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CONTINENTAL GOLD CORP.

016359

Traded NASDAQ (CNTVF)	1989 Price Range: $9.25 High, $2.50 Low
Price 3/2/90: $7.63	Shares Outstanding: 7,109,323
Hotline Recommendation 2/18/90: $7.63	Quality Rating "B"

Measure it any way you want, Continental Gold's Mt. Milligan gold/copper deposit makes it one of the more undervalued junior gold mining firms in North America today! Whether you compare the company's market value with annual projected gold production, ore reserves, operating cost per ounce, discounted present value, or projected price/cash flow, Continental Gold appears to be a substantially undervalued stock. Sure, there are added risks attached to any pre—start up mining company. The share price is in our opinion substantially undervalued at present because 30% joint—venture partner BP Canada is seen by many investment professionals as having "added a fly in the ointment" by introducing a lawsuit aimed at obtaining all of Continental's 70% interest in Mt. Milligan (more about litigation later). However, it is our view, that these added risks provide the adventuresome investor who buys Continental at its current price level, the likely opportunity of doubling, tripling or quadrupling his investment over the next year!

By anyone's definition, Mt. Milligan can only be termed a "world class" mineral deposit. At this stage of the company's development it looks like this project will produce at least 300,000 ounces of gold and 64 million pounds of copper per year. It is indeed possible that the project will produce closer to 400,000 ounces of gold and 100 million pounds of copper annually depending on final feasibility studies. Incredible as it seems, with an 80¢ copper credit factored in, the operating cost of producing an ounce of gold is expected to be somewhere between $30 and $40/oz! By at least one account (reportedly from a major mining firm), the Mt. Milligan property has over 450 million tons of ore already delineated, which if true, will enable this project to produce at the above noted levels for approximately 35 years! Whatever actual reserves are, it appears likely that a very large, long life copper/gold production facility will become a reality at Mt. Milligan during the next two or three years. As the market wakes up to this fact, Continental's stock should leap straight off the charts!

Mt. Milligan Discovery
Fort St. James, British Columbia

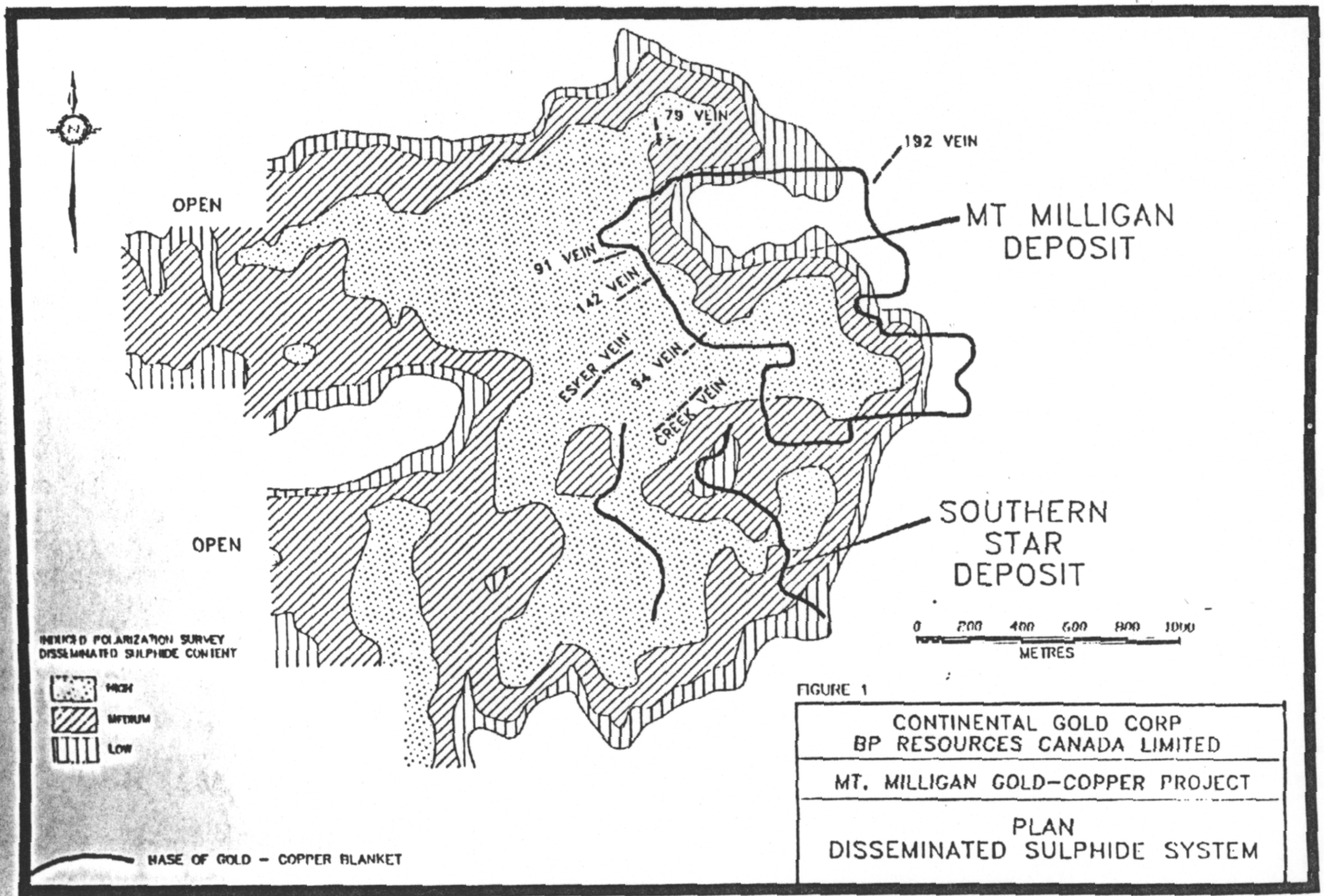
Mt. Milligan should make major shareholders rich and small shareholders very happy. This project which has over 450 million tons of low grade copper and gold reserves looks like it should become one of North America's larger gold mines and most certainly its lowest cost gold producer by a large margin! The company's claims encompass a 42 sq. mile area 50 miles northeast of Fort St. James and 150 miles north of Prince George, B.C. The geometry of the deposit delineated thus far should will allow for open pit mining with a low waste to ore stripping ratio of 1:1. Coupled with favorable logistics such as the presence of a nearby major power source and rail service, the total operating cost to mine and process a ton of ore is expected to amount to around $6.78 per ton. Assuming copper is priced at $1.00/lb. (it is now around the $1.15 level), a ton of ore will carry a copper value of $4.92. With an average gold grade of 0.025 oz/ton and a $400 gold price, the gold value per ton of ore would amount to $10.00, thereby rendering an operating cash flow of $8.14 per ton.

Revenue/cost estimates were presented in an engineering study of the project by the very reputable Wright Engineers Limited dated April 13, 1989 and were based on a delineated tonnage of only 200 million tons. Continental has now commenced a $7.1 million feasibility and government permitting program for the project. Given that substantially greater tonnage figures have already been established, the Wright Engineers report may prove to be ultra conservative in terms of future cash flow projections. Nonetheless, Wright's 200-million ton report provides a valid starting point and as such serves to show just how undervalued Continental's shares actually are. Given a 200-million ton deposit, Wright Engineers projected an annual operating rate of 13 million tons. Applying the above noted revenue/cost numbers, the project would generate an operating profit of $105,814,000 per year. Continental's 70% interest would sum up to an annual profit of $74 million.

To get an idea of the magnitude of this project and to see that significant potential for discovering additional gold reserves exists at the Mt. Milligan Project, we call your attention to Exhibit I. The 200 million ton reserve was delineated from the area enclosed within the solid black lines known as the Mt. Milligan Deposit. This tonnage estimate does not include potential reserves from Southern Star Deposit or other areas outside the Mt. Milligan Deposit area. The Mt. Milligan Deposit which measures approximately 1,100 meters north and south by approximately 1,200 meters east and west compares to the entire claim area of 42-square miles. Much of the 42-square mile claim area, although not pictured in exhibit I, is considered to provide excellent potential for the discovery of additional mineralization based on airborne geophysical survey work and geological mapping. A minimum of nine other anomalous intrusive center targets adjacent to a large batholith size pluton have been spotted on the larger claim area.

For the time being however, the company

EXHIBIT I



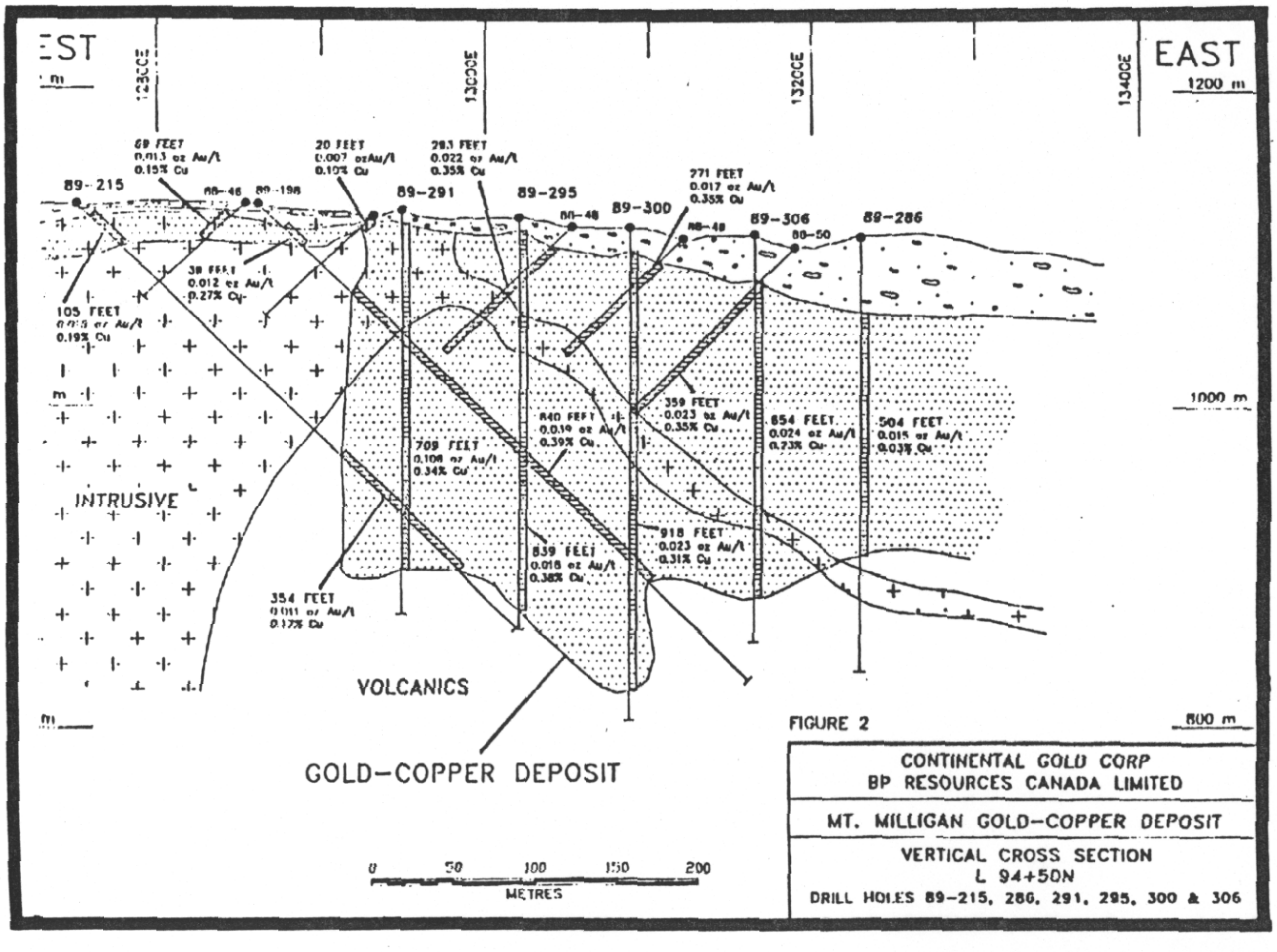
more than has its hands full with exploration and development of Milligan, Southern Star and other areas immediately surrounding those two deposits. For example, the various veins radiating out from the circular area starting with vein 192 to the north east and ending with the Creek Vein striking in a southwest direction from the enclosed area appear to contain significant high grade gold mineralization. Most junior mining companies would be happy to have but one of these veins because it appears as though each could represent a small but profitable deposit. So far the only significant work done on these veins has been on the Esker Vein and the Creek Vein. However with an estimated width of 15 ft. and a gold grade of 0.30 oz. gold/ton in these veins, it is clear that significantly more gold and copper waits to be found directly outside the Mt. Milligan Deposit area pictured in Exhibit I. and shown as high, medium and low grade disseminated sulphide material. Indeed it would appear possible that ultimate reserves may be even greater than the 450 million tons already mentioned, from the pictured area.

Exhibit II, which represents a vertical cross section of the enclosed area looking east, helps to illustrate the favorable geometry of the deposit. Of significance is the substantial depth of the vertical drill holes, which contain continuous gold/copper mineralization as well as the relatively shallow overburden over much of the deposit (average 50 ft.). If we were to show other cross-sections of the enclosed area, a similar picture would appear. With a deposit of this size, very large, low cost bulk tonnage mining methods can take place.

Profit Potential for Continental

Capital costs of a 13 million ton per year project are estimated at around $190 million. Continental's share of this expense would amount to $133 million. Based on Continental's current share

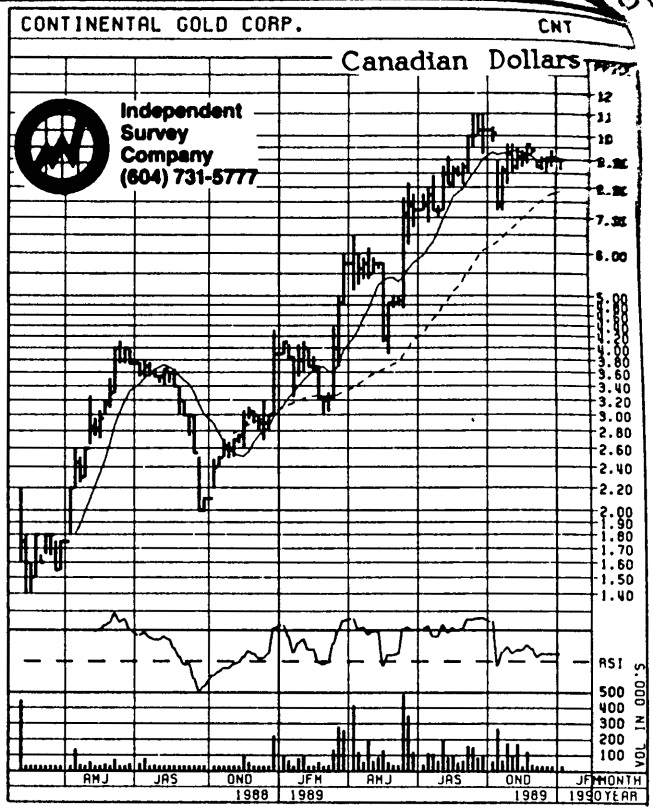
EXHIBIT II



price, it would need to issue approximately 17.7 million more shares to finance its portion of capital expenditure from this point onward should it use only equity financing. Due to this substantial shareholder dilution, we would expect Continental to minimize straight equity financing. Upon receipt of a bankable feasibility study, we anticipate a combination of debt/gold loan financing to be used to get this project into production.

Based on the above noted 200 million ton project assumptions, the company will have had its initial investment returned after approximately 2 years at which time its tax loss cary--forward would be used up. As a result, Continental's share of federal, provincial and mining taxes is expected to total around $34.4 million per year, leaving the company with total annual cash flows of $32.6 million.

Assuming for the moment that Continental financed its way into production solely through equity, it would have approximately 25 million shares outstanding. Based on a conservative price earnings estimate of 10 x, Continental Gold would sell at $15.55.



More commonly, established gold mining firms sell at a multiple of between 15 and 30 times cash flow, in which event Continental's shares would sell at between $23.25 and $46.50.

C O M P A R A B L E   V A L U E S

Although Continental is not yet in production, it appears highly likely that its deposit will become a mine over the next couple of years. With a market capitalization of around $50 million, Continental's shares appear substantially undervalued compared to other mining companies when compared with total reserves, annual production, and operating costs. Following is a comparison of Continental's intrinsic value/market value with values of four other major mining companies:

COMPANY	RESERVES 000'S OUNCES	ANNUAL PRODUCTION	COST/OZ.	CAPITALIZATION U.S.$ MILLIONS
Echo Bay	9,712	725	$235	1,633
Lac Minerals	4,291	338	$250	1,107
Pegasus	3,087	303	$204	334
Continental Gold	2,800	195	$30	52
Galactic	1,332	139	$237	136

As can be seen from the above noted chart, Continental Gold is substantially undervalued in relation to other current producers. Admittedly, all of the above gold firms are now actually in prodution while Continental is not and Continental's lawsuit will, until it is settled, create an additional element of risk albeit small in our opinion. In our view, the risk/return relationship is very favorable because in part, we do not think it likely that B.P. Canada's litigation will achieve much more than a delay of the project start-up date if that. Furthermore, based on pre— feasibility work done to date, it seems quite likely that low cost production will take place as noted above.