

Klondike Gold Corp.

Canada / Mining
 Primary: Toronto
 Secondary: Frankfurt Stock Exchange
 Bloomberg: KG CN
 ISIN: CA4989033010

Update

RATING	BUY
PRICE TARGET	C\$ 0.80
Return Potential	220.0%
Risk Rating	High

NEWS FLOW ENCOURAGING AS SEASON WINDS DOWN

Klondike published another batch of assays from a seven-hole drill program testing the Gay Gulch showing along the Eldorado Fault. This marked the first follow-up at Gay Gulch since 2015. Results featured a gold showing of 1.09 g/t Au over 9.8 metres and 9.66 g/t Au over 0.5 metres. Klondike also announced a placer mining agreement for its Upper Eldorado Creek property with Dulac Mining Ltd. The deal has already yielded encouraging gold discoveries and further evidence that the Stander Zone (formerly Nugget Zone) is the significant source of gold in Eldorado Creek. We stick to our Buy rating and C\$0.80 price target.

Encouraging drill season in the books Management initially set out to drill ~60 holes this season to get a better view on the higher grade gold mineralisation in Gay Gulch and Nugget Zones and to expand the zone of disseminated gold at Lone Star Zone. Equipped with two diamond drills, the company overshot the drill hole target reporting a total of 94 holes drilled. The extended drilling was funded by a small equity raise (C\$0.77m) in early September after management felt compelled to immediately follow up on this summer's 'world class' discovery hole (1,009 g/t Au over 1 metre) in the Nugget Zone (see note of 8 August 2019). We expect further pending assays to trickle in late autumn.

Klondike inks placer mining deal The company also announced a lease agreement with Dulac Mining Ltd assigning the rights and permits to placer mine on Klondike's Upper Eldorado Creek property. In return, KG will receive a 10% Au production royalty payable in raw gold. The three year agreement expires 1 July 2022 but is renewable subject to mutual agreement. So far Klondike has received approximately 13.8 ounces of gold concentrate as proceeds from the 2019 test placer mining. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015/16	2016/17	2017/18	2018/19	2019/20E	2020/21E
Revenue (C\$ m)	0.00	0.00	0.00	0.00	0.00	0.00
Y-o-y growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT (C\$ m)	-0.66	-1.25	-2.00	-1.95	-2.16	-2.28
EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income (C\$ m)	-0.56	-0.56	-1.65	-1.55	-2.16	-2.28
EPS (diluted) (C\$)	-0.02	-0.01	-0.02	-0.02	-0.02	-0.02
DPS (C\$)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (C\$m)	-0.67	-2.67	-4.51	-5.30	-5.30	-9.04
Net gearing	-5.9%	-7.8%	-30.6%	-6.9%	-5.6%	-4.7%
Liquid assets (C\$ m)	0.52	0.99	6.53	1.27	1.16	1.29

RISKS

The main risks are failure to identify enough gold for an economic extraction and potential friction with First Nations.

COMPANY PROFILE

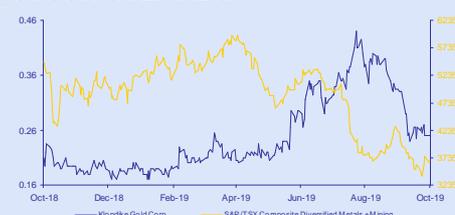
Klondike Gold Corp. is a Canadian gold exploration company with offices in Vancouver, British Columbia, and Dawson City, Yukon Territory. The company's 563km² Klondike District Project encompasses the original 1896 gold rush discoveries at Bonanza and Eldorado Creeks.

MARKET DATA

	As of 16 Oct 2019
Closing Price	C\$ 0.25
Shares outstanding	113.10m
Market Capitalisation	C\$ 28.27m
52-week Range	C\$ 0.17 / 0.44
Avg. Volume (12 Months)	196,203

Multiples	2018/19	2019/20E	2020/21E
P/E	n.a.	n.a.	n.a.
EV/Sales	0.0	0.0	0.0
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

	As of 31 May 2019
Liquid Assets	C\$ 2.86m
Current Assets	C\$ 3.34m
Intangible Assets	C\$ 19.52m
Total Assets	C\$ 23.93m
Current Liabilities	C\$ 0.59m
Shareholders' Equity	C\$ 22.62m

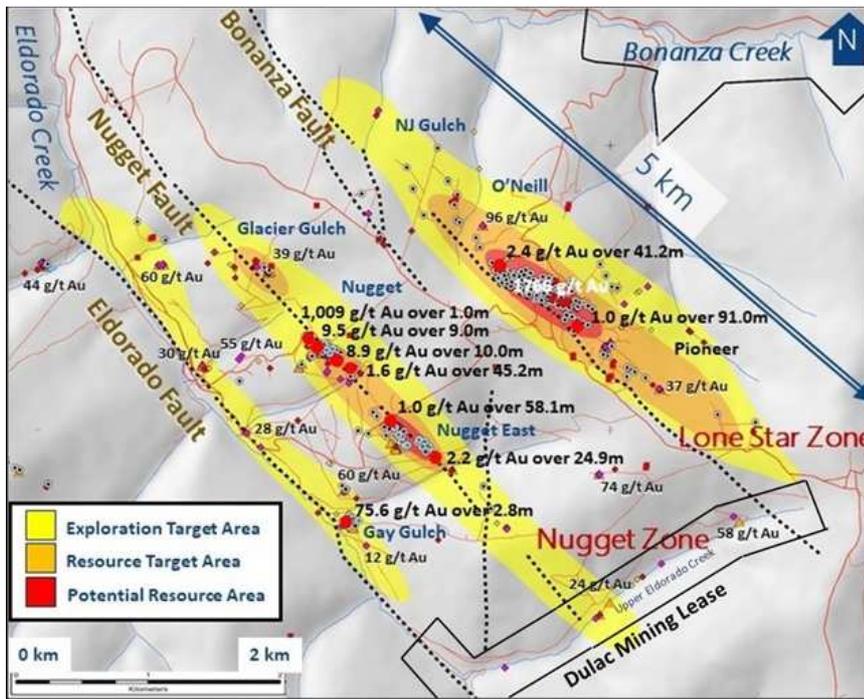
SHAREHOLDERS

F. Giustra	14.0%
E. Sprott	13.0%
Management	10.0%
Free Float	63.0%

PLACER MINING RATIONALE

The placer claims held by Klondike Gold and leased to Dulac Mining include some of the oldest placer claims in the Yukon Territory and Canada. The placer claims cross the strike extensions of current significant gold bedrock prospects in the Stander Zone (formerly Nugget Zone), the Lone Star Zone, as well as mineralization along the Eldorado Fault.

Figure 1: Gay Gulch showing in relation to Eldorado Fault gold mineralisation



Source: First Berlin Equity Research; Klondike Gold Corp

Under the lease agreement terms, Dulac Mining will expose bedrock along Upper Eldorado Creek. This in turn allows Klondike to map and sample these gold zones and targets at no additional cost.

Figure 2: Pay dirt - gold from Dulac placer operations in Upper Eldorado Creek



Source: Klondike Gold Corp



Upper Eldorado Creek was last mined in the 1980's using a relatively inefficient mining method. Test mining by Dulac Mining has shown that significant gold, and coarse nugget gold, remains in the creek (figure 2). And the coarse nugget size gold appears similar to outcrops discovered by Klondike in the Stander Zone.

Dulac Mining is extracting coarse gold 1,000 meters downstream from where the Stander Zone is thought to cross the creek. The evidence continues to suggest that the Stander Zone is the significant source of gold in Eldorado Creek and a major contributor to the famed White Channel layer that has been mined since 1896. In our view, Dulac's gold discoveries are further evidence that these are the sources of Klondike's placer deposits.

GAY GULCH FOLLOW-UP

A six-hole program back in 2015 led to a gold discovery in quartz veins. This year's seven-hole program (table 1) marked the first follow-up testing since then. The combined results from the two campaigns show Au mineralisation along the northwest-trending Eldorado Fault and along the intersecting north-trending zone. Results included 1.09 g/t Au over 9.08 metres in EC19-245 and 9.66 g/t Au over 0.5 metres in EC19-248. Management reckon the results warrant further testing next year. Results from other work including further soil sampling, GT-Probe surveying, rock sampling, and core analysis are also pending.

Table 1: Results from Gay Gulch holes EC19-242 to EC19-248

Hole ID	From (m)	To (m)	Au g/t	Interval (m)
EC19-242	8.8	25.5	0.2	16.8
EC19-243	NSV*			
EC19-244	5.7	35.5	0.4	29.8
<i>including</i>	5.7	6.2	9.3	0.5
EC19-245	4.9	14.7	1.1	9.8
<i>including</i>	13.1	13.7	8.3	0.6
EC19-246	3.1	4.6	2.3	1.6
EC19-247	NSV*			
EC19-248	70.0	70.5	6.1	0.5
<i>including</i>	92.0	92.5	9.7	0.5
*no significant value				

Source: First Berlin Equity Research; Klondike Gold Corp



VALUATION MODEL

Table 2: Moz takeout scenario

Takeover scenario and sensitivities									
Takeover value	220	C\$m							
Discount rate	15	%							
Discounted takeover value	157	C\$m							
				C\$ per ounce					
				90	100	110	120	130	
Net cash (pro-forma)	30	C\$m	Moz AU	1.0	90	100	110	120	130
Costs through 2021/2022	-27	C\$m		2.0	180	200	220	240	260
Fair value	161	C\$m		3.0	270	300	330	360	390
SO (pro-forma)	201	m		4.0	360	400	440	480	520
Price target	0.80	C\$		5.0	450	500	550	600	650

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in C\$ '000	2015/16	2016/17	2017/18	2018/19	2019/20E	2020/21E
Revenues	0	0	0	0	0	0
Consulting	-254	-164	-319	-209	-230	-253
Management & personnel expense	-135	-309	-532	-385	-584	-614
Other OpEx	-176	-243	-715	-625	-788	-828
Regulatory & transfer agent	-28	-51	-65	-40	-78	-86
Share based compensation	0	-412	-284	-648	-420	-441
EBITDA	-593	-1,179	-1,915	-1,907	-2,100	-2,221
Depreciation & amortisation	-63	-70	-83	-41	-55	-55
EBIT	-656	-1,249	-1,997	-1,948	-2,155	-2,276
Interest expense	-9	0	0	0	0	0
Interest income	4	6	65	67	0	0
Gain on sale of investments	23	38	97	0	0	0
Gain on sale of equipment	48	0	0	81	0	0
Gain on sale of exploration assets	0	392	100	0	0	0
Miscellaneous income	82	0	0	0	0	0
Other flow through income	40	36	244	249	0	0
Unrealised gain on warrants	0	17	-104	0	0	0
Pre-tax income (EBT)	-468	-760	-1,596	-1,550	-2,155	-2,276
Unrealised income/loss on for-sale-investments	-88	204	0	0	0	0
Reclassification on sale of for-sale-investments	-2	-4	-57	0	0	0
Net income / loss	-557	-560	-1,653	-1,550	-2,155	-2,276
Diluted EPS (in C\$)	-0.02	-0.01	-0.02	-0.02	-0.02	-0.02
Weighted avg. SO (pro-forma '000)	34,585	48,545	79,638	96,845	111,684	146,840
Ratios						
EBITDA margin on revenues	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT margin on revenues	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin on revenues	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expenses as % of revenues						
Other OpEx	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Regulatory & transfer agent	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Y-Y Growth						
Revenues	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income/ loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



BALANCE SHEET

All figures in C\$ '000	2015/16	2016/17	2017/18	2018/19	2019/20E	2020/21E
Assets						
Current assets, total	639	1,154	6,666	1,539	1,448	1,599
Cash and cash equivalents	523	990	6,534	1,267	1,157	1,287
Restricted cash	25	50	50	165	182	200
Trade receivables	14	71	39	51	53	54
Other prepaid expenses	77	42	43	55	56	57
Non-current assets, total	8,713	12,409	15,341	19,414	22,983	30,193
Property, plant and equipment	406	364	322	290	295	300
Investments	180	426	0	0	0	0
Reclamation bond	4	4	4	4	4	4
Exploration & evaluation assets	8,123	11,615	15,016	19,121	22,685	29,890
Total assets	9,352	13,562	22,006	20,953	24,431	31,792
Shareholders' equity & debt						
Current liabilities, total	94	222	463	280	308	339
Trade payables	82	222	190	280	308	339
Flow through premium	0	0	249	0	0	0
Other current liabilities	12	0	24	0	0	0
Long-term liabilities, total	0	0	0	0	0	0
Long-term debt	0	0	0	0	0	0
Shareholders' equity	9,257	13,340	21,543	20,673	24,124	31,454
Total consolidated equity and debt	9,352	13,562	22,006	20,953	24,431	31,792
Ratios						
Current ratio (x)	6.8	5.2	14.4	5.5	4.7	4.7
Quick ratio (x)	6.0	5.0	14.3	5.3	4.5	4.6
Net debt	-548	-1,040	-6,584	-1,432	-1,339	-1,488
Net gearing	-6%	-8%	-31%	-7%	-6%	-5%
Return on equity (ROE)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital employed (CE)	8,529	11,979	15,337	19,411	22,980	30,190
Return on capital employed (ROCE)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



CASH FLOW STATEMENT

All figures in C\$ '000	2015/16	2016/17	2017/18	2018/19	2019/20E	2020/21E
Net income	-468	-760	-1,596	-1,550	-2,155	-2,276
Stock based compensation	0	412	284	648	420	441
Depreciation & amortisation	63	70	83	41	55	55
Gain on sale of equipment	-48	0	0	0	0	0
Gain on sale of exploration assets	0	-392	0	-81	0	0
Gain on sale of investments	-23	-38	-97	0	0	0
Other flow through income	-40	-36	-244	-249	0	0
Unrealised gain on warrants	0	-17	104	2	0	0
Change in receivables	27	-57	32	-12	-2	-2
Change in prepaid expenses	15	34	0	-12	-1	-1
Change in third party payables	0	-12	24	-24	0	0
Change in payables	8	33	28	2	27	31
Operating cash flow	-467	-763	-1,382	-1,237	-1,656	-1,752
PP&E	53	-28	-41	-13	-60	-60
Exploration & evaluation asset expenditures	-926	-2,253	-3,434	-4,018	-3,563	-7,205
Proceeds on gold sales	527	0	0	0	0	0
Sale of exploration & evaluation assets	0	50	0	86	0	0
Sale of investments held for sale	161	351	349	0	0	0
Restricted cash	-15	-25	0	-115	-17	-18
Cash flow from investing	-200	-1,905	-3,125	-4,061	-3,640	-7,283
Free cash flow (FCF)	-667	-2,669	-4,507	-5,297	-5,296	-9,035
Debt inflow, net	0	0	0	0	0	0
Equity inflow, net	410	2,744	6,606	0	5,186	8,750
Proceeds from exercised options	0	18	145	19	0	415
Proceeds from exercised warrants	0	374	3,299	11	0	0
Other	-176	0	0	0	0	0
Cash flow from financing	234	3,136	10,050	30	5,186	9,165
Net cash flows	-434	468	5,543	-5,267	-110	130
Cash, start of the year	957	523	990	6,533	1,267	1,157
Cash, end of the year	523	990	6,533	1,266	1,157	1,287

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	2 October 2018	C\$0.20	Buy	C\$0.70
2	22 May 2019	C\$0.22	Buy	C\$0.70
3	30 July 2019	C\$0.34	Buy	C\$0.70
4	8 August 2019	C\$0.34	Buy	C\$0.70
5	Today	C\$0.25	Buy	C\$0.80

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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