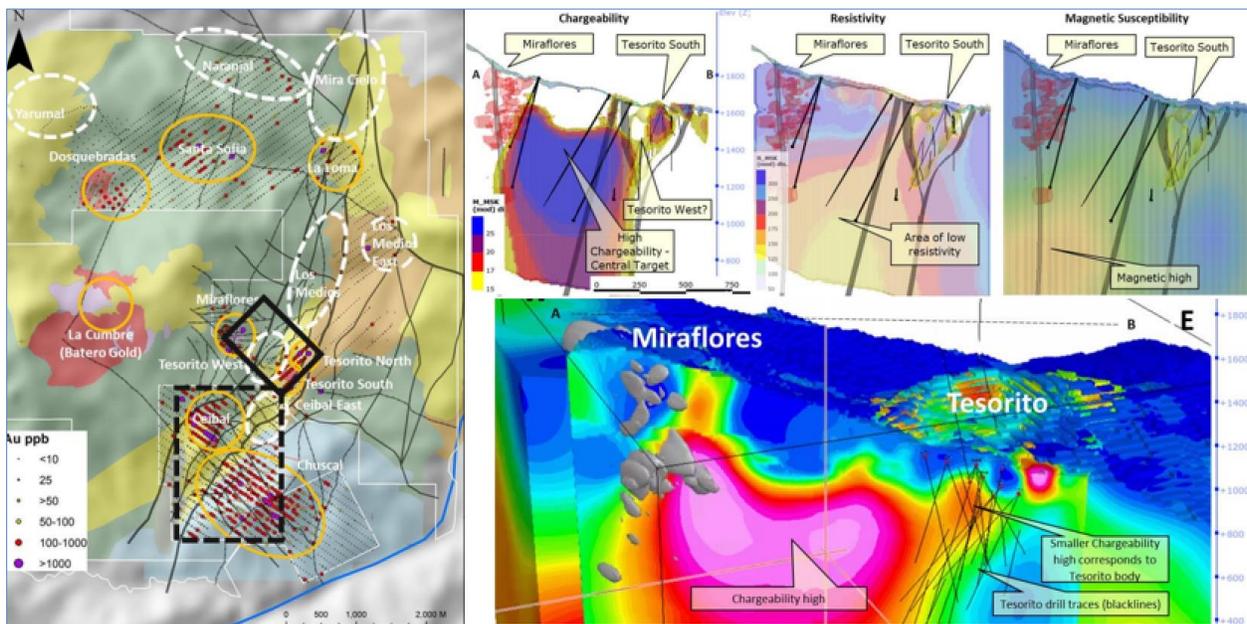


Ticker: LCL AU	Pro-forma cash: A\$24m	Project: Quinchia
Market cap: A\$91m	Price: A\$0.145/sh	Country: Colombia
REC. (unc): BUY	TARGET (unc): A\$0.36/sh	RISK RATING (unc): SPECULATIVE

Today’s drone mag and deep IP shows new gold porphyry targets (coincident chargeability / conductivity high) for a potential link between Miraflores / Tesorito at depth. Unlike greenfield anomalies, the company had already theorized the potential for this on geometry and increasing copper at depth from the two deposits above, Miraflores and Tesorito. As such, a ‘vindicated thesis’ anomaly, in our view, is far more powerful than a greenfield anomaly, and we’re glad to see two rigs are testing this (Figure 1B shows proposed holes). Beyond this, we’re quite excited to see a second larger survey planned for Ceibal / Chuscal targets to the south where surface anomalism and low-grade hits are amazingly in the wallrock, what grade could a causative porphyry be? What is interesting about the gold systems Los Cerros is has defined from surface in ‘60Moz gold alley’ in Colombia is that they are all well above where one expects copper, and/or point to potentially rich feeder. With a pit in place to ‘pay for infrastructure’, a deep porphyry here could have more value than a ‘stranded UG’ such as at SOLG. As such, **we maintain our BUY rating and 0.2xNAV_{1850-5%} A\$0.36/sh PT** based on hybrid pit and UG for 166koz pa over 10Y at an AISC of US\$939/oz for our A\$1,080m NPV. We model >200koz pa in the early years where high-grade starter pits speed payback. After a recent A\$20m equity raise, the company is drilling with four rigs on both Tesorito South and satellites, hence discovery success and the MRE should be catalysts, with deep discoveries ‘in for free’.

Figure 1. (A) Plan view of surveyed area showing geophysics in (B) x-section and (C) NNE 3D section



Giant ‘bullseye’ Au porphyry target outlined by geophysics between Miraflores - Tesorito

Los Cerros reported the interpretation of two recent geophysical programs (aeromagnetics + IP) over the Miraflores – Tesorito area, outlining a large gold porphyry target coincident with alteration signatures. Interpreted relationships suggest a pyrite-sericite halo occurs above a magnetic high that may correspond to the potassic core (biotite magnetite) of a blind porphyry. Miraflores and Tesorito, are both located on the fringes of today’s large chargeability anomaly and Tesorito South mineralization is associated with a small chargeability anomaly extending from the much larger anomaly interpreted as an intrusive centre. Drilling with two rigs is planned to test the target and a larger follow up IP program is commissioned for later this year to cover Ceibal > Chuscal areas.

Why we like Los Cerros

1. Right geology in Mid Cauca belt, host to >60Moz of gold
2. Existing small 460koz UG has A\$297m NPV_{1850-5%}
3. Pre MRE Tesorito South has SCPe 1.5-2Moz, maiden MRE in 1H22
4. Visibility on a high-grade starter pit, exemplified by 36m @ 3.3g/t from surface
5. Cluster of largely untested porphyry centres remaining to be tested

Catalysts

- 4Q21/CY22: ongoing drill results
- 1H22: maiden MRE

Research

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Ticker: LCL AU	Price / mkt cap: A\$0.145/sh, A\$91m	Project PNAV today: 0.09x	Asset: Quinchia
Author: B Salier B Gaspa	Rec/O.2xNAV PT: BUY, A\$0.36/sh	1xNAV_{3Q24} FF FD: C\$1.32/sh	Country: Colombia

Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E
Gold price	1,850	1,850	1,850	1,850	1,850

SOTP project valuation*				
	A\$m	O/ship	NAVx	A\$/sh
Miraflores UG	296	100%	0.20x	0.09
Tesorito South	784	100%	0.20x	0.23
Pro-forma Cash	24.0	100%	1.00x	0.04
Cash from options	2.9	100%	1.00x	0.00
Nominal exploration	-	100%	1.00x	-
Asset NAV5% US\$1850/oz	1,107		PT:	0.36

*Shares diluted for options not mine build Market P/NAV5_{3Q23} 0.09x

Asset value: 1xNPV project @ build start (A\$m, ungeared)*

Project NPV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	667	767	868	968	1,069
Discount rate: 7%	759	869	979	1,089	1,199
Discount rate: 5%	866	986	1,107	1,227	1,348
Ungeared IRR:	37%	41%	44%	48%	51%

Project NPV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	0.23	0.26	0.29	0.32	0.35
Discount rate: 7%	0.26	0.29	0.32	0.35	0.39
Discount rate: 5%	0.29	0.32	0.36	0.39	0.43

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

Group NAV over time^	4Q21	4Q22	4Q23	4Q24	4Q25
Quinchia NPV (A\$m)	977.0	1,025.8	1,079.9	1,256.6	1,650.2
G&A and fin. costs (A\$m)	(112.1)	(114.8)	(117.3)	(116.0)	(104.4)
Net cash prior qtr (A\$m)	2.9	13.3	6.3	66.8	(266.2)
Cash from options (A\$m)	2.9	2.9	2.9	2.9	2.9
Nominal expl'n (A\$m)	-	-	-	-	-
NAV FF FD (A\$m)	871	927	972	1,210	1,282
Shares in issue (m)	626	736	736	1,058	1,058
1xNAV/sh FF FD (A\$/sh)*	1.39	1.26	1.32	1.14	1.21

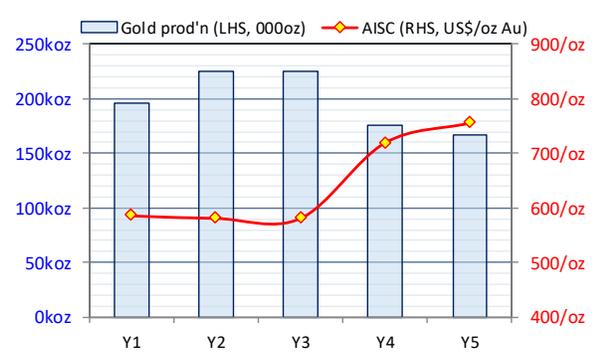
Geared NAV at first pour, diluted for build, net G&A and fin. costs^

NAV, first gold (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	878	992	1,107	1,221	1,335
Discount rate: 7%	946	1,068	1,189	1,311	1,432
Discount rate: 5%	1,023	1,153	1,282	1,412	1,542
Geared project IRR:	33%	37%	41%	44%	48%

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

Production	Y1	Y2	Y3	Y4	Y5
Production (000oz Au)	196	225	225	176	167
C1 cost (US\$/oz)	469	469	469	596	630
AISC cost (US\$/oz)	586	581	581	719	756

AISC = C1 + ug sustaining capex, Y1 = CY25



Source: SCP estimates

Resource / Reserve	Tonnes	Grade	Ounces
Miraflores resource	9.3Mt	2.74g/t	840koz
Dosquebrados resource	20.2Mt	0.71g/t	459koz
Group resource incl Tes. S below	64.1Mt	1.24g/t	2563koz
Miraflores reserve	4.3Mt	3.29g/t	457koz
SCP Tesorito S resource/reserve	35Mt	1.13g/t	1264koz
SCP total mining inventory	39.0Mt	1.37g/t	1721koz

Project: USES	Funding: SOURCES
Pre-DFS expl'n / G&A: A\$14m	Cash 2Q21 + pre-Au ITM op.: A\$27m
Exploration to DFS: A\$13m	Equity for DFS: A\$20m
Build capex: A\$460m	Build equity @ 0.4xNAV: A\$210m
Fin. cost + WC over DFS: A\$46m	65% geared debt @ 8%: A\$299m
TOTAL USES: A\$520m	TOTAL SOURCES: A\$556m

Share data	Basic	FD with options	FD for build
Basic shares (m)	625.9	678.0	1,058

Ratio analysis	CY20A	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	332.0	532.4	722.5	736.2	937.3
EPS (A\$/sh)	-	-	-	-	-
CFPS (A\$/sh)	-	-	-	-	-
EV (A\$m)	40.3	76.9	93.2	102.5	152.2
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	-
P/CF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	-

Income statement	CY20A	CY21E	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	0.0	-	-	-
G&A + sh based (A\$m)	3.9	4.2	4.2	4.8	5.5
Finance cost (A\$m)	1.3	1.1	-	-	0.4
Taxes (A\$m)	-	-	-	-	-
Net income (A\$m)	(5.3)	(5.4)	(4.2)	(4.8)	(5.9)

Cash flow, attrib.	CY20A	CY21E	CY22E	CY23E	CY24E
EBIT (A\$m)	(3.9)	(4.2)	(4.2)	(4.8)	(5.5)
Add back D&A (A\$m)	0.0	0.0	-	-	-
Less tax, interest (A\$m)	1.3	1.1	-	-	0.4
Wkg cap change (A\$m)	-	-	-	-	-
Other non-cash (A\$m)	(2.1)	0.1	1.5	1.5	0.8
Cash flow ops (A\$m)	(4.7)	(3.0)	(2.7)	(3.3)	(4.4)
PP&E: build /sust (A\$m)	(0.6)	0.2	-	-	225.2
PP&E - expl'n (A\$m)	(2.0)	5.8	6.0	4.0	1.0
Cash flow inv. (A\$m)	2.6	(6.1)	(6.0)	(4.0)	(226.2)
Share issue (A\$m)	16.0	1.6	20.0	-	210.0
Debt draw (repay) (A\$m)	(0.4)	(0.1)	-	-	30.0
Cash flow fin. (A\$m)	15.7	1.5	20.0	-	240.0
Net cash change (A\$m)	13.5	(7.6)	11.3	(7.3)	9.4
EBITDA (A\$m)	-	(5.3)	(4.2)	(4.8)	(5.5)

Balance sheet	CY20A	CY21E	CY22E	CY23E	CY24E
Cash (A\$m)	7.8	0.3	11.6	4.3	13.7
AR, inv, prepaid (A\$m)	0.2	0.2	0.2	0.2	0.2
PP&E + other (A\$m)	20.0	25.4	31.4	35.4	261.6
Total assets (A\$m)	28	26	43	40	275
Debt (A\$m)	-	-	-	-	30.0
Accounts payable (A\$m)	0.5	0.6	0.6	0.6	0.6
Others (A\$m)	0.2	0.2	0.2	0.2	0.2
Total liabilities (A\$m)	0.7	0.7	0.7	0.7	30.7
Issued capital (A\$m)	370.5	372.7	394.2	395.7	607.2
Earnings (A\$m)	(343.1)	(347.5)	(351.7)	(356.6)	(362.5)
Liabilities + equity (A\$m)	28	26	43	40	275

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SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	48

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