



COMMISSIONED RESEARCH
March 8, 2019

KOPY GOLDFIELDS

ANALYSGUIDEN

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Higher gold a timely boon?

Kopy Goldfields have finalized the sales agreement for the Kopylovskoye asset. Currently, it is marketing the Krasny project to external buyers. A higher gold price has improved project economics for Krasny. We raise fair value.



Following a successful rights issue in the autumn of 2018, the gold explorer Kopy Goldfields is currently marketing the flagship project Krasny (49 per cent ownership) to external buyers.

Recently, a sales agreement has also been finalized for the smaller Kopylovskoye asset for up to USD 6m. In December 2018,

Kopy received an upfront payment of RUB 8m (about SEK 1.1m). Future payments are related to production mile stones to be reached before the end of 2021.

While Kopy's partner in Krasny, GV Gold, in September 2018 stated that Krasny did not fit in the Russian miner's development plans currently, it has recently acquired a nearby greenfield project. This might possibly signal a change of strategy, as the market for acquiring already producing assets is severely hampered by U.S. sanctions against Russian oligarchs (several of the producing gold mines (GV Gold being an exception) have ownership ties with oligarchs). This in turn might lead renewed interest from GV Gold for Krasny, possibly facilitating an exit for Kopy Goldfields. This as we view GV Gold as the most natural buyer of Kopy's stake in Krasny.

As both the gold price and the U.S. dollar has strengthened recently, project economics for Krasny has improved markedly, in our view. Consequently, we raise fair value for Kopy Goldfields. In our base case scenario, we derive a risk adjusted value of SEK 3.41 per share, up from SEK 3.04. Kopy Goldfields has limited financial resources and might have to raise further capital in 2019 if reaching a deal for Krasny takes longer time than expected or does not come through. In our base case scenario we have considered a possible capital raise in the second half of 2019. Thus, there could be upside to our valuation if a sale can be completed sooner.

Key Ratios

SEKm	2015	2016	2017	2018E	2019E
Operating income	7.0	2.6	3.1	0.6	0
EBIT	-3	-5	-16	-17	-17
EPS, SEK	neg	neg	neg	neg	neg
Net cash	-4.9	11	-9	-7	-29

Source: Kopy Goldfields (outcome) and Jarl Securities (estimates)

Date: March 8, 2019

Analyst: Niklas Elmhammer, Jarl Securities

Company: Kopy Goldfields AB

Listing: Nasdaq First North

CEO: Mikhail Damrin

Chairman: Kjell Carlsson

Market Cap: SEK 120m

Current share price: 1.16 SEK

Kopy Goldfields in brief: Kopy Goldfields was founded in 2007 to explore bedrock gold projects in the historically gold-rich Lena Goldfields in the Irkutsk region of Russia. Flagship asset Krasny (49 per cent owned) has mineral resources (JORC-code) of 1.8 Moz of gold. For Krasny, Kopy partners with Russian mining operator GV Gold. Besides Krasny, Kopy Goldfields has licenses for a large area neighbouring the giant Sukhoi Log-project. In December 2018, the company negotiated the sale of the Kopylovskoye asset for up to USD 6m.

Opportunities and strengths: Kopy Goldfields' projects are in a historically gold rich region which is poised to grow substantially in the coming years.

The company has a track record of cost-effective exploration partly by aligning with strong partners.

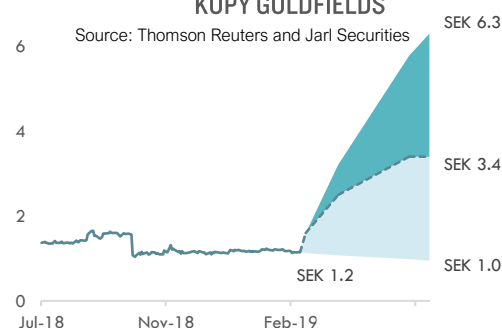
Risks and weaknesses: Kopy Goldfields has limited financial resources. If a sale of Krasny cannot be completed in 2019, there is a financing need. A divestment could substantially improve the financial position.

U.S. sanctions against Russia might affect the prospects of finding a buyer for Krasny negatively.

Valuation: **Bear** 1.0 SEK **Base** 3.4 SEK **Bull** 6.3 SEK

KOPY GOLDFIELDS

Source: Thomson Reuters and Jarl Securities



Temperature

Management



Together with Russian partner GV Gold, the company has since 2014 steadily and successfully developed the Krasny project to the prefeasibility stage.

Management is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading is the management's experience, industry knowledge, business management skills, stock market confidence and previous accomplishments.

Owners



The largest owners are Swedish industrial group KGK Holding (slightly above ten percent) and veteran gold minerals explorer Tord Cederlund (slightly less than ten per cent).

The owners are evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading are the owner's historical company procedures, financial strength, their representation on the board and from previous investments in similar companies or industries. Long-term preference and responsibility towards minor shareholders are also essential criteria.

Financial Position



In October 2018, Kopy Goldfields raised some SEK 22m after issuing costs through a rights issue in order finance some further exploration and a planned sale of the Krasny project. If a sale of Krasny cannot be completed; Kopy Goldfields will likely need financing later this year.

The financial position is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. This decision criteria considers the company's profitability, financial situation, future investment commitments and other financial obligations, potential over- and under values in the financial statement and balance sheet.

Potential



We see that Krasny has a promising potential to eventually become an operational mine in the stewardship of an established miner. We believe the shares has a low valuation in relation to JORC mineral resources.

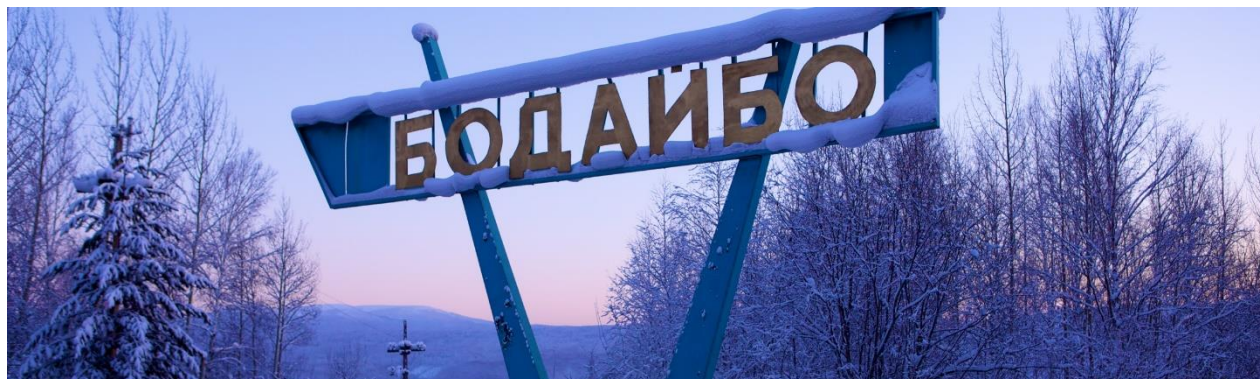
The company's potential is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading is the size of the company's potential in terms of increased profit in relation to the company's trading share price today. In which market, the company operates and the prospects for that market are also decisive factors. A company can achieve a high grading even though the growth projections are modest, provided that the share price today is below the growth projections and vice versa.

Risk



The company has no revenues and may have to raise further capital to successfully exit or, alternatively, participate in the further development of the Krasny project. Sanctions toward Russia might affect investor appetite for companies operating in Russia. Project economics are very dependent on variations in the Gold price.

The risk is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. The risk is a combined assessment of all potential risks the company can be exposed to and that affect the share price. The grading is based on a combined assessment of the company's general risk level, stock valuation, the company's competitive situation and estimations of future environmental events that can come to affect the company.



Higher gold price a timely boon?

Deciphering GV Golds intentions for Krasny

GV Gold acquires new greenfield project...

Kopy Goldfields Russian partner in the flagship Krasny project, GV Gold, has recently made an interesting move by acquiring a license for development of a greenfield project in the Bodaibo area called Svetlovskoye for about USD 10.5m. GV Gold reports that Svetlovskoye has "prognostic" resources of 61 tonnes in the category P1 and 59 tonnes in the category P2, with an estimated average grade of about 2 g/t (gram per ton). This classification corresponds to a low level of geological knowledge and confidence, reflecting a very early stage of exploration. On the face of it, the Svetlovskoye deposit appears somewhat larger than Krasny but extensive exploration work will be required to determine the potential.

This expansion in the Bodaibo area could signal a shift back to GV Gold's previous strategy of mainly developing greenfield projects. In contrast, according to media reports, GV Gold has during 2017 and 2018 seemingly been looking to acquire already producing gold mines. No deal has materialised however, as U.S. sanctions against Russian oligarchs has weighed on the M&A market. In the current geopolitical environment development of early stage projects might be viewed as a more feasible (albeit more long-term) growth strategy.

...and may be the most likely buyer of Krasny after all?

GV Gold's actions raise questions about the Russian partner's intentions for Krasny, in our view. As previously communicated, Kopy Goldfields and GV Gold have agreed upon marketing the asset to potential external buyers. As GV Gold now seems to be wanting to increase activities in the Bodaibo area, perhaps Krasny might again be viewed as an alternative for own development. GV Gold being a natural buyer of Kopy's stake, given its nearby operations and extensive knowledge of the project, this might in turn improve the prospects of Kopy Goldfields achieving an exit. However, negotiating a sale with just one party (GV Gold) as opposed to (possibly) weighing several bids also risks resulting in less favourable terms for Kopy Goldfields.

A more cautious interpretation is that GV Gold will prioritize other projects, e.g. Svetlovskoye, over Krasny. It is difficult to compare project economics at this early stage but as Krasny is further developed and thus appears a more likely medium-term growth opportunity that would be a somewhat odd strategic path for GV Gold, in our view.

The clock is ticking for Krasny development

The licence terms for Krasny stipulate certain milestones that need to be met in the next few years. A reserve report according to Russian standard and a feasibility study need to be completed by the end of 2020 and 2021, respectively. The construction also must be completed during 2022. This points to that work needs to be resumed probably by the beginning of next year at the latest. This in turn implies that the ownership probably needs to be addressed during 2019.

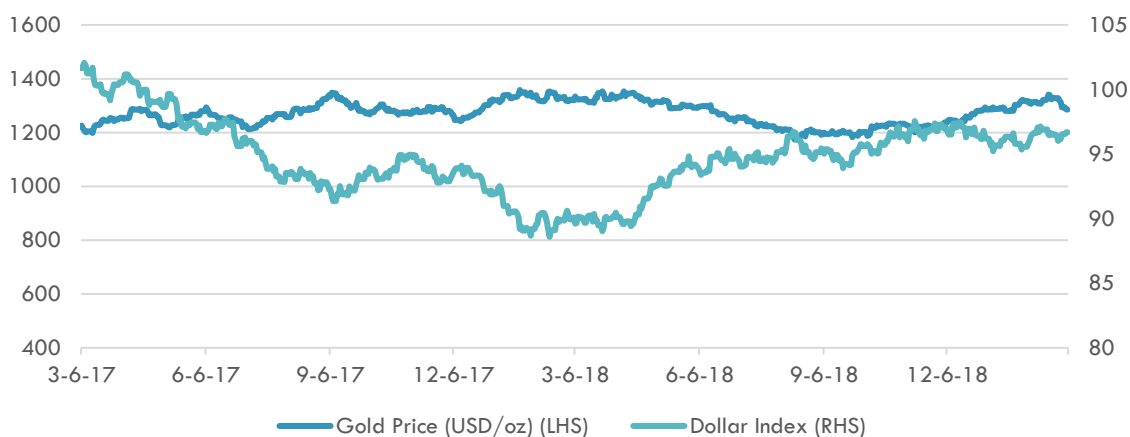
Gold production in Russia

Gold and USD provides favourable backdrop

Since our previous update (October 2018) the gold price has risen by some 85 USD /oz or about 7 per cent. Somewhat surprisingly, this upward move has coincided with a stronger dollar as well. The volatility in equity markets is one possible explanation and trade negotiations between USA and China is another possible explanation.

Lower yields in the wake of what seems to be a "dovish pivot" by the Federal Reserve could provide support to gold. If the dollar continues to strengthen there might be some headwinds for further gains, however.

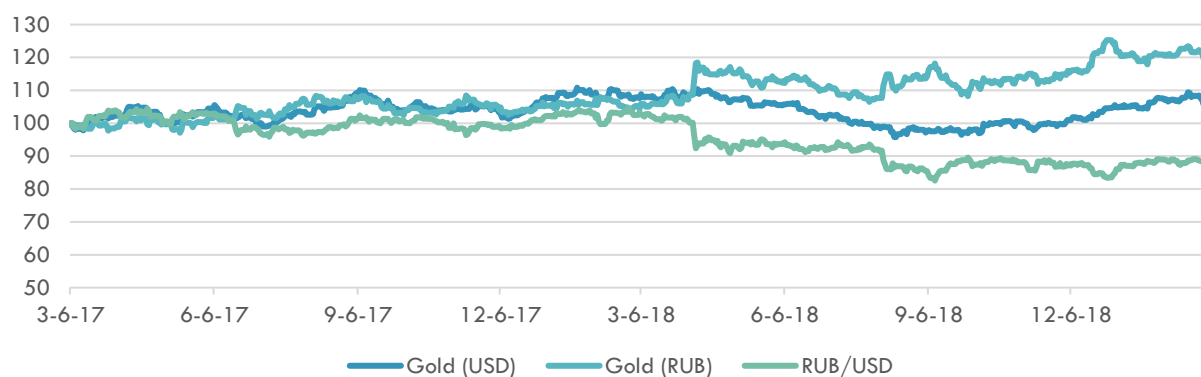
Gold and the USD



Source: Thomson Reuters

The recent price movements will likely further strengthen the cost competitiveness of Russian gold producers. We estimate that the leading Russian producers already had some 15 to 20 per cent lower costs compared to the global average production cost in 2017.

Two-year performance of Gold and Russian Ruble



Source: Thomson Reuters

Sanctions still a concern for M&A in Russia

The investment climate in Russia is affected by sanctions by the U.S. against several Russian so-called oligarchs that were imposed in the spring of 2018. Although GV Gold itself is not the target of any sanctions, the company reportedly postponed an IPO previously planned for 2018 and abandoned an acquisition of fellow Russian miner Kamtchaka Gold.

Recently the US Treasury department has lifted sanctions on three Russian companies, e.g. aluminum giant Rusal, with ties to oligarch Oleg Deripaska. The decision follows measures taken by these entities to increase transparency and reduce oligarch influence over governance. It is too early to tell however if this is a more general sign of a thawing of US -Russian relations.

Kopy Goldfields today

Following the sale of the Kopylovskoye asset in December 2018 (see below), Kopy Goldfields consists of three bedrock gold projects in the Lena Goldfields of the Irkutsk region (South East Siberia), as well as licences for alluvial mining in the Amur region.

Of Kopy's remaining projects in Lena Goldfields, only Krasny have reported mineral resources. Krasny is located some 75 km from the town of Bodaibo. The infrastructure near Bodaibo is fairly well developed, with access to roads, water and electricity. Kopy Goldfields also holds licences for 25 years of gold exploration and production in an 1,852 km² area named "Northern Territories" between 200 and 300 km North East of Bodaibo. The third project is called Verkhovya Tamaraka, which is a greenfield license located 40 km from

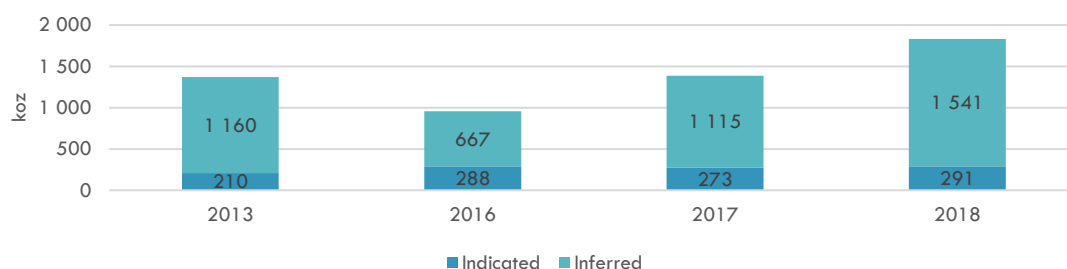
Bodaibo that was acquired in October 2018 and covers an area of 83 km². The license provides the right for bedrock gold prospecting and exploration for seven years.

Some 40 million oz of gold, mostly alluvial gold, has historically been extracted from Lena Goldfields. In recent years, bedrock mining has become the most important source of gold production. GV Gold, Kopy's partner in the Krasny project, is the largest miner in the area. Sukhoi Log, which is considered one of the largest undeveloped gold mineralizations in the world, is located some 30 km North East of Krasny. The license for Sukhoi Log, with an estimated potential of more than 60 million oz, was sold to a joint venture of Polyus and state-owned enterprise Rostec for USD 158m in 2017.

Higher gold price improves project economics for Krasny

As previously reported, gold resources in Krasny grew by 32 percent last year, based on exploration results until March 2018. The updated resource statement published in June 2018 also demonstrated higher grades (1.78 g/t versus previously 1.58) in the central Krasny mineralisation.

JORC Compliant Gold resources in the Krasny project



Source: Kopy Goldfields. The 2013 estimate is based on JORC 2004 code.

Based on the exploration results in 2017 and 2018, and the 2017 scoping study, the conclusion is that a large one-stage open pit is the most profitable way to develop the Krasny project. The mining and processing plant that is now put forward by the Krasny joint venture is an annual capacity of three million tons, notably larger than the assumption of 1.6 million tons in the earlier Micon resource estimation report and the scoping study conducted by TOMS Engineering from December 2017.

After the positive development in metal price and foreign exchange rates we have updated our DCF-model for the Krasny project.

For our assessment of the project economics of Krasny, we have used the cost parameters from the JORC mineral resource estimation of June 4, 2018 and production parameters from the 2017 scoping study. We have subsequently

adjusted for economies of scale of a larger project capacity, as well as a weaker ruble. The extraction tax in Russia is normally 6 percent. We have assumed regional mineral extraction tax relief for 10 years, rendering an average extraction tax of some 3.4 percent.

Krasny cost and mining parameters

	JORC 2018	TOMS 2017	JS assumption
USD/RUB	60.0	60.0	65.0
Stripping, USD/ton	1.4		1.27
Ore mining, USD/ton	1.8		1.31
Processing, USD/ton	7.0		5.00
Administration, USD/ton	5.5		2.73
Royalties		6%	3%
<i>JS assumptions and calculations</i>			
Strip ratio m ³ /ton		5.1	5.1
Corresponding, t/t		13.1	13.1
Annual capacity, Mt	1.6	1.6	3.0
Average stripping+ore Mt/yr.		22.5	42.2
Head grade, g/t		1.68	1.74
Dilution	10%		10%
Recovery		86%	86%
Annual gold production, ton		2.1	4.0
-"-, oz		66,011	129,913
Gold price, USD/z		1250	1250
Net revenue/year, USDm		82.5	160.8
OPEX, USDm/yr.			82.5
OPEX/oz, USD		601	635

Source: Kopy Goldfields, Jarl Securities assumptions

In our model we have raised the assumption for the gold price to 1,250 USD/oz (from 1,200) and the USD/RUB rate to 65 (from 62). We have used 200 day moving averages as input. The adjusted assumptions improve projected cash flows considerably. Using the price, production, cost and capex parameters above we arrive at an undiscounted free cash flow estimate of some USD 497m, some USD 100m higher than our previous estimate. Here we have assumed that regional tax subsidies can be achieved, rendering a corporate tax rate of zero percent the first five years, ten per cent for the following five years and 20 per cent thereafter. As before we have used a capex estimate of about USD 300m.

Kopylovskoye divestment back on track

In December 2018, Kopy Goldfields announced it had finalized a sales agreement for LLC Taiga, comprising the Kopylovskoye asset, with a group of Russian investors. The terms are similar to those negotiated in June 2018. Kopy Goldfields received an upfront payment of RUB 8m (about SEK 1.1m) and is entitled to further milestone payments of up to USD 5.8m related to income from gold production spread over 36 months. If the milestone payments are not fulfilled the project will be returned to Kopy Goldfields.

Valuation

Valuation of gold assets

We have below compiled how junior miners, international gold majors and Russian gold majors are valued in relation to reported mineral resources and reserves. In the junior category we have included some primary silver miners whose resource base has been adjusted to gold equivalents.

Valuation of gold assets

Juniors	EV, USDm	Gold eq. M&I (M oz)	EV/oz, USD	Price/Book
Auriant Mining	83	1.0	81	-1.2x
Lundin Gold	793	9.6	82	1.4x
Botnia Exploration	18	0.1	128	2.2x
Silver Bear	184	0.7	265	-5.9x
Sotkamo Silver	77	0.3	268	2.0x
Average			165	-0.3x
Median			128	1.4x
Kopy Goldfields	14	1.0	14	1.1x
International Majors	EV, USDm	Gold eq. P&P (Moz)	EV/oz, USD	Price/book
Newcrest	12,182	65.5	186	1.8x
Agnico Eagle	11,342	21.3	533	2.2x
Barrick	27,843	97.6	285	1.9x
Anglogold	7,165	50.1	143	2.1x
Newmont Mining	20,176	68.5	295	1.7x
Goldcorp	12,396	80.3	154	1.0x
Kinross	5,486	34.2	160	0.9x
Average			251	1.7x
Median			186	1.8x
Russian Majors	EV, USDm	Gold eq. P&P (Moz)	EV/oz, USD	Price/book
Polymetal	8,348	20.8	402	3.7x
Polyus	16,137	64.3	251	26.9x
Petropavlovsk	1,115	4.0	279	0.6x
Average			311	10.4x
Median			279	3.7x

Source: Thomson Reuters, company information

We have not identified any listed gold exploration companies focused on Russia besides Kopy Goldfields. Generally, Russian majors are still valued at higher multiples compared to international peers, despite sanction concerns. This is probably a reflection of the low production costs in Russia.

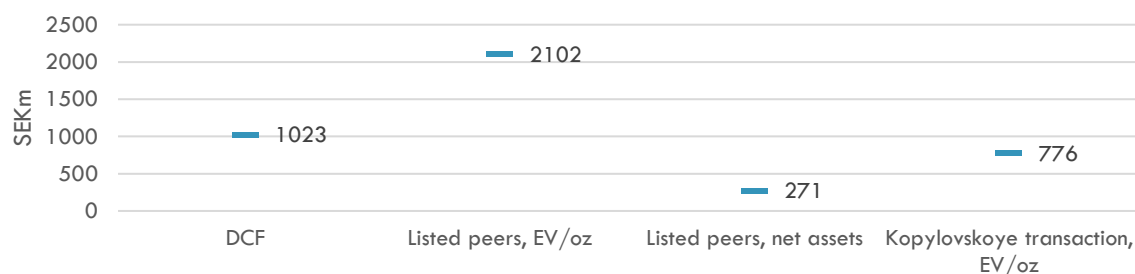
In contrast, Kopy Goldfields is valued at a considerable discount compared to other juniors.

Valuation of the Krasny project

For the Krasny project, as mentioned above, we estimate an undiscounted Free Cash Flow of USD 497m. Using a discount rate of 10.9 per cent we derive an NPV of USD 113m. The discount rate is calculated using a risk-free rate of 0.6 percent and a risk premium of 10.3 percent (source PwC *Riskpremiestudien 2018*). A relative valuation, using the median EV/oz multiple of junior peers in the table above, renders a value of USD 234m (128 times 1.832). The DCF and the relative valuation corresponds to SEK 1,023m and SEK 2,102m, respectively, using a USD/SEK rate of 9 (raised from previously 8.6) corresponding to 200 day moving average. As an alternative approach to relative valuation, we have used the net assets for Krasny multiplied by 1.4 (estimated Price/Book multiple for junior explorations companies in the peer group above). This would translate into a value of about SEK 271m (1.4 times 188).

Another approach to valuing Krasny is applying the transaction multiple for the resources for the recently sold Kopylovskoye asset. Assuming a price of USD 5.5m we calculate a transaction price of USD 47 per oz. Using this multiple corresponds to a value of USD 86m or SEK 776m for Krasny.

Summary of approaches to valuing Krasny



Source: Jarl Securities

To calculate a risk-adjusted value for Krasny, we have assigned a probability to each of these valuation approaches. To model the event a sale cannot be reached during the coming year, we use the “net assets” approach. We assign this event a 50 percent probability (down from 70 percent). We have thus taken a more optimistic stance that a transaction can take place, partly due to improved market conditions for gold and gold production, partly due to signs of a renewed interest in greenfield projects from GV Gold.

Risk adjusted valuation of the Krasny project

SEKm	Multiple	Implied Value	Weight	Contribution
DCF		1023	17%	171
Listed peers, EV/oz	128x	2102	17%	350
Kopylovskoye, EV/oz	47x	776	17%	129
Net assets	1,4x	271	50%	136
Risk adjusted total				786

Source: Jarl Securities

Kopy Goldfields sum-of-the-parts valuation

We have used a sum-of-the-parts approach to estimate a fair value for Kopy Goldfields.

- We have valued the Kopylovskoye project at SEK 33m, our estimated discounted cash flow of the sales terms (minus the upfront payment, which is included in the estimated net cash position).
- For the Northern Territories project, three anomalies with 1 million oz+ potential has been identified. Assuming an exploration potential of 1.5 million oz and applying the EV/oz multiple of the winning bid in the Sukhoi Log auction (2.5 USD per oz) would render a value of USD 3.75m or about SEK 34m. The project has a book value of some SEK 10m. Using the average of a price/book multiple (1.4x) and the EV/oz multiple valuation above, we assign a value of SEK 24m.

Adjusting for overhead costs and net cash position (including SEK 30m of interest-bearing debt) we calculate a value of SEK 406m for Kopy Goldfields, up from SEK 293m in our previous update.

In the autumn of 2018, Kopy Goldfields raised some SEK 22m net in a rights issue. The objective was to finance a sales process for the Krasny project and to cover working capital requirement for the next twelve months as well as interest costs. The company has outstanding loans of some SEK 30m (interest 11.75 % per year). The terms were recently renegotiated and the due date is now March 4, 2021 (a change from previous July 2020 and March 2020 for two tranches, respectively). This provides a better match with the timing of expected milestone payments from the Kopylovskoye deal. As we expect no payments for Kopylovskoye during 2019, it points to a financing need during the second half of this year, if a sale of Krasny cannot be completed by then. To model this scenario, we have assumed a somewhat smaller rights issue on otherwise similar terms as the latest round in October 2018. After assumed dilution, we derive a value per share of SEK 3.41 (previous 3.04).

Kopy Goldfields sum-of-the-parts

Project	Value (SEKm)	Kopy G. share (SEKm)	Per share (SEK)	Method
Krasny	786	385	3.71	See above
Kopylovskoye	33	33	0.31	DCF
Northern Territory	24	24	0.23	See above
Overhead		-29	-0.28	SEK 7m/yr
Net cash		-7	-0.06	2018E
Total		406	3.91	103.8 m shares
Assumed capital need		19		21m shares at SEK 1.05
Total (diluted)		425	3.41	125m shares

Source: Jarl Securities

- For a bull-scenario, we model a sale of the Krasny-project for some SEK 1.3 billion, corresponding to an average of our DCF, relative (EV/oz) and transaction-based (Kopylovskoye) valuations. We consequently assume no further capital need for Kopy Goldfields. In this outcome, we derive a value per share of SEK 6.3.
- In a bear scenario, we assume no deal for Krasny is reached. In this case, we assign a conservative value to the project, corresponding to net assets. Assuming dilution for further capital need, we calculate a value per share of SEK 0.95 in this approach.

It could be argued that the closest estimate to a market value of Krasny could be deduced by the market capitalization of Kopy Goldfields itself. Given the low valuation in relation to demonstrated resources, it seems not unreasonable that a potential buyer of Krasny would consider a buyout offer for the whole of Kopy Goldfields to possibly lower the total price tag for the project.

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