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	158.1%
Risk Rating	High

NEW GEOLOGICAL MODEL SUGGESTS LARGER GOLD RESOURCE

Klondike has published insights into its updated geological model, which resulted from a three month program to reprocess and recompile five years of previously gathered geoscience data. The recalibrated model for the first time considers gold-bearing northeast-trending orogenic faults, which overlay the northwest trending faults. The latter have been the sole focus of the model up to now. Both fault directions are gold-bearing in bedrock and provide vectors towards new exploration targets at the Lone Star and Stander zones. The updated model gives Klondike a better geological overview of its district and a higher degree of confidence in the property's Au potential. Our rating is Buy with an C$0.80 price target.

What has changed? Management now have an even better understanding of the event and ageing frameworks of the Klondike District and how it fits into the Tintina Gold Belt. Historically, the northwest-trending D3 (D=deformation) faults have been the focus of all exploration in the Klondike District and were regarded as the only faults with gold mineralisation. Thanks to newly identified NE-trending (D4) thrust faulting, the Klondike exploration team now thinks this is the event that introduced gold-bearing fluids into the Klondike's network of D3 and D4 faults. There is not only now one age for the introduction of gold, but the gold also found a 'home' in both the contemporaneous D4 faults and the pre-existing D3 faults. And since all of the previous NE to SW drilling probably only winged the potential D4 gold deposits, this means there is another orientation of gold mineralization for the Klondike team to explore.

Mounting number of exploration targets There is now strong geological evidence showing that the Lone Star and Stander Zones are cross-cut by the newly recognised D4 faulting perpendicular to the D3 thrusts (figure 1 overleaf). This pattern also hints that the world class discovery hole EC19-267 (1,009 g/t Au with 1,035 g/t Ag over one meter) was likely found at an intersection of the checkerboard faulting structures. Management now have a . . . (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$m)	-0.67	-2.67	-4.51	-5.30	-5.72	-6.05
Net gearing	-5.9%	-7.8%	-30.6%	-6.9%	-3.8%	-2.7%
Liquid assets (C$ m)	0.52	0.99	6.53	1.27	0.74	0.57

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 21 Jan 2020
Closing Price	C$ 0.31
Shares outstanding	113.10m
Market Capitalisation	C$ 35.06m
52-week Range	C$ 0.17 / 0.44
Avg. Volume (12 Months)	197,514

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

STOCK OVERVIEW

COMPANY DATA

	As of 31 Aug 2019
Liquid Assets	C$ 1.71m
Current Assets	C$ 2.19m
Intangible Assets	C$ 21.33m
Total Assets	C$ 24.58m
Current Liabilities	C$ 0.61m
Shareholders' Equity	C$ 23.28m

SHAREHOLDERS

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

Analyst: Ellis Acklin, Tel. +49 (0)30 - 80 93 96 83

. . . mounting number of new targets to explore in addition to the follow-up work on the targets already drilled. Meanwhile, over 70 drill hole results from the 2019 drill campaign aimed at extensions to the Lone Star and Stander Zones are pending. We note that these holes were completed prior to full recognition of the new model and consequently only tested the D3 structures. However, we expect the assays to be supportive of our running assumptions.

MORE ON THE NEW STRUCTURAL MODEL

The image below shows that there are two roughly perpendicular strike directions in the gold-bearing rocks. The newly recognised D4 (c.100 million year old) northeast-trending faults are identifiable as gulches connecting the two major thrust faults. These occupy the major creeks and run parallel to the secondary D3 (c.180 million year old) faults.

The exploration model acknowledges that the NE trending D4 faults are conduits for Au-bearing fluids and thus responsible for gold mineralisation in the Klondike. Plus, the D4 fault process also reactivated and introduced gold mineralisation into some earlier D3 northwest-trending faults.

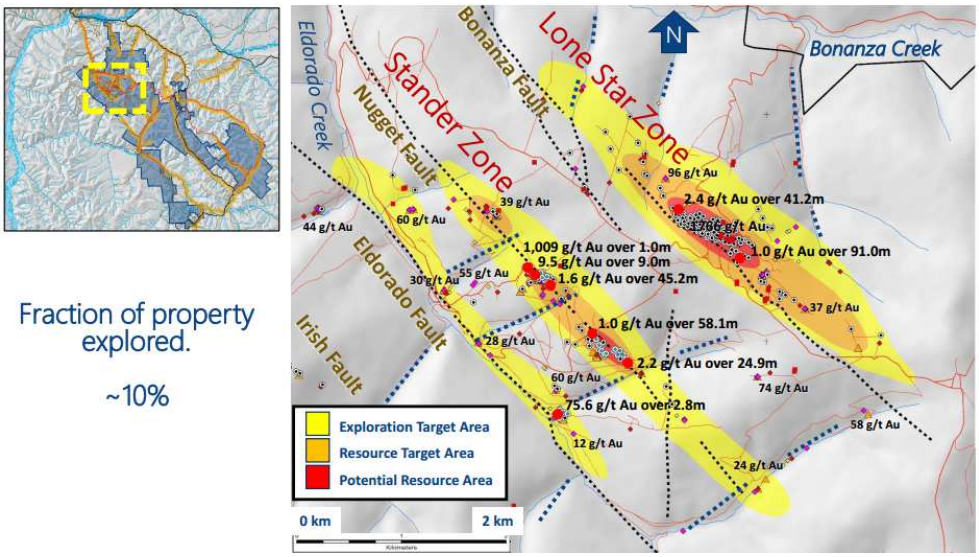
Figure 1: New structural model showcasing D3 and D4 faults on Lone Star ridge

Source: First Berlin Equity Research; Klondike Gold Corp.

The Klondike exploration team believes the significance of the updated structural model is that it provides a completely new perspective that better correlates previously unrecognized geochemical, geophysical and drilling data. Furthermore, the intersection of the D3 and D4 fault structures will be a key influence on exploration efforts in 2020.

The upshot Klondike has identified and documented a previously overlooked age of thrust faulting. The team has found both massive and wire dendritic crystals of electrum—a style of gold previously undocumented in the Klondike. And the company has mapped new intrusions and can differentiate between them. These all potentially introduced gold into the Klondike District and help explain where the 20 Moz of placer gold came from.

Figure 2: Further discovery potential



Source: First Berlin Equity Research; Klondike Gold Corp.

Some 90% of Klondike's property remains unexplored, but all zones are open and prospective. We believe recognition and mapping of the D4 conduits boosts the Au discovery potential of the District.

VALUATION

Although the new data is encouraging, we leave our assumptions unchanged for now until the next batch of assays are published and we have some indications of next season's targets. We expect the NE D4 faults along with the extensions of the northwest trending faults plus the structural intersections of the D3/D4 faulting systems to be the primary targets for the 2020 campaign.

Our valuation is based on a 2 Moz resource estimate by YE21, and the company will need to raise cash this year to help fund the drilling budget. Our model considers some C$5.5m in new funds this year from equity issuances. However, the timing and volume of capital raises may deviate depending on the next phase of exploration.

We think the case for Klondike's gold potential is compelling and the new geological data underscores this view. The company is now valued around C$35m. This compares to a ~C$3m market cap when Mr Tallman took the company reins in 2014 and turned around underperforming operations.

Table 1: Moz takeout scenario and sensitivities

Takeover value	220	C$m
Discount rate	15	%
Discounted takover value	**163**	**C$m**
Net cash (pro-forma)	31	C$m
Costs through 2021/2022	-25	C$m
Fair value	**170**	**C$m**
SO (pro-forma)	201	m
Price target	**0.80**	**C$**

		C$ per ounce				
		90	100	110	120	130
Moz AU	1.0	90	**100**	**110**	**120**	130
	2.0	180	**200**	**220**	**240**	260
	3.0	270	**300**	**330**	**360**	390
	4.0	360	400	440	480	520
	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	139,790
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**	**1,027**	**878**
Cash and cash equivalents	523	990	6,534	1,267	736	566
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**	**23,404**	**27,624**
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	23,106	27,321
Total assets	**9,352**	**13,562**	**22,006**	**20,953**	**24,431**	**28,502**
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**	**28,164**
Total consolidated equity and debt	**9,352**	**13,562**	**22,006**	**20,953**	**24,431**	**28,502**
Ratios						
Current ratio (x)	6.8	5.2	14.4	5.5	3.3	2.6
Quick ratio (x)	6.0	5.0	14.3	5.3	3.2	2.4
Net debt	-548	-1,040	-6,584	-1,432	-918	-766
Net gearing	-6%	-8%	-31%	-7%	-4%	-3%
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	23,401	27,621
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	-3,984	-4,215
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**	**-4,061**	**-4,293**
Free cash flow (FCF)	**-667**	**-2,669**	**-4,507**	**-5,297**	**-5,717**	**-6,045**
Debt inflow, net	0	0	0	0	0	0
Equity inflow, net	410	2,744	6,606	0	5,186	5,460
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**	**5,875**
Net cash flows	**-434**	**468**	**5,543**	**-5,267**	**-531**	**-170**
Cash, start of the year	957	523	990	6,533	1,267	736
Cash, end of the year	**523**	**990**	**6,533**	**1,266**	**736**	**566**

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...2	↓	↓	↓	↓
3	30 July 2019	C$0.34	Buy	C$0.70
4	8 August 2019	C$0.44	Buy	C$0.80
5	17 October 2019	C$0.25	Buy	C$0.80
6	Today	C$0.31	Buy	C$0.80

Authored by: Ellis Acklin, Senior Financial Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH
Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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ASSET RECOMMENDATION

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.

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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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