

Klondike Gold Corp.

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

Update

RATING	BUY
PRICE TARGET	C\$ 0.70
Return Potential	109.0%
Risk Rating	High

STRONG HEADWAY SO FAR THIS SEASON

Klondike recently updated the market on the progress of its 2019 drilling campaign. The drilling and exploration program is focused on the Gay Gulch and Nugget Zones to target prospective areas of high-grade gold mineralisation identified from the 2018 campaign. Plus, drilling at the Lone Star Zone aims to delineate further disseminated gold mineralisation. A total of 47 holes encompassing 3,500 metres have been completed to date, which has the company well on target to hit the > 60 holes planned for this season. We maintain our Buy rating and C\$0.70 price target.

Drilling program tracking well The Gay Gulch Zone along the Eldorado Fault was tested with seven drill holes. A further 36 drill holes tested the Nugget East and Nugget Zones on the Nugget Fault, while the new Glacier Gulch Zone on the Nugget Fault has been tested with four drill holes and further drilling is in progress. The goal of >60 holes for this season is beginning to look conservative given the strong pace set so far this summer. We had a chance to speak to the CEO to gain some further colour on the drilling so far. Mr Tallman expressed a high degree of confidence that the pending assays for the submitted rock and soil samples will confirm his views that the property contains compelling amounts of gold.

Drilling moves to Lone Star Zone (LS) Klondike announced that diamond drilling is underway at the Lone Star Zone. LS has been the significant bedrock source of alluvial placer gold mined from Bonanza Creek since discovery in 1896 according to Klondike's work and recent academic studies. A total of 15 to 20 holes are planned to test the Lone Star Zone for some 1,500 to 2,000 metres of drilling. The program will target a one-kilometre strike length to the east with the goal of doubling the drilled length of gold mineralization. (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.

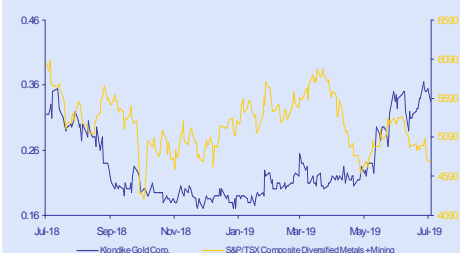
MARKET DATA

As of 29 Jul 2019

Closing Price	C\$ 0.34
Shares outstanding	108.70m
Market Capitalisation	C\$ 36.41m
52-week Range	C\$ 0.17 / 0.37
Avg. Volume (12 Months)	143,504

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 28 Feb 2019

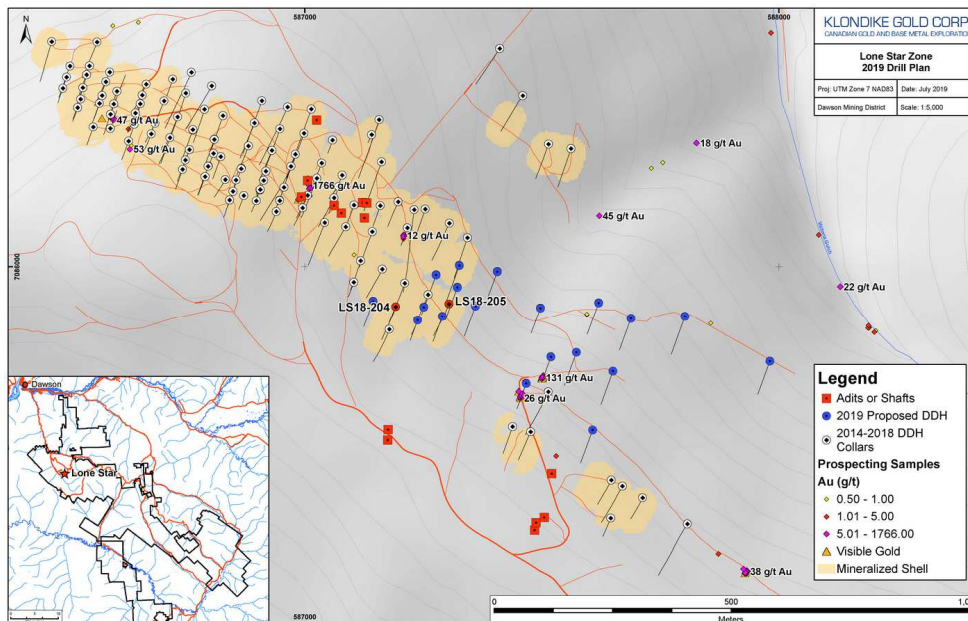
Liquid Assets	C\$ 1.27m
Current Assets	C\$ 1.54m
Intangible Assets	C\$ 19.12m
Total Assets	C\$ 20.95m
Current Liabilities	C\$ 0.28m
Shareholders' Equity	C\$ 20.68m

SHAREHOLDERS

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



Figure 1: Proposed 2019 drilling sites for Lone Star



Source: First Berlin Equity Research, Klondike Gold

The last two holes drilled in the east end of LS during the 2018 season intersected extended lengths of Au mineralisation starting at or near surface (table 1).

Table 1: LS highlights from 2018 drilling

Hole ID	From (m)	To (m)	Au g/t	Interval (m)
LS18-204	25,40	116,00	0,93	90,60
LS18-205	4,60	84,30	0,81	79,70

Source: First Berlin Equity Research, Klondike Gold

Prior LS work (2016 – 2018) entailed 114 holes systematically drilled along a 1,000 metre length by 250 metre width at 50 metre spacing and intersected disseminated gold over broad widths. Some 102 of these holes intersected extended intervals of compelling gold mineralisation, while 12 holes determined the upper and lower edges of the LS Zone. Drilling over the past two years continues to confirm the presence for the potential of a bulk tonnage style deposit at the Lone Star zone.

First batch of samples submitted for assays Klondike has contracted GroundTruth Exploration Inc. to conduct its soil sampling program and its GT-Probe surveying. Some 1,622 soil samples were collected at El Dorado and Bonanza Creek. Both of which are high priority trends. Results are expected later this month. GroundTruth likewise collected 66 rock samples with a GT-Probe to test for the continuation of Lone Star gold mineralisation at a 450 metre step-out to the southeast. The rock samples have also been submitted with assays expected later this month. KG also announced that Vancouver-based McElhanev will complete its airborne LIDAR (Light Detection and Ranging) and orthophoto surveys of the Klondike District property initially prioritising a 20km² subset covering the Lone Star Nugget and Gay Gulch Zones.



Second tranche completes financing round As expected, the company completed the second phase of the financing round initiated 18 March. On 22 May, KG issued 750k non-flow-through units at C\$0.20 per unit for gross proceeds of C\$150k for aggregate funds of C\$2.2m so far this year. The financing round remains in line with modelled assumptions.

On track to hit targets Full year reporting (YE 28 February) harboured no large variances to forecasted exploration costs. We thus leave our forecasts unchanged. Klondike shares have performed well lately (YTD +79%) helped by the strong rally in the gold price, which recently crested north of \$1,430 per ounce and is marching towards a six-year high. Klondike's reports so far this season support our view that the company will hit our assumption of a 2 Moz resource estimate in 2021.

VALUATION MODEL

Table 2: Two Moz takeout scenario

Takeover scenario and sensitivities									
Takeover value	200	C\$m							
Discount rate	15	%							
Discounted takeover value	138	C\$m							
			C\$ per ounce						
				80	90	100	110	120	
Net cash (pro-forma)	29	C\$m	Moz AU	1.0	80	90	100	110	120
Costs through 2021/2022	-26	C\$m		2.0	160	180	200	220	240
Fair value	142	C\$m		3.0	240	270	300	330	360
SO (pro-forma)	198	m		4.0	320	360	400	440	480
Price target	0.70	C\$		5.0	400	450	500	550	600

Source: First Berlin Equity Research estimates

Our takeover scenario results in a value of C\$200m, which we discount by 15% to account for the early stage exploration risk. We have also discounted all outstanding options and warrants, future issuances, and proceeds to derive pro-forma shares outstanding and net cash. The resulting fair value of C\$142m corresponds to C\$0.70 (old: C\$0.70) per share using a pro-forma share count (198m). Our rating remains Buy.



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	Today	C\$0.34	Buy	C\$0.70

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

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.

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/>

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