



## Don't Overlook This Junior Miner When Seeking Exposure to Gold

### Description

The outlook for gold [remains firm](#) mostly due to heightened geopolitical tensions globally coupled with recent market gyrations that have sparked fears that the long-awaited market correction has arrived. The yellow metal's latest dip, which saw it fall almost 2% over the last week, makes now the time to consider bolstering exposure to gold-mining stocks.

While investors typically only think of larger miners, it is the smaller junior miners and explorers that offer the greatest potential upside. One which stands out as an attractive opportunity is **Lundin Gold Inc.** ([TSX:LUG](#)).

### Now what?

The junior miner is in the midst of developing the controversial Fruta del Norte gold project in the impoverished Latin American nation of Ecuador. The Fruta del Norte deposit is rated as one of the highest-quality underground gold-mining projects under development globally. It has been assessed to have reserves of 4.8 million ounces of gold and 6.3 million ounces of silver with average ore grades of 9.7 grams per tonne and 12.7 grams per tonne, respectively.

Mine development is on track, and it is expected to commence first-gold production during the fourth quarter 2019 and reach full commercial production by 2021.

The mine's high ore grades endow it with impressively low all-in sustaining costs forecast to be US\$609 per ounce of gold produced, which are among the lowest for any major underground gold mine. In an environment where gold is trading at over US\$1,300 per ounce, this highlights the considerable potential profitability of the mine.

Despite the considerable promise held by the asset and the potential upside on offer once the mine is complete and has commenced commercial production, it has been shunned by investors. This is because of an overbaked [perception of risk](#) associated with mining in Ecuador.

You see, the previous owner of the gold deposit **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)) was unable to obtain favourable terms from the Ecuadorean government, which made it feasible to

commence the project.

As a result, Kinross elected to sell the project in 2015 to Lundin Gold for US\$240 million.

The issues experienced by Kinross left the project tainted with a view among industry insiders and pundits that Ecuador was a risky and hostile jurisdiction in which to mine.

Nonetheless, Lundin Gold has been able to secure very favourable terms, and this can, in part, be explained by Quito's desperate need to procure other sources of government revenue since the collapse of oil prices in late 2014. That saw a marked turnaround in the attitude of the government towards such projects, with it establishing a mining ministry in 2015 to encourage foreign investment in mining.

As a result, Lundin Gold has the support of local communities and has been able to obtain all required major permits to commence mine construction.

Aside from its considerable gold reserves, long mine life of 15 years, and low AISCs, the project is particularly appealing because the asset possesses considerable exploration upside. That means there is every chance the reserves, ore grades, and production will grow as further exploration of the ore body is completed.

### **So what?**

Investing in a gold-mining junior is not for the faint of heart. There are considerable risks attached to developing a project such as Fruta del Norte, but conversely the potential upside and ability for investors to earn outsized returns is massive. When considering management's experience, the Lundin family's long history of success, the solid balance sheet with US\$63 million on hand at the end of the third quarter 2017, and the recent approval of a US\$300 million credit facility, it is an appealing investment with the risk/reward equation weighted in favour of the investor.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:KGC (Kinross Gold Corporation)
2. TSX:K (Kinross Gold Corporation)
3. TSX:LUG (Lundin Gold Inc.)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

**Category**

1. Investing
2. Metals and Mining Stocks

**Tags**

1. Editor's Choice

**Date**

2025/09/02

**Date Created**

2018/02/09

**Author**

mattdsmith

default watermark

default watermark