



## How Risky Is an Investment in This Junior Gold Miner?

### Description

Junior gold miner **Continental Gold Inc.** (TSX:CNL) continues languish after its stock collapsed in late September 2018 after an attack by FARC dissidents on its employee compound in Northwestern Colombia left three geologists dead. The miner has lost 40% over the last year compared to gold only falling by just over 2%. This has sparked considerable speculation that the miner is facing significant headwinds, which could derail its flagship Buritica project located northwest of Medellin, Colombia's second largest city. While several issues have emerged, Continental Gold's outlook is not as poor as some pundits believe.

### What triggered the price collapse?

The September 2018 [attack](#) on Continental Gold's employees in the Colombian municipality of Yaramul triggered the concerted sell-off, and the stock has yet to recover despite gold firming in recent weeks. Much of this is related to overbaked fears that the degree of security risk associated with Continental Gold's operations has ratcheted up to a dangerous level. While the volume of dissidents after the historic FARC peace deal was implemented and the leftist guerilla group's demobilization completed has surprised government officials and observers, there hasn't been a widespread breakdown in security. The attack upon the compound, which was within the boundary of Continental Gold's Berlin property, was an unforeseeable and opportunistic event.

Many armed groups in rural parts of Colombia fund their activities through a mixture of taxing cocaine trafficking, extortion and illegal artisanal gold mining. The overall degree of security risk within [Colombia](#) is at around its lowest level in decades despite the ELN, which is the last remaining leftist guerilla group, ramping up attacks on energy infrastructure and the security forces.

It is important to note that through a series of tax and regulatory reforms as well as security guarantees, the Colombian government is seeking to reinvigorate Colombia's nascent precious metals mining industry, as the prolonged oil slump has wreaked havoc Colombia's oil dependent economy and Bogota is desperately seeking other sources of fiscal revenue and economic growth drivers.

While the attack forced Continental Gold to suspend operations at Berlin indefinitely, it didn't impact its

flagship Buritica project, which has been identified as containing one of the largest high-quality ore bodies underdevelopment globally.

According to the latest announcement from Continental, 55% of underground development at Buritica is complete, while 94% of surface engineering and procurement is finished. This sees overall project development having reached 47%, placing it ahead of schedule. That means the first gold pour at Buritica could occur ahead of schedule.

The attractiveness of Continental Gold's Buritica project is very clear. It has mineable proven and probable reserves of 3.9 million gold equivalent ounces with an average grade of 8.75 grams of precious metal per ton of ore (g/t). Those exceptional ore grades mean that Buritica will have industry leading all-in sustaining costs (AISCs) of an impressively low US\$492 per gold equivalent ounce produced. This emphasizes the mine's considerable profitability in an operating environment where gold is trading at over US\$1,300 per ounce.

Buritica's considerable appeal was illustrated by senior gold miner **Newmont Mining Corp.** in May 2017 buying an almost 20% interest in Continental Gold for US\$109 million at a premium, one of the highest paid in recent years. The involvement of Newmont forms an important backstop for Continental Gold.

Aside from security issues, another concern weighing heavily on Continental Gold is that in August 2018 it increased the pre-production capital costs for Buritica by up to US\$126 million when compared to the February 2016 feasibility study. There are fears that Continental Gold won't be able to fund the shortfall because of growing security concerns, making Colombia an unattractive location for foreign investors.

Cost blowouts and scope changes, while usually inevitable for such projects, particularly in emerging market jurisdictions because of their fluid regulatory environments, are also a red flag for investors. The trepidation that these events have sparked is magnified by Newmont's [merger](#) with **Goldcorp**, which some pundits believe will reduce its interest in backstopping Continental Gold. While that's indeed a risk, it is highly unlikely given the attractiveness of the Buritica project.

Even if Newmont didn't provide the required capital, there are other options available to Continental Gold. These include selling or commencing a joint venture at one of its non-core properties, obtaining further debt funding or entering into a streaming agreement. The quality of the Buritica project means that financing will be available in one form or another.

### **Is it time to buy Continental Gold?**

There is no doubt that Continental Gold is a risky investment. Mine development is a lengthy, costly and hazardous process riddled with uncertainties.

Nonetheless, the rewards associated with the Buritica development far outweigh the risks. This in conjunction with Continental Gold trading at a deep discount compared to its peers, along with the construction progress made to date makes Continental Gold an extremely attractive investment for risk-tolerant investors.

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