

# Klondike Gold Corp.

Canada / Mining

Primary: Toronto

Secondary: Frankfurt Stock Exchange

Bloomberg: KG CN

ISIN: CA4989033010

Update

**RATING****PRICE TARGET****BUY****C\$ 0.80**

Return Potential

247.8%

Risk Rating

High

## ALL SET TO KICK OFF 2020 DRILLING

**Klondike (KG) is primed to kick off its next exploration phase and has a plan in place to adapt to the pandemic world. The company completed a private placement securing C\$1.2m in new funds to cover drilling and corporate costs, as it revs up for further drilling in the western part of its Lone Star Zone. Management want to follow up on the encouraging results in this target. After discussing how the team will adjust to the restrictive environment, we believe Klondike has a good plan to ensure worker and local safety. Our rating remains Buy with an unchanged C\$0.80 price target.**

**Recapping 2019 drilling and progress at the Lone Star Zone (LS)** KG has so far published assays for 36 holes from the 2019 drill campaign. These tested the Bonanza fault for mineralisation over an additional 750 metre strike length to the SE of the LS zone in an area featuring high gold-in-soil values of up to 0.8 g/t Au. This successfully intersected broad zones of gold mineralisation containing intervals of high-grade gold. However, Klondike now thinks the main "Lone Star" mineralised horizon is fault-offset slightly south and was thus untested last year.

**Lone Star Zone now a high priority target** The drill and geological results for Lone Star support Klondike's view that D4 structures are conduits for gold-bearing fluids and that both D4 and D3 structures are possibly gold-mineralised exploration targets with cross cutting patterns similar to a checkerboard. We discussed KG's updated geological model in our note of 22 January 2020. Given this new interpretation, the company will have an ample number of targets for the upcoming season and will indeed kick off the season in this zone.

**Covid-19 tentacles have crept into all corners of the world including the Yukon** Governments and economists across the globe have been scrambling to work out the costs and impact of the virus-related lockdowns—will the economic slump persist six months or much longer? Investors are . . . (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 563km<sup>2</sup> Klondike District Project encompasses the original 1896 gold rush discoveries at Bonanza and Eldorado Creeks.

### MARKET DATA

As of 28 Apr 2020

Closing Price	C\$ 0.23
Shares outstanding	113.40m
Market Capitalisation	C\$ 26.08m
52-week Range	C\$ 0.17 / 0.44
Avg. Volume (12 Months)	205,443

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 30 Nov 2019

Liquid Assets	C\$ 0.44m
Current Assets	C\$ 0.81m
Intangible Assets	C\$ 22.34m
Total Assets	C\$ 24.16m
Current Liabilities	C\$ 0.34m
Shareholders' Equity	C\$ 23.16m

### SHAREHOLDERS

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



. . . wrestling with similar questions at the corporate level trying to assess a company's ability to operate in a pandemic world as well to absorb the financial shock with its balance sheet.

**Covid-19 protocol in place; hurdles look surmountable** During past weeks, the Klondike team has extended its operating protocols to include specific local and governmental health and safety requirements regarding covid-19. These will help ensure the continued safety of field workers, contractors, local First Nations and community neighbours. KG staff from "outside" Yukon will be sequestered for 14 days upon arrival. Contractor staff will be sourced from Yukon (excluding Dawson), and both groups will then be quarantined from the local First Nation and Dawson community. The operational teams will conduct work phases in series, so that one work group can complete a task before the next group arrives, and thus minimize the on-site headcount during work phases. Health will be monitored on a daily basis; evaluations will include temperature checks of all personnel.

Klondike has permission to launch the season with a ten-hole framework and will drill up to 500 metres (50 metres per hole) at the west end of its Lone Star target to follow up on the aforementioned 2019 results and recent geo assessments. Proceeds from the latest capital raise (table 1 overleaf) will cover the drilling and the associated corporate overhead. Assuming these first steps go off without a hitch i.e. no reported infections, we believe this will be the first drilling phase of the season.

We believe Klondike is taking all necessary precautions to reduce covid-19 risks and build up comfort with the locals by demonstrating that work can progress under effective controls. The Yukon recently called mineral exploration an essential service to the region, due to the boost provided to local economies and employment sectors. As long as Klondike continues to successfully implement its rigorous safety protocols, we see a good chance that the company will be able to make good progress with envisioned drilling.

**The upshot on pandemic impact** Covid-19 has impacted economies, societies, and corporates in ways unimagined merely weeks ago. We cannot predict with any accuracy how much work the Klondike team will be able to get done in this pandemic environment. In a worst-case scenario, the ten-hole Lone Star agenda could be the extent of the season's drilling. That said, we are encouraged that all the stakeholders in the region are cooperating on solutions for mineral explorers to adapt and restart operations.



**Private placement funds next drilling phase** Klondike is an exploration company reliant upon external financing to cover overhead. Management run a tight operation, and exploration costs are also unusually low. Drilling expenses continue to run at around C\$120 per metre—well below the regional mean of C\$250. The company continues to demonstrate good access to capital and taps the markets for funds as required to finance upcoming exploration activities.

**Table 1: Capital increase breakdown**

	Number (k)	Price (CAD)	Proceeds (CADk)
<b>Common shares</b>			
Flow-through units	3,482	0.190	662
Non-flow-through units	3,206	0.175	561
<b>Total</b>	<b>6,688</b>		<b>1,223</b>
	Number (k)	Strike price (CAD)	Expiry
<b>Warrants</b>			
Flow-through units	3,482	0.25	23-Apr-22
Non-flow-through units	3,206	0.25	23-Apr-22
<b>Total</b>	<b>6,688</b>		

Source: First Berlin Equity Research; Klondike Gold Corp

Klondike raised C\$1.2m and doled out C\$30k along with 157k warrants priced at C\$0.25 as a finder's fee. The latest issuance mirrors the structure of prior rounds as shown in the table above. Management prudently chose to only fund the above outlined first phase of drilling for LS despite greater investor demand for the latest cap hike. In an upside scenario whereby the covid-19 pandemic remains stable, we expect the company to conduct a further placement down the road for continued drilling this season.

Meanwhile, KG applied to extend the term of 5,575,000 warrants issued in conjunction with the 4 April 2017 private placement. The warrants were exercisable at \$0.30 per share and due to expire on 4 April 2020. The company applied to lengthen the expiry to 4 April 2022, while all other terms, including the exercise price, remained unchanged. The warrant extension was recently approved by KG's board of directors and the TSX Venture Exchange.



## VALUATION MODEL

The latest private placement fits into our running financing assumptions. However, since we cannot account for all the unknowns in this highly volatile environment, we will wait to update other factors in our model, such as drilling meterage and timelines, until we have more clarity.

Amid the current chaos one thing is clear: gold is increasingly coveted by investors as a safe haven evidenced by the increase in the gold price, which recently breached \$1,700 per oz and is up around 15% since widespread lockdowns began. We thus see good market tailwinds for Klondike Gold Corp. Our rating remains Buy with a C\$0.80 price target.

**Table 2: Takeout scenario**

			C\$ per ounce						
				90	100	110	120	130	
Takeover value	220	C\$m							
Discount rate	15	%							
<b>Discounted takeover value</b>	<b>166</b>	<b>C\$m</b>							
Net cash (pro-forma)	32	C\$m	Moz AU	1.0	90	100	110	120	130
Costs through 2021/2022	-25	C\$m		2.0	180	200	220	240	260
<b>Fair value</b>	<b>172</b>	<b>C\$m</b>		3.0	270	300	330	360	390
SO (pro-forma)	203	m		4.0	360	400	440	480	520
<b>Price target</b>	<b>0.80</b>	<b>C\$</b>		5.0	450	500	550	600	650



## INCOME STATEMENT

All figures in C\$ '000	2015/16	2016/17	2017/18	2018/19	2019/20E	2020/21E
<b>Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
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
<b>EBITDA</b>	<b>-593</b>	<b>-1,179</b>	<b>-1,915</b>	<b>-1,907</b>	<b>-2,100</b>	<b>-2,221</b>
Depreciation & amortisation	-63	-70	-83	-41	-55	-55
<b>EBIT</b>	<b>-656</b>	<b>-1,249</b>	<b>-1,997</b>	<b>-1,948</b>	<b>-2,155</b>	<b>-2,276</b>
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
<b>Pre-tax income (EBT)</b>	<b>-468</b>	<b>-760</b>	<b>-1,596</b>	<b>-1,550</b>	<b>-2,155</b>	<b>-2,276</b>
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
<b>Net income / loss</b>	<b>-557</b>	<b>-560</b>	<b>-1,653</b>	<b>-1,550</b>	<b>-2,155</b>	<b>-2,276</b>
<b>Diluted EPS (in C\$)</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.02</b>
Weighted avg. SO (pro-forma '000)	34,585	48,545	79,638	96,845	111,684	139,790
<b>Ratios</b>						
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%
<b>Expenses as % of revenues</b>						
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.
<b>Y-Y Growth</b>						
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
<b>Assets</b>						
<b>Current assets, total</b>	<b>639</b>	<b>1,154</b>	<b>6,666</b>	<b>1,539</b>	<b>1,027</b>	<b>878</b>
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
<b>Non-current assets, total</b>	<b>8,713</b>	<b>12,409</b>	<b>15,341</b>	<b>19,414</b>	<b>23,404</b>	<b>27,624</b>
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
<b>Total assets</b>	<b>9,352</b>	<b>13,562</b>	<b>22,006</b>	<b>20,953</b>	<b>24,431</b>	<b>28,502</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>94</b>	<b>222</b>	<b>463</b>	<b>280</b>	<b>308</b>	<b>339</b>
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
<b>Long-term liabilities, total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term debt	0	0	0	0	0	0
<b>Shareholders' equity</b>	<b>9,257</b>	<b>13,340</b>	<b>21,543</b>	<b>20,673</b>	<b>24,124</b>	<b>28,164</b>
<b>Total consolidated equity and debt</b>	<b>9,352</b>	<b>13,562</b>	<b>22,006</b>	<b>20,953</b>	<b>24,431</b>	<b>28,502</b>
<b>Ratios</b>						
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
<b>Net income</b>	<b>-468</b>	<b>-760</b>	<b>-1,596</b>	<b>-1,550</b>	<b>-2,155</b>	<b>-2,276</b>
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
<b>Operating cash flow</b>	<b>-467</b>	<b>-763</b>	<b>-1,382</b>	<b>-1,237</b>	<b>-1,656</b>	<b>-1,752</b>
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
<b>Cash flow from investing</b>	<b>-200</b>	<b>-1,905</b>	<b>-3,125</b>	<b>-4,061</b>	<b>-4,061</b>	<b>-4,293</b>
<b>Free cash flow (FCF)</b>	<b>-667</b>	<b>-2,669</b>	<b>-4,507</b>	<b>-5,297</b>	<b>-5,717</b>	<b>-6,045</b>
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
<b>Cash flow from financing</b>	<b>234</b>	<b>3,136</b>	<b>10,050</b>	<b>30</b>	<b>5,186</b>	<b>5,875</b>
<b>Net cash flows</b>	<b>-434</b>	<b>468</b>	<b>5,543</b>	<b>-5,267</b>	<b>-531</b>	<b>-170</b>
Cash, start of the year	957	523	990	6,533	1,267	736
<b>Cash, end of the year</b>	<b>523</b>	<b>990</b>	<b>6,533</b>	<b>1,266</b>	<b>736</b>	<b>566</b>

**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...3	↓	↓	↓	↓
4	8 August 2019	C\$0.44	Buy	C\$0.80
5	17 October 2019	C\$0.25	Buy	C\$0.80
6	22 January 2020	C\$0.31	Buy	C\$0.80
7	Today	C\$0.23	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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- The author, First Berlin, or a company associated with First Berlin reached an agreement with the analysed company for preparation of a financial analysis for which remuneration is owed;
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### PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

### ASSET VALUATION SYSTEM

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 <sup>1</sup>	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%

<sup>1</sup> 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.

#### RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

### INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

### UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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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

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

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