

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	709.5%
Risk Rating	High

THE ROAD TO 2 MOZ IS NOT THAT LONG

We now believe Klondike Gold Corp is on a path to delineate 2 Moz Au by YE24, which would make the company a prime takeover candidate for a mining major. After publishing its maiden resource (0.6 Moz) last November, the gold explorer is preparing to double that figure in 2023 setting up a sprint to 2 Moz next year with its planned drilling campaigns. We expect Klondike to raise \$C3m in the coming months to finance the upcoming drilling season. Based on transactions vended at C\$100 per ounce Au in the Tintina Belt, where the Klondike District Property sits, KG shares are heavily undervalued. A similar valuation implies a KG share price of C\$0.38 for the existing 0.6 Moz resource. We remain Buy-rated on Klondike Gold with an unchanged C\$0.85 target price.

KG already close to 1 Moz putting YE23 1.2 Moz target within reach With its maiden resource (0.6 Moz), Klondike is responsible for documenting the first ever bedrock mineral resource in the 125 year history of the Klondike District area since the 1896 'gold rush'. But this figure understates the gold mineralisation already discovered. Another 0.2 Moz have been identified just outside the Stander Zone open pit mineral resource. These ounces could not be included in the initial resource, due to the drill density and pit-constraints, but they are along strike and can be readily converted to indicated / inferred with further drilling in 2023.

Recalibrated takeover model We now expect Klondike to delineate 2 Moz Au by YE24 (old: early 2024) and have adjusted our valuation model accordingly. Adjustments also include up to C\$5m in new financing required to hit the 2 Moz target considered essential for a mining major to justify investment in a mine. We factor in share issuance of C\$3m in the coming months mirroring the structure of the recently completed cap hike for C\$352k in January. For now, we also assume... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E
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)	-1.95	-2.08	-1.38	-0.91	-0.68	-0.67
EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income (C\$m)	-1.55	-1.17	-1.32	-0.63	-0.48	-0.67
EPS (diluted) (C\$)	-0.02	-0.01	-0.01	0.00	0.00	0.00
DPS (C\$)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (C\$m)	-5.30	-4.99	-1.81	-3.36	-2.74	-3.78
Net gearing	-6.9%	1.0%	-9.6%	-8.6%	-3.4%	-2.9%
Liquid assets (C\$m)	1.27	0.13	2.85	2.67	1.18	1.12

RISKS

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

COMPANY PROFILE

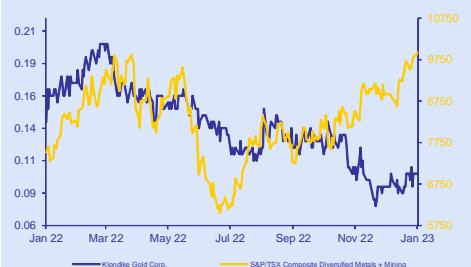
Klondike Gold Corp. is a Canadian gold exploration company with offices in Vancouver, British Columbia, and Dawson City, Yukon Territory. The company's 586km² Klondike District Project encompasses the legendary 1896 gold rush discoveries at Bonanza and Eldorado Creeks.

MARKET DATA

As of 31 Jan 2023

Closing Price	C\$ 0.11
Shares outstanding	152.10m
Market Capitalisation	C\$ 15.97m
52-week Range	C\$ 0.08 / 0.20
Avg. Volume (12 Months)	123,960
Multiples	2021/22 2022/23E 2023/24E
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 2022

Liquid Assets	C\$ 0.75m
Current Assets	C\$ 1.10m
Intangible Assets	C\$ 28.00m
Total Assets	C\$ 29.62m
Current Liabilities	C\$ 0.45m
Shareholders' Equity	C\$ 28.93m

SHAREHOLDERS

F. Giustra	14.0%
E. Sprott	10.0%
Insiders	6.0%
Management	5.0%
Free Float	65.0%

... the company will raise the remaining C\$2m in early 2024, although some of this could be pulled forward depending on investor appetite during the upcoming round. We have thus adjusted our expected diluted share count to 202m factoring in 50m new shares for the required exploration funding.

Table 1: Pit-constrained RE at 0.2 g/t Au cut-off for Lone Star and Stander deposits

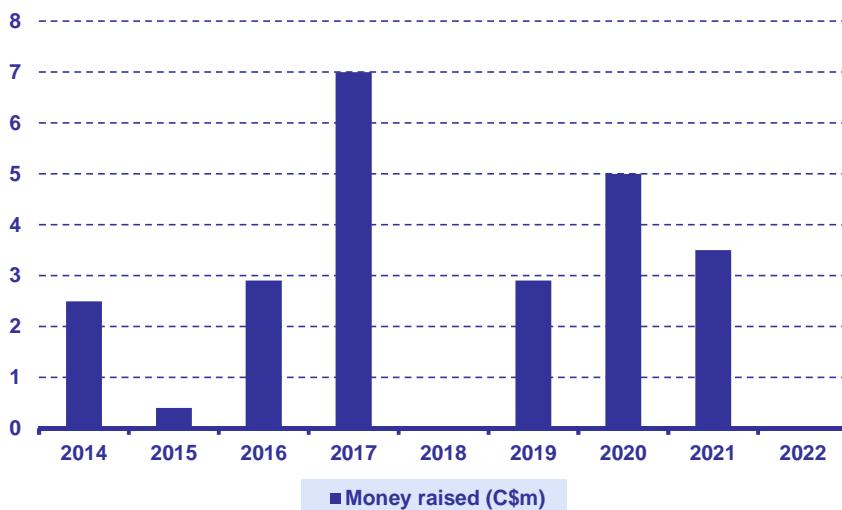
Classification	Deposit	Tonnes (k)	Avg Au grade (g/t)	Au content (oz.)
Indicated	Lone Star	19,536	0.643	403,857
	Stander	2,050	0.987	65,044
	Total	21,586	0.676	468,901
Inferred	Lone Star	6,157	0.503	99,562
	Stander	305	1.265	12,397
	Total	6,461	0.539	111,959

Source: First Berlin Equity Research; Klondike Gold Corp

TOPICS FOR 2023

Replenishing the financial coffers In January, Klondike concluded a small cap hike (C\$352k) for housekeeping needs before it embarks on a road show to finance the upcoming drill season. Non-flow-through shares priced at C\$0.10 were placed with company insiders.

Figure 1: C\$24m raised from 2014 to 2022



Source: First Berlin Equity Research; Kinross Gold Corp; Klondike Gold Corp Inc

We expect the next financing round to be priced at a similar level, given the poor sector sentiment still weighing on gold stocks. Last year was tough for gold investors. US dollar strength and a strong rebound in treasury yields—both considered safe harbours—put pressure on the price of non-yielding bullion. Gold stocks are highly sensitive to US interest rates and several listed Canadian gold peers shed over 50% of their market capitalisation in 2022. Despite the tough macro-economic backdrop, we believe KG will be able to raise the capital it needs, given the high valuation discount to valuation comps (P/ounces Au) and good prospects for 2023.



Initial 2023 exploration objectives The company aims to double the November Mineral Resource Estimate (RE) to > 1 Moz Au. Work is expected to target identified areas at the Lone Star and Stander Zones where gold-bearing mineralisation is continuous but outside the three areas of 'pit-constrained' mineral resources identified in the RE. KG particularly wants to conduct more work in the Stander Zone, where the average grade was roughly 53% higher at 0.987 g/t than Lone Star. Stander Zone work is expected to target along-strike and depth extensions mineralisation, including the Au-bearing veining to depths greater than the ~75 metre vertical level from surface tested to date.

The second chief objective is to identify and outline new discoveries that can be converted to additional mineral resources with a focus on positive 2022 visual results at the new Gay Gulch Zone, where visible gold was discovered and extensive silicification identified by exploratory drilling. The company plans follow-up drilling there in 2023 as well as more detailed exploration of the large underexplored southeast end of the Klondike District Property.

Changes to forecasts We have updated our model to account for the financing likely required to reach 2 Moz Au and now expect Klondike to complete an equity raise for minimum proceeds of C\$3m in the coming months to fund the upcoming exploration season. Based on the current share price, the company will likely issue 3m shares at C\$0.10.

Klondike shares are heavily oversold and fail to reflect the value of the initial RE. The current market value implies only C\$25 per delineated ounce (0.6 Moz) vs C\$100 / ounce shown by transaction comps (overleaf). We expect this discount to generate new investor interest and spur a rebound in the KG share price. This should allow the company to issue shares at C\$0.15 or higher early next year. Our fully diluted share count now totals 202m including 49.6m discounted new shares planned in our model and current shares outstanding of 152.1m.

VALUATION MODEL

For a potential takeout, we assume a mining major will need to see potential for 2 Moz in order to justify investment in a mine. Most recently (2016), Gold Corp Inc paid C\$520m to Kaminak Gold Corp for its Coffee Project (3 Moz indicated and 2 Moz Inferred) equal to \$100 per ounce Au (+C\$20m cash on hand).

Table 2: Transaction comps with close proximity to Klondike District Property

2010	Underworld - Kinross paid C\$139.2m (\$2.65 / share) for 1.4Moz Au (1Moz Au at 3.2 g/t indicated and 0.4Moz Au at 2.5 g/t inferred at 750-900 metre depth). Deal equaled C\$100 per ounce at C\$140m valuation
2016	Kaminak - Goldcorp paid C\$520mm (\$2.62 / share) for 5.2Moz Au (3Moz Au at 1.45 g/t indicated and 2.2Moz Au at 1.31 g/t inferred at 0-350 metre depth). Deal equaled C\$100 per ounce at C\$520m valuation
2022	Klondike Gold 0.58Moz Au pit-constrained at depth of 0-75m (0.47Moz Au at 0.68 g/t indicated and 0.11Moz Au at 0.54 g/t inferred); at C\$100 / ounce implies C\$58m valuation (current valuation is at C\$25 per ounce)

Source: First Berlin Equity Research; Kinross Gold Corp; Klondike Gold Corp Inc

We contend Klondike is now firmly on a similar path with its: (1) published resource; (2) aforementioned 0.2 Moz Au lurking just outside the pits; (3) outstanding assays for the 2022 field work; and (4) potential to expand the resource with further drilling in the Gay Gulch, which assayed promising showings in the 2021 program, and other untapped areas throughout the property.

Although the company has some work to do in order to reach 2 Moz, the maiden resource implies that KG is currently valued at C\$25 per ounce, far below the C\$100 / ounce vended for neighbouring projects. Although Underworld and Kaminak showed higher g/t grades, Klondike Gold's Au deposits are much closer to the surface and will cost less to mine.

Finally, we think the Klondike District Property has potentially a much bigger Au resource than the 2 Moz we currently model and expect the upside to become clearer over the next 18 months.

Table 3: Takeout scenario

		C\$ per ounce				
		90	100	110	120	130
Discounted takeover value		171	C\$m	Moz AU		
Net cash (pro-forma)	6	C\$m		1.0	90	100
Costs through 2024	-6	C\$m		2.0	180	200
Fair value	171	C\$m		3.0	270	300
SO (pro-forma)	202	m		4.0	360	400
Price target	0.85	C\$		5.0	450	500

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in C\$ '000	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Revenues	0	0	0	0	0	0	0
Consulting	-209	-328	-221	-252	-176	-194	-213
Management & personnel expense	-385	-506	-419	-230	-232	-244	-256
Other OpEx	-625	-764	-145	-219	-153	-169	-185
Regulatory & transfer agent	-40	-34	-41	-67	-47	-52	-57
Share based compensation	-648	-285	-407	0	0	0	0
EBITDA	-1,907	-1,917	-1,233	-768	-609	-658	-712
Depreciation & amortisation	-41	-160	-147	-143	-75	-15	-15
EBIT	-1,948	-2,077	-1,380	-911	-684	-673	-727
Interest expense	0	-46	-40	-32	0	0	0
Interest income	67	33	9	12	0	0	0
Gain on sale of investments	0	0	24	-37	0	0	0
Gain on sale of equipment	81	0	0	0	0	0	0
Gain on sale of exploration assets	0	0	0	0	0	0	0
Miscellaneous income	0	722	0	0	0	0	0
Other flow through income	249	194	160	407	202	0	0
Unrealised gain on warrants	0	0	-89	-67	0	0	0
Pre-tax income (EBT)	-1,550	-1,174	-1,316	-628	-482	-673	-727
Unrealised income/loss on for-sale-investments	0	0	0	0	0	0	0
Reclassification on sale of for-sale-investments	0	0	0	0	0	0	0
Net income / loss	-1,550	-1,174	-1,316	-628	-482	-673	-727
Diluted EPS (in C\$)	-0.02	-0.01	-0.01	0.00	0.00	0.00	0.00
Weighted avg. SO (pro-forma '000)	96,845	110,317	124,463	139,713	153,759	167,748	201,009
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	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Assets							
Current assets, total	1,539	398	3,240	3,099	1,558	1,499	1,062
Cash and cash equivalents	1,267	133	2,853	2,670	1,184	1,121	680
Restricted cash	165	166	166	166	133	133	134
Trade receivables	51	43	97	146	147	149	150
Other prepaid expenses	55	56	124	117	94	95	97
Non-current assets, total	19,414	23,976	24,583	26,889	29,057	32,119	35,258
Property, plant and equipment	290	869	722	579	464	449	434
Investments	0	0	164	6	0	0	0
Reclamation bond	4	4	4	4	4	4	4
Exploration & evaluation assets	19,121	23,104	23,694	26,301	28,589	31,667	34,820
Total assets	20,953	24,374	27,823	29,988	30,615	33,618	36,320
Shareholders' equity & debt							
Current liabilities, total	280	263	542	437	495	458	467
Trade payables	280	147	97	64	122	85	94
Flow through premium	0	0	331	224	224	224	224
Other current liabilities	0	116	114	149	149	149	149
Long-term liabilities, total	0	546	432	310	311	312	313
Leases	0	546	432	310	311	312	313
Long-term debt	0	0	0	0	0	0	0
Shareholders' equity	20,673	23,565	26,849	29,241	29,809	32,848	35,540
Total consolidated equity and debt	20,953	24,374	27,823	29,988	30,615	33,618	36,320
Ratios							
Current ratio (x)	5.5	1.5	6.0	7.1	3.2	3.3	2.3
Quick ratio (x)	5.3	1.3	5.7	6.8	3.0	3.1	2.1
Net debt	-1,432	247	-2,587	-2,526	-1,006	-942	-501
Net gearing	-7%	1%	-10%	-9%	-3%	-3%	-1%
Return on equity (ROE)	n.a.						
Capital employed (CE)	19,411	23,973	24,416	26,880	29,053	32,116	35,254
Return on capital employed (ROCE)	n.a.						

CASH FLOW STATEMENT

All figures in C\$ '000	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Net income	-1,550	-1,174	-1,316	-628	-482	-673	-727
Stock based compensation	648	285	407	0	0	0	0
Depreciation & amortisation	41	160	147	143	75	15	15
Gain on sale of equipment	0	0	0	0	0	0	0
Gain on sale of exploration assets	-81	0	0	0	0	0	0
Gain on sale of investments	0	0	-24	37	0	0	0
Other flow through income	-249	-194	-160	-407	-202	0	0
Unrealised gain on warrants	2	0	89	67	0	0	0
Reversal of impairment on exploration assets	0	-666	0	0	0	0	0
Gain on elimination of Klondike Star liability	0	-56	0	0	0	0	0
Change in receivables	-12	9	25	-26	-1	-1	-1
Change in prepaid expenses	-12	-1	-68	7	23	-2	-2
Change in third party payables	-24	0	0	27	1	1	1
Change in payables	2	1	-78	-33	58	-36	9
Finance expense	0	46	40	32	0	0	0
Operating cash flow	-1,237	-1,590	-938	-781	-528	-697	-706
PP&E	-13	0	0	0	40	0	0
Exploration & evaluation asset expenditures	-4,018	-3,396	-1,307	-2,630	-2,289	-3,078	-3,154
Proceeds on gold sales	0	0	0	0	0	0	0
Sale of exploration & evaluation assets	86	0	100	0	0	0	0
Sale of investments held for sale	0	0	337	54	6	0	0
Restricted cash	-115	0	0	0	33	-1	-1
Cash flow from investing	-4,061	-3,396	-870	-2,576	-2,209	-3,078	-3,154
Free cash flow (FCF)	-5,297	-4,986	-1,808	-3,357	-2,738	-3,775	-3,860
Debt inflow, net	0	0	0	0	0	0	0
Equity inflow, net	0	2,943	4,664	3,320	1,050	3,712	3,270
Proceeds from exercised options	19	171	20	0	0	0	149
Proceeds from exercised warrants	11	860	0	0	0	0	0
Other	0	-122	-156	-146	202	0	0
Cash flow from financing	30	3,852	4,528	3,174	1,252	3,712	3,419
Net cash flows	-5,267	-1,134	2,720	-183	-1,486	-63	-441
Cash, start of the year	6,533	1,267	133	2,853	2,670	1,184	1,121
Cash, end of the year	1,266	133	2,853	2,670	1,184	1,121	680

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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	> 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...10	↓	↓	↓	↓
11	14 January 2021	C\$0.23	Buy	C\$0.85
12	24 March 2021	C\$0.24	Buy	C\$0.85
13	12 October 2021	C\$0.18	Buy	C\$0.85
14	9 March 2022	C\$0.19	Buy	C\$0.85
15	25 March 2022	C\$0.20	Buy	C\$0.85
16	27 April 2022	C\$0.17	Buy	C\$0.85
17	4 November 2022	C\$0.13	Buy	C\$0.85
18	14 November 2022	C\$0.13	Buy	C\$0.85
19	Today	C\$0.11	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/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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