

Action Note

Equity Research

June 14, 2017

Gold and Precious Minerals - Mid-and Small-Cap Golds

Continental Gold Inc.

(CNL-T) C\$3.49

Buying Opportunity Post-Index Sell-off

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Event

We are publishing this brief note to highlight what we view as an opportunity to buy shares of CNL during a period of significant underperformance brought about by a weighting reduction in the GDXJ Index, which takes effect at the end of this week.

Impact: NEUTRAL

- Continental has underperformed the GDXJ since the company's 52-week high in February, with CNL down ~39% since then and the GDXJ down only ~19%. We believe that the underperformance is due to pre-selling in advance of the decrease in weight in the GDXJ taking effect at the end of this week.
- As a reminder, last month, Continental Gold announced that Newmont Mining Corp. and RK Mine Finance had agreed to make a strategic investment of \$134mm in the company at C\$4.00/share, a 46% premium to the close of C\$2.74/share (on May 10).
- Together with the \$250mm debt facility announced in January, the company now has a total of \$407mm to put towards project capex that was estimated at \$389mm in the February 2016 Feasibility Study (FS). We expect additional funding to come from equipment vendor financing (Exhibit 2).
- With funding substantially de-risked, we would expect the stock to begin re-rating from its current developer discount to an eventual producer multiple as it progresses through construction toward production expected in 2020. We provide a more detailed timeline in Exhibit 3.
- As a reminder, the FS defined Proven & Probable Reserves of 3.7 Moz grading 8.4 g/t, within total resources of 9.0 Moz at 9.8 g/t.
- Continental is currently trading at 0.57x our corporate NAV5%. This is below its closest peer, Lundin Gold, which is trading at 0.77x NAV5% and was not affected by the GDXJ re-balancing. An example of a small-cap producer that could be a comparable when CNL reaches production would be Guyana Goldfields, in our view. Guyana currently trading at 1.11x NAV5%.

Recommendation:	SPEC BUY
Risk:	SPECULATIVE
12-Month Target Price:	C\$7.00
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	100.6%

Market Data (C\$)

Current Price	C\$3.49
52-Week Range	\$2.62 - \$5.75
Mkt Cap (f.d.) (\$mm)	\$670.1
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,413,643

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	192.0
Float Shares (mm)	148.6
Net Debt/Total Cap	0.0%
Cash (\$mm)	\$157.0
NAVPS	\$6.15
Resources (mm oz)	9.0

Cash (\$mm): in US\$

All figures in US\$, unless otherwise specified

TD Investment Conclusion

With the company's permit and funding in place, we believe that Buritica stands as one of the largest and highest grade, independently owned, construction-ready gold projects in the world. We expect the stock to re-rate progressively higher as the company continues to advance the project (Exhibit 1).



Company Profile

Continental Gold Inc. is a Toronto-based gold exploration company with one of the largest portfolios of mineral rights in the rapidly emerging Colombian gold sector. The company is focused on its flagship Buritica (100%) gold project in Colombia.

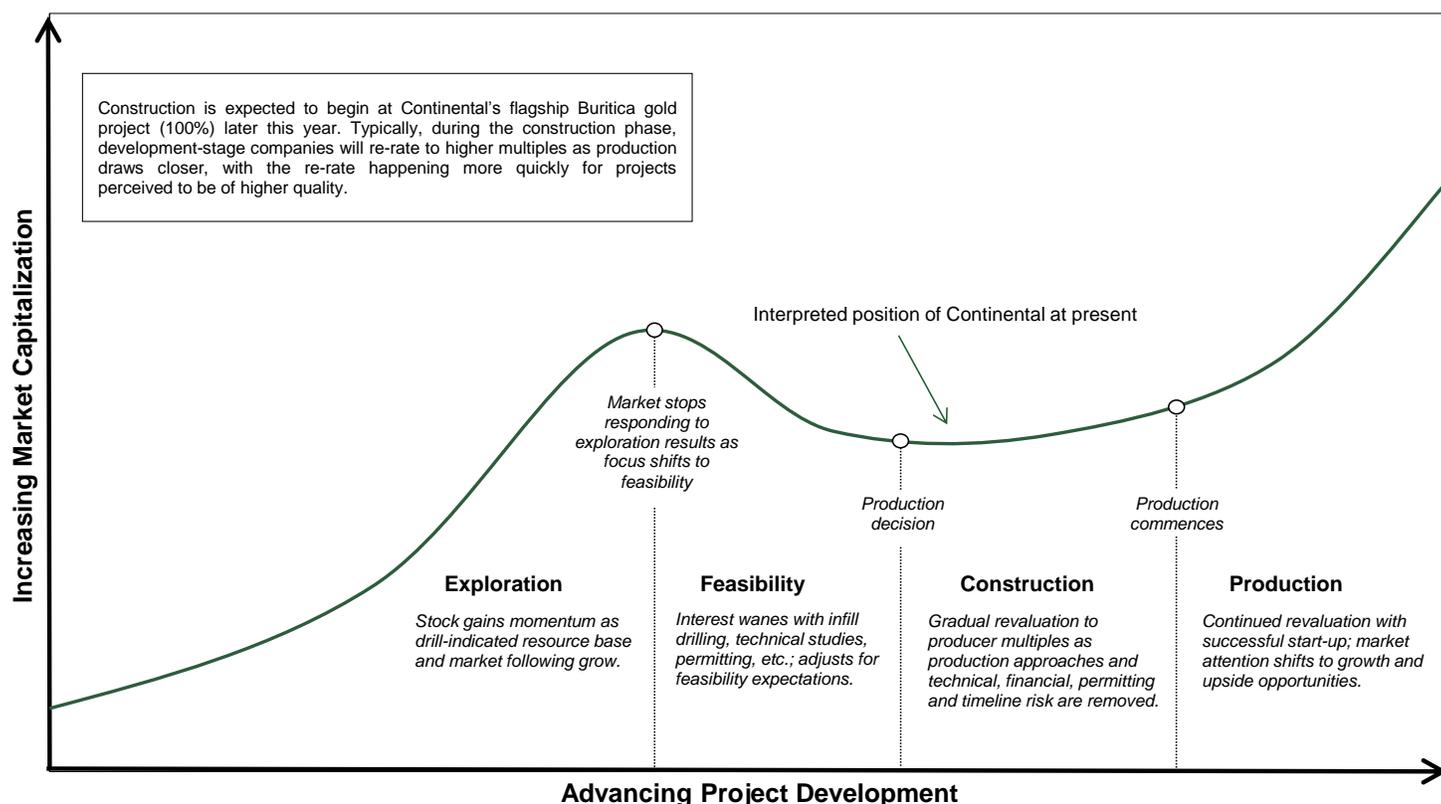
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Details

Exhibit 1. Life Cycle of a Typical Mining Stock



Source: TD Securities Inc.

Exhibit 2. Buritica Sources and Uses of Cash

Sources, Uses and Potential Financing	\$mm
CAPEX for Buritica Project (2016 Feasibility Study)	\$389
Financing Completed	
Cash position (March 31, 2017)	\$23
Red Kite Credit Facility	\$250
Equity Financing with Newmont and Red Kite	\$134
TOTAL	\$407
Potential Future Financing Alternatives	
Warrants at C\$4.75 Expiring Nov 25, 2017 (if exercised in full)	\$20
Warrants at US\$3.67 Expiring Jan 10, 2021 (if exercised in full)	\$11
Equipment Lease Financing	Up to \$30
Other non-dilutive financing alternatives	Negotiable

Source: Company, TD Securities Inc.

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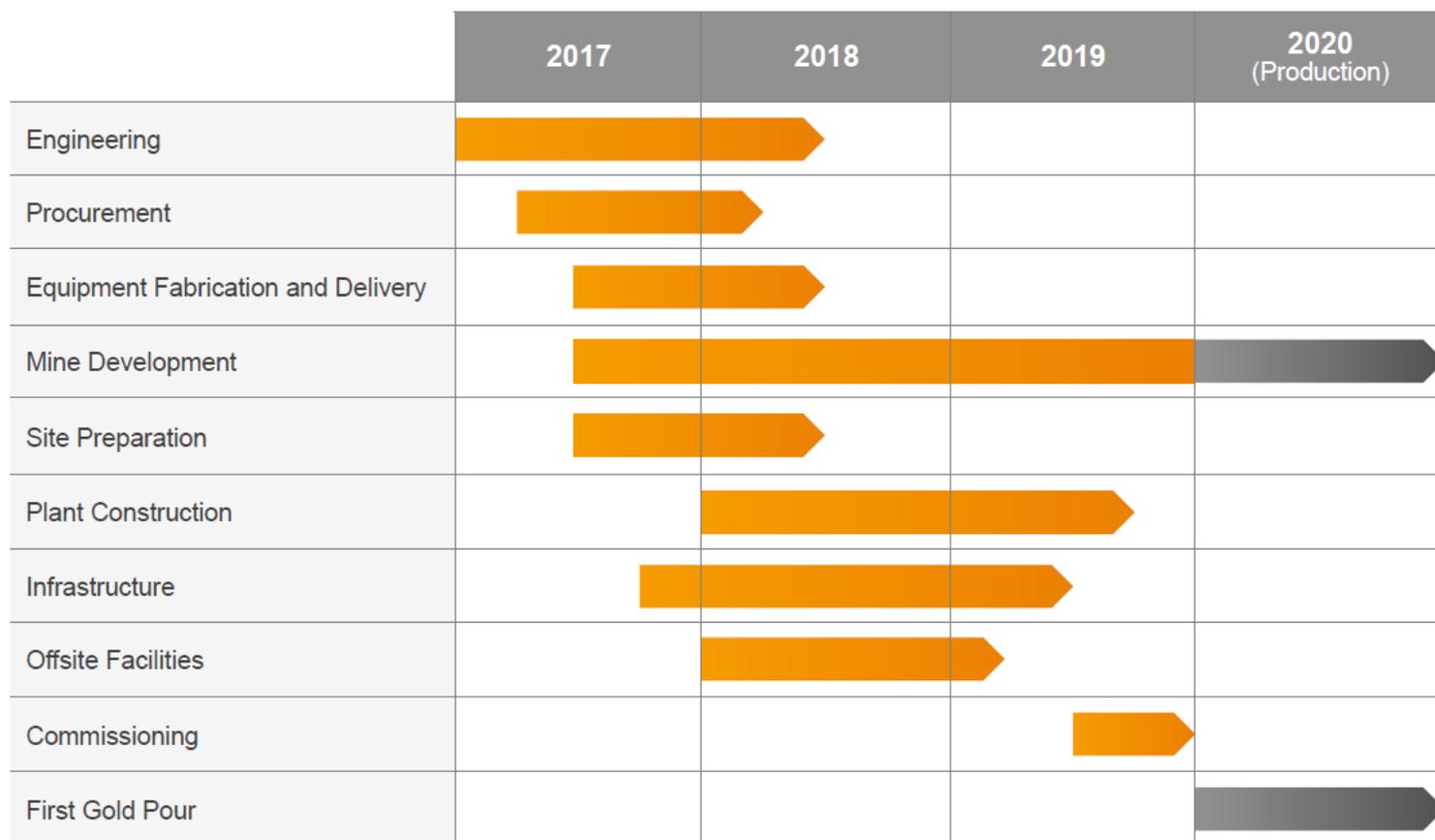
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Newmont Strategic Investment

- As a reminder, last month Continental Gold announced that Newmont Mining Corp. (NEM-US) had agreed to make a strategic investment of \$109mm (37.38mm shares) in the company via a non-brokered private placement at C\$4.00/share, a 46% premium to the close of C\$2.74/share as at May 10.
- Concurrently, with Newmont’s investment into Continental, RK Mine Finance also agreed to purchase 8.59mm shares of Continental on a private-placement basis at a price of C\$4.00/share for a total investment of \$25mm.
- Newmont and Red Kite now own 19.9% and 4.6%, respectively.
- The terms of Newmont’s investment into Continental include Newmont’s right to participate in future equity issuance to maintain its ownership stake; the two companies establishing joint technical and sustainability committees and a strategic exploration alliance; and Newmont holding a seat on Continental’s Board of Directors. Stephen Gottesfeld was appointed to the Board of Directors and Audit Committee earlier this week. Mr. Gottesfeld is Executive Vice-President and General Counsel of Newmont.

Exhibit 3. Project Timeline



Source: Company

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Exhibit 4. Planned Advances for 2017

Project	Commence	Completion Date	Complete To Date
Selection of EP and CM contractors	Q2 2016	Q1 2017	100%
Upgrade to double-lane access road	Q2 2017	Q4 2017	Just started
Clear-cutting for infrastructure and plant sites	Q2 2017	Q4 2017	55%
Phase 1 single-lane access road	Q3 2016	Q2 2017	100%
Earthworks	Q3 2017	Q2 2018	–
Second mechanized long-hole trial mining stope	Q3 2017	Q4 2017	–
First concrete pour	Q4 2017	Q2 2018	–
Structural steel fabrication	Q4 2017	Q2 2018	–
Underground development	Late Q4 2017	Ongoing	–
Long lead time items underway	Status	Delivery date	
SAG and ball mills	✓	Q2 2018	
Tailing filters	✓	Q2 2018	
Thickeners	✓	Q2 2018	
Underground mining fleet – 30% ordered	✓	Q3 2017	
Water-handling and treatment plant	✓	Q4 2017	

Source: Company

February 2016 Feasibility Study

- At \$1,200/oz Au, the NAV5% of the project was estimated at \$860mm and the After-Tax IRR at 31.2%, which we regard as robust. A 17% decrease in gold price (\$1,000/oz Au) lowers the project's NAV5% by approximately 35% to \$560mm, according to the FS.
- Production was forecast at 253 koz/year (282 koz/year over the first five years) at cash costs of \$411/oz (AISC of \$492/oz). Pre-production capital expenditures were estimated at \$389mm.
- Proven & Probable Reserves were estimated at 3.7 Moz grading 8.4 g/t. Total Resources (inclusive) were estimated at 9.0 Moz at 9.8 g/t. These estimates were, in our view, well-supported by extensive drilling (736 holes) and underground sampling (7.2 km).

Outlook

We have made no changes to our estimates, and our corporate NAV5% remains unchanged at C\$6.15/share.

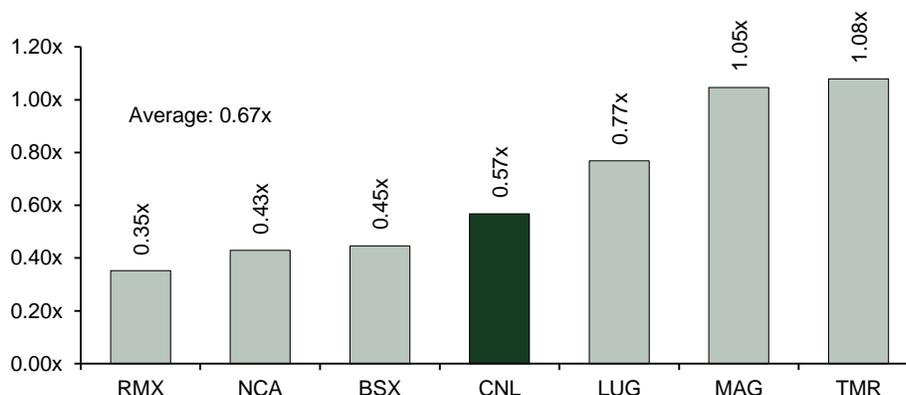
Anticipated Timeline

- Construction & Development — H2/17E

Valuation

We calculate that Continental is currently trading at 0.57x our corporate NAV5%, which is below its development-stage peers, which are trading at an average of 0.67x NAV5%. Within our coverage universe, we believe that Lundin Gold Inc. (LUG-T) is Continental's closest peer.

Exhibit 5. P/NAV Comparison



Source: TD Securities Inc.

Justification of Target Price

We generate our target price by applying a 1.1x multiple to our fully financed corporate NAV5%, calculated at a long-term gold price of \$1,300/oz. We believe that our multiple is reasonable for what we characterize as one of the largest and highest grade, independently owned, fully funded, construction-ready gold projects in the world.

Key Risks to Target Price

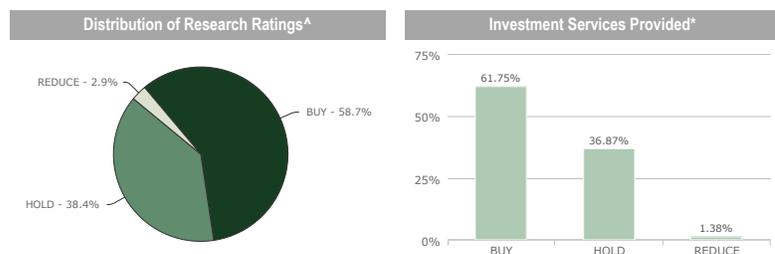
Key risks to target price include: Gold, silver, and fuel price risks; foreign exchange rate risk; forecasting risk relating to deposit size; financial and market risks; technical risk; risk related to the cost and availability of financing; capital and operating cost risks; timing risk; political risk, including risks related to indigenous people; permitting risk; environmental risk, including earthquake and landslide risks; title risk and risks related to the acquisition of surface rights; illegal mining risk; and staffing and key personnel retention risks.

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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

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