



ANALYSGUIDEN - COMMISSIONED RESEARCH

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KOPY GOLDFIELDS

GOLD PRICE LIFTS PROJECT VALUE

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UPDATE

KOPY GOLDFIELDS

February 26, 2020

Gold price lifts project value

Gold prices have continued to rise which leads to higher project valuations. An ounce now costs more than 1600 USD. The drilling program in the Maly Patom area has been concluded without any substantive findings, though the geology supports the possibility of future findings.



Kopy Goldfields has finished the first drilling season in the exploration of the Maly Patom licenses. Although no commercial grade ore bearing layers were found, the structure supports the possibility of such findings of at least 1 Moz of gold. More exploration will be needed.

Milestone payments from the sale of the Kopylovskoye asset could provide financing in 2020. Without them the company will probably need to find another source of financing in order to perform a second prospecting season in Maly Patom. The company has a loan of SEK 45m with the Scandinavian Credit Fund I AB with a due date in September 2022.

Kopy's main asset is Krasny. Hence the share price will depend almost entirely on its further development or divestment. Kopy is in a somewhat challenging situation since it lacks the necessary funds to develop the asset. Since GV Gold has a 51 per cent ownership share in Krasny, Kopy is also dependent on their plans. GV Gold itself has been reported to be an acquisition target which complicates matters. Kopy's lack of financial resources puts them in a weak bargaining position. Nevertheless, the licence has a limit in time, which means that GV Gold will need to start development at some point in order not to lose its rights. The scoping study that AMC published last summer describes several scenarios for further development, including a less capital intensive one with a high IRR involving an underground mine and a highly capital intensive one with a high NPV involving a large open pit. The former is indicative of the value that could be unlocked if Kopy decides to start a mining activity, the latter of the potential value for a buyer.

Due to the increase in the gold price and higher sector valuations we arrive at a higher value of Kopy Goldfields. Our new fair value is SEK 3,0 per share (2.6)

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	-46	-39

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

Date: February 26, 2020

Analyst: Richard Ramanius, Carlsquare

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 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.

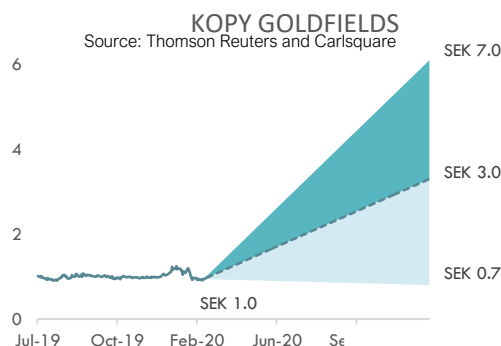
Opportunities and strengths: Kopy Goldfields' projects are situated in a historically gold rich region which is poised to grow substantially in the coming years.

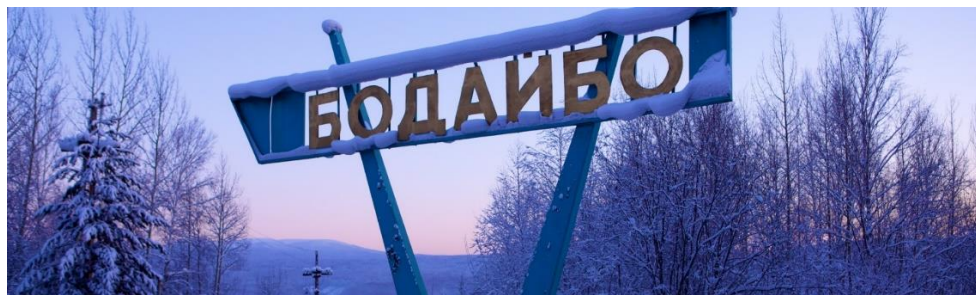
The company has a track record of cost-effective exploration partly by aligning with strong partners.

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** 0.7 SEK **Base** 3.0 SEK **Bull** 7.0 SEK





New exploration

2019 drilling program in Maly Patom concluded

Kopy Goldfield explored the two target areas of Zhelanny and Alemakitsky. A total of 2 505 meters were drilled and 2 338 meters of trenches were dug. Analyses of the samples confirmed that the geology is indicative being able to contain gold bearing strata, for example multiple sulphide mineralizations were identified. However, no commercial minable concentrations of gold were found. The most notable findings were in Alemakitsky, where in three intervals up to 40 meters thick samples were found that contained gold grades above 0,5 g/t. The company believes that discovering deposits of more than 1 Moz is possible, but further exploration will be necessary.

Financial situation

In September 2019 Kopy amended the financing agreement with Scandinavian Credit Fund I by increasing the credit from SEK 30 million to SEK 45 million as well as extending the due date to September 13, 2022. Interest is capitalised and paid back on the due date. As of the last report, on June 30th, 2019, Kopy had some SEK 11m in cash. In August 2019, USD 0.6m was invested in the Krasny project and a new exploration program was started in Maly Patom. We estimate that this has consumed the entire previous cash position and some of the SEK 15 million from the extended loan. The cash that is left should be able to fund general administration but not additional exploration. If Kopy wants to execute another season of prospection, additional sources of funding will have to be identified.

We expect that milestone payments from the sale of the Kopylovskoye asset should be available for the company in 2020, which could amount to up to five million US dollars. The payment could also be delayed until 2021, in which case it will amount to six million US dollars. The payments should in theory be used to amortise the debt, which is due on September 13, 2022. The cash could also be used for other purposes.

The gold price has increased further

Since our last report, the price of gold has increased even further. At the moment of writing this report it is above 1600 US dollars per ounce.

From the charts, gold seem to have broken out of a multi-year consolidation and is in a positive trend. The liquidity that is being injected in the economy following the Corona virus is certainly supporting this.

Further increase in Gold price



Source: Thomson Reuters.

Recent M&A activity

Recently in February Russian investor Roman Trotsenko sold his 28,34 percent stake in Petropavlovsk PLC to the goldmining company Uzhuralzoloto. His shares were worth 160 million GBP and had increased 70 percent in value since he bought them about a year ago. Petropavlovsk's market value is 560 million GBP.

GV Gold that has majority ownership of the Krasny asset (51 %) is purportedly of for sale. No new developments have surfaced since our last update. Major owners of GV Gold are Dokuchaev S. V., Opaleva N.V and Tikhonov V.A. each with a 20,36 percent share. Blackrock Global Funds and Blackrock Gold and General Fund have 18 percent combined. Together these largest owners own circa 79 percent of the company.

Kopy Goldfields' current situation

Kopy has three main assets: Krasny has reserves of 1,8 Moz (indicated and inferred) and makes up the bulk of the enterprise value. The sale of the Kopylovskoye license is to be redeemed before the end of 2021 and Maly Patom (Northern Territories) is an 1,852 km² licensed area where prospecting is being carried out.

The Krasny asset is placed under a Cypriot holding company (Bodaibo Holding) that is jointly owned with GV Gold who have 51 percent ownership. This means that for taxations purposes, Cypriot rates are applicable.

A new take on the scoping study of Krasny

We have re-examined the scoping study from AMC Consulting. As before, our development scenario is the one with a combination of open pit and underground mining for Krasny and an open pit development for Vostochny, where we assume that Kopy Goldfields and GV will initiate production jointly. This scenario has the highest IRR and reasonable capital requirements. It involves constructing a 1 Mtpa processing plant and in a first stage excavating the upper level of Krasny in an open pit. The second stage involves constructing an underground mine to arrive at the ore with higher concentrations of gold below. It also involves opening a second open pit at Vostochny in order to operate the processing plant at full capacity and maximize the value of the investments.

Our model is based directly on the AMC report. We have raised the assumption for the gold price to 1,480 USD/oz (up from 1,360) (200 day moving average) and added some costs to the profit calculation. As in our previous analysis, we have assumed higher capex costs of USD 149m, based on the estimate from the TOMS scoping study from 2017, instead of the 105 used by AMC. We also anticipate a project financing with an equity proportion of 40 percent. At the first stage AMC assumes an investment of USD 66m, which we have increased to USD 87m. This would equal an equity investment on the part of Kopy Goldfields of USD 17m and USD 13m if AMC's value is used. This is a rather small investment to make. Compared to Kopy Goldfields' market capitalization it would be extremely dilutive though.

We assume tax relaxations for newly developed mines relating to the Siberian operations and a Cypriot main office. We use a discount rate of 14 percent and an interest rate of 7 percent. This leads to a market value derived from the discounted free cash flows from Bodaibo Holdings of USD 56m (out of which USD 27m assignable to the part of Kopy Goldfield). Any additional taxes for transferring cash back to Sweden is not considered in this valuation, that is, it is not assumed to apply.

The second alternative is to divest the Krasny asset. Constructing a processing plant with a capacity of 3 Mtpa and excavating the asset in an open mine yields the highest NPV. A purchaser with substantial economic resources would probably choose this development scenario rather than the combined open pit and mine. We use the assumption of the AMC report, but we adjust the discount value to 10 percent. We assume project financing with 40 percent equity and 7 percent interest on the loan. Initial capital expenditure is set at USD 250m. We assume taxes of 20 percent. This leads to a project value of USD 154m. Such a transaction will call for a discount, which we put at 40 percent. This leads to a transaction valuation of USD 93m (USD 45m on the part of Kopy Goldfield) before any taxes on gains.

Our calculation should be viewed as preliminary on the back of limited information at this stage. Further, the partners' different views on how to develop Krasny risk to complicate the sale process. This in combination with Kopy Goldfield's limited financial resources increases the transaction risk.

Valuation

Valuation of gold assets

We have below compiled how junior miners as well as international 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	88	1,0	86	-1,2x
Lundin Gold	1915	9,6	199	3,7x
Botnia Exploration	13	0,1	88	1,4x
Silver Bear	188	0,7	270	-3,1x
Sotkamo Silver	82	0,3	286	2,4x
Average			186	0,6x
Median			199	1,4x
Kopy Goldfields	13	1,0	13	0,8x
International Majors	EV, USDm	Gold eq. P&P (Moz)	EV/oz, USD	Price/book
Newcrest	13951	65,5	213	1,9x
Agnico Eagle	13259	21,3	624	2,3x
Barrick	47994	97,6	492	1,7x
Anglogold	10629	50,1	212	3,2x
Newmont Mining	43499	68,5	635	1,8x
Kinross	8313	34,2	243	1,3x
Average			403	2,0x
Median			367	1,8x
Russian Majors	EV, USDm	Gold eq. P&P (Moz)	EV/oz, USD	Price/book
Polymetal	11815	20,8	569	4,9x
Polyus	22400	64,3	348	9,6x
Petropavlovsk	1638	4,0	409	1,3x
Average			442	5,3x
Median			409	4,9x

Source: Thomson Reuters, company information

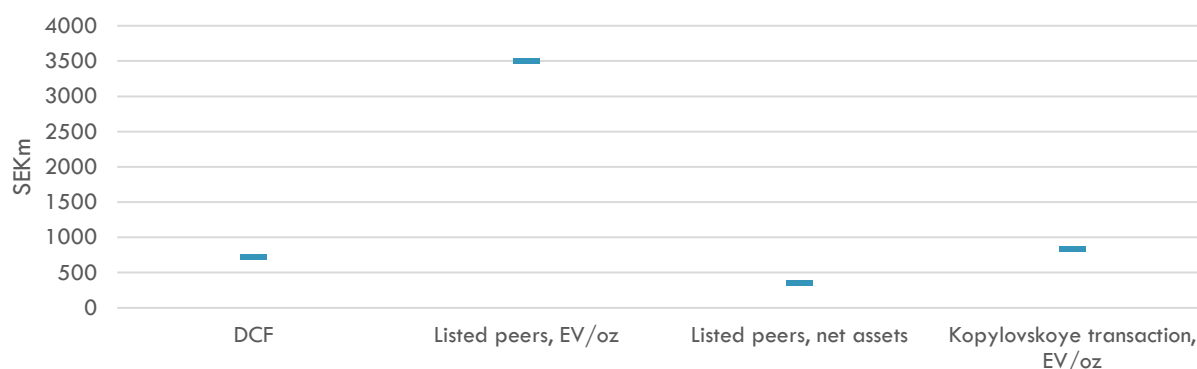
We have not identified any listed gold exploration companies focused on Russia except Kopy Goldfields.

Valuation of the Krasny project

For the Krasny project, as mentioned above, we estimate a discounted free cash flow value of USD 56m (USD 27m for Kopy Goldfields) using a discount rate of 14 per cent (previously USD 20m), and 93m for a joint sales transaction. Using an average of these two values results in a combined valuation of USD 74 (USD 36m for Kopy Goldfields), which is our DCF input below. A relative valuation, using the median EV/oz multiple of junior peers in the table above, renders a value of USD 365m (199 times 1.832). It has risen by some 40 per cent since our latest update in March 2019. The DCF value and the relative valuation corresponds to SEK 713m and SEK 3,500m, respectively. Here we have used a USD/SEK exchange rate of 9.60 (raised from previously 9,38). As an alternative approach to our relative valuation, we have used the net assets for Krasny multiplied by 1.4 times, which is the estimated Price/Book multiple for junior explorations companies in the peer group above. This translates into a value of about SEK 295m (1.4 times 210).

Another approach to value Krasny is to apply the transaction multiple for the resources of the recently sold Kopylovskoye asset. In our last analysis we assumed a price of USD 5.5m. We also calculated with a transaction price of USD 47 per oz. Since the gold price has risen from 1360 to 1480 USD/oz we make an upward adjustment of 8,8 percent resulting in a price of USD 51 per oz. Using this multiple corresponds to a value of USD 94m or SEK 902m for Krasny. This would correspond to Kopy Goldfields selling their 49 percent share of the project. The above-mentioned project sales would assume that Kopy And GV Gold make a joint sales transaction and together receive 60 percent the valuation of the 3 Mtpa project.

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 instead use the “net assets” approach. We maintain a 70 percent probability weight for this scenario, since no news have surfaced regarding a possible transaction.

Risk adjusted valuation of the Krasny project

SEKm	Multiple	Implied Value	Weight	Contribution
DCF		713	10%	71
Listed peers, EV/oz	199x	3500	10%	350
Kopylovskoye, EV/oz	51x	901	10%	90
Net assets	1,4x	295	70%	244
Risk adjusted total				718

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 38m (SEK 36m), derived from our estimated discounted cash flow of the sales terms.
- For the Maly Patom project, three anomalies with 1 million oz+ potential have 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 market value of USD 3.75m or about SEK 36m. We estimate a book value of some SEK 7m by the end of 2019 following this year's exploration activities. Using the average of a price/book multiple (1.4x) and the EV/oz multiple valuation above, we end up in an estimated market value of SEK 23m.

Adjusting for overhead costs and the corporate net cash position (including SEK 45m of interest-bearing debt) we calculate a market value of SEK 318 for Kopy Goldfields, up from SEK 260m in our previous update. The revision is mainly a reflection of an increase in the gold price which has led to higher valuations in the sector, as well as higher value in our DCF model due to a combined valuation methodology in which two scenarios are averaged. The company might need financing if it wishes to perform more prospecting activities during 2020, though we make no assumptions about this at present. Hence, we derive a value per share of SEK 3,06 (previously SEK 2,56).

Kopy Goldfields sum-of-the-parts

Project	Value (SEKm)	Kopy G. share (SEKm)	Per share (SEK)	Method
Krasny	718	352	3,39	See above
Kopylovskoye	39	39	0,37	DCF
Maly Patom	23	23	0,22	See above
Overhead		-50	-0,48	SEK 7m/yr
Net cash		-46	-0,44	2019E
Total		318	3,06	103,8 m shares

Source: Carlsquare

- As a bull-scenario, we model with a sale of the Krasny-project for some SEK 1.5 billion, corresponding to a weighted average of our project sales (3 Mtpa project, 0,5x), relative (EV/oz, 0,25x) and transaction-based (Kopylovskoye, 0,25x) valuations. In this outcome, we derive a value per share of SEK 7.0 (SEK 5.2). The increase since our last report is largely due to a higher gold price and higher relative valuations.
- In our bear scenario, we assume that no deal for Krasny is reached. In this case, we assign a conservative value to the project, corresponding to net book value. We calculate a value per share of SEK 0.67 in this scenario.

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