

Klondike Gold Corp.

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

Update

RATING	BUY
PRICE TARGET	C\$ 0.85
Return Potential	269.6%
Risk Rating	High

INITIAL 2021 TARGETS SET; REVVING UP FOR RESOURCE ESTIMATE

Management recently outlined the initial targets for the 2021 drilling campaign. Klondike is fully funded for the year and wants to double its normal drilling meterage, if covid-19 restrictions do not severely blunt exploration activities. The focus has clearly shifted towards a maiden resource estimate (RE) now envisioned for 2022, and the company's Lone Star zone is primed to deliver the required data. We remain Buy-rated on Klondike with a revised C\$0.85 target price (old: C\$0.80).

Fully funded for 2021 and ambitious drilling plans Management want to rev up drilling this year towards 15k metres and have locked in financing for the upcoming season. A two-tranche private placement last autumn yielded some C\$3.8m in new funds giving management excellent financial flexibility to maximise opportunities that arise during the upcoming season. The ability to hit the ambitious 2021 target will largely hinge upon the ongoing pandemic, but we think the protocols established last year will help the Klondike team navigate covid-19 restrictions. We have updated our financing assumptions to take account of the latest issuance and revised our target for the initial resource estimate. This is now envisioned for 2022. The reported 2020 meterage undershot FBe of 9k, despite the good work done by the company in an unprecedented environment. We have thus pushed back our RE date by a year, which is line with management's latest signals.

What else has changed? The company updated on the milestones of the 2020 exploration season before Christmas. Last year, Klondike drilled 52 holes totalling 4,055 metres. This included 30 drill holes and 2,093 metres across a 3,265 metre section of Lone Star and topped internal phase 4 targets (27 holes, 1,800 metres). Considering the hurdles set by the pandemic, we judge the overall season a considerable achievement. We expect phase 4 assays early this year with supportive results for the march towards the maiden resource estimate. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015/16	2016/17	2017/18	2018/19	2019/20	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	-2.08	-2.05
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	-1.17	-2.05
EPS (diluted) (C\$)	-0.02	-0.01	-0.02	-0.02	-0.01	-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	-4.99	-2.42
Net gearing	-5.9%	-7.8%	-30.6%	-6.9%	1.0%	-8.8%
Liquid assets (C\$ m)	0.52	0.99	6.53	1.27	0.13	2.74

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 13 Jan 2021

Closing Price	C\$ 0.23
Shares outstanding	120.25m
Market Capitalisation	C\$ 27.66m
52-week Range	C\$ 0.17 / 0.37
Avg. Volume (12 Months)	156,945

Multiples	2018/19	2019/20	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 2020

Liquid Assets	C\$ 0.48m
Current Assets	C\$ 0.74m
Intangible Assets	C\$ 22.90m
Total Assets	C\$ 25.08m
Current Liabilities	C\$ 0.18m
Shareholders' Equity	C\$ 24.37m

SHAREHOLDERS

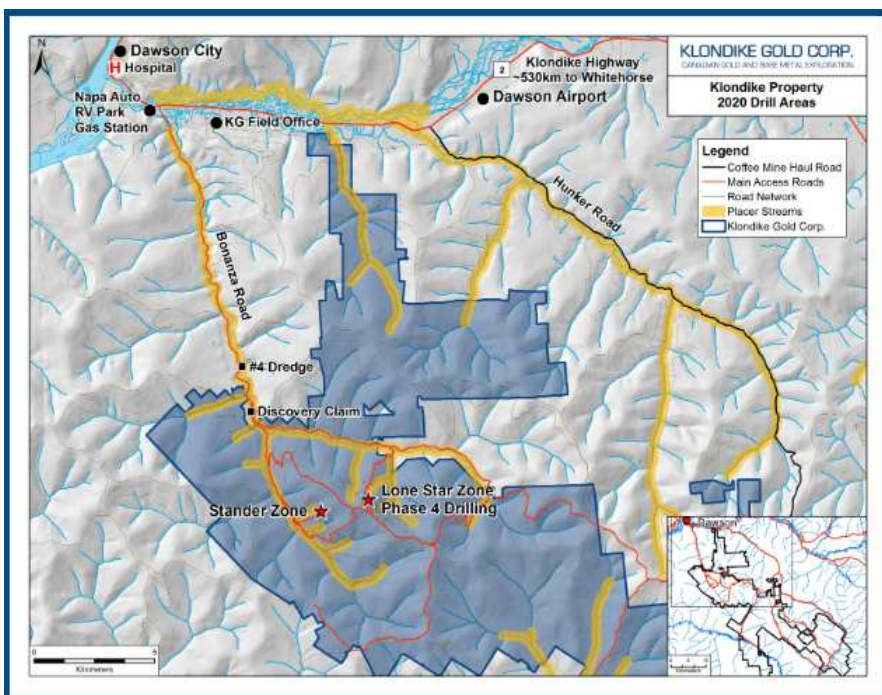
F. Giustra	14.0%
E. Sprott	13.0%
Management	10.0%
Free Float	63.0%



PHASE 4 TAKEAWAYS

September drilling yielded 2,893 metres including drill core logging, sampling and the associated field work. Post-work drillpad, trench, and trail restoration was done by the end of October and the new samples have been submitted to Klondike's partner labs. The work helped fill in big picture knowledge gaps and prime Lone Star for a potential resource estimate. Multi-stage metallic screen gold assays are still pending, and we expect these to also help guide specific 2021 targets. But covid-19 restrictions continue to gate lab work, which will likely delay the assays beyond January.

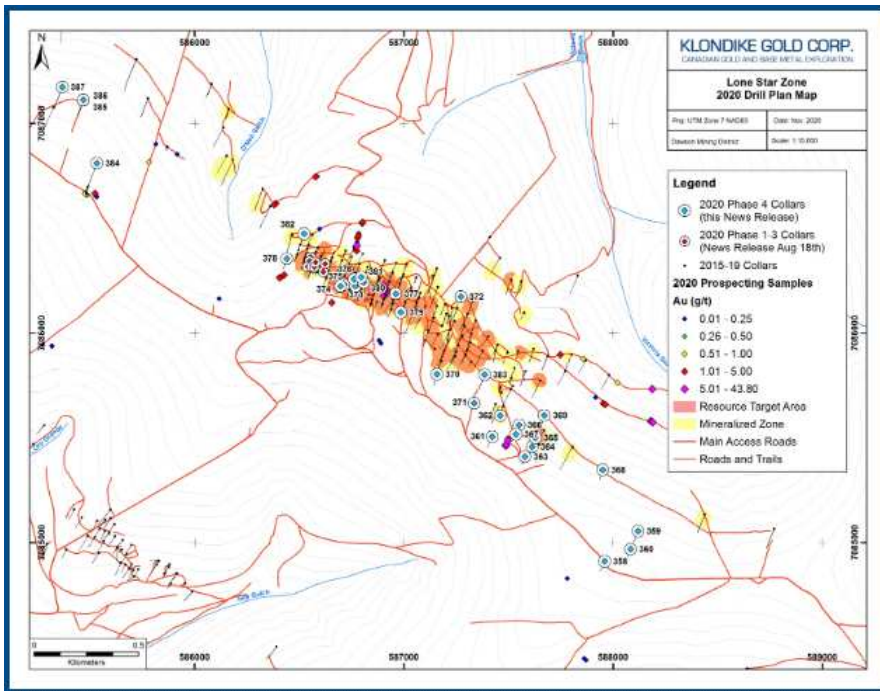
Figure 1: Lone Star phase 4 drilling



Source: First Berlin Equity Research, Klondike Gold Corp.



Figure 2: Lone Star plan view of phase 4 drill holes



Source: First Berlin Equity Research, Klondike Gold Corp.

A FEW NUGGETS ON 2021 PLANS

In a recent interview, Peter Tallman, hinted at this year's agenda. He reckons some 90% of the envisioned drilling will work specifically towards a potential resource estimate in the Lone Star Zone (LS). This means that 2021 will be the first year that emphasises the highly anticipated resource estimate. Barring any major covid-19 related setbacks, 2022 looks like a realistic target. The nearby Stander Zone still needs preliminary work, which can be piggybacked on the primary LS activities. Therefore, the remaining 10% of 2021 capacity will explore KG's full pipeline of promising mineralisation targets.

Normally Klondike drills 5k – 8k metres per season. This year Mr Tallman wants to double the meterage to circa 15k. We believe the timing of the revved up workload owes to preliminary work completed in prior seasons, which has significantly de-risked the overall project. The company has shown that there is an abundance of gold in identifiable areas. This has in turn increased the institutional investor appetite for financing.



Well financed for the next steps Last October, the company concluded a successful C\$3.8m two-tranche private placement. Klondike had originally targeted C\$2.5m, but bumped up the funding round on higher than anticipated investor demand and a more ambitious agenda for this season. The first tranche closed in September for C\$1.6m in proceeds, while the second tranche yielded another C\$2.2m. The latest issuance mirrors the structure of prior rounds as shown in the table below.

Table 1: Capital increase breakdown (tranche 1)

	Number (k)	Price (CAD)	Proceeds (CADk)
Common shares			
Flow-through units	2,600	0.30	780
Non-flow-through units	3,100	0.25	775
Total	5,700		1,555
	Number (k)	Strike price (CAD)	Expiry
Warrants			
Flow-through units	1,300	0.45	25-Sep-22
Non-flow-through units	1,550	0.45	25-Sep-22
Total	2,850		

Source: First Berlin Equity Research, Klondike Gold Corp.

Table 2: Capital increase breakdown (tranche 2)

	Number (k)	Price (CAD)	Proceeds (CADk)
Common shares			
Flow-through units	6,167	0.30	1,850
Non-flow-through units	1,580	0.25	395
Total	7,747		2,245
	Number (k)	Strike price (CAD)	Expiry
Warrants			
Flow-through units	3,084	0.45	19-Oct-22
Non-flow-through units	790	0.45	19-Oct-22
Total	3,874		

Source: First Berlin Equity Research, Klondike Gold Corp.

In our view, Klondike continues to demonstrate good access to capital to fund operations having raised some C\$5.0m in 2020, while management continue to run a tight ship. This allowed the company to obtain much better terms for the latest round compared to the April 2020 issuance closed at C\$0.19 and C\$0.175 respectively for the flow-through and non-flow-through units. Klondike will pay out a C\$217k finder's fee along with 70k warrants.



VALUATION

In our view, this season could be a watershed for Klondike. The mission to transition beyond exploration towards a resource model looks like an achievable objective barring massive covid-19 setbacks. And this spring there will likely be further newsflow about plans beyond the initial resource estimate.

The company navigated tricky pandemic waters last year to gather valuable information for future targeting of the Lone Star and Stander Zones and answer questions about gold veining orientation to underpin a resource model. In our view, this has had de-risking effects on the project. We therefore have lowered our WACC to 13.5% (old: 15.0%).

We have also adjusted our model to account for the latest financing round and future needs ahead of the maiden resource estimate. We have likewise pushed out our takeout scenario into 2024 (old: 2023) based on recent signals from management. The updates result in a new C\$0.85 price target (old: C\$0.80). We remain Buy-rated on Klondike Gold.

Table 3: Takeout scenarios

			C\$ per ounce						
				90	100	110	120	130	
Takeover value	220	C\$m							
Discount rate	14	%							
Discounted takeover value	143	C\$m							
Net cash (pro-forma)	18	C\$m	Moz AU	1.0	90	100	110	120	130
Costs through 2023/2024	-15	C\$m		2.0	180	200	220	240	260
Fair value	147	C\$m		3.0	270	300	330	360	390
SO (pro-forma)	176	m		4.0	360	400	440	480	520
Price target	0.85	C\$		5.0	450	500	550	600	650



INCOME STATEMENT

All figures in C\$ '000	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21E	2021/22E
Revenues	0	0	0	0	0	0	0
Consulting	-254	-164	-319	-209	-328	-361	-397
Management & personnel expense	-135	-309	-532	-385	-506	-531	-558
Other OpEx	-176	-243	-715	-625	-764	-802	-882
Regulatory & transfer agent	-28	-51	-65	-40	-34	-37	-41
Share based compensation	0	-412	-284	-648	-285	-299	-314
EBITDA	-593	-1,179	-1,915	-1,907	-1,917	-2,031	-2,192
Depreciation & amortisation	-63	-70	-83	-41	-160	-15	-15
EBIT	-656	-1,249	-1,997	-1,948	-2,077	-2,046	-2,207
Interest expense	-9	0	0	0	-46	0	0
Interest income	4	6	65	67	33	0	0
Gain on sale of investments	23	38	97	0	0	0	0
Gain on sale of equipment	48	0	0	81	0	0	0
Gain on sale of exploration assets	0	392	100	0	0	0	0
Miscellaneous income	82	0	0	0	722	0	0
Other flow through income	40	36	244	249	194	0	0
Unrealised gain on warrants	0	17	-104	0	0	0	0
Pre-tax income (EBT)	-468	-760	-1,596	-1,550	-1,174	-2,046	-2,207
Unrealised income/loss on for-sale-investments	-88	204	0	0	0	0	0
Reclassification on sale of for-sale-investments	-2	-4	-57	0	0	0	0
Net income / loss	-557	-560	-1,653	-1,550	-1,174	-2,046	-2,207
Diluted EPS (in C\$)	-0.02	-0.01	-0.02	-0.02	-0.01	-0.02	-0.02
Weighted avg. SO (pro-forma '000)	34,585	48,545	79,638	96,845	110,317	123,464	138,838
Ratios							
EBITDA margin on revenues	n.a.	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.	n.a.
Net margin on revenues	n.a.	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%	0.0%
Expenses as % of revenues							
Other OpEx	n.a.	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.	n.a.
Y-Y Growth							
Revenues	n.a.	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.	n.a.
Net income/ loss	n.a.	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	2019/20	2020/21E	2021/22E
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Share based compensation	0	-412	-284	-648	-285	-299	-314
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Diluted EPS (in C\$)	-0.02	-0.01	-0.02	-0.02	-0.01	-0.02	-0.02
Weighted avg. SO (pro-forma '000)	34,585	48,545	79,638	96,845	110,317	123,464	138,838
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Tax rate	0.0%	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.	n.a.
Regulatory & transfer agent	n.a.	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.	n.a.
Operating income	n.a.	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.	n.a.



CASH FLOW STATEMENT

All figures in C\$ '000	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21E	2021/22E
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Management & personnel expense	-135	-309	-532	-385	-506	-531	-558
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Diluted EPS (in C\$)	-0.02	-0.01	-0.02	-0.02	-0.01	-0.02	-0.02
Weighted avg. SO (pro-forma '000)	34,585	48,545	79,638	96,845	110,317	123,464	138,838
Ratios							
EBITDA margin on revenues	n.a.	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.	n.a.
Net margin on revenues	n.a.	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%	0.0%
Expenses as % of revenues							
Other OpEx	n.a.	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.	n.a.
Y-Y Growth							
Revenues	n.a.	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.	n.a.
Net income/ loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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 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.

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.

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	22 January 2020	C\$0.31	Buy	C\$0.80
7	29 April 2020	C\$0.23	Buy	C\$0.80
8	9 June 2020	C\$0.30	Buy	C\$0.80
9	16 July 2020	C\$0.35	Buy	C\$0.80
10	25 August 2020	C\$0.27	Buy	C\$0.80
11	Today	C\$0.23	Buy	C\$0.85

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**

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

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