

Nov 02, 2018

Nat Resources

TSXV

**MLN.V**

Rating

**Outperform**

Unchanged

Current Price

**\$0.11**

Target Price

**\$0.35**

Market Capitalization

**18.87M**

Shares Outstanding

**171.57M**

Float

**24.46M**

Institutional Holdings

**0.00%**

12-month Low/High

**\$0.10/\$1.02**

Average 90-day Volume

**32,190**

Fiscal Year End

**Dec 30**

**Revenues (\$ MIL)**

Period	2017A	2018E	2019E
Q1	\$32.6A	\$7.9A	
Q2	\$16.7A	\$12.5A	
Q3	\$8.8A	\$14.6E	
Q4	\$11.1A	\$16.1E	
	\$69.2A	\$51.1E	\$30.0E

**EPS (\$)**

Period	2017A	2018E	2019E
Q1	\$0.00A	(\$0.05)A	
Q2	(\$0.04)E	(\$0.03)A	
Q3	(\$0.04)E	(\$0.01)E	
Q4	(\$0.15)E	\$0.02E	
	(\$0.23)E	(\$0.07)E	\$0.02E

## Marlin Gold Mining

### Marlin Shareholders Approve Merger with Golden Reign Resources

**Marlin shareholders vote to approve.** At the special meeting of shareholders held on October 30th, Marlin shareholders voted to approve the combination with Golden Reign Resources. Approximately 91.43% of the outstanding Marlin shares were represented in person or by proxy.

**Transaction terms.** Golden Reign will acquire all outstanding Marlin common shares with the exchange of 0.5138 GRR shares for each Marlin share. Marlin will distribute 18,148,654 GRR shares currently held by Marlin Gold to the Marlin shareholders at a ratio of 0.1022 GRR shares for each Marlin common share, bringing the total GRR shares to be received by Marlin shareholders to 0.6160 GRR shares for each Marlin share outstanding at closing.

**Stronger combined entity with an improved growth outlook.** The combination is expected to result in a debt-free entity that will generate revenue from the La Trinidad mine until the San Albino mine commences service in 2019. Going forward, we expect the growth outlook for the combined entity to exceed either company on a stand-alone basis.

**Merger expected to close on November 9th.** The transaction is expected to close by November 9, 2018. Upon closing, the combined company will be named Mako Mining Corp and the common shares are expected to commence trading on the TSX Venture Exchange under the trading symbol "MKO" within two business days after closing.

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### Refer to the last two pages for Analyst Certification & Disclosures

## Company Profile

Marlin Gold is an emerging precious metal mining company with assets in Mexico, Nicaragua and Arizona. Marlin owns 100% of two primary mines. The rights to payment streams and royalties from three other projects were spun off into a company called Sailfish (TSX-V: FISH) in December 2017. Marlin is backed by Wexford Capital LP, a major shareholder and financial backer.



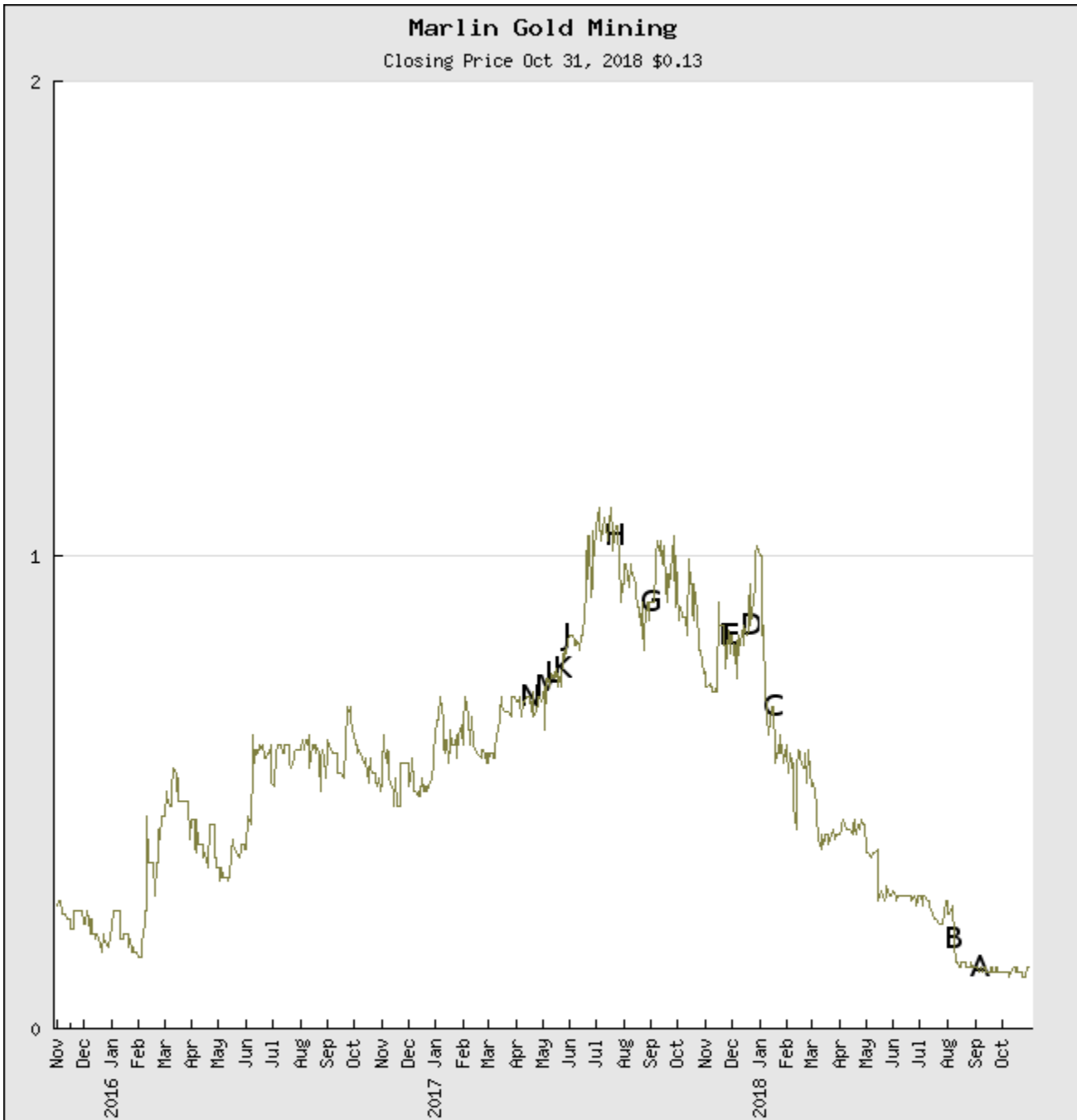
With this report we are implementing a fundamental assessment rating, separate from our investment rating and valuation, based on five attributes. We assign 3.0 checks out of 5.0, which falls within our "Average" range of 2.5 to 3.0 checks. Our fundamental assessment rating takes into account, on a stand-alone basis, Marlin's debt level relative to its enterprise value and relatively low trading liquidity. The company has successfully operated the La Trinidad mine in an area, Sinaloa, Mexico, which we consider to have above-average risk. Importantly, Marlin benefits from a strong financial backer in Wexford Capital, which has provided both financial support and strategic guidance. Post-merger with GRR.V, we expect the combined entity to have an improved fundamental assessment score as it is expected to have greater geographic diversity, a debt-free balance sheet and strong cash position.

## Valuation Summary

Our investment rating on the shares of Marlin Gold Mining Ltd. (TSX-V: MLN) is Outperform with a price target of CDN\$0.35 per share. Our price target for shares trading on the OTC under the ticker MLNZF is \$0.27 per share. Our price objective is based on a discounted cash flow estimate of existing and estimated mine projects. Because Marlin has announced plans to be acquired by Golden Reign Resources (TSX-V: GRR), our valuation is based on the combined companies' cash flows, including the San Albino mine. Our valuation estimate uses an 8% discount rate and current and future silver and gold prices. Our over-the-counter share valuation is discounted at a ratio of approximately 0.76:1 rate to reflect the conversion of Canadian dollars (as reported in financial results) to US dollars. A failure to close the planned merger, a decline in precious metal prices, lower-than-expected production levels, and mine development cost overruns are among the many factors that could prevent the stock from reaching our price objective. For our valuation, we have assumed net present value of cash flows amounts to ~\$133.6 million.



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A - 09/07/2018 Outperform Target \$0.35 Current \$0.13	B - 08/08/2018 Buy Target \$0.40 Current \$0.19
C - 01/16/2018 Buy Target \$2.75 Current \$0.68	D - 12/22/2017 Buy Target \$2.75 Current \$0.85
E - 12/01/2017 Buy Target \$3.00 Current \$0.83	F - 11/28/2017 Buy Target \$3.00 Current \$0.83
G - 08/31/2017 Buy Target \$3.00 Current \$0.90	H - 07/21/2017 Buy Target \$3.00 Current \$1.04
I - 06/29/2017 Buy Target \$3.00 Current \$1.00	J - 06/02/2017 Buy Target \$3.00 Current \$0.83
K - 05/25/2017 Buy Target \$3.00 Current \$0.76	L - 05/16/2017 Buy Target \$3.00 Current \$0.75
M - 05/03/2017 Buy Target \$3.00 Current \$0.72	N - 04/17/2017 Buy Target \$3.00 Current \$0.70

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

**Corporate Governance/Management**

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

**The Market Opportunity Analysis**

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

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High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

### Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

### Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

### Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

### ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

Senior Equity Analyst focusing on Basic Materials & Mining. 20 years of experience in equity research. BA in Business Administration from Westminster College. MBA with a Finance concentration from the University of Missouri. MA in International Affairs from Washington University in St. Louis.

Named WSJ 'Best on the Street' Analyst and Forbes/StarMine's "Best Brokerage Analyst."

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<b>NOBLE RATINGS DEFINITIONS</b>	<b>% OF SECURITIES COVERED</b>	<b>% IB CLIENTS</b>
Outperform: potential return is >15% above the current price	81%	30%
Market Perform: potential return is -15% to 15% of the current price	19%	7%
Underperform: potential return is >15% below the current price	0%	0%

**NOTE:** On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

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Report ID: 10639