

**Ticker:** LCL AU

**Cash:** A\$17.8m

**Project:** Quinchia

**Market cap:** A\$73m

**Price:** A\$0.115/sh

**Country:** Colombia

**REC. (unc):** BUY

**TARGET (+1c):** A\$0.37/sh

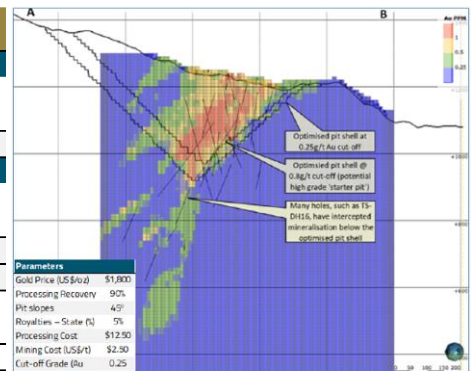
**RISK RATING (unc):** SPECULATIVE

Los Cerros now has **2.6Moz @ >1g/t** with the inclusion of the maiden resource of **1.3Moz from Tesorito South**. We see two key take homes from today's update: First, (i) the overall ounces have come in in-line with our prior forecast of 1.1Moz, albeit at a lower 1g/t overall grade (vs SCPe 1.2g/t), with the delta simply being the size of the high-grade core vs the broader halo mineralization. Impressive though, is by adding in the 'low grade cloud' could lift this to ~2Moz at a much lower 0.35g/t cut-off. Second, (ii) the higher grade core comes to surface for a potential low strip starter pit, with initial 540koz @ 1.23g/t to drive payback. With that, plus half a million ounces from UG reserve, we think this is already shaping up to be, at minimum, a ~1Moz high-margin quick payback asset, attractive to M&A buyers. A second alternative would be to view this like neighbouring Gramalote, whose 4Moz comes at only 0.7g/t, but clearly this is attractive enough to see B2 and AngloGold Ashanti pushing that asset forward. We expect this to get firmed up in the PEA this year post met work, but we like the visibility on either option now. We update our model for today's MRE as discussed in this report, lifting inventory to SCPe ~1.8Moz @ 1g/t, and thus **maintain our BUY rating and lift our A\$0.36/sh PT to A\$0.37/sh based on 0.3xNAV<sub>1850-5%</sub>** for a hybrid pit and UG seeing 155koz pa over 10Y at an AISC of ~US\$1,200/oz for our ~A\$760m NPV. We model >200koz pa in the early years where high-grade starter pits speed payback. Looking forward, the A\$18m balance sheet now comfortably supports five rigs currently turning on a 30,000m programme testing targets within 3km of today's MRE, including deeper drilling >1200m downhole, well below the pit shell (assays pending).

**Table 1. (A) Quinchia old vs new 1Q22 MRE / SCP inventory, (B) Tesorito MRE section view**

Quinchia (100%)	Tonnes (Mt)		Grade (g/t Au)		Ounces (000oz)	
<b>UNDERGROUND RESOURCE</b>		<i>Δ to old</i>		<i>Δ to old</i>		<i>Δ to old</i>
Miraflores M&I	9.3	0%	2.82	0%	840	0%
Miraflores inferred	0.5	0%	2.36	0%	37	0%
<b>Miraflores UG resource</b>	<b>9.8</b>	<b>0%</b>	<b>2.79</b>	<b>0%</b>	<b>877</b>	<b>0%</b>
<b>OPEN PIT RESOURCE</b>						
Dosquebrados inferred	20	-	0.71	-	459	-
Tesorito South inferred	50	44%	0.81	-29%	1,298	3%
<b>Total OP resource</b>	<b>70</b>	<b>248%</b>	<b>1.02</b>	<b>44%</b>	<b>1,757</b>	<b>283%</b>
<b>GRAND TOTAL RESOURCE</b>	<b>80</b>	<b>167%</b>	<b>1.02</b>	<b>-26%</b>	<b>2,634</b>	<b>97%</b>
Miraflores reserves	4.3	-	3.29	-	457	-
SCPe pit inventory	53	52%	0.79	-31%	1,333	5%
<b>Total SCPe pit inv. &amp; UG reserve</b>	<b>57</b>	<b>46%</b>	<b>0.98</b>	<b>-29%</b>	<b>1,790</b>	<b>4%</b>

Source: Los Cerros 1Q22 MRE, delta to SCP estimates



## Maiden Tesorito South 1.3Moz @ 0.81g/t inc. 1.2g/t+ starter pit; PT lifted to A\$0.37/sh

Los Cerros maiden pit-constrained resource for Tesorito South defined **1,298koz @ 0.81g/t** (0.5g/t cut-off). An optimized pit shell >0.8g/t cut off highlights **540koz @ 1.2g/t** in a higher grade 'core' which begins at surface for potential 'starter pit'. Dosquebrados and Miraflores UG remains unchanged, and with today's update the **Quinchia global resource lifts >100% to 2.6Moz @ 1.0g/t**, which will form the basis of a PEA combining all deposits once the metallurgical testwork at Tesorito is completed. Los Cerros has outlined a number of growth opportunities at Quinchia, through a large number of advanced and early-stage targets, with drilling campaigns focused within a 3km radius from Tesorito and Miraflores. Five drills are active at Quinchia including (i) three rigs at **Ceibal**, (ii) one rig at **Claras** testing a new magnetic target 1km north of Tesorito and (iii) one rig testing the **Central Target**, a coincident magnetic and chargeability/conductivity high between Tesorito and Miraflores.

## Our view

Overall the high-grade core which makes this resource attractive is very much intact with 540koz @ 1.2g/t far above most OP porphyry grades in LatAm, and higher still when blended with the 3.3g/t Miraflore UG material. We previously forecast 1,264koz @ 1.1g/t, while ounces are in line, grade is lower as the core itself isn't as large as we forecast, albeit the bulk low-grade halo carries much higher tonnes than we expected. Fortunately, the core lies at surface, critical for a high-grade starter pit and faster payback.

**Tesorito South:** Overall the ounces have come in in-line with our prior forecast of 1.1Moz, albeit at a lower 1g/t overall grade against our prior 1.2g/t, with the delta simply being the size of the high grade core, with the maiden MRE seeing more low grade tonnes added from the north. Interestingly though, the resource today highlights that core, while the geometry shows its proximity at depth. Alternatively, adding in the 'low grade cloud' could lift this to ~2Moz at a much lower 0.35g/t cut-off.

## Build scenario

For us this opens two opportunities. First, there would be the ~half million ounce UG reserve, plus ~the same again in a pit but with a much higher +1.2g/t grade and very low strip. This would be a ~1Moz high-margin quick payback asset, attractive to many mid-tier miners as it is precisely in their 'snack bracket'. The second alternative would be to view this like neighbouring Gramalote, whose 4Moz comes at only 0.7g/t, which is clearly attractive enough to see B2 and AngloGold Ashanti pushing that asset forward. The middle ground here would be to commence on a small higher-grade operation, and bootstrap an expansion several years post-production to cut back on lower grade material.

## SCP inventory update

Given the bulk geometry of the ore, the entirety of the resource evidently falls within an economic whittle pit. Once a mine pit is modelled including ramps, the strip, and thus pit bottom, should lift a little hence we conservatively model 85% conversion of the Tesorito South inferred resource plus modest contribution from Dosquebrados for updated SCPe inventory of **1.3Moz @ 0.8g/t** ahead of the PEA. Given the paucity of drilling just under the pit shell, additional drilling may catch that back up.

## Valuation update

Adding the UG, plus larger pit we adjust our throughput to 5.6Mtpa plant for LOM 155koz pa over 10 years (>200koz pa early years), driving an A\$750m NPV<sub>5%-1850</sub>. With the maiden MRE vs our previous more speculative estimates, we lift our 0.2x NAV<sub>5-1850</sub> multiple to 0.3x to reflect the de-risking of the resource which will now form the basis of a PEA. As such we maintain our BUY rating and lift our A\$0.36/sh price target to A\$0.37/sh. Looking ahead, today's MRE is a key share price catalyst, but there is still lots of discovery-drilling to look forward to with three rigs focused within ~3km from Tesorito /Miraflores, and metallurgy plus the scoping study to follow, plus a healthy A\$17.8m cash to fund this.

We would stress that our valuation is just one end number suitable for a large global miner but with opportunities to evaluate this as a smaller 1Moz higher-grade operation, or start that way and stage an expansion. There is significant variability and ultimately this uncertainty is captured in our low NAV multiple.

Table 2. Quinchia old vs new 1Q22 MRE / SCP inventory

SCP				SCP			
Quinchia (100%)	Old	New	Δ old	Quinchia (100%)	Old	New	Δ old
UG tonnes (000t)	4,326	4,326	0%	UG mining cost (US\$/t)	50.00	50.00	0%
UG ounces (000oz)	458	458	0%	Pit mining cost (US\$/t)	2.58	2.58	0%
UG grade (g/t)	3.29	3.3	0%	Processing cost (US\$/t)	10.00	10.00	0%
Pit tonnes (000t)	34,655	52,600	52%	G&A (US\$/t)	4.00	4.00	0%
Pit ounces (000oz)	1,381	1,336	-3%	LOM AISC (US\$/oz Au)	934	1,214	30%
Pit grade (g/t)	1.24	0.79	-36%	Total build capex (A\$m)	460	505	10%
Mine life (years)	10.0	10.5	5%	Total sust. capex (A\$m)	22	22	0%
Strip ratio (x)	1.7	1.7	0%	Gold price (US\$/oz)	1,850	1,850	0%
LOM throughput (ktpa)	4,000	5,600	40%	USD / AUD	0.74	0.74	0%
Blended ROM grade (g/t)	1.47	0.98	-33%	<b>NPV-1850 post-tax (A\$m)</b>	<b>1,108</b>	<b>757</b>	<b>-32%</b>
Recovery (%)	90.5%	90.5%	0%	<b>IRR post-tax (%)</b>	<b>45%</b>	<b>39%</b>	<b>-14%</b>
<b>Prod'n Au LOM (000oz pa)</b>	<b>166</b>	<b>155</b>	<b>-7%</b>				

Source: SCP estimates

### 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<sub>1850-5%</sub>
3. Maiden 1.3Moz at Tesorito South pit inc. 540koz @ 0.9g/t starter pit
4. Cluster of largely untested porphyry centres remaining to be tested

### Catalysts

- 2022: Results from IP geophysical survey at Chuscal
- 2022: Ongoing drill results
- 2H22: SCPe scoping study

### Research

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<b>Ticker:</b> LCL AU <b>Author:</b> B Salier B Gaspar		<b>Price / mkt cap:</b> A\$0.115/sh, A\$73m <b>Rec/O.3xNAV PT:</b> BUY, A\$0.37/sh		<b>Project PNAV today:</b> 0.10x <b>1xNAV<sub>3Q24</sub> FF FD:</b> C\$1.05/sh		<b>Asset:</b> Quinchia <b>Country:</b> Colombia	
<b>Commodity price</b>		<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	
Gold price		1,850	1,850	1,850	1,850	1,850	
<b>SOTP project valuation*</b>							
		<b>A\$m</b>	<b>O/ship</b>	<b>NAVx</b>	<b>A\$/sh</b>		
Miraflores UG		296	100%	0.30x	0.13		
Tesorito South		461	100%	0.30x	0.20		
Cash (4Q21)		17.8	100%	1.00x	0.03		
Cash from options		2.7	100%	1.00x	0.00		
Resource ex rsvs @ US\$5/oz		6	100%	1.00x	0.01		
Asset NAV5% US\$1850/oz		783		PT:	0.37		
*Shares diluted for options not mine build Market P/NAV5 <sub>3Q23</sub> 0.10x							
<b>Asset value: 1xNPV project @ build start (A\$m, ungeared)*</b>							
Project NPV (A\$m)		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	
Discount rate: 9%		412	515	618	721	824	
Discount rate: 7%		471	583	696	808	920	
Discount rate: 5%		537	660	783	906	1,029	
Ungeared IRR:		30%	34%	39%	43%	47%	
Project NPV (A\$/sh)		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	
Discount rate: 9%		0.21	0.25	0.30	0.34	0.39	
Discount rate: 7%		0.23	0.28	0.33	0.38	0.43	
Discount rate: 5%		0.26	0.32	0.37	0.42	0.48	
*Project NPV, ex fin. costs and cent G&A, discounted to build start							
<b>Group NAV over time^</b>		<b>1Q22</b>	<b>1Q23</b>	<b>1Q24</b>	<b>1Q25</b>	<b>1Q26</b>	
Quinchia NPV (A\$m)		691.9	726.6	768.9	1,045.2	1,349.3	
G&A and fin. costs (A\$m)		(122.6)	(124.0)	(125.7)	(124.2)	(112.6)	
Net cash prior qtr (A\$m)		19.3	28.9	20.7	(22.1)	(294.6)	
Cash from options (A\$m)		2.7	2.7	2.7	2.7	2.7	
Nominal expl'n (A\$m)		5.7	5.7	5.7	5.7	5.7	
NAV FF FD (A\$m)		597	640	672	907	951	
Shares in issue (m)		638	638	638	1,098	1,098	
1xNAV/sh FF FD (A\$/sh)*		0.94	1.00	1.05	0.83	0.87	
<b>G geared NAV at first pour, diluted for build, net G&amp;A and fin. costs^</b>							
NAV, first gold (A\$m)		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	
Discount rate: 9%		607	725	842	959	1,076	
Discount rate: 7%		645	769	893	1,017	1,141	
Discount rate: 5%		686	819	951	1,083	1,215	
G geared project IRR:		26%	30%	35%	39%	43%	
NAV, first gold (A\$/sh)*		\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz	
Discount rate: 9%		0.40	0.54	0.69	0.84	1.00	
Discount rate: 7%		0.46	0.61	0.77	0.94	1.11	
Discount rate: 5%		0.52	0.69	0.87	1.05	1.23	
^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for build equity							
<b>Production</b>		<b>Y1</b>	<b>Y2</b>	<b>Y3</b>	<b>Y4</b>	<b>Y5</b>	
Production (000oz Au)		262	224	224	152	145	
C1 cost (US\$/oz)		466	619	619	911	956	
AISC cost (US\$/oz)		575	735	735	1,046	1,094	
AISC = C1 + ug sustaining capex, Y1 = CY25							

Year	Gold prod'n (000oz)	AISC (US\$/oz Au)
Y1	262	575
Y2	224	735
Y3	224	735
Y4	152	1,046
Y5	145	1,094

Source: SCP estimates

<b>Resource / Reserve</b>		<b>Tonnes</b>	<b>Grade</b>	<b>Ounces</b>	
Miraflores resource		9.8Mt	2.78g/t	877koz	
Dosquebrados resource		20.2Mt	0.71g/t	459koz	
Tesorito South resource		50.0Mt	0.81g/t	1298koz	
<b>Group resource incl Tes. S below</b>		<b>80.0Mt</b>	<b>1.02g/t</b>	<b>2634koz</b>	
Miraflores reserve		4.3Mt	3.29g/t	457koz	
SCP total mining inventory		56.9Mt	0.98g/t	1790koz	
Tesorito South Starter pit		13.7Mt	1.23g/t	540koz	
<b>Project: USES</b>		<b>Funding: SOURCES</b>			
Pre-DFS expl'n / G&A:		A\$16m	Cash 2Q21 + pre-AU itm op:		A\$21m
Exploration to DFS		A\$11m	Equity for DFS:		A\$20m
Build capex:		A\$505m	Build equity @ 0.4xNAV:		A\$210m
Fin. cost + WC over DFS		A\$59m	65% geared debt @ 8%:		A\$328m
TOTAL USES:		A\$590m	TOTAL SOURCES:		A\$578m
<b>Share data</b>		<b>Basic</b>	<b>FD with options</b>	<b>FD for build</b>	
Basic shares (m)		638.2	685.1	1,098	
<b>Ratio analysis</b>		<b>CY20A</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>
Average shares out (m)		332.0	533.9	638.2	638.2
EPS (A\$/sh)		-	-	-	-
CFPS (A\$/sh)		-	-	-	-
EV (A\$m)		30.4	42.2	44.5	52.7
FCF yield (%)		-	-	-	-
PER (x)		-	-	-	-
P/C/F (x)		-	-	-	-
EV/EBITDA (x)		-	-	-	-
<b>Income statement</b>		<b>CY20A</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>
Net revenue (A\$m)		0.1	-	-	-
COGS (A\$m)		-	-	-	-
<b>Gross profit (A\$m)</b>		<b>0.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
D&A, attrib (A\$m)		0.0	-	-	-
G&A + sh based (A\$m)		3.9	3.5	4.4	4.2
Finance cost (A\$m)		1.3	0.5	-	-
Taxes (A\$m)		-	-	-	-
<b>Net income (A\$m)</b>		<b>(5.3)</b>	<b>(4.0)</b>	<b>(4.4)</b>	<b>(4.2)</b>
<b>Cash flow, attrib.</b>		<b>CY20A</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>
EBIT (A\$m)		(3.9)	(3.5)	(4.4)	(4.2)
Add back D&A (A\$m)		0.0	-	-	-
Less tax, interest (A\$m)		1.3	0.5	-	-
Wkg cap change (A\$m)		-	-	-	-
Other non-cash (A\$m)		(2.1)	(1.1)	-	-
<b>Cash flow ops (A\$m)</b>		<b>(4.7)</b>	<b>(4.0)</b>	<b>(4.4)</b>	<b>(4.2)</b>
PP&E: build / sust (A\$m)		(0.6)	0.2	-	-
PP&E - expl'n (A\$m)		(2.0)	7.4	6.0	4.0
<b>Cash flow inv. (A\$m)</b>		<b>2.6</b>	<b>(7.7)</b>	<b>(6.0)</b>	<b>(4.0)</b>
Share issue (A\$m)		16.0	23.2	20.0	-
Debt draw (repay) (A\$m)		(0.4)	(0.1)	-	-
<b>Cash flow fin. (A\$m)</b>		<b>15.7</b>	<b>23.1</b>	<b>20.0</b>	<b>-</b>
Net cash change (A\$m)		13.5	11.4	9.6	(8.2)
EBITDA (A\$m)		-	(4.0)	(4.4)	(4.2)
<b>Balance sheet</b>		<b>CY20A</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>
Cash (A\$m)		7.8	19.3	28.9	20.7
AR, inv, prepaid (A\$m)		0.2	0.2	0.2	0.2
PP&E + other (A\$m)		20.0	27.7	33.7	37.7
<b>Total assets (A\$m)</b>		<b>28</b>	<b>47</b>	<b>63</b>	<b>59</b>
Debt (A\$m)		-	-	-	-
Accounts payable (A\$m)		0.5	0.5	0.5	0.5
Others (A\$m)		0.2	0.2	0.2	0.2
Total liabilities (A\$m)		0.7	0.7	0.7	0.7
Issued capital (A\$m)		370.5	393.6	413.6	413.6
Earnings (A\$m)		(343.1)	(347.2)	(351.5)	(355.7)
<b>Liabilities + equity (A\$m)</b>		<b>28</b>	<b>47</b>	<b>63</b>	<b>59</b>

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**BUY:** The stocks total returns are expected to be materially better than the overall market with higher return expectations needed for more risky securities markets

**NEUTRAL:** The stock's total returns are expected to be in line with the overall market

**SELL:** The stocks total returns are expected to be materially lower than the overall market

**TENDER:** The analyst recommends tendering shares to a formal tender offering

**UNDER REVIEW:** The stock will be placed under review when there is a significant material event with further information pending; and/or when the research analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**NOT RATED ((N/R):** The stock is not currently rated

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8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	NO
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

## Sprott Capital Partners Equity Research Ratings:

Summary of Recommendations as of March 2022	
BUY:	54
HOLD:	1
SELL:	0
UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	56

<sup>1</sup> As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month