



## The Controversy Surrounding Continental Gold Inc. (TSX:CNL) Worsens

### Description

Gold miner **Continental Gold** (TSX:CNL) has been mired in controversy since three of its employees were murdered in September 2018, leading to media claims that management was derelict in caring for their well-being. This — along with an armed attack on two engineers near its flagship Buritica project, changes to financial projections, including projected operating costs and the need for an additional US\$100 million to complete the mine — has weighed heavily on its stock. There are also concerns that mine completion and commissioning will be delayed.

The disquiet created by these and other incidents have caused the market to heavily mark down Continental Gold's stock; it's lost 38% over the last year, despite gold declining by roughly 1%.

### Will mine completion be delayed?

The attacks on the miner's employees in 2018 only served to heighten fears that the development of Buritica would be disrupted, causing cost blowouts and delaying the mine's commissioning. Based on the latest investor presentation, many key developmental milestones, including engineering as well as plant construction and infrastructure development, have been extended. Continental Gold has left the schedule for the first gold pour and start of commercial operations unchanged; those events will occur during the first and second halves of 2020, respectively.

It is difficult to believe the extension of such critical objectives, such as the completion of engineering work and the construction of key plant infrastructure, will not impact the commencement of operations. It is feasible to expect delays in the commissioning of the mine.

Nonetheless, engineering work is 94% complete, and underground development is at 55%, indicating that, unless there are major disruptions, those milestones can be achieved. The extension of those deadlines, like the up to US\$126 million increase in the capital required to complete construction, relate primarily to meeting stricter government regulations and increased contingency costs rather than major cost blowouts or delays.

These appear unlikely to have any lasting material impact on the Buritica project. The backing of senior

gold miner **Newmont Mining**, which acquired an almost 20% interest in Continental Gold for US\$109 million, further mitigates this risk.

## Operating costs are higher

Another crucial concern is that projected all-in sustaining costs (AISCs) for Buritica have risen from US\$492 per gold ounce produced to around US\$600. While that is a disappointing outcome, reducing the mine's profitability, they are still among the lowest AISCs in the industry; such alterations are common when developing a gold mine. The notable ore grade of 8.4 grams of gold per tonne of ore means that AISCs could fall once commercial operations commence and are bedded down.

## Heightened geopolitical risk

A deteriorating internal security situation within Colombia and its ability to disrupt construction as well as mine operations is certainly a cause for significant concern, especially given the state's long battle against leftist rebels and narcotrafficking. The volume of FARC dissidents to emerge from the 2016 peace process, which brought what was arguably the world's longest-running civil war to a close, has caught many, including the Colombian government and state security forces, off guard.

The tragic incident that occurred within the boundaries of Continental Gold's Berlin property, according to local authorities, was an exception and not indicative of an overall breakdown in law and order. It also did not affect activities at Buritica, which is located a considerable distance to the south of Berlin. The occurrence of such incidents in Colombia has decreased significantly over the last two decades because of the drug cartels being dismantled and, more recently, the demobilization of FARC.

Bogota has also aggressively extended its degree of control within the Andean nation. In fact, by 2015 the volume of murders in Colombia had fallen to a multi-decade low. After that and similar events in eastern and southern Colombia, which were attributed to FARC dissidents, along with ongoing attacks on oil infrastructure by the last remaining leftist rebels, the ELN, President Duque has stepped up security efforts.

## Is it time to buy Continental Gold?

The raft of bad news regarding Continental Gold has done little to instill confidence in a risky junior miner already weighed down by the [adverse publicity](#) associated with Chief Executive Ari Sussman, who was involved in the failed and controversial Colossus Minerals venture. While these events have triggered considerable uncertainty, Continental Gold's fundamentals remain intact. It provides investors the opportunity to access potential oversized returns by investing in one of the largest high-grade gold ore bodies currently under development globally. The sharp decline in the miner's stock provides a handy entry point into a highly levered play on higher gold.

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