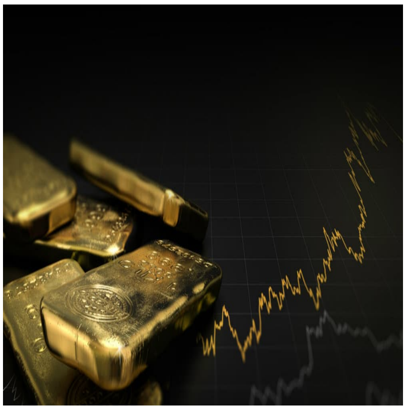

Despite the Risks, This Junior Gold Miner Is Very Attractively Valued

Description

Continental Gold's (TSX:CNL) stock went into free fall after the murder of three of its geologists in an armed attack on its facilities at its Berlin property in northwestern Colombia. Even a significant rally in gold over recent weeks, which sees the yellow metal trading at around US$1,280 an ounce, has been incapable of breathing life into the miner's depressed stock; it's down by around 40% for the year to date.

While concerns linger over Continental Gold's ability to successfully execute its Buritica project and bring the mine to commercial production, as well as the stability of the security situation in Colombia, there is every sign that it is substantially undervalued.

Flagship asset is a high-quality project

The Buritica ore body is rated as one of the largest high-grade gold deposits discovered in recent years. It has reserves of 3.7 million gold ounces with an average grade 8.4 grams of gold per tonne of ore (g/t).

The considerable potential held by the ore body is underscored by senior gold miner **Newmont Mining** acquiring a 19.9% interest in Continental Gold for US$109 million, which at the time represented a 46% premium to its share price. That premium was one of the highest paid in the gold mining industry during recent years and highlights Newmont's eagerness to obtain exposure to the Buritica project.

In fact, Newmont sought a greater interest, but Continental Gold's board elected to keep it at 19.9%. Newmont's involvement with Continental Gold substantially reduces much of the execution risk associated with Buritica and emphasizes that the junior miner could become a takeover target now that its stock has tanked.

You see, the deteriorating security situation in the region where Continental Gold's Berlin property is located doesn't impact Buritica, where construction work is 44% complete and commercial production is targeted for 2020.

The quality of that asset is further underscored by its high ore grades, which means it will have all-in sustaining costs (AISCs) of US$492 per gold ounce produced. In an operating environment where gold is trading at well over US$1,200 per ounce, that means Buritica will be an extremely profitable mine to operate.

A swathe of drilling and production results further emphasize the considerable potential held by the Buritica project. As part of its 2018 drilling program, which is targeting mineral resources and aimed at advancing them to being classified as reserves, has identified a range of high-grade gold veins at the property. That includes in November 2018 the announcement the discovery of a broad mineralized zone at the Yaraguá deposit, which is located at Buritica, where gold grades were as high as 18 g/t.

Continental Gold then announced in December 2018 that it had extracted 49% more gold than anticipated from stopes situated on the Yaraguá system at Buritica. These results indicate that gold resources and reserves at Buritica should grow as higher ore grades and new mineralized veins are discovered.

It should also be noted that all the projections regarding the project are based on an assumed gold price of US$1,200 per ounce. That means if the yellow metal continues to trade at a far higher price, then Buritica's reserves and net present value will expand, while the payback period of around three years required to recoup the initial development capital will decrease.

Why buy Continental Gold?

Continental Gold is attractively valued junior miner that holds considerable potential. While the security incident at its Berlin asset illustrates the risks associated with operating in Colombia, it should be recognized that event did not affect the Buritica project, which is on scheduled to start production in 2020. When that occurs, Continental Gold's stock should soar, potentially tripling from current levels.

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