



Did Insider Trading Cause This Junior Gold Miner to Gain 25% in a Week?

Description

After a [fatal attack](#) on its employees in late September 2018 Colombian gold miner **Continental Gold Inc.'s** (TSX:CNL) market value collapsed. This saw its stock fall from 2018 highs of over \$4 per share to a two-year low of \$1.76 per share. Since then, Continental Gold's price languished below \$2 a share until Tuesday of last week, when its value surged to well over \$2 and gaining 26% in less than a week. This has sparked considerable concern despite good news regarding the miner's operations that insider information concerning Continental Gold's operations may have been leaked.

Latest news highlights asset quality

The good news was the release of an updated resources estimate for the miner's flagship Buritica project in Northwestern Colombia on 30 January 2019. In the announcement, Buritica's measured and indicated resources across the primary Yaraguá and Veta Sur vein system expanded by 18% compared to the original technical report dated 29 March 2016 to 5.58 million gold equivalent ounces. This should lead to improved economics for the Buritica project bolstering its attractiveness and underscoring its considerable potential and profitability.

Two days before the updated estimated was released, which has an effective date of 26 January 2019, there was a flurry of buying activity of Continental Gold's stock. This saw it spike in value by almost 28% over a three-day period with a peak trading volume of almost 3.5 million shares on 29 January alone, almost 9 times greater than Continental Gold's three-month average trading volume. The significant increase in trading volume along with the miner's shares surging by almost 30% in the days prior to the resource estimate being released raises a red flag as to whether data has leaked and used to conduct insider trading which is an illegal practice.

During the weeks leading up to the release of the updated mineral resource estimate, there were a range of transactions involving senior company management.

Nonetheless, those transactions appear to be related to the execution of corporate remuneration plans rather than opportunistic stock purchases based on insider information.

While there is no smoking gun indicating that something untoward has occurred, the timing of the

surge in market value and trading volumes hasn't helped to instil confidence in a company whose recent events have called the competence of management into question. The most telling being the murder of three geologists at Continental Gold's Berlin property in the Northwestern Colombia where local media reports claimed that management failed to recognise the risks posed to its employees.

Continental Gold CEO Ari Sussman also has a chequered past, having been the CEO of failed precious metals miner **Colossus Minerals Inc.**, which had an interest in the Brazilian Serra Pelada Project. After reporting some sterling drilling results that caused Colossus' stock surge, the company eventually collapsed after it was found that the mine couldn't be built.

According to records from the Office of the Superintendent of Bankruptcy, Colossus had liabilities of around US\$125 million and negligible assets when it declared bankruptcy. Serra Pelada Project and Colossus were surrounded by claims of corruption, insider dealing and fraud from the get-go. However, those claims have not been substantiated, and when the project was abandoned, the price of gold had tumbled sharply lower, making it uneconomic to proceed.

The risk of such an event occurring regarding Continental Gold's flagship Buritica project is highly improbable. Not only is 47% of all development work complete, but 55% of underground construction has been accomplished, placing it ahead of schedule. And this, along with 94% of all surface procurement and engineering having been finalized, indicates that this is not a speculative undertaking like Serra Pelada. If the current rate of development continues, the mine will be completed ahead of schedule, thereby allowing work crews to commence production activities earlier.

Even the need for up to an additional US\$126 million in [pre-production capital](#) to complete mine construction shouldn't be an issue because of Buritica's highly attractive economics which make it one of the largest high-quality gold deposits currently under development globally.

In early 2017, senior gold miner **Newmont Mining Corp.** took an almost 20% [equity stake](#) in Continental Gold for US\$109 million. Clearly for such a hefty investment, which represented one of the highest premiums paid for a strategic investment in a development project by a senior miner, Newmont would have conducted substantial due diligence. The senior miner's involvement further mitigates much of the execution risk surrounding the Buritica development.

Should investors buy Continental Gold?

There is no doubt that investing in junior gold miners that developing major mining projects is a risky activity. In the case of Continental Gold, even after considering recent events, the projects high quality and significant progress to date along with the involvement of Newmont mitigates much of that risk. There is every indication that once Buritica commences commercial production, it will be a supremely profitable mine with estimated all-in sustaining costs (AISCs) of a mere US\$492 per gold ounce sold. For these reasons, Continental Gold appears undervalued and could very well deliver outsized returns for investors.

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