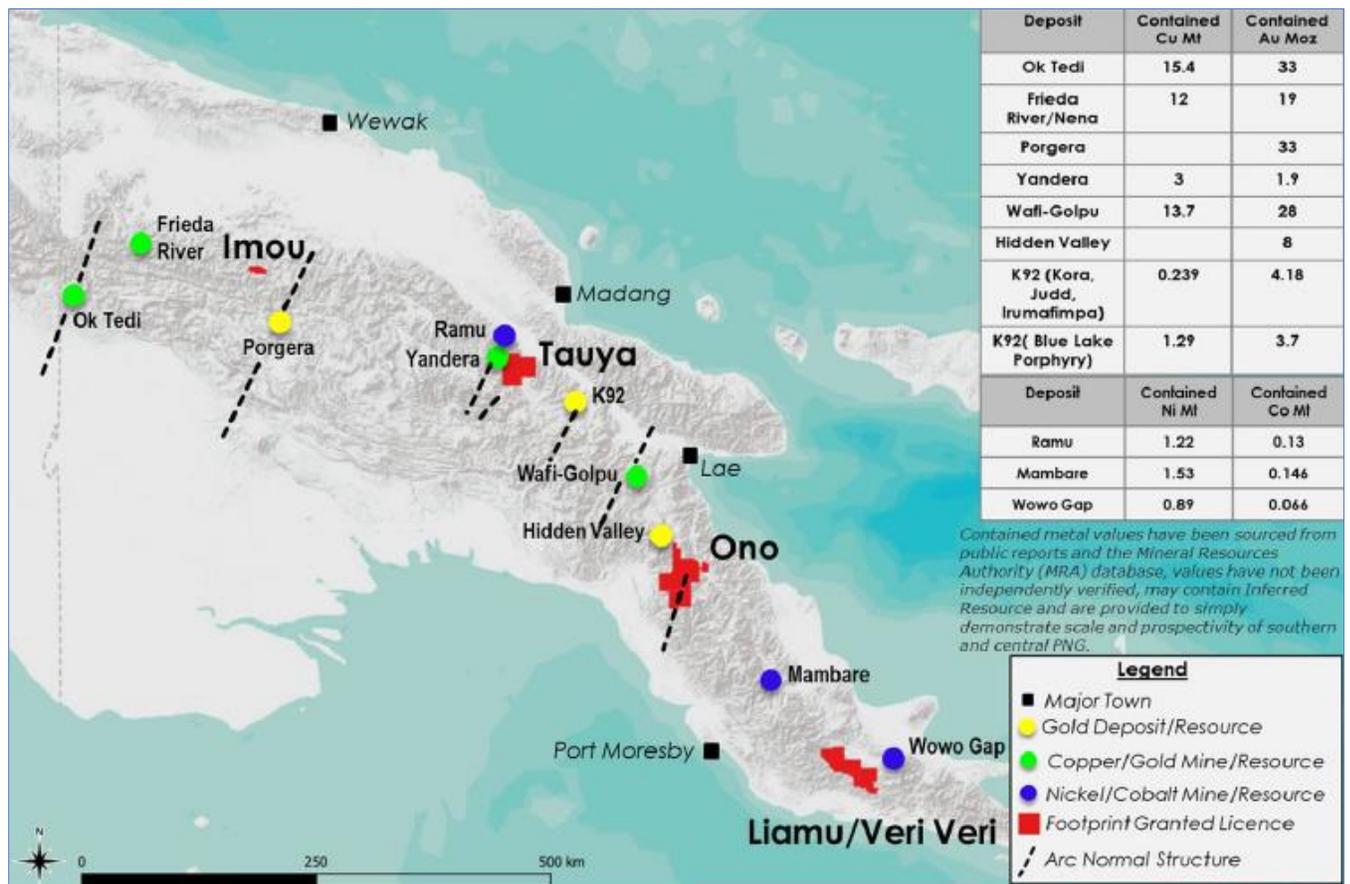


**Ticker:** LCL AU      **Cash:** A\$11m      **Project:** Quinchia / Others  
**Market cap:** A\$31m      **Price:** A\$0.043/sh      **Country:** Colombia / Papua New Guinea  
**REC. (unc):** BUY      **TARGET (unc):** A\$0.11/sh      **RISK RATING (unc):** SPECULATIVE

With Colombian exploration projects far from market vogue, but able to be progressed through engineering studies / permitting at relatively low cost, it is good to see Los Cerros using its strong cash balance to add a new exploration dimension. Stepping back, if the high-grade core in Colombia was larger it would have driven better economics, but good value in the combined UG / higher grade pit (SCPe pit inventory + UG 1.8Moz @ 0.98g/t), just not for subdued ECM, hence progressing that quietly and at low cost sans drilling is sensible. Not only does today's PNG acquisitions come after a review of >20 opportunities by management, it follows the same principle (elephant hunting), at a good price (A\$350k), and comes with bonus quality management team, something we can't understand given the ex-Barrick PNG VPX / head of generative now come on board. We can see the impact of their skills in project selection already, with all licences sitting on the tectonic 'right place' transfer faults below on Figure 1. From the asset base, Kusi's (Ono) potentially simple geometry of a skarn, scale and grade all point a ready-made target, while the Veri Veri (Liamu) ultramafic with high-grade nickel >20% and coincident gold overprint looks intriguing. With K92 blazing an excellent trail for juniors in the space, this portfolio, while grass roots, looks exciting. As such, **we maintain our BUY rating and our A\$0.11c PT based on 0.1xNAV<sub>1700-5%</sub>**. We expect to update this in due course once exploration plans and details are finalised. With ~\$11m in treasury, LCL is well funded to advance their new strategy in PNG, kicking off with a 3,000m drill program at Kusi and field work at Veri Veri while simultaneously advancing low-cost engineering studies at Quinchia for upcoming PEA.

Figure 1. The acquired licenses in Papua New Guinea within mineralized belts



Source: Los Cerros

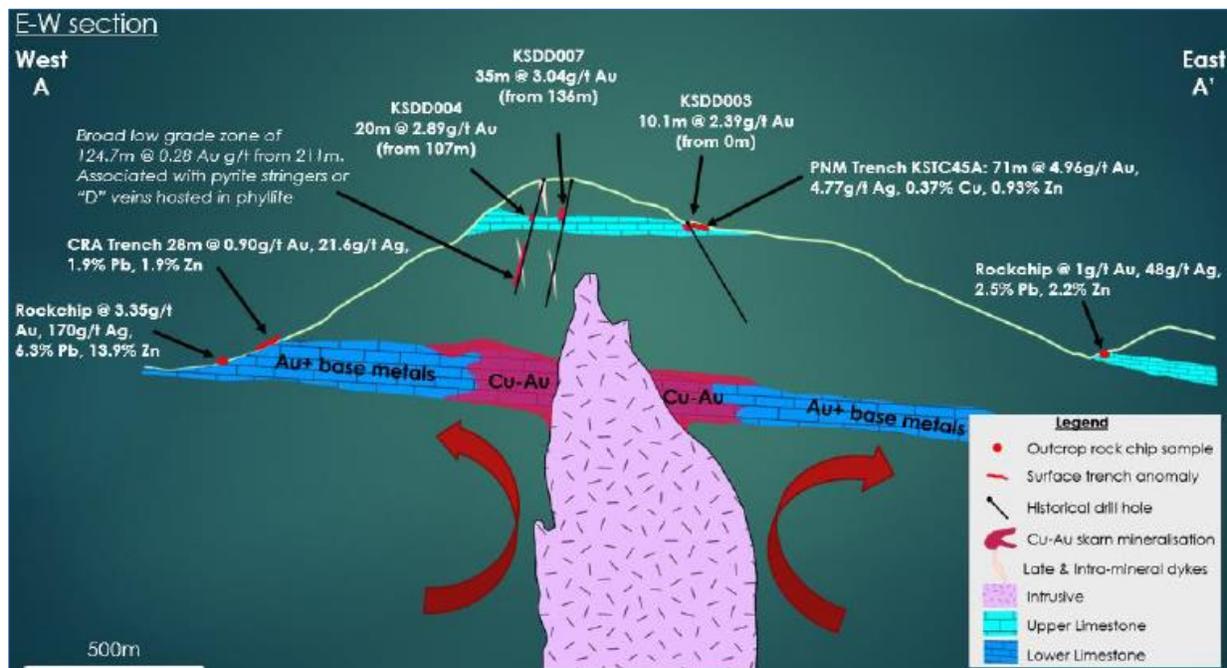
**Acquires five Papua New Guinea projects, and team, for \$350k: Cu-Ni-Au targets**

Los Cerros announced the acquisition of private company, Footprint Resources, for A\$350,000 in cash and 65m shares (10% of LCL issued capital). This includes a total of 3,867km<sup>2</sup> in exploration claims over five early-stage projects in central and southern areas of Papua New Guinea: Ono (Au-Cu skarn project), Veri Veri (Ni sulphides-prospect), Liamu (Cu-Au epithermal and porphyry project), Imou (skarn, epithermal and porphyry Cu-Au project) and Tauya (Cu-project). Following the completion of the acquisition LCL will initiate a 3,000m exploration drill program targeting Au-Cu oxide skarn at Kusi within the Ono project and advance both geophysics and field work at Veri Veri to locate the source of the massive nickel sulphide boulder float (grading up to 39.5% Ni). In addition, geologists **Glenn Twomey and John Dobe** (combined 60 years mineral exploration eight years in PNG in senior roles for Barrick) will join LCL as executives. In the meantime, work for the Colombian 2.6Moz Quinchia Au Project is ongoing with potential production scenarios being investigated in engineering works to feed into PEA.

**Ono Project**

The Ono project (150km from industrial port of Lae) consists of 1,630km<sup>2</sup> of exploration licenses and is considered prospective for high-grade oxide gold in skarns deposits along with epithermal and porphyry mineralization within the same structural belt of the operating Hidden Valley gold mine (8Moz initial discovery @ 1.45g/t AuEq) and the Wafi-Golpu Au-Cu project (34.2Moz @ 0.94g/t AuEq). The Ono project includes the Kusi target defined by a gold geochemical anomaly and correlated with additional magnetic anomalies. Previous drilling hit **10.1m @ 2.4g/t Au** from surface, **20m @ 2.9 g/t Au** from 107m and **35m @ 3.0g/t Au** from 136m, interpreted by Footprint as oxide skarn mineralization with follow-up trenching seeing broad high-grade **20m @ 3.8g/t Au** and **8m @ 15.5g/t AuEq** (incl. 11.5 g/t Au, 2.6% Cu and 24g/t Ag) at spot. Los Cerros will initiate a 3,000m diamond drill program following the acquisition close targeting high-grade oxide at Kusi, while mapping and prospecting will continue to better define the perimeter of the exposed upper limestone and explore the potential of a laterally extensive Au-Cu system.

**Figure 2. Kusi stylized cross section showing assay results over modelled skarns and potential porphyry**



Source: Los Cerros

**Veri Veri Ni-Prospect**

The Veri Veri prospect is positioned within the larger Liamu Project, 100km southeast of Port Moresby, and covers mafic and ultramafic complexes within the Papuan Ultramafic Belt prospective for high-grade

nickel sulphide mineralization. Historical exploration programs have traced boulders assaying up to **39.4% Ni**, trenching on Ni-sulphide veins up to **0.3m** thick and up to **43.5% Ni** with follow-up trenching seeing **7.8m @ 3.2% Ni**. With no previous drilling, the high sulphide content dictates modern geophysics as the most cost-effective means of exploration. Thus, LCL will also focus on advancing geophysics and field programs to locate zones of massive sulphides with potential for follow-up drilling.

**Figure 3. Veri Veri samples (A) massive Ni-sulphides and (B) Ni-bearing silicates**



Source: Los Cerros

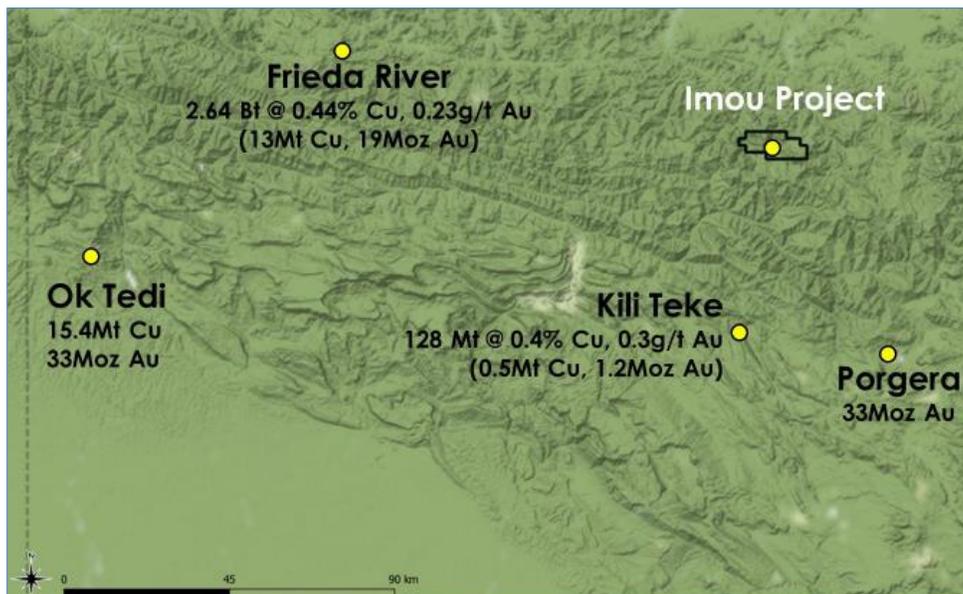
### Liamu Cu-Au epithermal and porphyry project

Liamu hosts untested Cu-Au epithermal and porphyry targets, with the most prominent to be the following: (i) Ubei – 16km<sup>2</sup> geochemical anomaly defined by rock chip samples, grading >2% Cu and 2g/t Au and an undrilled EM geophysical target interpreted as a porphyry intrusive centre, and (ii) Dada – an undrilled geochemical anomaly covering an area of 0.24km<sup>2</sup> where trenching returned **96m @ 0.4g/t Au** of porphyry quart veining system.

### Imou project – skarn, epithermal and porphyry Cu-Au prospect in a tier-1 district

Located within a district host to multi-million ounce projects Ok Tedi, Porgera and Frieda River, Imou offers epithermal skarn and porphyry targets. More specifically, Imou porphyry target covers 3km<sup>2</sup> of a geochemical anomaly, where limited historical drilling intercepted a large, shallow, low-grade Cu-Au porphyry system, associated with a higher-grade Cu-Au breccia zone, with drill highlights of **305m @ 1% CuEq** from 5m (incl. **14m @ 4% CuEq** from 186m). Other targets include the Michael’s Creek epithermal target, High creek – a Cu-Au skarn with samples of 7.3 g/t Au and 5.8% Cu and Bikaru – an epithermal Au target.

**Figure 4. Regional plan map of the Imou project, Papua New Guinea**

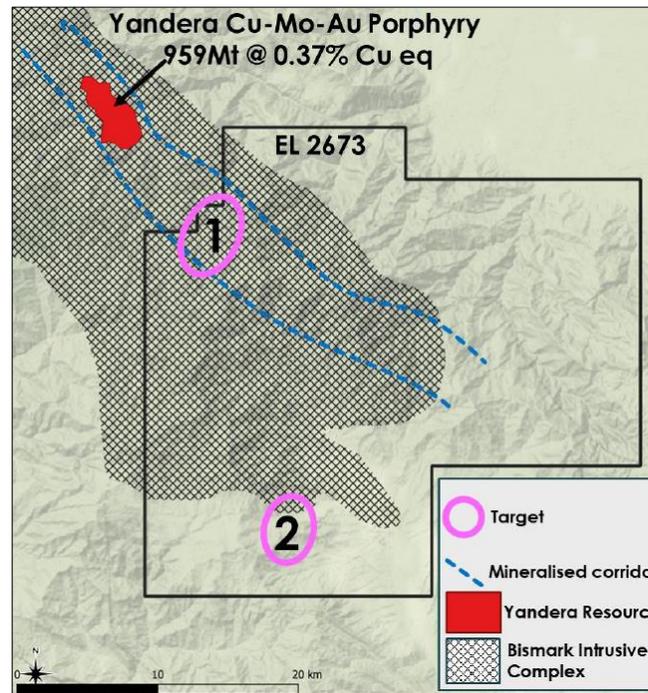


Source: Los Cerros

## Tauya Cu project

The Tauya project is located within the Bismark intrusive complex 6km along strike from the Yandera Cu-Mo porphyry project – one of the largest undeveloped Cu projects, which hosts a resource of 959Mt @ 0.37% CuEq. Previous exploration efforts have been undertaken by several companies, including Kennecott Copper – previous owner of Yandera. Currently Footprint is compiling the historical data for further interpretation. The target No.1 represents geochemical anomalies within an interpreted alteration that extends from Yandera to the southeast, while target No.2 derives from high-grade Au in float samples over 500m strike in an area where artisanal mining takes place.

**Figure 5. Regional plan map of Tauya project targets along strike from Yandera porphyry**



Source: Los Cerros

## Why we like Los Cerros

- Exposure to two super provinces in Mid Cauca Colombia / PNG
- Low-cost engineering / permitting on Colombian properties for optionality
- 460koz UG has A\$297m NPV1850-5%, 1.3Moz pit inc. 540koz @ 0.9g/t starter pit
- Well funded

## Catalysts

- 2H22: SCPe scoping study
- CY23: 3,000m drilling at Ono, PNG

## Research

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<b>Ticker:</b> LCL AU	<b>Price / mkt cap:</b> A\$0.043/sh, A\$31m	<b>Project PNAV today:</b> 0.05x	<b>Asset:</b> Quinchia
<b>Author:</b> B Salier	<b>Rec/O.1xNAV PT:</b> BUY, A\$0.11/sh	<b>1xNAV<sub>3Q24</sub> FF FD:</b> C\$0.57/sh	<b>Country:</b> Colombia

Commodity price	CY21A	CY22E	CY23E	CY24E	CY25E
Gold price	1,700	1,700	1,700	1,700	1,700

SOTP project valuation*				
	A\$m	O/ship	NAVx	A\$/sh
Miraflores UG	296	100%	0.10x	0.04
Tesorito South	317	100%	0.10x	0.04
3Q22 Cash	11.4	100%	1.00x	0.02
Cash from options	-	100%	1.00x	-
Exploration value	5	100%	1.00x	0.01
Asset NAV5% US\$1700/oz	630		PT:	0.11

\*Shares diluted for options not mine build Market P/NAV<sub>5</sub>, 3Q23 0.05x

Asset value: 1xNPV project @ build start (A\$m, ungeared)*					
Project NPV (A\$m)	\$1500oz	\$1600oz	\$1700oz	\$1800oz	\$1900oz
Discount rate: 9%	360	425	490	554	619
Discount rate: 7%	414	484	555	626	697
Discount rate: 5%	475	552	630	708	785
Ungeared IRR:	35%	39%	43%	47%	50%

Project NPV (A\$/sh)					
	\$1500oz	\$1600oz	\$1700oz	\$1800oz	\$1900oz
Discount rate: 9%	0.07	0.08	0.09	0.10	0.11
Discount rate: 7%	0.08	0.09	0.10	0.11	0.12
Discount rate: 5%	0.09	0.10	0.11	0.12	0.13

\*Project NPV, ex fin. costs and cent G&A, discounted to build start

Group NAV over time^					
	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
Quinchia NPV (A\$m)	582.9	613.5	705.5	925.2	838.0
G&A and fin. costs (A\$m)	(78.3)	(79.2)	(77.0)	(69.6)	(51.7)
Net cash prior qtr (A\$m)	11.4	9.6	55.3	(131.7)	(25.5)
Cash from options (A\$m)	-	-	-	-	-
Nominal expl'n (A\$m)	5.0	5.0	5.0	5.0	5.0
NAV FF FD (A\$m)	521	549	689	729	766
Shares in issue (m)	716	735	1,218	1,218	1,218
1xNAV/sh FF FD (A\$/sh)*	0.73	0.75	0.57	0.60	0.63

Geared NAV at first pour, diluted for build, net G&A and fin. costs^					
NAV, first gold (A\$m)	\$1500oz	\$1600oz	\$1700oz	\$1800oz	\$1900oz
Discount rate: 9%	478	551	625	698	772
Discount rate: 7%	518	596	674	752	830
Discount rate: 5%	562	645	729	812	896
Geared project IRR:	31%	35%	39%	43%	47%

NAV, first gold (A\$/sh)*					
	\$1500oz	\$1600oz	\$1700oz	\$1800oz	\$1900oz
Discount rate: 9%	0.30	0.38	0.46	0.54	0.63
Discount rate: 7%	0.35	0.44	0.52	0.62	0.71
Discount rate: 5%	0.41	0.50	0.60	0.70	0.80

^Project NPV incl grp SG&A & fin. cost, +net cash; \*diluted for build equity

Production					
	Y1	Y2	Y3	Y4	Y5
Production (000oz Au)	105	99	99	105	101
C1 cost (US\$/oz)	498	606	606	574	596
AISC cost (US\$/oz)	600	712	712	678	702

AISC = C1 + ug sustaining capex, Y1 = CY25

Year	Gold prod'n (000oz)	AISC (US\$/oz Au)
Y1	105	600
Y2	99	712
Y3	99	712
Y4	105	678
Y5	101	702

Income statement					
	CY20A	CY21A	CY22E	CY23E	CY24E
Net revenue (A\$m)	0.1	-	-	-	-
COGS (A\$m)	-	-	-	-	-
Gross profit (A\$m)	0.1	-	-	-	-
D&A, attrib (A\$m)	0.0	-	-	-	-
G&A + sh based (A\$m)	3.9	3.5	2.4	3.2	4.0
Finance cost (A\$m)	1.3	0.5	(0.0)	-	0.2
Taxes (A\$m)	-	-	-	-	-
Net income (A\$m)	(5.3)	(4.0)	(2.4)	(3.2)	(4.2)

Cash flow, attrib.					
	CY20A	CY21A	CY22E	CY23E	CY24E
EBIT (A\$m)	(3.9)	(3.5)	(2.4)	(3.2)	(4.0)
Add back D&A (A\$m)	0.0	-	-	-	-
Less tax, interest (A\$m)	1.3	0.5	(0.0)	-	0.2
W/kg cap change (A\$m)	-	-	0.5	-	-
Other non-cash (A\$m)	(2.1)	(1.1)	0.1	-	(0.4)
Cash flow ops (A\$m)	(4.7)	(4.0)	(1.9)	(3.2)	(4.2)
PP&E: build /sust (A\$m)	(0.6)	0.2	0.0	-	120.0
PP&E - expl'n (A\$m)	(2.0)	7.4	8.2	4.0	1.0
Cash flow inv. (A\$m)	2.6	(7.7)	(8.3)	(4.0)	(121.0)
Share issue (A\$m)	16.0	23.2	1.1	5.0	125.0
Debt draw (repay) (A\$m)	(0.4)	(0.1)	-	-	15.0
Cash flow fin. (A\$m)	15.7	23.1	1.1	5.0	140.0
Net cash change (A\$m)	13.5	11.4	(9.1)	(2.2)	14.8
EBITDA (A\$m)	-	(4.0)	(2.4)	(3.2)	(4.0)

Balance sheet					
	CY20A	CY21A	CY22E	CY23E	CY24E
Cash (A\$m)	7.8	19.3	9.8	7.6	22.4
AR, inv, prepaid (A\$m)	0.2	0.2	0.1	0.1	0.1
PP&E + other (A\$m)	20.0	27.7	34.9	38.9	159.9
Total assets (A\$m)	28	47	45	47	182
Debt (A\$m)	-	-	-	-	15.0
Accounts payable (A\$m)	0.5	0.5	0.8	0.8	0.8
Others (A\$m)	0.2	0.2	0.2	0.2	0.2
Total liabilities (A\$m)	0.7	0.7	1.0	1.0	16.0
Issued capital (A\$m)	370.5	393.6	391.9	396.9	521.9
Earnings (A\$m)	(343.1)	(347.2)	(348.1)	(351.3)	(355.5)
Liabilities + equity (A\$m)	28	47	45	47	182

Source: SCP estimates

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TENDER:	0
NOT RATED:	0
TOTAL	53

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