

Ticker: MOZ CN
Market cap: C\$732m

Pro forma cash: C\$107m
Price: C\$3.12/sh

Project: Valentine Lake
Country: Canada / NFLD

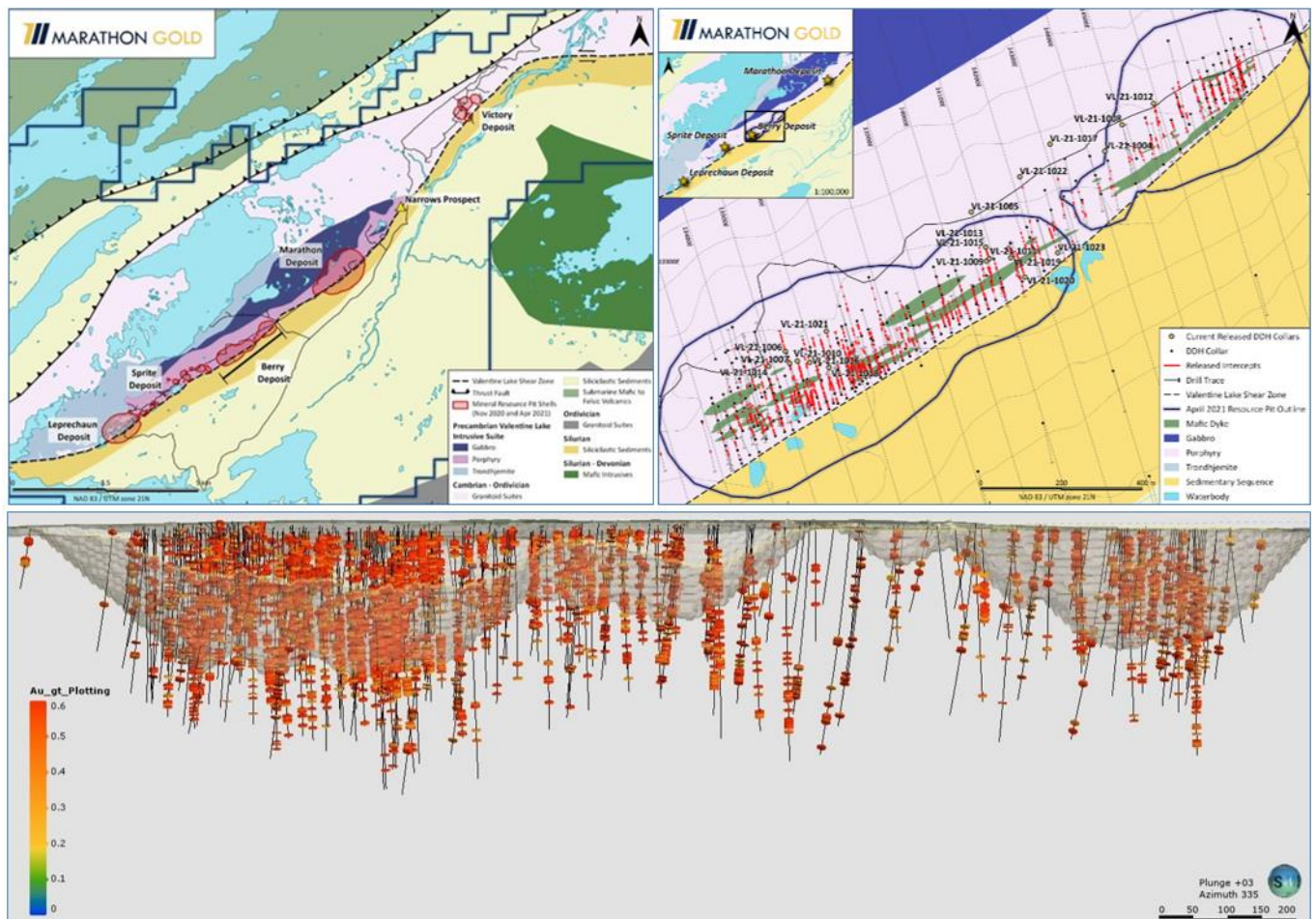
RECOMMENDATION (unc): BUY

TARGET (up): C\$4.10/sh

RISK RATING: HIGH

Today's infill drilling at Berry points to good conversion, with all 20 holes reported hitting grades well above the 0.3g/t cut-off inside the resource area (19 above 0.7g/t) even in the less delineated portion of the hangingwall. Ten holes from the HW that hit >10m averaged 15.8m @ 2.0g/t vs. 1.7g/t global grade, a useful addition given its location outside the higher-grade core. Looking forward, 120,000m planned for Berry is ongoing with 73,000m complete, but our enthusiasm picked up with news that a rig is now sitting along strike at Victory following the corridor to the NE extension. Separately, this week's ~C\$232m (US\$185m) debt financing is in line with our ~C\$230m estimate which was based on 65% gearing, taking Marathon close to fully financing Valentine's construction of C\$305m. The additional indebtedness of US\$110m allowed by the Sprott facility for leasing mobile equipment is more than enough on face value (C\$16m capex for mining equipment), but the DFS shows, for example, C\$53m sustaining mining capital in Y1-2. We don't expect the total allowance to be used, noting ~C\$32m ITM options and warrants expire pre first-pour, so model a C\$20m lease facility, with drill spend between now and first gold a key flex. Updating for the equity and debt, **we maintain our BUY rating and lift our PT from \$3.90/sh PT to C\$4.10/sh** based on a raised NAV multiple of 0.8x to 0.9xNAV now that funding is in place. We model a fully-diluted 261m shares, net of finance costs on the C\$236m debt facility, and net of central G&A. This includes Berry upside at US\$100/oz for resources outside SCPe inventory (C\$59m), around a third of the DCF value, pointing to continued NPV growth here, and that ahead of next target Victory.

1. (A) Leprechaun > Victory plan map, (B) Berry drill plan map and (C) 3D pitshell view



Source: Marathon

Berry resource infilling nicely with 21m @ 5.6g/t; rigs moving to Victory

Marathon reported the latest 20 holes from Berry, highlighting **21m @ 5.6g/t** including **2m @ 41.4g/t** and **37m @ 2.1g/t** including **1m @ 11.8g/t** from within the April 2021 resource pit shell. Additional highlights include **13m @ 2.3g/t**, **5m @ 4.2g/t**, and **32m @ 0.86g/t**. Gold mineralization was confirmed between the two resource pit shells as well including 10.2m @ 0.8g/t. Year to date, Marathon has drilled 31,691m at Berry, with ~13,000m pending results. Four drills are active with three focused at Berry through to November, one at Victory that will move to Sprite in September. RC grade control drilling at Leprechaun and Marathon is ongoing, with ~7,650m completed (2,358m at Leprechaun, 5,282m at Marathon) of the 8,000m planned 6 x 12 and 6 x 6m spaced program. Drilling on this program is ongoing, and results are pending.

US\$185m debt financing secured ahead of 2022 construction at Valentine

Earlier this week Marathon entered into an agreement with Sprott Resource Lending for a senior secured financing facility of US\$185m (C\$236m at spot) to support the initial C\$305m capex required to build Valentine next year (6.5-year term closing March 31, 2022). As of 2Q21, Marathon's treasury stands at C\$107m + C\$12m from ITM warrants due September 2021. The facility has headroom of up to US\$110m allowed for mobile equipment leasing (*the DFS shows C\$16m capital cost for mobile equipment, plus C\$35m opex for processing mobile equipment, but C\$53m sustaining mining capital in Y1-2*). Separately, on May 27, 2021, Marathon closed a ~C\$50m private placement (\$30m @ C\$2.45/sh common shares, \$20m @ C\$3.10/sh FT CEE) with primary participation from Pierre Lassonde and Trinity Capital reflecting strong support in the Valentine project.

Why we like Marathon

1. Low cost vanilla gold pit in Tier 1 jurisdiction is without peer in >150koz group
2. First satellite Berry has the potential to exceed our modelled 325koz in reserves
3. Potential for further satellites in Berry – Marathon 'gap' and NE of Marathon at Narrows
4. Builder-mentality of management, multiple recent staff bulk build team
5. Fully-diluted NAV in production sits at ~C\$5.00/sh

Catalysts

- 2H21: Detailed engineering and financing
- 3Q21: Permitting approval
- CY21: Equity and debt financing
- 1Q22/4Q23: Construction starts / first pour, subject to adjustment in 4Q21

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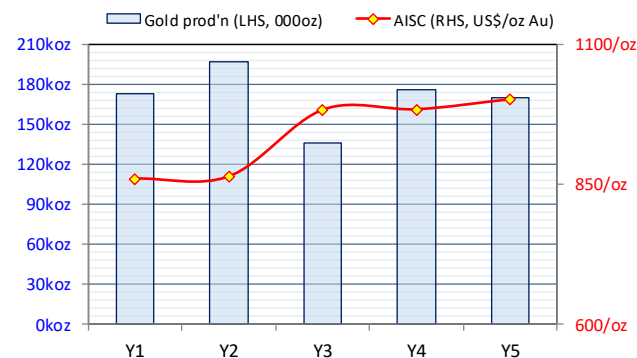
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Ticker: MOZ CN		Price / mkt cap: C\$3.12/sh, C\$727m					Project / group PNAV today: 0.62x / 0.68x					Asset: Valentine		
Author: Brock Salier		Rec / 0.9xNAV PT: BUY, C\$4.1/sh					1xNAV _{1Q21} FF FD: C\$5.01/sh					Country: Canada / Newf'd		
Commodity price		CY19A	CY20E	CY21E	CY22E	CY23E	Resource / Reserve		Ore (Mt)	Au (g/t)	Au (koz)	M&I / Pr.		
Gold price		1,850	1,850	1,850	1,850	1,850	Meas., indicated and inferred		74.9	1.72g/t	4140koz	76%		
SOTP project valuation*							Proven and probable reserve		47.1	1.35g/t	2050koz	68%		
		C\$m	O/ship	NAVx	C\$/sh		Funding: uses		Funding: sources					
Ungeared proj. @ build start (1Q22)		1,085	100%	1.0x	4.15		DFS capex		C\$305m	Cash + ITM options* C\$117m				
Pro forma cash		85	100%	1.0x	0.33		SCPe G&A until first pour		C\$12m	Sen. debt @ 65% gearing C\$232m				
Cash from options		39	100%	1.0x	0.15		SCPe pre-pro'n explor'n		C\$17m	SCPe equipment debt C\$20m				
Berry 315koz @ US\$100/oz		59	100%	1.0x	0.23		SCPe fin. costs + wkng cap		C\$21m	Build equity C\$0m				
Strike / FEP upside (nominal)		50	100%	1.0x	0.19		Total uses		C\$355m	Total proceeds C\$370m				
Asset NAV5% C\$1850/oz		1,269			5.05		*Cash from options expiring pre first pour			Buffer C\$15m				
*Shares diluted for options, not mine build		Market P/NAV _{8%} 1Q21 0.62x					Share data							
Asset value: 1xNPV project @ build start (C\$m, ungeared)*								Basic shares (m)		232.9	FD with build equity raise 261.4			
Project NPV (C\$m)*		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	FD with options (m)		261.4					
10.0% discount		500	597	695	792	889	Ratio analysis		CY19A	CY20E	CY21E	CY22E	CY23E	
7.5% discount		636	750	864	978	1,091	Average shares out (m)		167.8	204.2	213.8	255.4	261.4	
5.0% discount		810	945	1,080	1,215	1,349	EPS (C\$/sh)		-	-	-	-	-	
Ungeared project IRR:		35%	39%	43%	48%	51%	CFPS (C\$/sh)		-	-	-	-	-	
SCP NAV (C\$/sh)*		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	EV (C\$m)		495.0	585.6	595.9	897.5	1,061.2	
10.0% discount		2.87	3.24	3.61	3.98	4.35	FCF yield (%)		-	-	-	-	-	
7.5% discount		3.38	3.82	4.26	4.69	5.13	PER (x)		-	-	-	-	-	
5.0% discount		4.05	4.57	5.08	5.60	6.11	P/CF (x)		-	-	-	-	-	
*Project level NPV, excl finance costs and central SGA, discounted to build start								EV/EBITDA (x)		-	-	-	-	34.2x
SOTP group valuation^		2Q21	2Q22	2Q23	2Q24	2Q25	Income statement		CY19A	CY20E	CY21E	CY22E	CY23E	
Valentine NPV (C\$m)		1,045	1,124	1,390	1,499	1,362	Revenue (C\$m)		-	-	-	-	67.6	
Net cash prior qtr (C\$m)		47	45	(176)	(246)	(58)	COGS (C\$m)		-	-	-	-	30.5	
G&A and finance costs (C\$m)		(125)	(117)	(105)	(94)	(80)	Gross profit (C\$m)		-	-	-	-	37.1	
Cash from options (C\$m)		39	39	39	39	39	D&A, attrib (C\$m)		0.1	0.2	-	-	41.5	
Berry + strike / FEB (C\$m)		109	109	109	109	109	Admin (C\$m)		3.1	7.6	6.2	5.0	5.0	
NAV FF FD (C\$m)		1,115	1,201	1,257	1,308	1,373	Finance cost (C\$m)		(0.2)	(0.4)	-	8.1	14.8	
Period end shares out (m)		214	261	261	261	261	Royalty (C\$m)		-	-	-	-	1.0	
1xNAV _{5%} /sh FF FD (C\$/sh)		4.27	4.60	4.81	5.01	5.25	Forex, other (C\$m)		0.7	0.0	(0.1)	-	-	
12M target: 0.9NAV/sh @ 2Q22 (C\$m, geared)^								Taxes (C\$m)		0.3	(0.1)	1.0	-	-
3Q22 1xNAV FF FD (C\$/sh)^		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Net income (C\$m)		(4.0)	(7.4)	(7.1)	(13.1)	(25.3)	
10.0% discount		723	833	942	1,052	1,161	Cash flow, attrib.		CY19A	CY20E	CY21E	CY22E	CY23E	
7.5% discount		845	970	1,095	1,219	1,344	EBIT (C\$m)		(3.9)	(7.8)	(6.1)	(5.0)	(10.4)	
5.0% discount		998	1,141	1,285	1,428	1,571	Add back D&A (C\$m)		0.1	0.2	-	-	41.5	
Geared project IRR:		28%	32%	36%	39%	43%	Less tax + net interest (C\$m)		0.1	(0.4)	1.0	8.1	14.8	
3Q22 1xNAV1450 FF FD (C\$/sh)^		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	Net change in wkg cap (C\$m)		3.0	(0.2)	(1.6)	-	(14.1)	
10.0% discount		2.32	2.73	3.13	3.54	3.95	Add back other non-cash (C\$m)		1.2	2.5	0.1	-	-	
7.5% discount		2.78	3.25	3.71	4.18	4.65	Cash flow ops (C\$m)		0.2	(5.0)	(8.6)	(13.1)	2.1	
5.0% discount		3.36	3.90	4.44	4.98	5.52	PP&E - build + sust. (C\$m)		(0.1)	(0.2)	(0.0)	(158.7)	(147.3)	
*Project NPV incl grp SG&A & fin. cost, +net cash, +equity								PP&E - expl'n (C\$m)		(15.7)	(18.5)	(22.3)	-	-
Production		Y1	Y2	Y3	Y4	Y5	Cash flow inv. (C\$m)		(15.7)	(18.7)	(22.3)	(158.7)	(147.3)	
Gold production (000oz)		173	197	136	176	170	Share issue (C\$m)		22.2	47.0	49.6	-	-	
C1 cost (US\$/oz)		835	839	953	947	965	Proceeds from sale (C\$m)		18.0	-	-	-	-	
AISC cost (US\$/oz)		860	864	982	983	1,001	Debt draw (repay) (C\$m)		(0.0)	(0.1)	(0.0)	232.4	20.0	
AISC = C1 + ug sustaining capex, Y1 = 12M to June 2024								Cash flow fin. (C\$m)		40.1	46.9	49.5	232.4	20.0
								Net change in cash (C\$m)		24.6	23.3	18.6	60.6	(125.2)
								EBITDA (C\$m)		(3.9)	(7.6)	(6.1)	(5.0)	31.1
								Balance sheet		CY19A	CY20E	CY21E	CY22E	CY23E
								Cash (C\$m)		28.5	51.7	71.3	131.9	6.7
								Acc rec., inv, prepaid exp (C\$m)		1.0	1.4	0.4	0.4	20.6
								PP&E + other (C\$m)		84.8	105.5	120.2	280.3	386.1
								Total assets (C\$m)		114	159	192	413	413
								Debt (C\$m)		0.0	0.1	0.1	232.5	252.5
								Accounts payable (C\$m)		1.8	2.4	-	-	6.0
								Others (C\$m)		8.1	9.5	10.2	10.2	10.2
								Total liabilities (C\$m)		10.0	12.1	10.4	242.7	268.8
								Sh'hlds equity + wrnts (C\$m)		117.3	167.0	216.9	216.9	216.9
								Retained earn'gs + rsvs (C\$m)		(12.9)	(20.4)	(27.2)	(40.3)	(65.6)
								Liabilities + equity (C\$m)		114	159	200	419	420

Gold prod'n (LHS, 000oz)

AISC (RHS, US\$/oz Au)

Year	Gold prod'n (000oz)	AISC (US\$/oz Au)
Y1	173	860
Y2	197	864
Y3	136	982
Y4	176	983
Y5	170	1001



Source: SCP estimates

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BUY:	44
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

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