Sprott | Equity Research

Los Cerros (LCL AU)

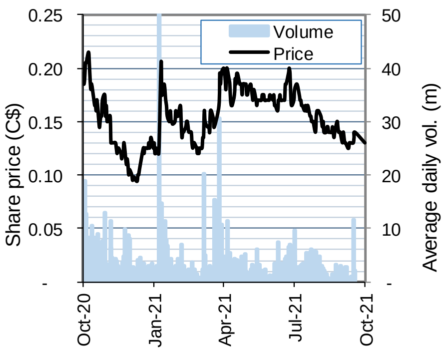
Initiation: Working toward 3Moz in Colombia's prolific Mid Cauca

RECOMMENDATION: **BUY** *PRICE TARGET*: **A$0.36/sh** *RISK RATING*: **SPECULATIVE**

SHARE DATA	
Shares (basic, FD, FF FD)	626 / 678 / 1054
Share price (A$/sh)	A$0.15/sh
52-week high/low	A$0.215 / A$0.09
Average daily value (A$000, 3M)	447
Market cap (A$m)	94.0
Pro forma cash 4Q21 (A$m)	24.0
1.0xNAV5% @ US$1850/oz (A$m)	1,107
1.0xNAV5% FD (A$/sh)^	1.22
Project P/NAV today (x, FD)*	0.09x
SCP 0.2xNAV-1850-5% PT (A$/sh):	A$0.36/sh
Implied upside (%)	

FINANCIALS	Y1	Y2	Y3
Gold sold (000oz)	196	225	225
Revenue (A$m)	68	554	554
AISC (US$/oz)	586	586	586
Income (A$m)	6.6	211.7	215.6
EPS (A$)	0.6	20.1	20.5
PER (x)	24.1x	0.7x	0.7x
CFPS (A$)	(24)	25	26
FCF yield (%)	-	168%	171%
EBITDA (A$m)	43	386	386
EV/EBITDA (x)	10.1x	0.9x	0.8x

TIME VALUE: 1850/oz	4Q21	4Q22	4Q23
1xNAV5% FF FD (A$m)	871	927	972
1xNAV5% FF FD (A$/sh^)	1.39	1.27	1.33
TIME VALUE: 1750/oz	4Q21	4Q22	4Q23
1xNAV5% FF FD (A$m)	761	812	851
1xNAV5% FF FD (A$/sh^)	1.22	1.11	1.16



*Source:Fidessa; *diluted for options ^& mine build*

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Colombian explorer with a new discovery

Los Cerros, formerly Metminco, owns two projects in Colombia's prolific Mid Cauca belt, host to >60Moz of gold. Flagship 100% owned Quinchia has a small 840koz UG resource with DFS, and low-grade pittable 459koz; the 'ah hah' moment came with the discovery of the Tesorito South porphyry <1km away. Drilling there has demonstrated the trifecta of scale (629m @ 0.88g/t), grade (238m @ 2.1g/t), and a pit but also a high-grade starter area (36m @ 3.3g/t from surface). The maiden MRE is targeted ~1H22 once the limits are established.

Existing small UG with A$297m NPV$_{1850\text{-}5\%}$: useful addition to a pit

Prior owners had focussed on early cash-flow from the small Miraflores UG where a 457koz @ 3.3g/t reserve was defined within an 840koz @ 2.7g/t resource. Although production of 46koz pa on capex of A$90m is useful, it lacks scale. However, like Didipio in the Philippines, when bolted onto a potential pit a few hundred meters away, it has the potential to bulk out production ounces.

Recent discovery could see SCPe 1.5-2Moz maiden MRE in 1H22

Post three holes drilled by prior owners, drilling did not restart at pace until 2020. Early drilling hit lower grade and deeper material, but this subsequently proved to be peripheral to a high-grade core that daylights NE of this. A ~150m core within a ~220m halo supports our sensitised ~40-60Mt potential pit-constrained resource tonnage at various grades and cut-offs. This drives our 1.3Moz @ 1.1g/t mining inventory. Adding the UG, we model a 4Mtpa plant for LOM 166koz pa over 10 years (>200koz pa early years), driving an A$1.1bn NPV, although this is speculative ahead of the MRE.

Bags of exploration ahead, in the hottest real estate globally

Tesorito South appears to sit within a cluster of deposits, with the majority yet to be tested. In fact, Tesorito South itself remains open at depth, to the NE and to the South. Separately, the company hosts an 8x larger licence, 90% owned Andes, 70km to the north. That, and Tesorito, lie in 'gold alley' in Colombia in one of the most prolific belts for gold globally, thanks to flat-slab tectonism in the area. This Miocene 'Middle Cauca belt hosts >60Moz, all of which is along strike of Quinchia and Andes.

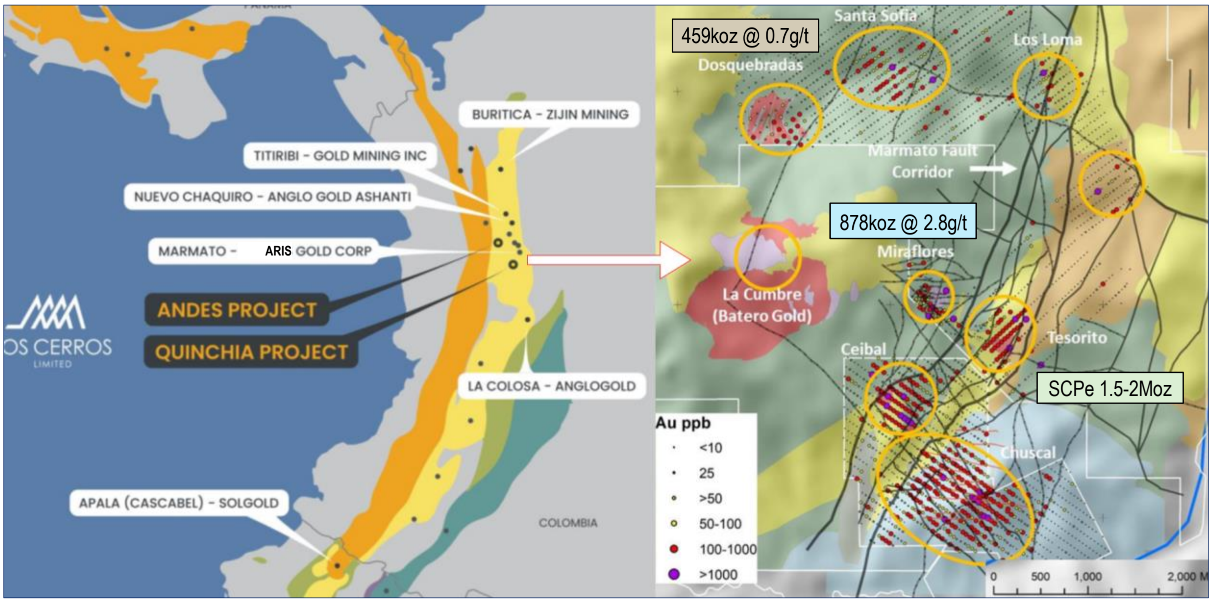
Initiate with BUY rating and A$0.36/sh PT on hybrid pit and UG

We model the Miraflores UG per the DFS for 457koz @ 3.3g/t, adding a concurrent open pit mining of 1.3Moz @ 1.1g/t. This supports 166koz pa over 10Y at an AISC of US$939/oz for our A$1,080m NPV. We model >200koz pa in the early years where high-grade starter pits speed payback. Diluting for options, but not mine build, we apply a 0.2xNAV$_{1850\text{-}5\%}$ multiple to this, **initiating with a BUY rating and A$0.36/sh PT**. 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. We also note that 15m 16c options expired last week, which could take near-term pressure off the stock.

Summary

Los Cerros' flagship Quinchia gold porphyry lies in the Miocene 7-11Ma Mid Cauca belt of Colombia. This prolific belt hosts >50Moz along strike including Marmato (4Moz, 30km N), Nuevo Chaquiro (7Moz, 60km N), La Colosa (28Moz, 75km S), Titiribi (10Moz, 90km N), and Buritica (6Moz, 110km N). Quinchia comprises the Miraflores, host to a pre-acquisition 840koz @ 2.7g/t resource (457koz DFS), but the step-change and cornerstone asset came with Los Cerros' newly discovered pre-resource Tesorito South gold porphyry. Our positive view on Los Cerros is underpinned by four aspects: (i) **scale for SCPe >2Moz** exemplified by drill highlights of 116m @ 2.3g/t within 461m @ 1.1g/t, (ii) **pittable from surface** with (iii) a high-grade starter pit, exemplified by 36m @ 3.3g/t from surface, and (iv) is part of a cluster of largely untested porphyry centres remaining to be tested.

Figure 1(A) Colombia and (B) regional belts showing (C) most prolific >60Moz Miocene belt hosting Quinchia

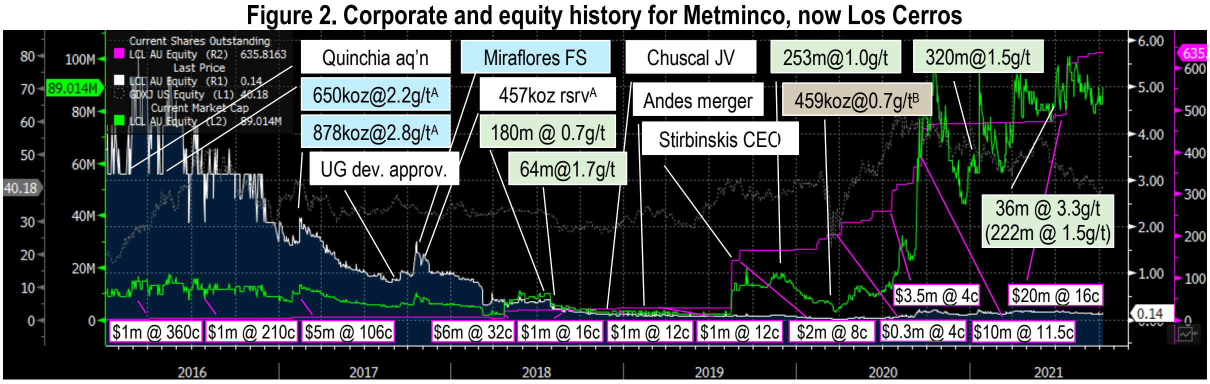


Source: Modified from Sillitoe (1982) and Sillitoe and Perelló (2005) with Palaeocene belt extensions to Ecuador, and L Cretaceous added

Corporate history

Predecessor Metminco listed in 2007 as a domestic explorer before pivoting to Peru in 2009 with now-sold low-grade Los Calatos project, moving to Colombia in 1Q16 with the acquisition of Quinchia from administrators of a prior junior. Early work recut the historic Miraflores resources and feasibility, followed by drilling at Tesorito South in 2H18. Early peripheral holes of <0.5g/t coincident with poor markets took away momentum while adjoining Chuscal, also part of the Quinchia project, was acquired from AngloGold more recently. After a merger with Andes in 2019 (adding Andes exploration project), current CEO Jason Stirbinskis took over, drilling Chuscal (94m @ 1.3g/t composite) and restarting drilling at Tesorito. After a 1H20 pause from COVID, the momentum changed mid-year 2020 with three rigs (including one owned) highlighting Tesorito's scale, with **230m @ 1g/t** from surface, importantly perpendicular to earlier drilling. The final piece came with the discovery / delineation of the higher-grade core at surface, including **320m @ 1.5g/t** from 2m, but more recently and most critically for IRR / payback, 36m @ 3.3g/t from surface. Drilling is now focussed here ahead of a maiden MRE.

Figure 2. Corporate and equity history for Metminco, now Los Cerros

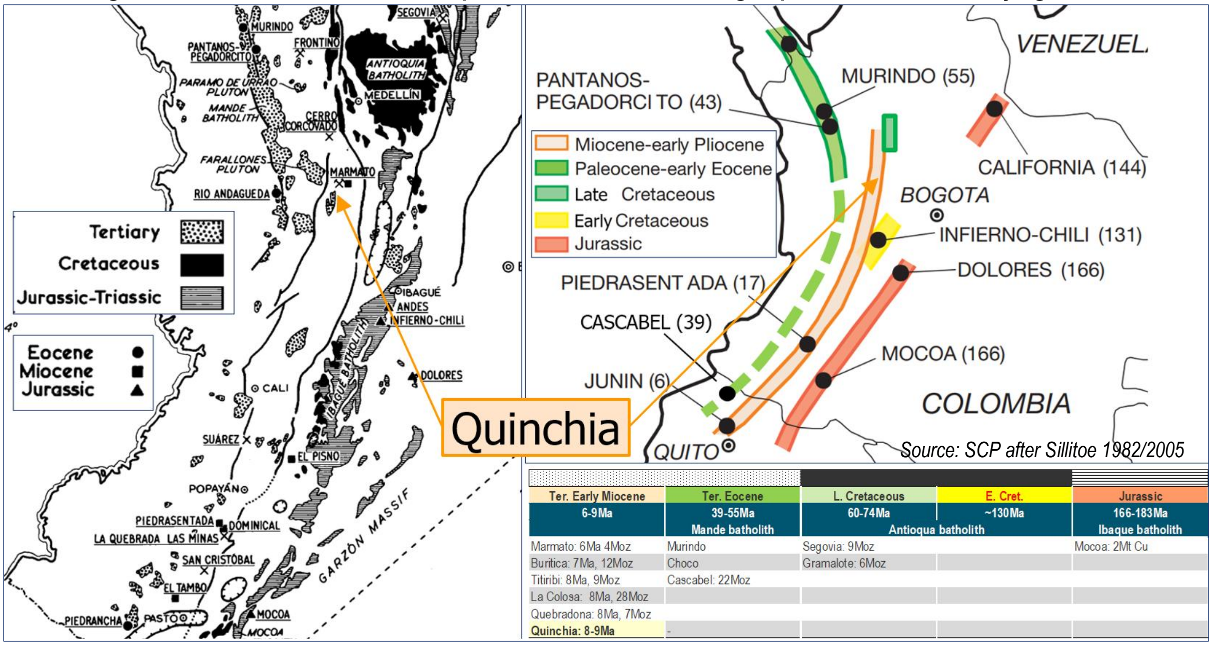


Source: Bloomberg, SCP; A/blue: Miraflores, B/green: Dosquebradas, C/brown: Tesorito South

Located in the 'right' geology: flat slab tectonism trumps imaginary subducting hot-spot

Young is good: Porphyries form as groups over short time spans, in narrow belts. The Andes hosts the most prolific of these because of the stable and long-lived subduction zone. Prime examples of Andean porphyry belts are the **Eocene-Oligocene** belt which hosts 123Mt Cu ranging from Southern Peru to northern Chile and including Solgold's Cascabel; the **Miocene-Pliocene** with 178Mt Cu (El Teniente, Rio Blanco-Los Bronces, and Los Pelambres); or the **Miocene-Pliocene** belt in Peru with 32Mt Cu (Toromocho, Antamina, La Granja). For gold, flat-slab tectonism is discussed below, but the time-window is also key as older belts are more likely to be eroded away. Colombia's prolific **Middle Cauca** belt, host to Quinchia, hosts over 60Moz of gold, cornerstoning Colombia's position as the centre for more gold discoveries than any other country from 2006 – 2016 (Figure 3).

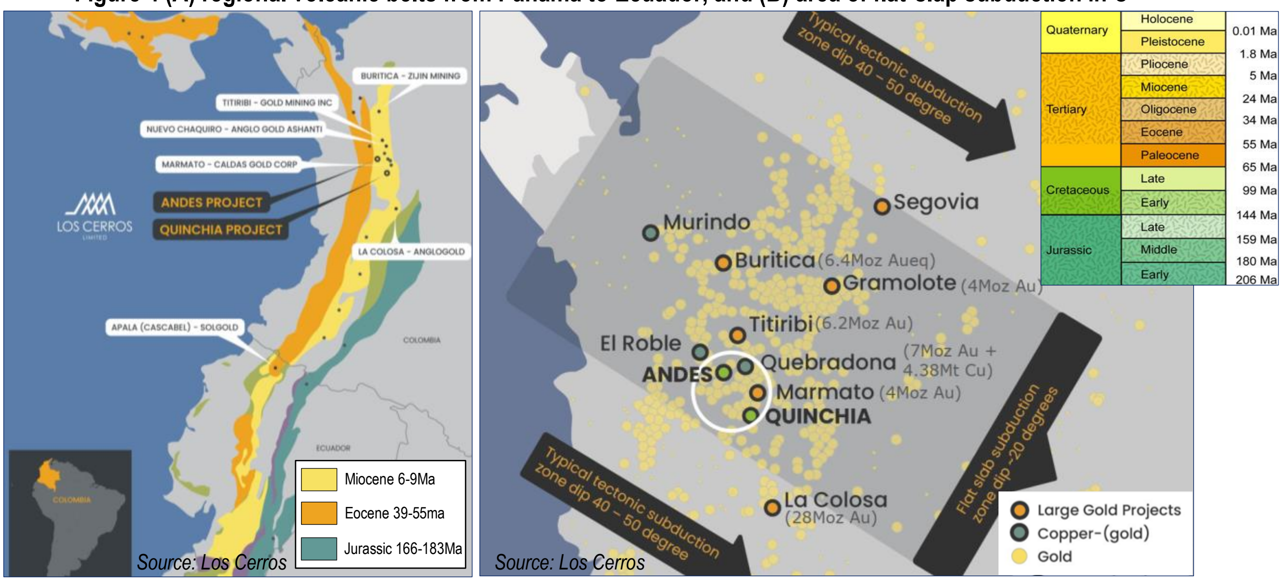
Figure 3. Main volcanic belts and deposit of Colombia, showing deposits / endowment by age / belt



Ter. Early Miocene	Ter. Eocene	L. Cretaceous	E. Cret.	Jurassic
6-9Ma	39-55Ma Mande batholith	60-74Ma Antioqua batholith	~130Ma	166-183Ma Ibaque batholith
Marmato: 6Ma 4Moz	Murindo	Segovia: 9Moz		Mocoa: 2Mt Cu
Buritica: 7Ma, 12Moz	Choco	Gramalote: 6Moz		
Titiribi: 8Ma, 9Moz	Cascabel: 22Moz			
La Colosa: 8Ma, 28Moz				
Quebradona: 8Ma, 7Moz				
Quinchia: 8-9Ma	-			

'Real' tectonic ingredients: When oceanic slabs subduct under continental plates, the denser oceanic plate typically subducts at ~45º, taking much of the 'good stuff' (water-induced melt) into the mantle with it. Two exceptions account for most of the best belts globally – 'flat slab' where the oceanic plate only dips 20-25º, and where the subducting plate hosts a hot-spot or better still a mid-oceanic ridge. Peer SolGold cites the subducting Galapagos hotspot for regional prospectivity (not quite correct as hot spot formed 23-28Ma, Cascabel formed ~38Ma). In the case of the Mid Cauca belt, flat-slab tectonism drives regional prospectivity.

Figure 4 (A) regional volcanic belts from Panama to Ecuador, and (B) area of flat-slap subduction in C



Miraflores – where it all started, but not critical mass

Originally drilled by AngloGold Ashanti / B2 in 2016, post 2013 PEA, prior owner Seafield Resources completed a PEA in 2013 and largely completed a DFS, but went insolvent when unable to repay C$16m of debt used to fund that. Metminco completed the DFS in 2017. The deposit lies in a porphyritic intrusive breccia-pipe hosted in an oceanic basement. The circular pipe is ~275m wide, and is open beyond 600m definition. The current resource of 840koz @ 2.74g/t also has ~0.5% Ag credits. From this, a reserve of 457koz @ 3.3g/t was defined in the 2017 DFS (Table 1) based on a conservative US$1,200/oz constrained with a 1.75g/t cut-off.

Table 1. Resource and reserve for Miraflores

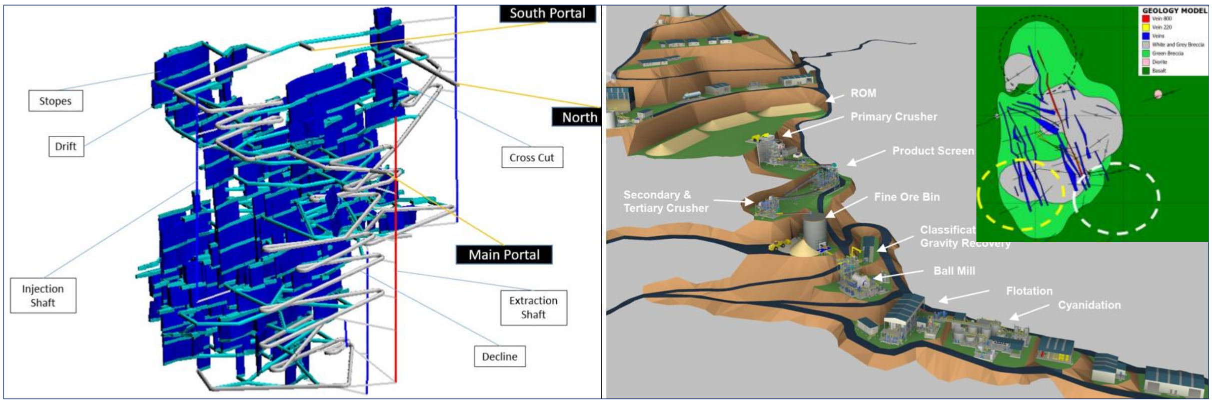
Quinchia (100%)	Tonnes (Mt)	Grade (g/t Au)	Ounces (000oz)
MIRAFLORES			
Miraflores M&I	3.0	2.98	283
Miraflores inferred	6.3	2.74	557
Miraflores resource	9.3	2.74	840
Miraflores reserve	4.3	3.29	457

Modelling paramaters for 2017 DFS	
Methodology	*Indicator Kriging, ID^3, US$1,200/oz constrained*
Holes / meters	*73 DD, 25,884m, +236m UG channels*
Cut off	*Resource: 2.00g/t, reserve: 1.53g/t*
Mining method	*Longhole, 2.5m min. mining width, 7m avg*
Processing method	*Float with CIL tail, 92% recovery*
Economic constraints	*US$27.92/t mining, US$25.71/t proc. + G&A*

Source: Los Cerros

With excellent ground conditions in the pipe and surrounding basalt, mining via longhole open stock with backfill is on 26m levels, with a 1.5m minimum mining width plus 0.5m dilution either side for a relatively conservative 31% average dilution. A 1,300tpd / 475ktpa vanilla float-CIL (including detox) plant grinding to a P_{80} of 106um has forecast recovery of 92%. The DFS outlines grid power via a 17km spur line, along with valley-fill dry-stack tails. At recovery of 92%, 46koz pa over nine years sees a total production of 421koz LOM.

Figure 5. (A) UG stope layout and (B) terraced plant layout if a standalone operation



Source: Metminco

Capital cost of US$72m includes US$14m for mining and US$46m for a small plant plus some site costs. Based on low-cost mining of US$27.94/t, higher cost processing at US$21.35/t and US$4.25/t G&A, we estimate AISC of US$843/oz, driving a A$297m $NPV_{5\%-1850}$ with 49% IRR and 3.2-year payback.

Figure 6 Summary economics for Miraflores DFS, and SCP scenario at US$,1850/oz

Miraflores UG	17 DFS	SCP
UG ounces (000oz)	457.6	457.6
UG grade (g/t)	3.29	3.29
LOM throughput (ktpa)	475	475
Prod'n Au LOM (000oz pa)	**46.2**	**421**
Mining cost (US$/t)	30.42	27.94
Processing cost (US$/t)	8.82	21.35
G&A (US$/t)	11.05	4.35
LOM AISC (US$/oz Au)	643	822

Miraflores UG	17 DFS	SCP
Total build capex (A$m)	90	90
Total sust. capex (A$m)	22	23
USD / AUD	0.80	0.80
NPV-1300 post-tax (A$m)	**120**	**118**
NPV-1850 post-tax (A$m)	**-**	**297**
IRR post-tax (%, US$1,850/oz)	25%	49%
Payback (years, US$1,850/oz)	3.60	3.25

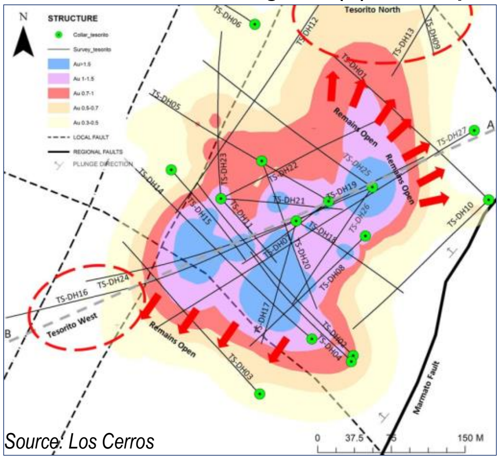
Source: Metminco, SCP, DFS @ 0.8 AUD/USD

Our view: while infill on higher grade shoots (e.g. 59m @ 5.2g/t, 11m @ 12g/t) could add ounces and grade, the asset would benefit from more scale. In this regard, perhaps the most material upside would be the synergies of running this alongside a pit at Tesorito South less than 1km away. That pit could variably support SCPe 125-175koz pa, but the lower end of the range would come with a lower strip and a smaller pit. By supplementing this with UG ore, we outline a ±150koz pa scenario in the report without pushing strip / tpd to difficult-to-achieve levels.

Major new discovery at Tesorito South

Three holes drilled by prior owner Seafield into Tesorito South included 384m @ 1.01g/t from 16m, but with no cross-holes it couldn't be certain if the asset had scale and no high-grade core or obvious starter pit had emerged. That took the shine off the asset at the time, leading prior operators to focus on cash-flow potential of Miraflores. Metminco's first hole, hole four, hit 180m @ 0.7g/t from surface. Critically this was the scissor to the discovery hole, establishing scale, but without starter pits / a higher grade core still as hole five and six hit 0.5-1.0g/t material; Figure 7A shows that these holes were peripheral to the deposit. The 'ah hah' moment came with hole seven hitting 64m @ 1.67g/t from 144m, giving the asset bulk and now a higher grade core. Essentially the pipe daylighted NE of drilling at the time. **Holes 25/26 essentially 'institutionalised' the discovery, flipping it into 'will be a mine territory with i) 330m @ 1g/t from surface and 158m @ 1.42g/t from surface, perpendicular to each other.** Key to emerging market builds is quick payback, and Tesorito South should have that in spades with 36m @ 3.31g/t and 14m @ 3.45g/t, both ~from surface in the NE of the deposit area where the high-grade daylights.

Figure 7 (A) Plan map showing drilling and (B) individual drill results

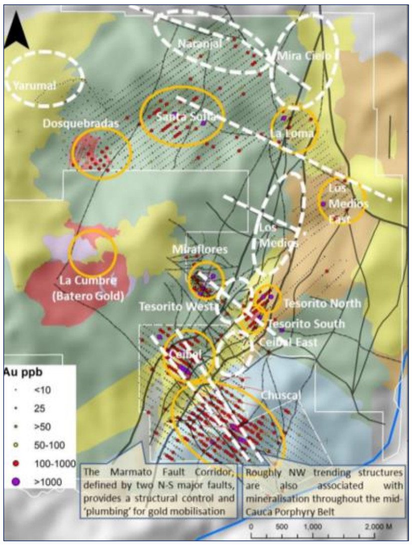


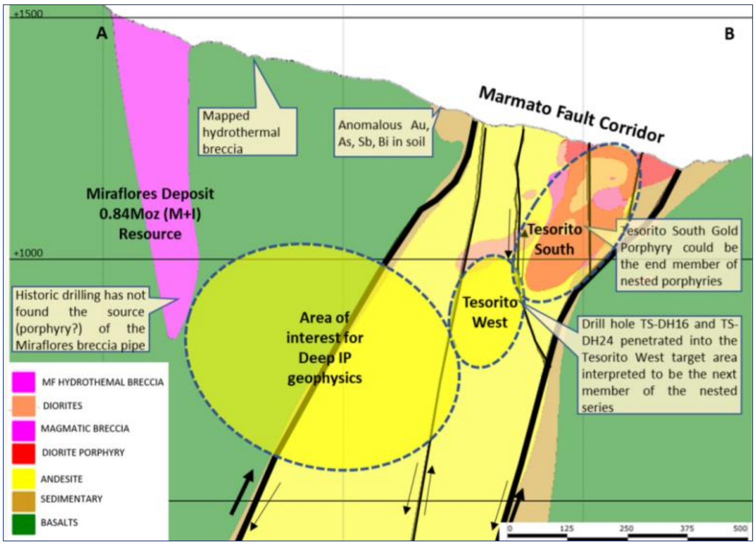
384m @ 1.01g/t	16m	29.3m @ 1.9g/t Au from 136.75m	TS-DH02
253m @ 1.01g/t	2.9m	64m @ 1.67g/t Au from 144m	TS-DH07
230m @ 1.01g/t	Surface	73m @ 1.6g/t Au from 114m	TS-DH08
262m @ 0.84g/t	Surface	66m at 1.3g/t Au from 132m	TS-DH11
238m @ 0.48g/t	Surface	44m @ 0.70g/t Au from 44m & 16m @ 1.22g/t Au from 115m	TS-DH13
320m @ 1.5g/t	2m	**102m @ 2.11g/t Au from 28m & 30m @ 2.47g/t Au from 262m**	TS-DH14
215m @ 0.86g/t	111m	34m @ 1.97g/t Au from 214m & **7.7m @ 2.13g/t Au from 312m**	TS-DH15
629m @ 0.88g/t	Surface	461m @ 1.11g/t Au from surface incl' **116m @ 2.32g/t Au from 132m**	TS-DH16
232m @ 1.15g/t	Surface	**52.3m @ 2.10g/t Au from 72m**	TS-DH17
177m @ 1.02g/t	Surface	54m @ 1.61g/t Au from surface & 40m @ 1.67g/t Au from 112m	TS-DH18
209m @ 1.01g/t	Surface	102m @ 1.33g/t Au from surface	TS-DH19
228m @ 0.86g/t	Surface	100m @ 1.22g/t Au from 128m	TS-DH20
274m @ 0.82g/t	Surface	74m @ 1.29g/t Au from 102m incl' **24.4m @ 2.5g/t Au from 150m**	TS-DH21
310m @ 0.74g/t	Surface	10m @ 1.37g/t Au from 4m & 40m @ 1.1g/t Au from 128m	TS-DH22
368m @ 0.57g/t	Surface	24m @ 0.99g/t Au from 2m	TS-DH23
378m @ 1.03g/t	Surface	222m @ 1.51g/t Au from surface incl' **36m @ 3.31g/t Au from surface**	TS-DH24
330m @ 0.99g/t	Surface	56m @ 1.95g/t Au from surface	TS-DH25
158m @ 1.42g/t	Surface	66m @ 1.89g/t Au from 80m	TS-DH26
36m @ 1.01g/t	116m	AND 72m @ 1.00g/t Au from 188m incl' **6m @ 2.05g/t Au from 254m**	TS-DH27
280m @ 0.83g/t	148m	116m @ 1.17g/t Au from 148m	TS-DH28
108m @ 1.1g/t	Surface	**33m @ 2.51g/t Au from 2.6m incl' 14m @ 3.45g/t Au from 4m**	TS-DH29
144m @ 1.2g/t	6m	28m @ 1.94g/t Au from 6m and 19m @ 1.88g/t Au from 92m	TS-DH30

Source: Los Cerros

<u>What is going on and what next:</u> the deposit is still open to the NE and SW, with drilling underway now to expand in those directions. Stepping back, Figure 8A shows the general layout – it would appear that multiple deposits represent enrichments around a circular caldera structure. However, structural controls are important, with potential later epithermal overprints on early gold-porphyry pulses. In this case, both at Quinchia, and regionally on the Middle Cauca belt, NW-SE trending cross faults are considered an important structural control. Figure 8A shows these, including discoveries at Tesorito South and Miraflores. In fact, it is entirely possible that both Tesorito South and Miraflores source from the same regional structure, and deep IP is now being undertaken to target additional drilling there. The Marmato Fault Corridor acts as a footwall to mineralisation at Tesorito South.

Figure 8 (A) Plan showing targets around a circular caldera structure and (B) section from Miraflores to Tesorito



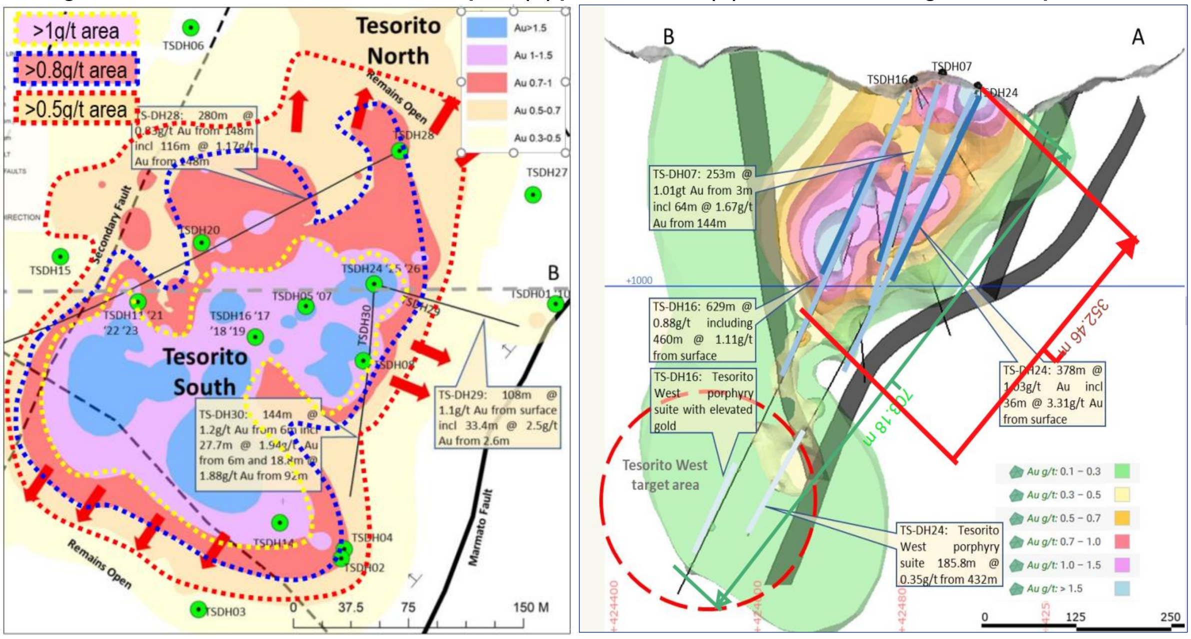


Source: Los Cerros

How big could it be?

Figure 9A shows the area of the 0.7 and 1g/t envelopes at surface, equating to ~165 x 165m and 220 x 220m, respectively. Figure 9B shows the core continuing to ~350m. The weighted average grade of all drill holes is 0.95g/t (over 262m), this is quite inaccurate as it includes lower grades that may be excluded, lifting the grade, but invariably sees a greater density of drilling in higher grade areas, skewing the average up.

Figure 9. Tesorito South mineralized footprint (A) plan view and (C) x-section showing 350m deep HG 'core'



Source: Los Cerros, SCP

SCPe 1-2Moz in 300-400m deep pit

The volume of any grade-shell is dependent on cut-off, and linked influence to strip and gross-margin. Simplistically modelling the grade shells as cylinders within a conical pit, the below tables show a mid-point of 1.9Moz would come at a 1.3:1 strip, driving a 47% gross margin at US$1,500/oz, which we use for our own mining inventory modelling. At this stage, a reserve is difficult to estimate as the cross-dependencies to strip and grade are very high, all of which we are estimating on an approximate basis only. With relatively high capex compared to more flat terrains, we err on the side of lower ounces at higher strip and grade, using a 1.6Moz @ 1.13g/t pit-constrained inventory, although note that larger lower-grade lower-strip options will almost certainly be available.

Table 2 (A) Inputs and (B) sensitivities to our (C) estimated pit-constrained resource for Tesorito South

Sensitised inputs	
Ore envelope radius (m)	152
Pit depth (m)	**350**
Cut-off (g/t)	0.5
SG	2.7
Pit depth (m)	350
Pit wall slope (°)	45
Implied strip (x)	1.4
Grade (g/t)	0.8
Recovery (%)	90%
Gold price (US$/oz)	1500
Mining cost (US$/t)	2.5
Proc. And G&A cost (US$/t)	12.5
Gross margin (%)	**47%**

Resource / strip / marging sensitivity for different grade shells								
SCP @ 0.7g/t	0.6g/t	0.8g/t	1.0g/t	1.2g/t	1.4g/t	Tonnes	Strip	Margin*
200m pit	0.3	0.4	0.5	0.6	0.7	15	0.4	63%
300m pit	0.5	0.7	**0.9Moz**	**1.1Moz**	1.3	28	1.6	56%
400m pit	0.8	1.1	**1.3Moz**	**1.6Moz**	1.9	41	3.2	47%
500m pit	1.0	1.4	1.7	2.1	2.4	54	5.3	35%
SCP @ 0.5g/t	0.6g/t	0.8g/t	1.0g/t	1.2g/t	1.4g/t	Strip	Strip	Margin^
200m pit	0.4	0.50	0.62	0.7	0.9	19	0.1	56%
300m pit	0.8	**1.0Moz**	**1.3Moz**	1.5	1.8	39	0.9	50%
400m pit	1.1	**1.5Moz**	**1.9Moz**	2.3	2.6	59	2.0	43%
500m pit	1.5	2.0	2.5	3.0	3.5	78	3.3	33%
UG potential (Moz)		1.0g/t	1.2g/t	1.4g/t	1.6g/t	1.8g/t	2.0g/t	2.5g/t
HG core: oz / 100m:		225koz	271koz	316koz	361koz	406koz	451koz	564koz

*Source: SCP; *At 1g/t and ^0.8g/t, US$1,500/oz, US$2.50/t mining, US$12.50/t G&A and proc.*

Quinchia (100%)	Tonne (Mt)	Grade (g/t)	Ounces (000oz)
TESORITO SOUTH			
SCP 350m deep pit	44	1.13	1,592
Total pit and UG reserve	48	1.26	1,949

Source: SCP estimates

Valuation

We model the Miraflores UG per the DFS (Figure 6). We very simply lift the plant to 4Mtpa, and run a concurrent open pit using the grade and strip discussed above. Whilst the UG saw a 92% recovery, we lower this to 90% for the lower-grade pit for a 90.5% blended average. We model a fixed 4Mtpa plant, with capex of US$345m given advantages of only 17km to grid power, but additional cost for TMF and civils given the terrain. Mining, processing and G&A costs are estimated based on global benchmarking, with all inputs shown in Table 3.

In fact, the similarity to the Didipio operation in the Philippines makes a good comparison – that operation planned a 3.5Mtpa mill facility to process a pre-start pit reserve of 44Mt @ 1.7g/t AuEq (50/50 Au/Cu) with a small 6Mt @ 2.8g/t AuEq UG. Once permitted, it produced >250koz in 2017, declining to 127koz pa in 2019. A key component of Los Cerros is the "3 S'": strip, scheduling and stockpiling. Firstly the large low-grade halo may allow **stockpiling** and end of life processing of 0.3-0.5g/t material common (B2 has 0.19gt cut-off at Gramalote), lowering the **strip.** Most importantly, the high-grade at surface should enable **starter pits** to 'repay the mill' more quickly.

Table 3. Peer comparisons and inputs used in our Los Cerros DCF valuation

Peer comparisons	G Mining	Oceana	Los Cerros	
	Brazil	Philippines	Colombia	
	TZ 2019	Dipidio 2014	SCPe	Comment
Mill throughput (Mtpa)	4.3	3.5	4.0	*475kt pa UG, residual pit*
Pit grade (g/t Au)	-	-	1.13	*Smaller higher-grade subset*
ROM grade (g/t Au, incl. UG)	1.41	0.97	1.33	*Supplemental UG lifts grade*
Strip (x)	3.9	2.6	1.7	*Use 0.5g/t shell / cyclinder+cone*
Recovery (%)	90%	88%	90%	*86% prelim. at 106um, 92% for UG*
OP mining cost (US$/t)	2.66	2.58	2.58	*Similar bulk mining*
UG mining cost (US$/t)	-	26.45	50.00	*80% lift on DFS for conservatism*
Processing cost (US$/t)	9.02	7.67	10.00	*Global benchmarking*
SG&A + reclaim (US$/t)	2.96	9.61	5.29	*Above peer average, Andes*
Royalty (%)	3.00%	2.60%	5.0%	*Additional 0.5% B2 NSR*
On site capex (US$m)	382	185	345	*Global benchmarking*

Source: SCP, company reports

Below we show our NPV of A$1,080m. As noted, this is only an approximate estimate or even 'best guess' as it is simply too early to accurately estimate the strip, schedule and grade. We have modelled a 3Y 1.7g/t starter cut of the pits, declining thereafter for LOM average of 1.13g/t. However, our estimates for strip are approximate given the trade off between grade and strip / capex, and we have conservatively excluded stockpiling at this time, which would lift ounces, lower strip and potentially assist with scheduling grades in early years.

Table 4. Modelled economic parameters for Los Cerros UG DFS, SCP UG DFS and SCP combined pit and UG

Valuation scenarios	LCL	SCP	
Quinchia (100%)	17 DFS	UG	UG + pit
UG tonnes (000t)	4,326	4,326	4,326
UG ounces (000oz)	458	458	458
UG grade (g/t)	3.29	3.29	3.3
Pit tonnes (000t)	-	-	34,655
Pit ounces (000oz)	-	-	1,381
Pit grade (g/t)	-	-	1.24
Strip ratio (x)	-	-	1.70
LOM throughput (ktpa)	475	475	4,000
Blended ROM grade (g/t)	3.29	3.29	1.47
Recovery (%)	92.0%	92.0%	90.5%
Prod'n Au LOM (000oz pa)	**46**	**46**	**166**

Valuation scenarios	LCL	SCP	
Quinchia (100%)	17 DFS	UG	UG + pit
UG mining cost (US$/t)	27.94	27.94	50.00
Pit mining cost (US$/t)	-	-	2.58
Processing cost (US$/t)	21.35	21.35	10.00
G&A (US$/t)	4.35	4.35	4.00
LOM AISC (US$/oz Au)	643	822	939
Total build capex (A$m)	90	90	460
Total sust. capex (A$m)	22	23	22
USD / AUD	0.80	0.80	0.75
NPV-1300 post-tax (A$m)	**120**	**118**	**-**
NPV-1850 post-tax (A$m)	**-**	**297**	**1,080**
IRR post-tax (%, US$1,850/oz)	25%	49%	44%

Source: SCP estimates, UG @ 0.8 AUD/SUD DFS @ 0.8 AUD/USD

Recommendation

Although we show a fully-diluted (for mine build) model below, at this stage it is far too early to be able to reliably estimate that. Rather, we apply an extremely conservative 0.2xNAV to our diluted-for-options (but not build) NAV, which includes the mining operations, cash and cash from options. On this basis, we **initiate coverage with a BUY rating and A$0.36/sh PT.** Exploration upside is a key tenant of our thesis. For Tesorito South this is potentially captured in our 1.6Moz inventory already. Regionally, exploration is difficult to value, certainly in comparison to the potential billion-dollar DCF already potentially available. As such, we see exploration as a key reason to invest (discussed in detail overleaf), but conservatively exclude it from our valuation for now.

Table 5. (A) DCF valuation and NAV, (B) sensitised to gold price and discount rate

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

*Source: SCP estimates, *project NPV, ex fin. costs and cent G&A, discounted to build start*

To convert our asset NAV to a group valuation, we model 65% gearing of debt, with residual equity to cover the capex, but also exploration / engineering until DFS, plus mine build, including central G&A, finance charges during the build, and additional working capital beyond modelled capex. This can only be considered very approximate at this stage, but in line with the current 0.09xNAV that the stock trades on, this shows a fully-funded fully-diluted 1xNAV at first gold around A$1.20/sh, or >8x above the current price.

Table 6 (A) Geared NAV net of G&A and central costs and (B) sensitivities

Group NAV over tim	4Q21	4Q22	4Q23	4Q24	4Q25
Quinchia NPV (A$m)	977.0	1,025.8	1,079.9	1,256.6	1,650.2
G&A and fin. costs (A	(112.1)	(114.8)	(117.3)	(116.0)	(104.4)
Net cash prior qtr (A$	2.9	13.3	6.3	66.8	(266.2)
Cash from options (A	2.9	2.9	2.9	2.9	2.9
Nominal expl'n (A$n	-	-	-	-	-
NAV FF FD (A$m)	871	927	972	1,210	1,282
Shares in issue (m)	*626*	*733*	*733*	*1,054*	*1,054*
1xNAV/sh FF FD (A$	**1.39**	**1.27**	**1.33**	**1.15**	**1.22**

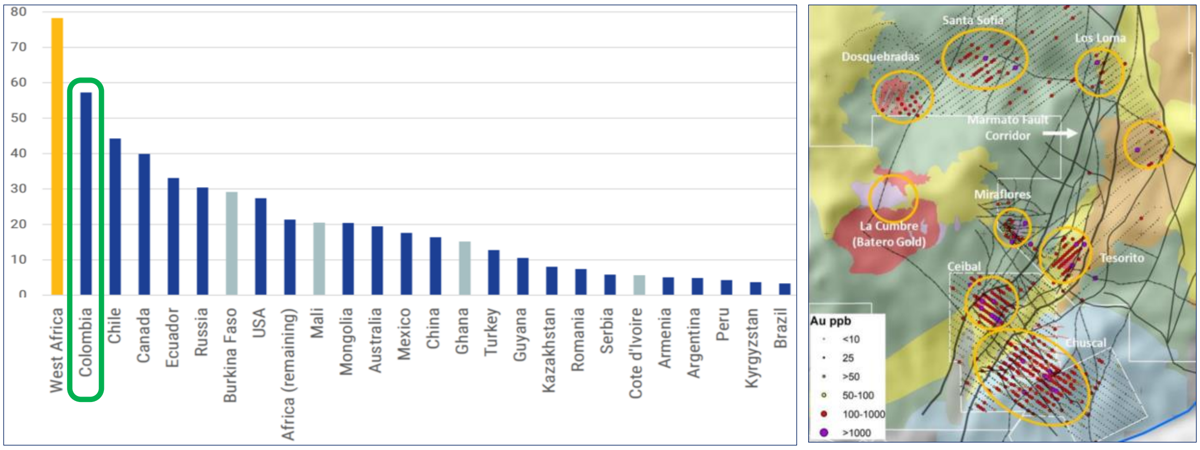
Geared NAV at first pour, diluted for build, net G&A and fin. costs^					
NAV, first gold (A$m)	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
Discount rate: 9%	878	992	1,107	1,221	1,335
Discount rate: 7%	946	1,068	1,189	1,311	1,432
Discount rate: 5%	1,023	1,153	**1,282**	1,412	1,542
Geared project IRR:	33%	37%	41%	44%	48%
NAV, first gold (A$/sh)*	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
Discount rate: 9%	0.69	0.83	0.97	1.11	1.25
Discount rate: 7%	0.79	0.94	1.09	1.24	1.39
Discount rate: 5%	0.89	1.05	**1.22**	1.38	1.55
*^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for build equity*					

Source: SCP estimates

Exploration upside

Perhaps the most simple and important price driver for Los Cerros is simply adding ounces. We previously discussed the geological 'hot spot' that is the Middle Cauca belt in Colombia. We quantify this below (Figure 10A), with Colombia adding more gold ounces from 2006-2016 than any country globally. Quinchia sits on a circular structure, likely related to an intrusive centre, with 8 targets nearby. The company has one of its own rigs and three contract rigs (additional contract rig to be added in 2022) drilling these (Figure 10B) and potential targets in the Andes project ~70km further north.

Figure 10. (A) Global gold discoveries 2006-16 by country and by Moz

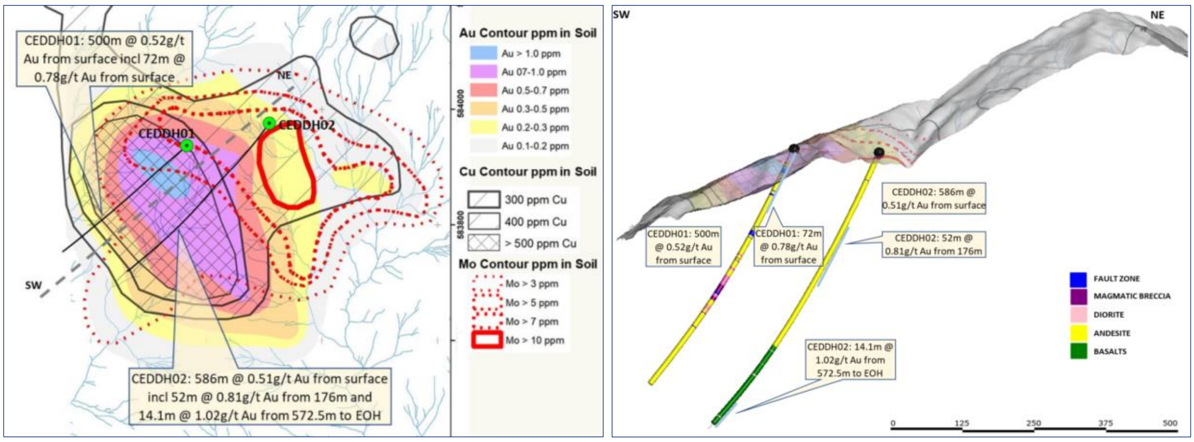


Source: Roxgold after S&P

Dosquebradas hosts a low-grade 58Mt @ 0.7g/t for 459koz at a 0.5g/t cut-off with 0.6g/t silver credits.

Ceibal lies 1km south of Tesorito South, and was only recently drilled for the first time from surface, with the maiden drill hole returning 500m @ 0.52g/t from surface (incl. 72m @ 0.78g/t from surface) and 586m @ 0.51g/t from surface. While the grades aren't what is required for a smaller operation, this does start opening the door to 'mega mine' potential, but Los Cerros' target is to find higher grades for now. Of note, some early drilling at Tesorito was similar, so vectoring into higher grades is still a possibility in our view.

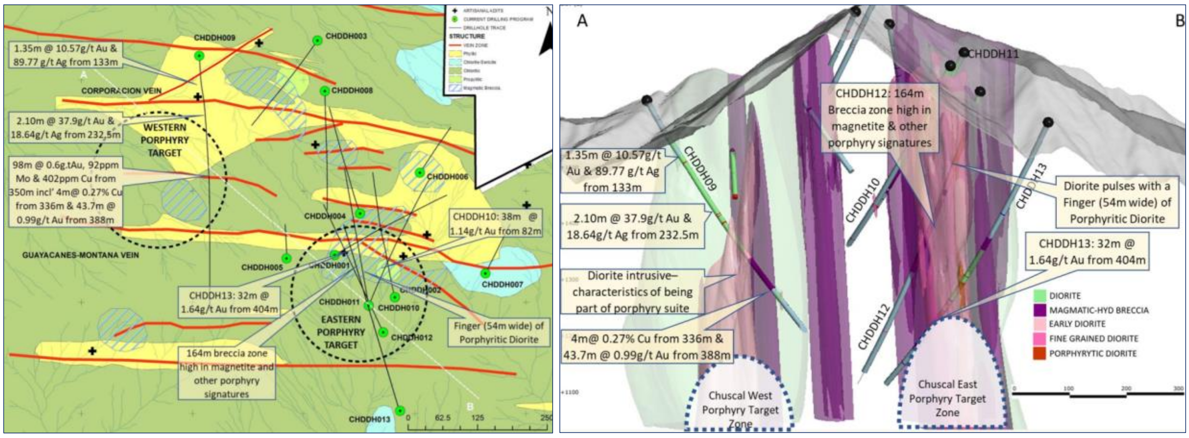
Figure 11. (A) Exploration targets within 3km radius of Miraflores and (B) the Ceibal target



Source: Los Cerros

Chuscal, along with Ceibal above, was acquired from AngloGold Ashanti as a discrete licence. Chuscal has the largest soil anomaly footprint, but is more complicated with what appears to be an early porphyry (350m @ 0.57g/t Au from surface, and 320m @ 0.43g/t from 32m) overprinted by a later epithermal event with 2-6m @ 5-8g/t. Two porphyry targets remain to be drilled there; with a footprint some twice the size of Tesorito there is significant size potential here. Most interesting is that the 350m @ 0.57g/t above was not porphyry hosted, but hosted in country rock, with only a 'finger' of porphyry diorite was ever been drilled, interpreted to be related to an underlying causative porphyry (Figure 12B, hole 9).

Figure 12 (A) Plan and (B) section showing early drilling and porphyry targets at Chuscal

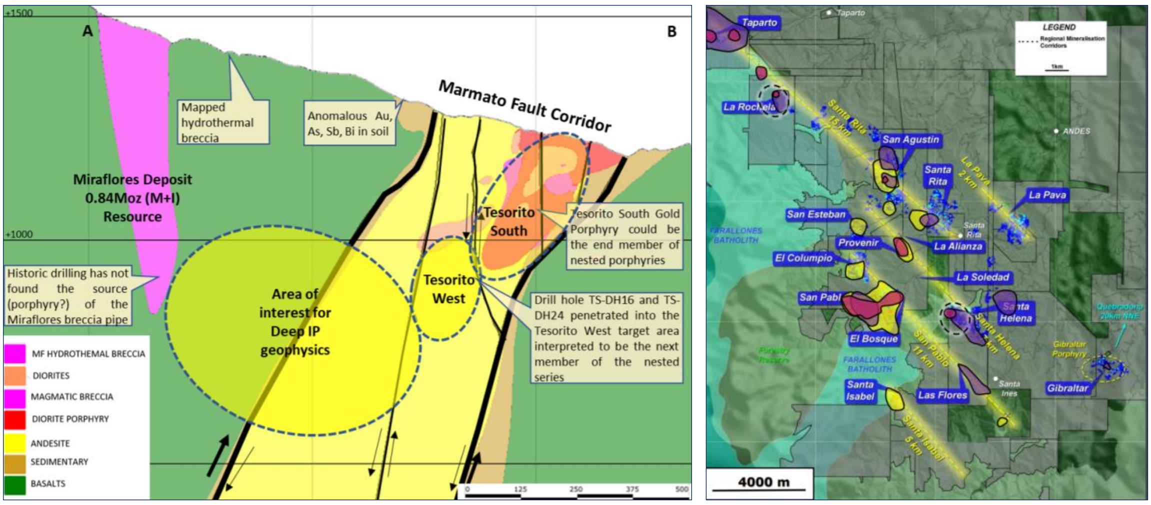


Source: Los Cerros

Tesorito West and Deeps lies between Tesorito and Miraflores, as shown in Figure 13B. The system is open at depth, and early drilling has hit smoke but not yet fire. The company will now look at drone magnetics and deep-penetrating geophysics to see if targets can be identified.

The Andes project, 70km to the north, is 8x larger than the holdings at Quinchia. The area is earlier stage and isn't an immediate priority for drilling. However, this is more prime Middle Cauca real estate, with 12 targets along the classic NW corridor orientation. These include copper-gold porphyry targets of late Miocene age, similar to the 30Moz AuEq Nuevo Chaquiro asset 20km north of Andes. A single target was drilled in 2018, with highlights of 27m @ 1.6g/t Au and 83g/t Ag from 52m. The silver is of particular interest with an old silver mine just to the north of the license area. Quite astonishingly, 2% of all ~14,000 surface samples taken here grade >1g/t.

Figure 13 (A) Miraflores / Tesorito West / Tesorito Deeps targets (B) The larger Andes project showing multiple early-stage epithermal and porphyry targets



Source: Los Cerros

Ticker: LCL AU	**Price / mkt cap:** A$0.15/sh, A$94m	**Project PNAV today:** 0.09x	**Asset:** Quinchia
Author: B Salier B Gaspa	**Rec/0.2xNAV PT:** BUY, A$0.36/sh	**1xNAV3Q24 FF FD:** C$1.33/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
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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*

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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*	*733*	*733*	*1,054*	*1,054*
1xNAV/sh FF FD (A$/sh)	**1.39**	**1.27**	**1.33**	**1.15**	**1.22**

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
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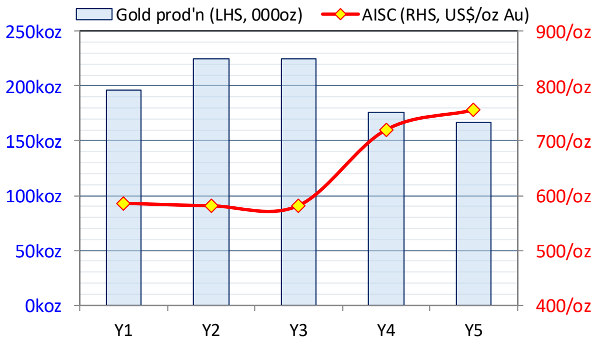
Discount rate: 7%	0.79	0.94	1.09	1.24	1.39
Discount rate: 5%	0.89	1.05	1.22	1.38	1.55

*^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 resouce	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	ash 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	1,054

Ratio analysis	CY20A	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	332.0	532.4	719.2	732.6	933.6
EPS (A$/sh)	-	-	-	-	-
CFPS (A$/sh)	-	-	-	-	-
EV (A$m)	42.0	79.6	96.3	105.6	156.3
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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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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Summary of Recommendations as of October 2021	
BUY:	48
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	48

[1] 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