative settlement proposals.

November 15, 2018 – Detour agrees to name two Paulson nominees to the Board. Paulson calls for Kenyon to step down as CEO immediately, Detour says he will resign when the proxy fight ends. Detour also releases a letter to shareholders reaffirming their confidence in 2018 LOM plan and warning shareholders against Paulson.

December 10, 2018 – Preliminary voting results at special shareholder meeting suggest enough Paulson-backed Board nominees will be elected, Detour postpones meeting to December 13th.

December 13, 2018 – Detour's CEO Michael Kenyon resigns following shareholder vote that saw five Paulson-nominated Directors appointed, enough for control of the nine-person Board. James Gowan, backed by Paulson, is named Chairman and states Detour will now focus on finding a new CEO.

January 3, 2019 – Bill Williams, a Paulson-backed Director, is appointed interim CEO. He possesses 30 years of experience in the exploration, development and oversight of mining operations.

The proxy fight ultimately ended with John Paulson being successful in his overhaul of Detour's Board and management. The new management may however raise more questions than it provides answers. It is unclear the degree to which John Paulson will have a hand in guiding the direction of the company going forward. It is also difficult to interpret what Paulson would want for the company at this juncture. He originally called for an immediate sale of the company, but his messaging changed as it became clear he wouldn't be successful with that strategy. We will have to wait and see who is named CEO of Detour and what they believe is best for the company moving forward.

Investment Thesis I: Long-life Premium Asset

The Detour Lake mine is the backbone of Detour Gold, representing 89% of Detour's total ore reserves. It possesses the largest gold reserves at a single mine in Canada and is 100% owned by Detour Gold. The Detour Lake mine's 16.0M ounces of gold reserves and 20 year lifespan originally drew the M&M team to the Detour name. The core basis of this thesis was the premium size, strength and favourable location of the Detour Lake asset.

Since M&M entered Detour in November 2017, they have released an updated Life of Mine (LOM) plan which makes some significant changes to the expected costs and production schedule for the mine. One notable change to the LOM include in increase in average total site cost per ounce to US$843 from US$758 per ounce, already an increase from the US$701 in the LOM prior. While this is a concerning revision, it is unsurprising, as there were questions around cost controls when M&M originally pitched Detour. It is also a symptom of the type of open-pit mining required at the Detour Lake mine, a very low-grade mine, requiring high volumes of ore to be mined for relatively little gold.

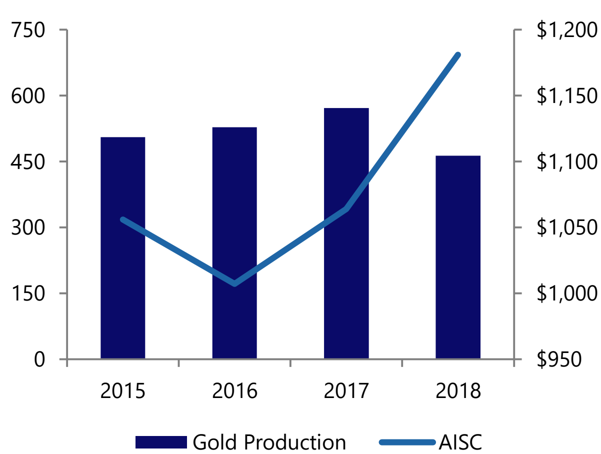
The updated LOM also slightly revises the after-tax NPV of the project down to US$3.45B from US$3.7B in 2017. While this is a somewhat minor decrease, it also assumes an average realized gold price of US$1300 per ounce, compared to the US$1250 assumed in 2017. Another important thing to note from the LOM is that it is reliant on ramping up production at the main Detour Lake pit and the development of the West and North Detour pits in 2025 and 2026 respectively. These increases in production are reliant on Detour being able to successfully acquire the required permits, something that has been no guarantee to this point.

One can draw one of two conclusions based on Detour's continued struggle with cost control: either the former management team forced out by Paulson & Co. was grossly incompetent and unable to effectively operate a mine, or the Detour Lake asset is not as premium as once thought. As mentioned in the original M&M report, Detour Lake is one of the first open-pit gold mining projects in Canada, with open-pit mines more commonly found in desert regions. Additionally, the low-grade nature of the asset makes efficiency even more vitally important, something we have yet to see, making one question whether it can be achieved at the Detour Lake mine.

This thesis was created with a very long-term time horizon and as such, short-term cost issues should not be enough alone to dissuade us from Detour. However, owning one of the largest gold mines in the world counts for little if you are unable to reliably turn a solid profit on the extraction of said gold. M&M still has conviction in the size and potential of the mine, but has major concerns about how profitably the asset will be operated. We still believe in this thesis overall, but have far less conviction in it than when Detour was originally pitched.

EXHIBIT IV

Detour Lake Output (000's of oz.) vs. AISC



Source(s): Company Reports

Thesis II: Organic Growth Potential within Existing Assets

West Detour Project

The West Detour Project is comprised of the North and West Detour pits, containing 187k and 1.6M ounces of gold respectively, located ~1 kilometer from the main Detour Lake mine. It is still in the early stages of development and Detour Gold is still working on obtaining the proper permits that would allow them to begin production at the site.

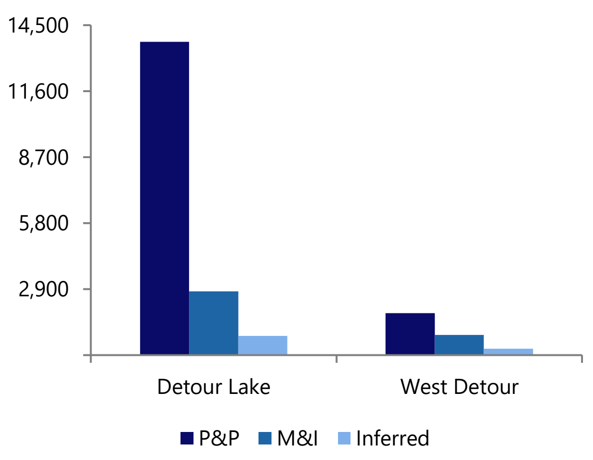
Permit Issues

As a result of a request by an Aboriginal partner for an Environmental Assessment at the West Detour Project site Detour has been significantly delayed in getting cleared by the government to being developing the site. In the 2017 LOM plan referenced in the original M&M report Detour estimated that they would have the required permits by 2019 and 2025 for the North and West pits respectively. In the updated 2018 LOM plan, they revised the anticipated all-clear to 2026 for the North pit, holding timelines for the West pit the same.

The total reserves contained in the West Detour Project represent less than 11% of the total reserves owned by Detour. Thus, the additional permit delay will not substantially impact their bottom line. However, it does push back even further the prospect of organic growth, with no guarantee they are granted the proper permits. It makes it difficult to factor organic growth prospects in significantly unless we assume a holding period of longer than six years. On the whole, this thesis is somewhat weaker than when originally pitched.

EXHIBIT V

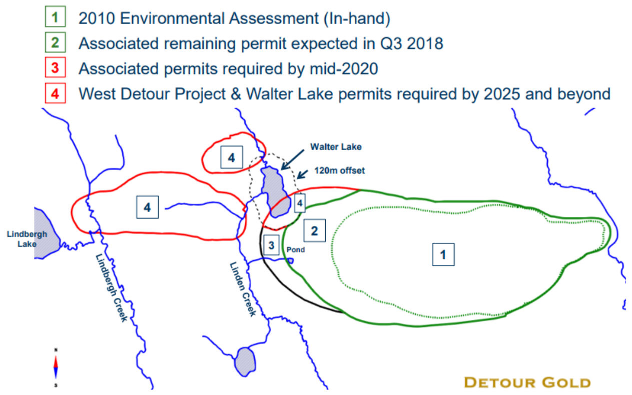
Mineral Reserve Estimates (000's of oz.)



Source(s): Company Reports

EXHIBIT VI

Map of Permit Zones & Timelines



Source(s): Company Reports

Investment Thesis III: Effective Deleveraging Activities

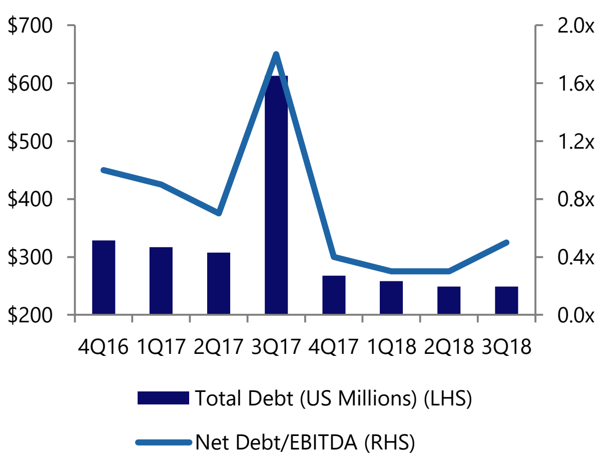
In the years leading up to November 2017 when M&M entered Detour the company had gradually been paying down its debt. Total debt decreased from US$447.7M in Q1 2016 to US$307.7M in Q2 2017 and Net Debt/EBITDA fell to 0.7x from 1.1x over the same time period. The basis of this thesis was that as Detour continued to improve it's cash flows, it would be able to continue to reduce it's total debt load and leverage ratios.

In large part this thesis has played out as anticipated, with Detour's total debt load at the end of Q3 2018 standing at US$248.8M and net debt being reduced to just 0.5x EBITDA. While we would consider their deleveraging efforts a success, debt paydowns have slowed considerably from the levels seen in 2016 and the first half of 2017. This has been driven primarily by lower than expected free cash flow generation, largely attributable to high capital expenditure costs. Additionally, with Net Debt/EBITDA having been at or below 0.5x for the past year, there is far less incentive for the company to deleverage than there was when their debt load was more considerable. Detour's net interest expense was just US$3M in Q3 2018, a dramatic reduction from the US$14.9M paid in Q1 2016.

Detour has accomplished their primary goal of deleveraging in reducing interest payments and is now well capitalized and highly liquid, with US$156.3M of cash reserves. There is simply little to be gained from continuing to paydown debt, and there are likely other avenues that could be pursued by management that would be more effective in creating shareholder value. Thus, M&M believes that this thesis has played out fully and that there is negligible value left to be found in deleveraging.

EXHIBIT VII

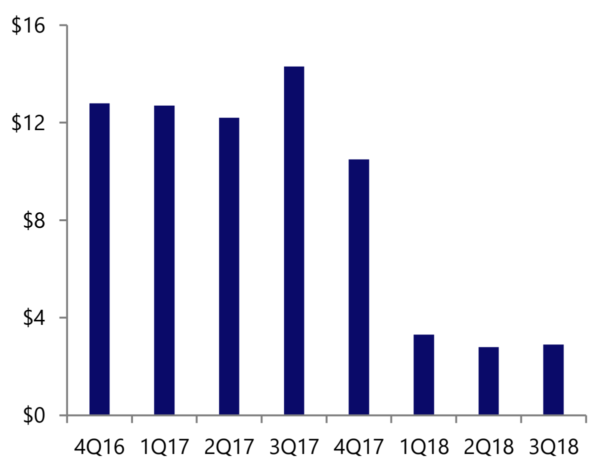
Total Debt and Net Debt/EBITDA



Source(s): S&P Capital IQ

EXHIBIT VIII

Net Interest Expense (US$ Millions)



Source(s): S&P Capital IQ

Investment Thesis IV: Ideal Position for a Potential Acquisition

This thesis was based in the attractiveness of Detour Gold as an acquisition target for larger gold producers such as Goldcorp and Barrick Gold. At the time, mining M&A activity was still relatively subdued for a host of reasons. However, the M&M team believed that should M&A activity heat up, or if the right buyer were seeking acquisitions, that Detour Gold would represent a highly attractive target due to it's well documented extensive reserves, geographic positioning in a politically stable region and attractive valuation.

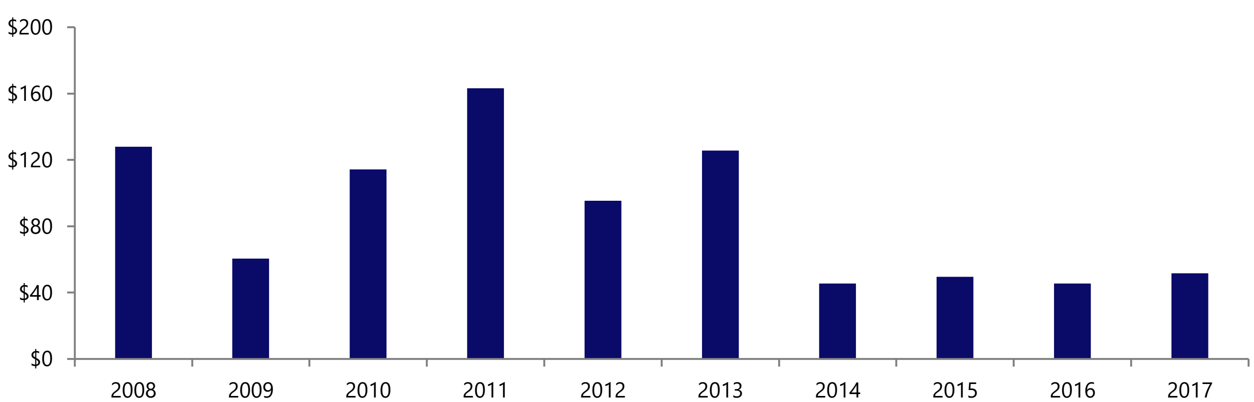
Many of the key attributes that made Detour an attractive target in November 2017 still hold true today. The Detour Lake mine is still in one of the most attractive geographic regions possible and the company still possesses one of the largest single-mine gold assets in the world. Detour's balance sheet is also stronger than ever. Mining M&A activity has increased as of late, with Q3 2018 deal value rising 25% over Q2 to US$16.8B, with 115 deals completed. Additionally, 74% of mining executives expecting M&A activity to increase in the next 12 months.

Changes to the LOM plan have made the valuation of the company not nearly as attractive as it once was. There are also sure to be added concerns over the difficulty of controlling costs at the Detour Lake Project. However, viewed through another lens, some potential acquirers could view these challenges as opportunities to scoop up a poorly-managed, premium asset at a reduced price.

These factors lead the M&M to the conclusion that Detour Gold is likely as attractive an acquisition target as ever, and perhaps more so than last year. The difficulty is in trying to predict what the new Board and management team will want for the company. It is possible John Paulson's backing down from his original calls to sell the company was all a smokescreen to gain control of the Board and that he will push the new Board to pursue a sale. Or the new team could seek to improve operations internally and a sale of the company could be completely off the table. Ultimately, even factoring in the unpredictability of the new management, the M&M team believes that Detour is still positioned extremely well for a potential acquisition.

EXHIBIT IIX

Global Mining M&A Value (US$ Billions)



Source(s): Ernst & Young

Investment Thesis V: Confidence in a Turnaround

Prior to M&M pitching Detour in November 2017 the company had struggled for much of the preceding year due to missed production targets, high production costs, safety performance and a lack of confidence in cash flow and financing. At the time the M&M team believed that Detour would be able to engineer a turnaround with the help of a consultant that led highly successful turnaround efforts at Kirkland Lake Gold and Agnico Eagle Mines.

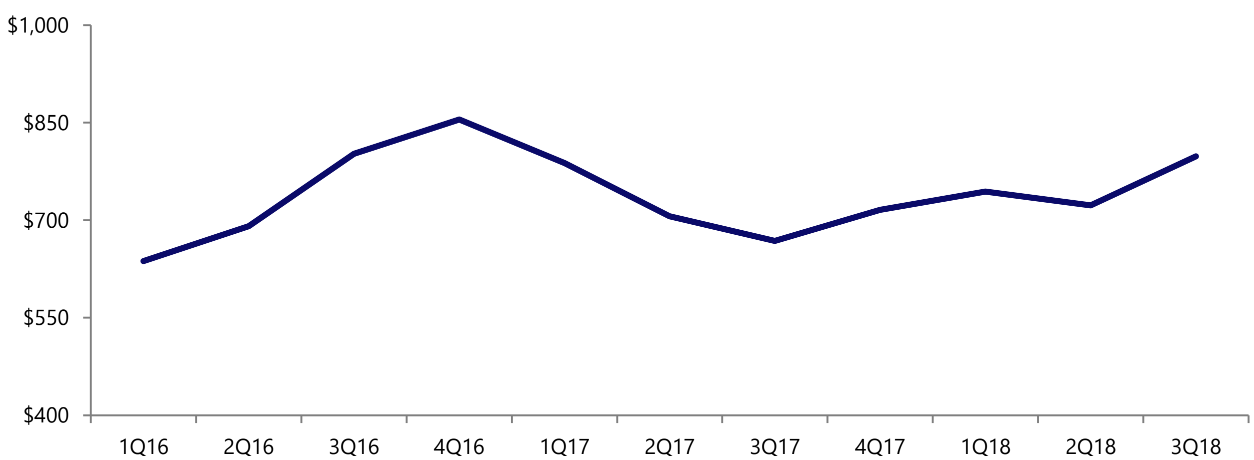
At this point in time, it would appear this thesis has not materialized in any way. AISC have risen from near US$1125/oz in Q3 2017 to US$1377/oz in Q3 2018, with total cash costs per ounce also on an upward trend. Detour has also seen several production targets missed since bringing on the consultant and has revised guidance downward for the near-future. To be fair, the company is on much more stable footing with regards to cash flows and financing, and appears to have cleared up the majority of safety issues. However, the most important issues to blame for Detour's underperformance have not only not improved, but gotten worse.

In the case study of Kirkland Lake used to illustrate the consultant's prior successes in the original M&M report, the turnaround happened extremely quickly, with results seen in under a calendar year. It has now been well over a calendar year since the hiring of the consultant and there is nothing to suggest improvement. Additionally, recent upheaval in management positions means there is no guarantee that the consultant is no longer on Detour's payroll.

With a fresh Board and a new management team there is certainly the possibility that they will be able to create a turnaround where others have failed. However, at this point, the absence of a permanent CEO and the lack of a stated corporate strategy give the M&M team nothing to base confidence in a turnaround by management off of.

EXHIBIT XI

Total Cash Cost per Ounce (US$)



Source(s): Company Reports, S&P Capital IQ

Conclusion

Risks to Consider

The tumultuous times Detour Gold has faced over the last year have left it in a position of great uncertainty. This naturally opens the door for a host of risks that the company could face. The primary risk that the M&M team feels is most threatening is the potential for further poor management of the company. The previous Board of Directors sent out multiple letters to shareholders warning of the potential for John Paulson-backed Directors to appoint management that does not have the requisite experience nor skills required to get Detour back on track. While this risk is mitigated by Paulson's sizeable stake in the company, and thus his naturally aligned incentives for company performance, Paulson, and several of his appointed Directors, do not have a great deal of experience in running mining companies.

Another major risk would be if the new Board does elect to pursue a sale of the company and is unable to sell it for a fair price. However, similar to the aforementioned management risk, this is mitigated by alignment of incentives. Additionally, it is very rare that a gold miner with such an impressive asset is sold for an unfavourable price.

Overall Conviction in Original Theses

The M&M team still has belief in the Detour Lake Project as one of the premier gold assets in the world. Its drawbacks are relatively minor and it would appear that the only thing holding the asset back is poor management and an inability to achieve a normal degree of operational efficiency. The prospect of organic growth is a long way off and we don't view it as essential to our decision on Detour at this time. Detour's deleveraging efforts have been very effective, and while further deleveraging no longer provides a runway for improvement, it has given way to a newfound balance sheet strength that will no doubt be useful for the company down the road. We continue to have strong conviction in Detour's attractiveness as an acquisition candidate, in part due to its now-solid balance sheet. We do not have any degree of confidence or certainty that a turnaround will occur, however there is the potential for improvement with a new management team.

Next Steps

We currently have very incomplete information regarding the actual state of Detour Gold. We do not know who the next CEO will be, nor do we know what the complete corporate strategy and goals of the new Board and management will be. We believe that based on where Detour is currently trading and the events that have transpired over the past year, that Detour's downside potential is relatively limited when compared to possible future performance of the company. At this time, we plan to hold Detour for the time being and will look to complete further valuation work to set a target price and evaluate the company further as more information becomes available.

References

1. Company Reports
2. Ernst & Young
3. Financial Times
4. Forbes
5. Globe and Mail
6. Google Images
7. Seeking Alpha
8. S&P Capital IQ
9. World Gold Council