681083

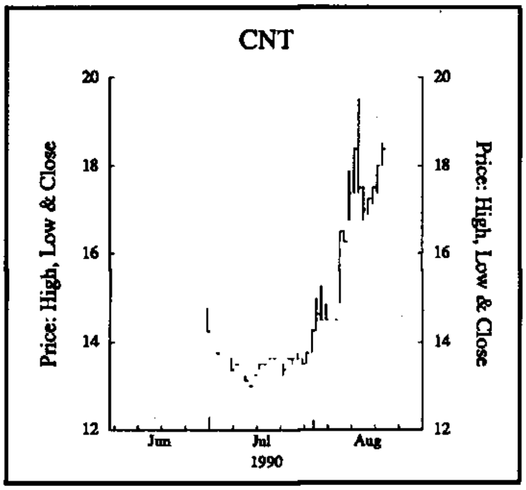
Continental Gold Corp. (CNT-T) $17.88

H. Fraser Phillips (416) 365-4308

August 23, 1990

BURNS FRY LIMITED

• Potential Takeover By Placer Dome (PDG-T)



Executive Summary

We believe that there is a reasonable chance that Placer will proceed with a bid for Continental Gold which would net current Continental shareholders an additional $2.13 per share for a 12% return over the next 2 months. The downside would appear to be the loss of the ownership dispute with BP Resources after a protracted legal fight and the forced "sale" of 69.84% of Mount Milligan to BP, likely at some "fair market value". Our analysis would indicate that this value could be as low as $12.80 per Continental share, for a downside risk of 28% from current levels. On a risk reward basis we would be inclined to take profits in Continental at a price of $18.00 per share or above.

Table of Contents

Summary

1) *Placer Dome has entered into a lock-up agreement with certain major shareholders of Continental covering 30% of the Company's outstanding shares. If Placer makes an offer for all the outstanding shares of Continental at $20.00 per share or one Placer share before October 22, 1990 then these shareholders will tender to the offer. Placer is only required to make an offer if a satisfactory settlement of the outstanding legal dispute between BP Resources and Continental can be reached.*

2) *Continental Gold is a junior company whose key asset is a 69.84% interest in the Mount Milligan copper/gold deposit located in north central British Columbia. At the present time Continental is in dispute with its joint venture partner BP Resources as to the exact ownership of the property. A trial date has been set for November 5, 1990.*

3) *Exploration to date on the Mount Milligan property has outlined a total drill indicated reserve of 330 million tons containing 5.28 million ounces of gold and 1.452 billion pounds of copper at a cut off grade of 0.4% copper equivalent. The Company's current plans call for the development of a 60,000 ton per day open pit operation. At the present time the drilling work on the property is essentially complete and Continental is pursuing the engineering work necessary to complete a final feasibility study by the end of 1990.*

4) *Our analysis indicates a range of values for Continental shares of between $12.80 and $21.60 per share depending on whether the stock traded as a base metal or gold vehicle respectively. As a stand alone vehicle we would be inclined to believe that Continental would trade as a base metal stock and hence at the bottom end of this range. If the asset were folded into a senior gold stock such as Placer then it would likely command the higher gold valuation.*

5) *Competing offers for Continental Gold may arise to the extent that another suitor can justify a higher bid based on the asset commanding higher gold multiples than we have assumed. Hemlo Gold which owns 4% of Continental has stated that it can not justify a $20.00 per share bid. Rio Algom which owns 9% of Continental has not so far responded to Placer's move. However, we think it unlikely that Mount Milligan would command a gold valuation within Rio Algom and that it would be difficult for Rio to justify a $20.00 or higher bid on the basis of a traditional DCF analysis.*

Placer Dome Agreement

On August 13, 1990 Placer Dome and Continental Gold announced that Placer has entered into a lock-up agreement with certain major shareholders of Continental covering 2,674,282 shares or approximately 30% of the outstanding shares of the Company. Under the terms of the agreement if Placer makes a public tender offer, subject to certain conditions, for all of the outstanding shares of Continental on or before October 22, 1990 then the shareholders will tender their shares into the offer. The offer by Placer Dome, if made, will be on the basis of $20.00 cash or, at the option of the tendering shareholders, one common share of Placer for each one share of Continental Gold. Placer is only obligated to make the bid if it is able to arrange for a satisfactory settlement of the outstanding legal dispute between BP Resources Canada and Continental Gold over the ownership of the Mount Milligan property. In addition, Placer's obligation to make the bid is also subject to obtaining any necessary regulatory approvals in Canada and the United States. In conjunction with this agreement Placer has reached a separate agreement with BP Resources that BP will not enter into any discussions or any agreement with any third party concerning the involvement of that party in the Mount Milligan project or the resolution of the legal dispute until August 31, 1990.

Continental Gold - Company Background

Continental Gold is a junior Canadian mining company based in Vancouver. As presently constituted the Company was formed in March 1989 through the amalgamation of predecessor Continental Gold and its 64% owned subsidiary United Lincoln Resources Inc. The transaction was done on the basis of one share of the new company for each one share of both Continental and United Lincoln. At the present time the Company has 9,1278,348 shares outstanding on a fully diluted basis, no long-term debt, and a cash balance of approximately $4 million. While Continental has interests in five other exploration properties, its key asset is a 69.84% interest, subject to legal dispute, in the Mount Milligan project. Major shareholders of Continental include management and directors with 30%, Rio Algom Ltd. with approximately 9%, and Hemlo Gold Mines Inc. with approximately 4% of the outstanding shares of the Company.

Mount Milligan Property Ownership

In 1984, BP Resources Canada Ltd. acquired the Mount Milligan property. After completing some surface exploration work BP optioned the property to United Lincoln Resources. Pursuant to the option agreement United Lincoln earned a 69.84% joint venture interest in the property and became the operator with BP owning the remaining 30.16%. Direct ownership passed to Continental Gold in the March 1989 amalgamation.

As part of the original option agreement BP Resources had a right of first refusal to purchase the joint venture claims should United Lincoln chose to sell its interest. On October 11, 1989 BP initiated legal action in the Supreme Court of British Columbia alleging that its right of first refusal was breached by the amalgamation of United Lincoln and Continental. Continental is defending itself against the action and has filed a counter claim for damages against BP. A trial date has been set for November 5, 1990.

From Continental Gold's shareholders' point of view the legal dispute adds a degree of uncertainty as to the eventual ownership of the Mount Milligan property and hence an additional element of risk to that already inherent in a junior mineral exploration investment. The downside risk would appear to be limited to the forced "sale" of the interest in Mount Milligan to BP, likely at some "fair market value". The upside would be the retention of the current share of the property plus some award for damages. The market currently appears to be discounting the continuation of the current ownership positions in Continental's share price.

The Mount Milligan Property

The Mount Milligan property is located 150 kilometres north of Prince George in north central British Columbia at an altitude of 3,300 feet. The property covers an area of 124 square kilometres including both the Continental/BP joint venture claims as well as surrounding claims owned 100% by Continental. The deposit itself lies on the joint venture claims which comprise approximately half of the total area.

The Mount Milligan deposit is a copper/gold sulphide system. Drilling of 750 holes on the large sulphide system which exists around monzonite stocks intruding volcanic strata has outlined two large tonnage deposits. The Mt. Milligan deposit is 1,200 metres by 800 metres and is up to 400 metres deep while the Southern Star deposit is 1,300 metres by 400 metres and extends to 400 metres in depth. The deposits are capped by overburden which averages 25 metres in depth. The mineralization is stockworks and disseminated grains of chalcopyrite, pyrite and minor bornite. Native gold occurs as fine free grains and in association with sulphides. The current independent estimate of total drill indicated reserves based on the first 441 drill holes completed is as follows. The estimates are diluted and mineable.

0.2% Copper Equivalent Cutoff Grade:

Tonnage	Grade	Contained Metal
550 million tons	0.011 oz/ton Gold	6,050,000 oz Gold
	0.18% Copper	1.98 billion lbs Copper

Stripping Ratio: 0.57:1

0.4% Copper Equivalent Cutoff Grade:

Tonnage	Grade	Contained Metal
330 million tons	0.016 oz/ton Gold	5,280,000 oz Gold
	0.22% Copper	1.452 billion lbs Copper

Stripping Ratio: 1.6:1

Since these reserves were announced the Company has completed another 309 drill holes. The Company expects that once all the compilation work is done reserves will likely be expanded somewhat. Most of this drilling was of the infill variety.

The relatively flat lying nature of the mineralization and the low stripping ratio make the deposits well suited for open pit development which is the Company's current intention. Within the above reserves Continental has outlined a higher grade "starter pit" reserve of 104 million tons grading 0.021 oz/ton gold and 0.19% copper which it anticipates would be mined for the first five years of the operating life of the property to enhance payback.

Continental's current plans call for the development of a 60,000 ton per day open pit mining operation with an on site concentrator producing a copper concentrate containing gold. Metallurgical work to date suggests average recoveries of approximately 90% for copper and 78% for gold. The Company projects operating costs of $4.50 per ton of ore mined and total capital costs of $325 million, with production starting as early as 1993. Based on these parameters and assuming the higher cutoff grade reserve scenario the mine life would be at least 15 years.

At the present time the drilling work on the property is essentially complete and Continental is pursuing the engineering work necessary to complete a final feasibility study by the end of 1990. An additional $1 million to $2 million will be spent by year end to bring the total amount of money spent on the project to bring it to the feasibility study stage up to approximately $21 million.

Valuation

Our valuation of Continental Gold is based on the Company's current ore reserve estimate using the more conservative higher cutoff grade scenario. In addition we are using the Company's current estimates of operating and capital cost parameters for the project and assuming that Continental retains its 69.84% ownership of the property. The following table outlines all our assumptions.

Table 1
THE MOUNT MILLIGAN PROPERTY ANALYSIS ASSUMPTIONS

Assumptions:		
Metal Prices	Copper US$/1	$1.00
	Gold US$/oz	$400.00
Exchange Rate		$0.85
Tax Rate		45.0%
Ownership		69.84%
Cost Parameters:		
Operating Costs Cdn$/ton		$4.50
Capital Cost, CDN$million		
Total		$325.0
Continental's Share		$227.0
Mineable Ore Reserves ('000 Tons):		
Total Tonnage		330,000
Continental's 69.84% Interest		230,472
Grade	% Cu	0.22%
	oz/ton Au	0.016
Operating Parameters:		
Mining Rate	tons per day	60,000
Days Per Year		365
Mine Life		15.1

Continental's 69.74% Interest In Reserves

	Contained Metal	Mill Recovery	Recovered Metal In Conc.	Smelter Recovery	Payable Metal
	000 lb/oz	000 lb/oz	000 lb/oz		000 lbs/oz
Cu	1,014,077	90.0%	912,669	72.0%	657,122
Au	3,688	78.0%	2,876	88.7%	2,552

Conceptually there are two ways of approaching the valuation of Mount Milligan and Continental Gold. The first would be to use a gold equity valuation methodology and the second would be to value the assets as a base metal investment. The following table shows our valuation of Continental using a discounted cash flow analysis assuming the stock would trade like a base metal stock.

Table 2
CONTINENTAL GOLD CORP.
MOUNT MILLIGAN PROPERTY 69.84%
DCF VALUATION ANALYSIS

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Production															
Tons Per Day	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60.000	60,800	60,800	60,800	60,000	60.000	60,800	60,800
Days Per Year	365	365	365	365	365	365	365	365	365	365	365	365	365	365	365
'000 Tons	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295	15,295
Grades															
% Copper	0.19%	0.19%	0.19%	0.19%	0.19%	0.23%	0.23%	0.23%	0.23%	0,29%	0.23%	0.23%	0.23%	0,29%	0,29%
Gold oz/ton	0.021	0.021	0.021	0.021	0.021	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014
Recoveries															
Copper	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Gold	80.0%	80.0%	80.0%	80.0%	80.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%	77.0%
Contained Metal															
Copper (000 lbs)	52,308.763	52,308.763	52,308.763	52.308.763	52,308.763	63,321.134	63,321.134	63,321.134	63.321.134	63,321.134	63,321.134	63,321.134	63,321.134	63,321.134	63.321.134
Gold (000 ozs)	256.955	256.955	256.955	256.955	256.955	164.880	164.880	164,880	164.880	164.880	164,880	164.880	164.880	164,880	164.880
Payment Terms (Including Treatment Charges)															
Copper	72.0%	72.0%	72.0%	72.0%	72.0%	72 0%	72.0%	72.0%	72 0%	72 0%	72.0%	72 0%	72 0%	72 0%	72 0%
Gold	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%	88.7%
Payable Metal															
Copper (000 lbs)	37,662.310	37,662.310	37,662.310	37,662.310	37,662.310	45.591.217	,45.591.217	45.591.217	45.591.217	,45.591.217	45.591.217	,45,591 217	,45.591.217	45.591.217	,45.591.217
Gold (000 ozs)	228.022	228.022	228.022	228.022	228.022	146.314	146.314	146.314	146.314	146.314	146.314	146.314	146.314	146.314	146.314
Operating Costs CDNS/ton	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50
Metal Prices															
Copper US$/lb	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00
Gold US$/oz	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00	$400.00
US$/CDN$ Exchange Rate	$0.85	$0.85	$0.85	$0.85	$0.85	$0.85	$0.85	$0.85	$0.85	$0,85	$0,85	$0.65	$0.85	$0.85	$0.85
Copper CDNS/lb	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.18	$1.16	$1.18
Gold CDN$/oz	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59	$470.59
Revenues '000 CDN$															
Copper	$44.309	$44,309	$44,309	$44,309	$44,309	$53,637	$53,637	$53,637	$53,637	$53,837	$53,637	$53,637	$53,637	$53,637	$53,637
Gold	$107,305	$107,305	$107.305	$107.305	$107.305	$68,854	$68,854	$68,854	$68,854	$68,354	$68,854	$66,854	$68,354	$68,854	$66,854
Total	$151,613	$151,613	$151,613	$151,613	$151,613	$122,490	$122,490	$122,490	$122,490	$122,490	$122,490	$122,490	$122,490	$122,490	$122,490
Operating Costs '000 CDN$	$68,827	$68,827	$68,827	$68,827	$68,827	$68,827	$68,327	$68,827	$68,827	$68,827	$68,827	$68,827	$68,827	$66,827	$68,827
2% NSR On 80% of Reserves	$0	$0	$2,426	$2,426	$2,426	$1,960	$1,960	$1,960	$1,960	$1,960	$1,960	$1,960	$1,960	$1,960	$1,960
Cash Flow From Operations	$82,786	$82,786	$80,360	$80,360	$80,360	$51,703	$51,703	$51,703	$51,703	$51,703	$51,703	$51,703	$51,703	$51,703	$51,703
Taxes	$0	$0	$36,162	$36,162	$36,162	$23,266	$23,266	$23,266	$23.266	$23.266	$23.266	$23.266	$23,266	$23.266	$23,266
Net Operating Cash Flow	$82,786	$82,786	$44,198	$44,198	$44,196	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437
Capital Expenditures	$226,980	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	($144,194)	$82,786	544,198	$44,198	$44,198	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437	$28,437
Cumulative C.F. From Operations	$82,786	$165.572	$245,932	$326,292	$406,652	$458,355	$510,058	$561,762	$613,465	$665,168	$716,872	$768.375	$820,278	$871,981	$923,685

Mount Milligan Property 69.84%	
NPV Using A 10% After Tax Discount Rate:	$136,665
Per Continental Gold Share	$14.97

Continental Gold Share Vnbuation	
Mount Milligan Property 69.84%	
Discounted 2 yrs @ 10% Assuming	
Production Starts In 1993	$12.37
Plus Cash	$ 0.44
Less Debt	$ 0.00
Plus Other Assets	$ 0.00
	$12.81

Notes:

(1) Smelter Recovery Assumes A Combination Of Treatment Charges & Smelter Payables.

(2) The analysis assumes a 15 Year mine life.

The following matrix gives the share value at various gold and copper prices.

Table 3
Continental Gold Corporation: Share Valuation At Various Metal Prices

Gold Price US$/oz	Copper Price US$/lb 0.40	0.60	0.80	1.00	1.20	1.40	1.60
$350	-1.43	2.07	5.24	9.80	12.04	16.33	20.62
$360	-0.46	3.24	6.34	10.90	13.05	17.34	21.63
$370	-0.40	4.41	7.43	11.99	14.06	18.35	22.64
$380	0.77	3.97	8.53	10.79	15.08	19.37	23.66
$390	1.94	5.06	9.62	11.80	16.09	20.38	24.67
$400	3.11	6.16	10.72	12.81	17.10	21.39	25.68
$410	2.69	7.25	9.54	13.83	18.12	22.41	26.70
$420	3.79	8.35	10.55	14.84	19.13	23.42	23.85
$430	4.88	9.44	11.56	15.85	20.14	24.43	24.77
$440	5.98	10.54	12.58	16.87	21.16	25.45	25.69
$450	7.07	9.30	13.59	17.88	22.17	22.63	26.62

On the other hand, we could use a gold methodology such as adjusted market capitalization per ounce in reserves. We would be inclined to use a target multiple of 75% of the current market given that Continental is a junior company and because the property is not yet in production or financed. A difficulty arises as to what value to assign to the copper in reserves. If we do not give any value for the copper we arrive at a valuation as follows.

Table 4

Continental's 69.84% Interest In Gold Reserves (000 ozs)		3,688
Current Average Adjusted Market Capitalization per Ounce in Reserves (Cdn$/oz)		$167
Assume a target multiple of 75% of Market (Cdn$/oz)		$125
Total Value of Reserves ($mm)		$461.0
Less Capital Costs		$227.0
		$234.0
Plus Net Cash Balance		$ 4.0
		$238.0
	Per Share	$26.08
With Mount Milligan Property 69.84% Discounted 2 years at 10% Assuming Production starts in 1993	Per Share	$21.63

While this is much higher than with the DCF approach it may understate the case under this valuation approach by ignoring the copper reserves. If on the other hand we convert the copper to gold equivalent at our assumed metal prices then the valuation is as follows.

Table 5

Continental's 69.84% Interest		
In Gold Reserves (000 ozs)		3,688
Plus Gold Equivalent Copper (000 ozs)		2,535
Total Gold Equivalent Reserves (000 ozs)		6,223
Current Average Adjusted Market		
Capitalization per Ounce in Reserves (Cdn$/oz)		$167
Assume a target multiple of 75% of Market (Cdn$/oz)		$125
Total Value of Reserves ($mm)		$777.9
Less Capital Costs		$227.0
		$550.9
Plus Net Cash Balance		$ 4.0
		$554.9
	Per Share	$60.80
With Mount Milligan Property 69.84%		
Discounted 2 years at 10%		
Assuming Production starts in 1993	Per Share	$50.32

However, it is probably unrealistic to assume that copper in reserves, even when converted on a revenue equivalent basis, would command the same multiples as gold, and hence this valuation is likely too optimistic.

Equity Silver Mines, prior to the decline in the Company's share price in the first half of 1990 due to the imminent closure (less than two years mine life) of its property, was a broadly comparable vehicle to Continental Gold. While the reserves outlined to date make Mount Milligan a much larger deposit, both orebodies contained precious metals and copper in amounts critical to the overall economics of the projects. A examination of the historical ore reserve valuation of Equity Silver (assuming market multiples for the gold reserves and calculating the residual valuation per pound of copper in reserves) reveals that, from 1986 through the end of 1989, the stock traded on par with, or at a discount to, its adjusted market value per ounce of gold equivalent reserves, with no value assigned to the copper. If Continental were valued on the same basis then the shares should trade at the lower end of our calculated range.

We therefore estimate a range of values for Continental Gold shares of between $12.80 and $21.60 per share depending on whether the stock trades as a base metal or a gold vehicle. We believe that under the current ownership scenario, with Continental trading as an independent company, there is a significant risk that the market will value the Company as a base metal or polymetallic stock. The economics of the project are such that the deposit would not be viable based on either the copper or gold alone. Hence the realized value for Continental shares would likely be at the lower end of our range.

If on the other hand the Mount Milligan property were folded into a gold vehicle which already commanded premium gold multiples then the project would likely also receive a gold valuation in the market place. Under this scenario the realized value for Continental shareholders would likely be at the upper end of our estimates, possibly in the $19.00 to $21.60 per share range. Our analysis suggests that the best way for Continental's management to maximize value to the shareholders is to sell either the property or the Company to a senior gold producer, a strategy which management has pursued for some time and which has come to fruition with the signing of the lock-up agreement with Placer Dome.

Placer Dome's Position

Placer's move to secure an interest in the Mount Milligan deposit following on the heels of its acquisition of an interest in Eskay Creek is another aggressive move by the Company to try to replace or expand its gold reserve base, particularly in North America. The successful acquisition of Continental Gold would increase Placer's proven and probable reserves by 3,688,000 ounces, or 17%. The total cost of the acquisition to Placer would be $182.5 million assuming all Continental shareholders opted for cash. Within Placer Dome the assets would command at least a market gold multiple and, therefore, Placer could expect a net increase in its market capitalization of $206.4 million or $0.88 per share in due course assuming the property is successfully placed into production.

The location of the Mount Milligan deposit in the same general area of British Columbia as Placer's 58.8% owned Equity Silver mine which is expected to close within the next two years is an advantage to Placer. It may provide the opportunity for Placer and the minority shareholders in Equity Silver to realize some value from the fully depreciated Equity assets by moving them to Mount Milligan and at the same time lower the overall development costs of the project. In addition, Placer's Endako and Gibraltar operations are in the same area so Placer has a great deal of operating experience in the region which is an advantage when evaluating the property.

While our analysis would indicate that Placer's $20.00 per share bid for Continental is justified on the basis of gold valuation multiples it is Placer's general corporate policy to justify investments and acquisitions on the basis of a positive DCF analysis. Thus it would appear that, based on its experience in the region with similar operations, Placer has a more favourable view of the operating and cost parameters of the project, is assuming some benefit from the use of Equity Silver assets, and/or is using higher base metal assumptions in its analysis. For example, if we assume Placer could realize a savings of $30 million in capital costs through the use of some of Equity's facilities and we use US$1.20 copper in our analysis we arrive at a value of $19.60 per share for Continental.

Will There Be Competing Offers For Continental?

Placer's bid would appear to be at the upper end of any value range which could be justified on the basis of a DCF analysis, either through synergies, higher metal price assumptions, or both. Thus competing offers may arise to the extent that another suitor can justify a higher bid based on the asset commanding higher gold multiples than we have assumed.

Of Continental's two major non-operating shareholders Hemlo Gold Mines (4%) has already stated that it can not justify even a $20.00 price and will not be competing with Placer. Rio Algom (9%) has not so far responded to Placer's move. In our opinion Rio Algom could not justify a bid for Continental by assuming that the asset would command a gold multiple. We do not believe that Mount Milligan would be accorded a gold multiple by the market within Rio Algom. Thus the Company would have to base a higher bid on a positive DCF analysis, something our analysis suggests would be difficult to do.