

Exciting times ahead

The reverse takeover by gold exploration company Kopy Goldfields of Russian gold producer Amur Zoloto was, as expected, approved by authorities and is now fully completed. Kopy Goldfields is now a notable player in the Russian gold universe with growth opportunities in existing mining assets and through continued exploration. Recent updates of the company's Mineral Reserves and Resources look very promising for future gold mining production.

The combined company covers the full range from gold prospecting and exploration in attractive areas in Russia to cash generating ore mining and processing. Kopy Goldfields has significantly changed its profile and now covers mine production with future potential in gold exploration projects.

The deal adds revenue streams and cash flow from Amur Zoloto's gold mine production to Kopy Goldfields' exploration business. We believe that the combined entity will ease investors' earlier concerns over Kopy Goldfields' financial situation and will be supportive as regards future growth opportunities for existing exploration licenses, most notably the Krasny project. We believe that the likelihood of Krasny being developed to a mine in production has significantly increased.

Summary of pro forma financials

Kopy has provided summarized pro forma financials for the combined Kopy Goldfields and Amur Zoloto entity. The significant increase in sales and results for the period January-June 2020 reflects internal improvements and a strong gold market. Pro forma sales were 427,9 TSEK (278,7), where Amur Zoloto contributed to all revenue. EBITDA amounted to 155,5 TSEK, up 42% compared to the first half of 2019. Pro forma net debt was SEK 441m as of June 30. Kopy recently announced an operational update and gold production for the period January-September amounted to 42 koz, a slight decrease from the corresponding period last year (43.5 koz), mainly affected by disturbances related to Covid-19.

Going forward

The global gold market has continued to be strong. The company estimates for 2020 and 2021 are based on a stable gold price from current levels at 1,905 USD/oz. The market has discounted that Kopy has moved from a pure exploration company to a cash generating miner. Share price performance has been driven by the market's appreciation of the transformation of Kopy's asset base together with the historically high gold price. However, valuation multiples for 2020 and 2021 still look attractive. The next company specific trigger would probably be news on how the Krasny project will develop.

Kopy Goldfields

Transaction completed

Date October 28, 2020
Analyst Catarina Ihre

Facts

Sector Basic Resources
Chairman Kjell Carlsson
CEO Mihail Damrin
Listing year 2010
List First North Market Growth
Ticker KOPY
Share price, SEK 2.43
Market cap, MSEK 2,242
No shares, m 886
Net Debt, MSEK 441
EV, MSEK 2,683
Web www.kopygoldfields.com

Share price performance



Source: Refinitiv

Estimates

| | 2019 | 2020e | 2021e |
|-----------------|-------|-------|-------|
| Revenue | 663.3 | 890 | 996.8 |
| EBITDA | 229 | 335 | 388.8 |
| EBIT | 137.9 | 294 | 348.9 |
| Pre-tax profit | 106.7 | 210 | 269 |
| Net result | 82.9 | 160 | 223 |
| EPS, SEK | n.m. | 0.19 | 0.25 |
| Dividend, SEK | 0 | 0 | 0 |
| Sales growth | n.m. | 34% | 12% |
| EBITDA margin | 34.5% | 38% | 39% |
| EBIT margin | 20.8% | 33% | 35% |
| Net debt/Equity | 68.5% | 68.5% | 68.5% |
| Net debt/EBITDA | 1.93 | 1.32 | 1.13 |
| P/E | n.m. | 13.4 | 9.6 |
| EV/EBIT | 19.5 | 9.1 | 7.7 |
| EV/Sales | 4.0 | 3.0 | 2.7 |
| Yield | n.m. | n.m. | n.m. |

Source: Kopy Goldfields, Analysguiden

Investment Case

The transaction has created a strong mining company with gold mines in production, that has generated healthy revenues and cash flow, in combination with a promising exploration portfolio. Through exploration and test drilling, funded by in-house cash, future growth will be secured by continuously adding mineral reserves and resources to the asset base. Synergies are mainly to be found in exploration know-how and geological expertise, rather than in operations, given the vast geographical spread of the assets. Complementary skills from Kopy and Amur Zoloto should enhance future performance. Kopy Goldfields' producing assets include four mines and two processing plants in Far East Russia. Mineral Resources and Ore Reserves have recently been updated and increased, mainly thanks to successful exploration at the Krasivoe underground gold deposit within the Yubileyniy project.

Kopy has recently announced that the company aims for an organically driven production of (plus) 100 koz of gold by 2025, excluding any potential from future production in Krasny (see earlier communication from the company related to opportunities in Krasny). The production estimate is based on current mineral reserves. If exploration work continues to be successful there is further potential, not least within the Yubileyniy project. Pro forma gold production in 2019 amounted to 52 koz - a level which is expected to increase slightly in 2020. Meanwhile capex for the period 2020-2025 is estimated to USD 130m (approx. SEK 1 225m), to be financed through internally generated cash flow and existing debt facilities. This is good news and should reduce concerns related to funding of expansionary investments.

Market conditions have been and currently are very beneficial for investors in gold or gold related instruments. Gold prices are at its highest levels since almost a decade, at approx. 1,905 USD/oz, driven by investors' appetite for 'a safe haven' in an uncertain market environment, where the Covid-19 pandemic is only one explanation. The USD shows strength, while the RUB, where most costs are incurred, has weakened more than 20%.

Gold price development



Source: Refinitiv

Into 2021

One of the interesting points for Kopy Goldfields into next year is the ability to commercialize on its exploration flagship, the Krasny project, which is being developed together with joint-venture partner GV Gold. Following good exploration results Krasny has reached a critical stage, where to decide on moving forward through in-house development in cooperation with GV Gold, or to evaluate a potential disposal of the property.

We believe that the transaction with Amur Zoloto has opened up for a review of Krasny's future, with different options ranging from an in-house go-ahead in cooperation with GV Gold to a potential sell-off or buy-out.

The ownership structure, where Amur Zoloto's previous owners hold 88% of the company's shares and Kopy Goldfields' shareholders 12%, put some concern related to the shares' liquidity and free float. In all, we believe the risk to be continued high, from both an operational and a regulatory point of view, although the overall risk assessment has been significantly reduced.

Aggregated P/L, Full year 2019

| MSEK | Kopy Goldfields | Amur Zoloto | Aggregated |
|-------------------------|-----------------|-------------|------------|
| Revenue | - | 663.3 | 663.3 |
| Cost of Sales | - | 442.9 | 442.9 |
| Gross profit | - | 220.4 | 220.4 |
| General & Adm. Expenses | - 14.6 | -62.2 | -76.8 |
| Share - j-v | 7.6 | - | 7.6 |
| Other expenses | 0.5 | - 13.8 | -13.2 |
| EBIT | - 6.4 | 144.4 | 137.9 |
| Financial net | 2.3 | - 33.5 | -31.2 |
| Earning before tax | -4.1 | 110.9 | 106.7 |
| Tax | 0.4 | -24.2 | -23.8 |
| Net profit | - 3.7 | 86.7 | 82.9 |

Kopy Goldfields' financial resources to develop its asset base have been limited in the recent years, mainly affecting the 49%-owned Krasny project. With the transaction with Amur Zoloto the financial situation looks much more stable with the addition of revenues and cash flow.

Share

Kopy Goldfields trade on Nasdaq First North Growth Market since 2011. First North is not a regulated market why the risk levels are perceived to be higher than when listed being on a regular market.

Following the reverse takeover of Amur Zoloto, the largest shareholders in Kopy Goldfields are HC Alliance Mining Group and Lexor Group. Combined, they control slightly more than 88% of the shares. The number of shareholders was almost 6,000 as of September 30, 2020, with the majority being Swedish retail investors. The number of outstanding shares is 886 005 575. All shares carry equal voting and rights and rights to profit.

Major shareholders, %

| | |
|-------------------------------|-------|
| HC Alliance Mining Group Ltd. | 66.3% |
| Lexor Group SA | 22.0% |
| Tord Cederlund | 1.4% |
| KGK Holding Aktiebolag | 1.2% |

Source: Kopy Goldfields

For the next coming years, we expect Kopy Goldfields to prioritize cash generation to fund value-creative growth and investments, rather than to return cash to shareholders.

Operations

The table shows updated gold production and stated reserves and resources, which were recently provided by the company (reported in accordance with JORC). Both reserves and resources have increased compared with the data provided during late spring, in connection with the announcement of the reverse takeover.

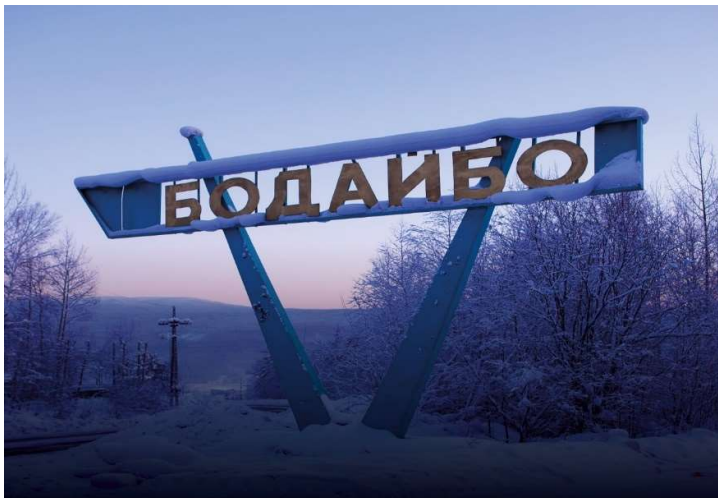
In 2019, gold production of Amur Zoloto amounted to 52 koz of gold, generating an aggregated EBITDA of approx. MSEK 229. Following the completion, Kopy has total mineral assets of 1.3 Moz of Proven and Probable Reserves and 2.8 Moz of Measured, Indicated and Inferred Resources (incl. P&P Reserves).

Production, Reserves & Resources

| | Kopy Goldfields | Amur Zoloto | Aggregated |
|-------------------------------|-----------------|-------------|------------|
| Gold production, FY 2019, koz | n.m. | 52 | 52 |
| Gold resources, Moz | 0.9 | 1.9 | 2.8 |
| Gold reserves, Moz | 0.1 | 1.2 | 1.3 |

Kopy Goldfields - operations

Kopy Goldfields was established in 2007 with the acquisition of the Kopylovskoye gold exploration license in Russian Lena Goldfields. Following several years of exploration programs, this project was sold in 2018. Development work was, in parallel, conducted within other licenses. The company has up until now devoted its financial resources into gold exploration.



Kopy Goldfields' strategy is to combine Russian geologic knowledge and science with international management, "best industry practices" and modern and efficient technology to identify and develop mineral deposits in a cost-efficient, safe and transparent way.

The company currently holds 12 gold exploration and production licenses located in Lena Goldfields in the Irkutsk and Amur regions with total license area of 2,156 km² plus 20 licenses in Khabarovsk region with total area of 1,243 km². Irkutsk and Khabarovsk regions are the primary gold mining destinations of Russia.

In the Irkutsk region, all licenses comprise four major project regions: Krasny, Maly-Patom, Amur and Verhovya Tamaraka. In 2019, focus was to explore and test drill Krasny and Maly-Patom. According to the most recent report provided by JORC, total mineral resources amount to 1,832 koz (based on 100% of existing licenses).

Krasny



In 2011, Kopy Goldfields acquired its flagship exploration project, Krasny, in the Irkutsk region. Three years later, in 2014, a joint-venture was formed with Russian gold producer GV Gold with the aim to develop the license. For a contribution of USD 3m in cash and a further USD 6m directed for exploration, GV Gold earned a 51% interest in the Krasny project. Since, work and drill testing has been carried out in partnership with GV Gold, which since 2018 holds the operational control of the project.

Discussions between Kopy Goldfields and GV Gold has been on-going to decide on the strategic future of the project. Different options, including construction of a mine or a straight-sell, have been evaluated.

With the recent combination of Kopy and Amur Zoloto the future strategy for the Krasny project is being reviewed. We believe that the likelihood of moving Krasny into mine production, backed by stronger financial resources, has been enhanced, and discussion over the project development scenario is ongoing.

A potential mine life of ~16 years is projected with a discounted pre-tax payback time of six years. Total CAPEX required is estimated to plus USD 100m, with an upfront CAPEX of USD 60-70m. By end 2019, total accumulated joint investments in the Krasny project amounts to USD 20.1m. Kopy Goldfields' 49% stake in Krasny has a book value of SEK 105m.

The most recent gold resource estimate for the Krasny license totals Indicated and Inferred Mineral resources of 1.8 Moz (average head grade of 1.8 g/t), under the JORC code. All resources were reported within economically minable open pit mines at a gold price of 1,250 USD/oz. The report also includes findings of 257 koz of Probable reserves.

Maly-Patom

The Maly-Patom project consists of seven licenses located within the Lena Goldfields area, in the Bodaibo region. In 2019, work continued to explore the deposit. Drill testing was being conducted while the project was also extended through the addition of a new exploration

property, Polovinka. A total of 2,505 meters has been core drilled and 2,338 meters of trenches have been developed within three identified targets. ‘

Results confirm the area’s potential, and that the discoveries are achievable. Exploration drilling indicates the existence of gold mineralization, however not yet commercially exploitable gold. Further steps on how to proceed will be reviewed, reflecting prioritization of different projects, after completion of the transaction with Amur Zoloto.

Operations – Amur Zoloto

Amur Zoloto operates producing gold mines and holds exploration licenses, that can be explored and eventually recognized as mineral resources and/or reserves and put into production. The company has constructed several mines leading to healthy production growth.

Amur Zoloto operates two bedrock mines, Yubileiny and Perevalnoe, and two placer mines, Buor-Sala and Kagkan-Chudny, in the Khabarovsk region of Russia.

The gold production during the first half of 2020, compared with the gold production during first half of 2019, is presented in the following table:

| | Jan-June 2020 | | Jan- June 2019 | |
|--------------|---------------|--------------|----------------|--------------|
| | koz | kg | koz | kg |
| Mines | | | | |
| Yubileiny | 7.7 | 239.4 | 8.5 | 263.9 |
| Perevalnoe | 13.6 | 423.0 | 13.2 | 410.7 |
| Placer Mines | 2.0 | 63.7 | 3.9 | 120.3 |
| Total | 23.3 | 726.1 | 25.6 | 794.9 |

In 2019, the Amur Zoloto’s gold production amounted to 52 koz, with a cash cost of USD 802/oz. In 2020, production has continued at a slightly lower pace, but is expected to step up towards the end of the year.

Krasivoye

Krasivoye is a high grade, underground gold mine that feeds the nearby Yubileiny processing facility. The mine commenced production in 2004, initially using open pit methods and then switched to underground mining in 2010. Mineral resources are classified as Indicated to this depth and Inferred below that.

Amur Zoloto is developing decline access to reserves below the lowest adit at 950 meters above sea level.

The ore from the Krasivoye mine is further processed at Yubileiny processing plant. The plant has an annual crushing capacity of 200 kt and a gravity and flotation section with a 130 kt capacity. A second gravity and flotation line is under construction and will be commissioned in 2022, doubling the current capacity.

Perevalnoye

Perevalnoye operates an open pit mine and a processing plant. Mining from the Perevalnoye open pit commenced in 2015 and the processing plant was commissioned in 2017. The facility produces concentrates, which are further processed at the Yubileiny plant. Currently ore is mined from the Brekchiyevaya and Priyatnoe pits. An underground mine, below the open pit at Brekchiyevaya, will be operated in future. The commissioned plant has capacity to treat ore at an annual rate of 144 ktonnes. The plant produces concentrates which are trucked to the Yubileiny facility for leaching (CIP). A heap leach plant to process lower grade "halo" ore is planned to be commissioned later this year.

Other projects

The Malyutka project is a greenfield project planned to be commissioned in 2023. It is an open pit deposit where gold is planned to be recovered using a heap leaching circuit. Ore will be stacked and leached.

Placer Sources - there are four gold placers currently mined from the two areas; Buor and Kagkan. Together the placers could produce approx. 400-500 kg (13-16 koz) of gold per annum. In future, gold placers are planned to be mined at Khayunda and Kurun-Uryakh.



Aggregated Financial Position

Aggregated P/L, Jan - June 2020

| MSEK | Kopy Goldfields | Amur Zoloto | Jan-Jun 2020 |
|----------------------------|------------------------|--------------------|---------------------|
| Revenue | - | 427.9 | 427.9 |
| Cost of sales | - | -235.6 | -235.6 |
| Gross profit | - | 192.3 | 192.3 |
| Gen. & Admin expenses | -6.8 | -30.1 | -37.0 |
| Share results, j-v | -7.0 | - | -7.0 |
| Other operating expenses | 0 | -10.8 | -10.8 |
| EBIT | -13.8 | 151.4 | 137.6 |
| Financial costs | -2.8 | -32.2 | -35.0 |
| Financial income | 2.3 | 0.1 | 2.4 |
| Result after financial net | -14.3 | 119.3 | 104.9 |
| Tax | - | -25.2 | -25.2 |
| Net result | -14.3 | 94.1 | 79.8 |
| EBITDA | -13.7 | 169.2 | 155.5 |

Aggregated P/L, Full year 2019

| MSEK | Kopy Goldfields | Amur Zoloto | Aggregated |
|-------------------------|------------------------|--------------------|-------------------|
| Revenue | - | 663.3 | 663.3 |
| Cost of Sales | - | 442.9 | 442.9 |
| Gross profit | - | 220.4 | 220.4 |
| General & Adm. Expenses | - 14.6 | -62.2 | -76.8 |
| Share - j-v | 7.6 | - | 7.6 |
| Other expenses | 0.5 | - 13.8 | -13.2 |
| EBIT | - 6.4 | 144.4 | 137.9 |
| Financial net | 2.3 | - 33.5 | -31.2 |
| Earning before tax | -4.1 | 110.9 | 106.7 |
| Tax | 0.4 | -24.2 | -23.8 |
| Net profit | - 3.7 | 86.7 | 82.9 |

Aggregated Financial Position, June 30, 2020

| MSEK | Kopy Goldfields | Amur Zoloto | Pro forma adj. | Aggregated |
|---------------------------------|------------------------|--------------------|-----------------------|-------------------|
| Non-current assets | 152.4 | 657.6 | 138.2 | 948.2 |
| Current assets | 11.0 | 466.2 | | 477.2 |
| Assets | 163.4 | 1123.9 | 138.2 | 1425.4 |
| Equity | 105.7 | 555.3 | 138.2 | 799.3 |
| Non-current liabilities | 49.4 | 272.3 | | 321.6 |
| Current liabilities | 8.2 | 296.3 | | 304.5 |
| Equity & Liabilities | 163.4 | 1123.9 | 138.2 | 1425.4 |

Production, Reserves & Resources

| | Kopy Goldfields | Amur Zoloto | Aggregated |
|-------------------------------|------------------------|--------------------|-------------------|
| Gold production, FY 2019, koz | n.m. | 52 | 52 |
| Gold resources, Moz | 0.9 | 1.9 | 2.8 |
| Gold reserves, Moz | 0.1 | 1.2 | 1.3 |

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