



ANALYSGUIDEN - COMMISSIONED RESEARCH

October 14, 2019

KOPY GOLDFIELDS

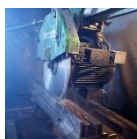
NEW EXPLORATION

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New exploration

A drilling program has started in the promising Maly Patom area. A new loan secures short term financing. The main trigger is still a potential sale of the flagship Krasny asset. The rise in gold price is supportive but further exploration might be required for a deal.



Kopy Goldfields has moved to the next phase in the exploration of the Maly Patom licenses starting a drilling program. In previous geochemical surveys three areas of interest with an exploration potential of at least 1 Moz of gold each has been identified. The target is to eventually define mineral resources in one or more of

these assets. While this means that costs will increase, it is a positive sign that the project is now moving forward.

To finance the increased activity, Kopy Goldfields has expanded its loan facility with an additional SEK 15m to SEK 45m in total. At the same time the due date for the whole consideration has been pushed forward to September 2022. We view this as a favourable solution to short term financing needs given the low share price. Milestone payments from the sale of the Kopylovskoye asset could provide additional financing in 2020.

The main trigger in the short to medium term is if Kopy's pursuit to divest its share of the flagship Krasny asset will be successful. In the summer the company presented a new scoping study to support an alternative plan for mining development involving multiple stages and lower initial investment. While this might appeal to opportunistic buyers given the rise in the gold price, the intentions of Kopy's partner in Krasny, Russian gold producer GV Gold (also the majority owner of Krasny), are still unclear. GV Gold itself has recently been reported to be an acquisition target.

We have taken a more cautious approach and reduced the likelihood of a deal in the short term. In addition, we have used a more conservative valuation of Krasny on the back of the new scoping study. Our new fair value of SEK 2.6 per share (3.4) still points to a considerable potential in the shares. We believe this view is supported by a relative valuation.

Key Ratios

SEKm	2016	2017	2018	2019E	2020E
Operating income	2.6	3.1	0.6	0	26
EBIT	-5	-16	-41	-16	4
EPS, SEK	neg	neg	neg	neg	neg
Net cash	11	-9	-10	-40	-39

Source: Kopy Goldfields (outcome) and Carlsquare (estimates)

UPDATE
KOPY GOLDFIELDS
October 14, 2019

Date: October 14, 2019

Analyst: Niklas Elmhammer, Carlsquare (formerly Jarl Securities)

Company: Kopy Goldfields AB

Listing: Nasdaq First North

CEO: Mikhail Damrin

Chairman: Kjell Carlsson

Market Cap: SEK 104m

Current share price: 1 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.

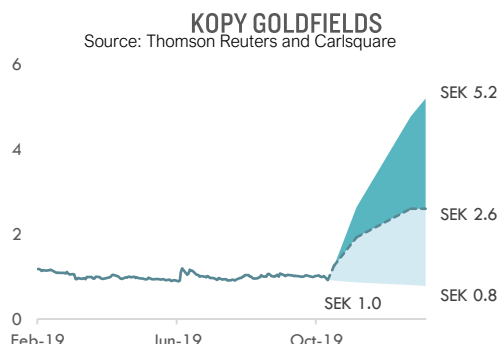
Opportunities and strenghts: Kopy Goldfields' projects are in a historically gold rich region which is poised to grow substantially in the coming years.

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, financing will be needed to further develop the project. 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** 0.8 SEK **Base** 2.6 SEK **Bull** 5.2 SEK



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 KGG 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



Recently Kopy Goldfields has raised SEK 15m in debt financing which we estimate covers the companies needs until the first half of 2020. Milestones from the sales of the Kopylovskoye asset could provide additional financing in 2020 and 2021. Increased exploration activity in Maly Patom and/or Krasny could lead to need for further financing.

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.

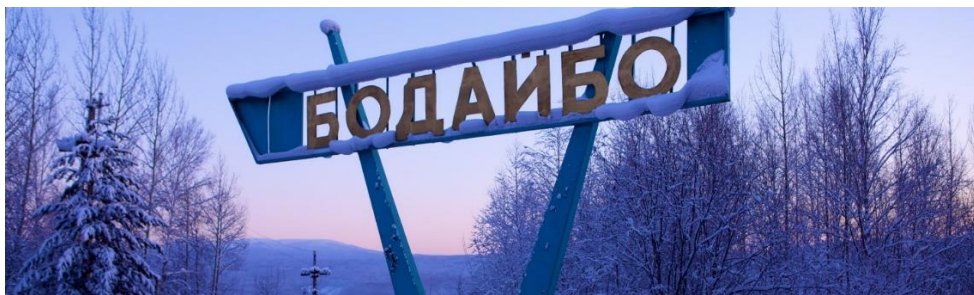
The company's potential is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading is the size of the company's potential in terms of increased profit in relation to the company's trading share price today. In which market, the company operates and the 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 recurring 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.



New exploration

First drilling program in Maly Patom has started

In August 2019, Kopy announced it had begun the next stage of exploration in Maly Patom ("Northern Territories") focussing on the three anomalous areas previously identified through geochemical surveys. These areas fit the company's exploration parameters and targets of deposits of 1 million oz and above. During the current exploration stage, Kopy plans to conduct some 4,500 meters of core drilling as well as trench sampling.

Visible gold in samples

Kopy has reported that 854 m of drilling (six holes) has been completed in the first target area, called Zhelanny. In Zhelanny, historic exploration has been promising and Kopy has identified a 1,200 m long and 200 to 600 m wide anomaly. In two drilling cores, visible gold has now been observed. While this might imply very high grades at least in these samples, the observations are hard to interpret at this early stage. Test results are expected this month.

Previously, Kopy has communicated that it expects to be able to demonstrate mineral resources in Maly Patom following about two years of exploration, if successful. This could in return pave the way for partnering with a larger miner for further development. We believe several drilling programs are likely needed to collect enough data for a mineral resources report.

New scoping study to support alternative mining development

During the summer, Kopy Goldfields presented a new scoping study to argue to external buyers that also a step wise build-out of the Krasny and Vostochny assets with an annual capacity of one million tonnes should lead to good returns. This despite lower economies of scale and, as a result, higher unit production costs compared to e.g. a one-stage open pit mine. As this development plan implies lower investments, Kopy views this as the recommended alternative. This view contrasts with the alternative that has been put forward by Russian partner GV Gold. Based on the exploration results in 2017 and 2018, and the 2017 scoping study, the Russian partner has stated that a large one-stage open pit with a much larger capacity of three million tonnes is the preferred option.

New financing secured

Recently, Kopy secured new financing of SEK 15m from Scandinavian Credit Fund I. That brings the total debt to SEK 45m. The due date for the whole consideration has been renegotiated and pushed forward to September 2020 from March 2021. Also, interest of 11.75 per cent annually will be capitalized, meaning that no interest will be paid out until the debt is due.

We view the increased amount and the amended terms as a favourable solution to Kopy's short-term financing needs. We believe it has been enabled by the sale of the Kopylovskoye asset at the end of last year where the payments will be made according to production milestones.

As of June 30th, 2019, Kopy had some SEK 11m in cash. In August, USD 0.6m was invested in the Krasny project and a new exploration program was started in Maly Patom. We estimate that the new financing will provide liquidity for the first half of 2020, somewhat dependent on the extent of the Maly Patom drilling program. We expect that milestone payments from the sale of the Kopylovskoye asset will provide a source of financing in 2020 but the timing is yet uncertain.

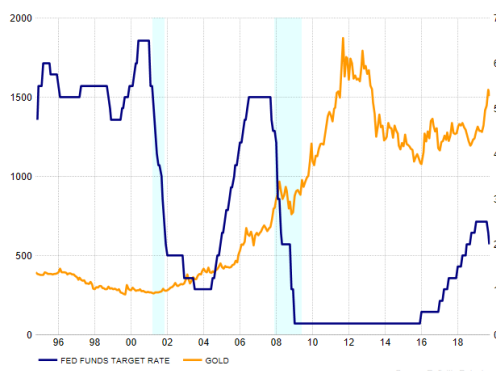
Gold is shining again

Gold has attracted much attention lately and the gold price made a decisive move upwards during the summer rising some 260 USD per oz, or 20 per cent, between June and September.

The move coincided with falling yields on the back of a Fed rate cut and expectations of further monetary easing, protracted trade negotiations between the US and China as well as the devaluation of the Chinese Yuan in August. Notably, much of the rise occurred at same time as the US dollar strengthened.

From the charts, gold seem to have broken out of a multi-year consolidation. Since the beginning of September, there has been a slight pullback, but the positive trend still seems largely intact. In a historical perspective, the last Fed easing cycles have fuelled bull markets for gold (however in 2008-2009 not even gold could escape price volatility).

Fed monetary easing fuelling rise in Gold price



Source: Thomson Reuters. Inspired by Bloomberg Intelligence.

Signs of life in Russian M&A

Despite lingering US sanctions against Russian oligarchs, there are signs of M&A activity in the Russian gold industry. Recently, Toronto-based Kinross acquired the Chulbatkan project in the Russian Far East from N-mining for a consideration of USD 283m. Chulbatkan is a large open pit development project comprising some 3.9 Moz of indicated resources. Thus, the transaction values Chulbatkan at an EV/oz of 73 USD.

According to media reports, a Chinese conglomerate led by Fosun International is in talks to acquire a majority stake (up to 100 per cent) in Kopy's Russian partner in the Krasny project, GV Gold. Reportedly, an application is under review by Russian competition authorities. It is unclear if and how these discussions might affect GV Gold's plans for Krasny. In the current situation, it is not unlikely that new investment programs, or divestments, might be postponed until the ownership situation has cleared. Should a takeover be completed it might however bring new impetus to the process regarding Krasny.

Kopy Goldfields today

Following the sale of the Kopylovskoye asset in December 2018, 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 seven licences for 25 years of gold exploration and production in a 1,940 km² area named "Maly Patom" 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. The production is expected to be commenced in mid-2020s and with the production on Sukhoi Log, the total production from the area will increase from 0.5% of the annual global gold production to about 2% of the global output.

A more conservative base case for Krasny

Since Kopy, following the new scoping study, states that the recommended alternative is a combination of open pit and underground mining for Krasny and an open pit development for Vostochny, we now use this scenario as a basis for our valuation.

Krasny cost and mining parameters

	JORC 2018	TOMS 2017	AMC 2019	CS assumption
USD/RUB	60.0	60.0		65.0
Royalties		6%		4%
<i>CS assumptions and calculations</i>				
Strip ratio m ³ /ton		5.1		
Corresponding, t/t		13.1	7.0	7.0
Annual capacity, Mt	1.6	1.6	1.0	1.0
Average stripping+ore Mt/yr		22.5	8.0	8.0
Head grade, g/t		1.68	1.80	1.80
Dilution	10%			10%
Recovery		86%	87%	87%
Annual gold production, ton		2.1		1.4
-" , oz		66,011	47,000	45,318
Gold price, USD/oz		1,250	1,300	1,360
Net revenue/year, USDm		82.5		61.0
OPEX USDm/yr				44.8
OPEX/oz, USD		601	1100	988

Source: Kopy Goldfields, Carlsquare assumptions

In our model we have raised the assumption for the gold price to 1,360 USD/oz (from 1,250) (200 day moving average). As we do not yet have the full picture of how other important input parameters in the scoping study were estimated we have used our own assumptions where we find it appropriate. In particular, the capex estimate used in the AMC scoping study (USD 105m) looks on the low side, in our view. We have assumed capex of USD 149m, based on the estimate from the TOMS scoping study from 2017, adjusted for a lower capacity and a lower ruble. Further, we have assumed that a proposed multiple stage build-out involving a combination of open pit and underground mining is a complicating factor that

counteracts some of the “savings” in investments from lower capacity need. Our assumptions render an undiscounted free cash flow of USD 133m (previously USD 497m).

Our calculation should be viewed as preliminary on the back of limited information at this stage. It is however clear that this scenario renders a much lower NPV than the large one-stage open pit mine proposed by GV Gold. While a lower initial investment requirement might in theory appeal to opportunistic buyers, the project economics in this scenario becomes rather mediocre, in our view, reflected in the huge increase in unit production costs. Further, the partners’ different views on how to develop Krasny risk complicating the sale process. This might point to the need for further exploration and completion of a feasibility study to gain more knowledge.

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&I (M oz)	EV/oz, USD	Price/Book
Auriant Mining	90	1.0	88	-1.4x
Lundin Gold	1,375	9.6	143	2.4x
Botnia Exploration	13	0.1	90	1.7x
Silver Bear	216	0.7	310	-4.9x
Sotkamo Silver	98	0.3	339	2.2x
Average			194	0.0x
Median			143	1.7x
Kopy Goldfields	13	1.0	13	0.8x
International Majors	EV, USDm	Gold eq. P&P (Moz)	EV/oz, USD	Price/book
Newcrest	16,855	65.5	257	2.4x
Agnico Eagle	14,616	21.3	687	2.8x
Barrick	37,915	97.6	388	2.0x
Anglogold	10,085	50.1	201	3.0x
Newmont Mining	37,350	68.5	545	1.6x
Kinross	7,587	34.2	222	1.3x
Average			384	2.2x
Median			323	2.2x
Russian Majors	EV, USDm	Gold eq. P&P (Moz)	EV/oz, USD	Price/book
Polymetal	10,139	20.8	488	4.0x
Polyus	21,483	64.3	334	14.2x
Petropavlovsk	1,183	4.0	296	0.7x
Average			373	6.3x
Median			334	4.0x

Source: Thomson Reuters, company information

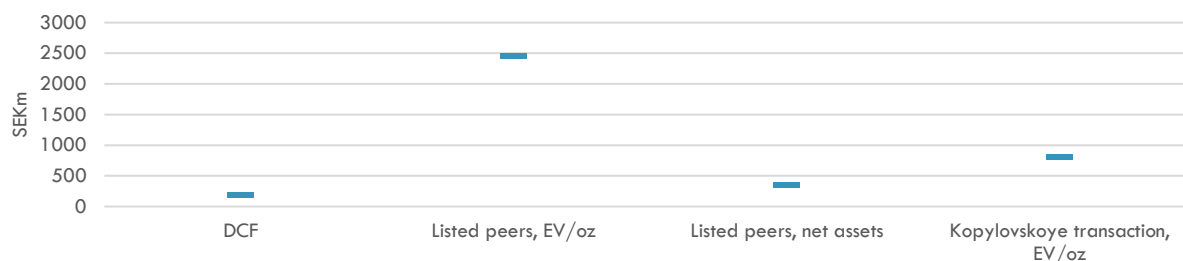
We have not identified any listed gold exploration companies focused on Russia besides Kopy Goldfields. During 2019 the premium valuation enjoyed by Russian majors compared to international peers has disappeared. At the same time, Kopy Goldfields is still valued at a considerable discount compared to other juniors.

Valuation of the Krasny project

For the Krasny project, as mentioned above, we estimate an undiscounted Free Cash Flow of USD 133m. Using a discount rate of 11 per cent we derive an NPV of USD 20m (previously USD 113m). The discount rate is calculated using a risk-free rate of 0 percent and a risk premium of 11 percent (source PwC *Riskpremiestudien 2019*). A relative valuation, using the median EV/oz multiple of junior peers in the table above, renders a value of USD 261m (143 times 1.832). It has risen by some 12 per cent since our latest update in March 2019. The DCF and the relative valuation corresponds to SEK 190m and SEK 2,457m, respectively, using a USD/SEK rate of 9.38 (raised from previously 9) corresponding to 200 day moving average. As an alternative approach to relative valuation, we have used the net assets for Krasny multiplied by 1.66 (estimated Price/Book multiple for junior explorations companies in the peer group above). This would translate into a value of about SEK 349m (1.66 times 210).

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 809m for Krasny.

Summary of approaches to valuing Krasny



Source: Carlsquare

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 70 percent probability (up from 50 per cent previously). We have thus become more cautious in the short term, as the takeover rumours surrounding GV Gold and the possible need for further exploration makes it less likely that a deal is imminent, in our view.

Risk adjusted valuation of the Krasny project

SEKm	Multiple	Implied Value	Weight	Contribution
DCF		190	10%	19
Listed peers, EV/oz	143x	2,457	10%	246
Kopylovskoye, EV/oz	47x	809	10%	81
Net assets	1.7x	349	70%	244
Risk adjusted total				590

Source: Carlsquare

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 36m, our estimated discounted cash flow of the sales terms.
- For the Maly Patom 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 35m. We estimate a book value of some SEK 15m by the end of 2019 following this year's exploration activities. Using the average of a price/book multiple (1.66x) and the EV/oz multiple valuation above, we assign a value of SEK 30m.

Adjusting for overhead costs and net cash position (including SEK 45m of interest-bearing debt) we calculate a value of SEK 260m for Kopy Goldfields, down from SEK 406m in our previous update. The revision is mainly a reflection of a lower assumed probability of a deal in the short term, as well as lower value in the DCF model on the back of more conservative assumptions regarding project parameters. Following the debt financing recently we no longer make any assumptions of a rights issue in 2019. Hence, we derive a value per share of SEK 2.56 (previously 3.41).

Kopy Goldfields sum-of-the-parts

Project	Value (SEKm)	Kopy G. share (SEKm)	Per share (SEK)	Method
Krasny	590	289	2.79	See above
Kopylovskoye	36	36	0.35	DCF
Maly Patom	30	30	0.29	See above
Overhead		-50	-0.48	SEK 7m/yr
Net cash		-40	-0.38	2019E
Total		266	2.56	103.8 m shares

Source: Carlsquare

- For a bull-scenario, we model a sale of the Krasny-project for some SEK 1.1 billion, corresponding to an average of our DCF, relative (EV/oz) and transaction-based (Kopylovskoye) valuations. In this outcome, we derive a value per share of SEK 5.2.
- 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. We calculate a value per share of SEK 0.78 in this approach.

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