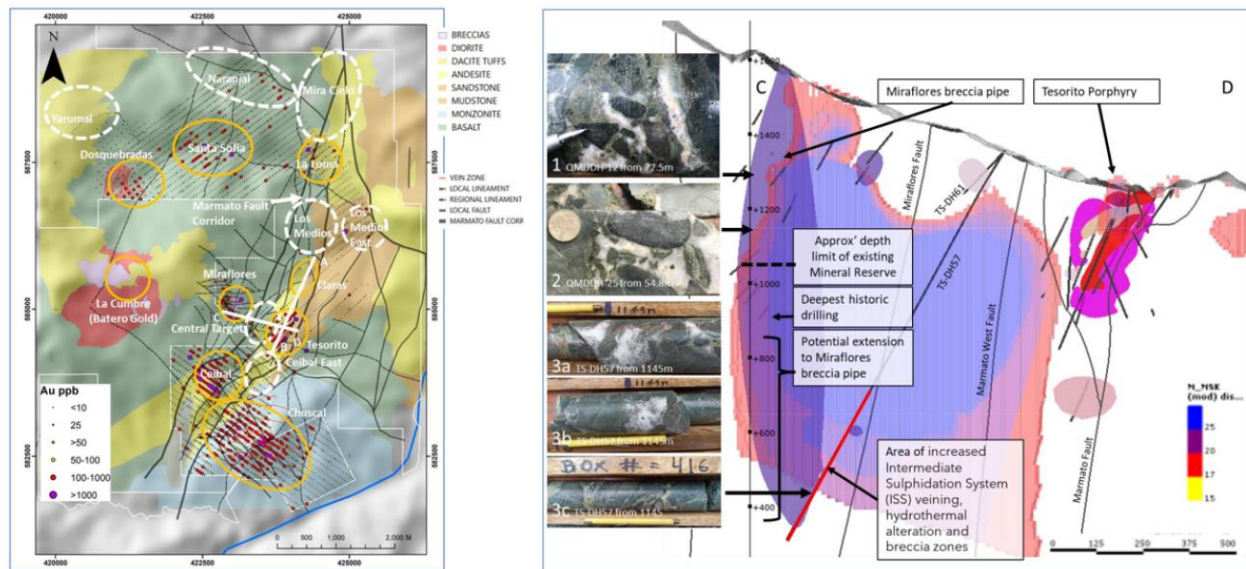


Ticker: LCL AU	Cash: A\$17.8m	Project: Quinchia
Market cap: A\$47m	Price: A\$0.07/sh	Country: Colombia
REC. (unc): BUY	TARGET (unc): A\$0.37/sh	RISK RATING (unc): SPECULATIVE

Recall, the current Miraflores breccia pipe has constrained 457koz in reserves, with today's drilling at Central suggesting this geology goes much deeper (>500m) below current extents. Whilst maiden scout drilling is always preferred to hit on the first pass, we think the main take-home from today's news is a conceptual 'doubling' of reserves. Hence our excitement that a shallower follow-up hole is planned. Additionally, as the ISS veining, magnetite + pathfinder elements appear to validate / coincide with geophysical signatures thus far, we suspect the next round of follow-up drilling to be better guided. Taking a step back, this is all bonus discovery upside drilling to build on the existing **2.6Moz @ >1g/t MRE** currently advancing towards scoping. As such, **we maintain our BUY rating and A\$0.37/sh PT based on 0.3xNAV_{1850-5%}** for a hybrid pit and UG seeing 155koz pa over 10Y at an AISC of ~US\$1,200/oz for our ~A\$760m NPV, from SCPe 1.8Moz 1g/t inventory. We model >200koz pa in the early years where high-grade starter pits speed payback. Looking forward, Los Cerros' 1Q22 A\$17.5m cash leaves them well positioned. As the market and premium for exploration / development names thin, LCL is fortunate that the next steps for the mining centre will focus on geotech and metallurgy, which given the largely complete resource drilling does take time, but is lower cost than the drill out. We think this, along with trade-off studies on large bulk-grade mine vs smaller higher-grade (itself very digestible to mid-tier buyers), should continue to move this asset up the value curve to the benefit of current equity holders.

Figure 1. (A) Quinchia regional map and (B) Central Target cross section showing today's scout ddh



Drilling update; Miraflores style breccia hit >500m below existing reserves, follow-up planned

Los Cerros provided an update on drilling across Central, Claras and Tesorito West targets within 3km of 2.6Moz MRE. The first scout hole at **Central**, testing anomaly between Tesorito and Miraflores resources returned anomalies, mineralization and identified Miraflores-style breccia + hydrothermal alteration lateral to and deeper (>500m) than the existing MRE. A shallower follow-up hole is planned to test both the potential extension + hydrothermal zone. At **Tesorito West** the 700m deep hole confirmed the western limits of Tesorito (as designed), hitting elevated pathfinders in the last ~100m that suggests mineralization continues at depth with follow-up planned. Drilling at **Claras** (blind geophysical target north of Tesorito) identified pathfinders suggesting the nearby presence of an intrusive porphyry body and comparable structural regime to Tesorito, where two follow-up holes are planned. At **Ceibal**, the follow-up program to last year's 586m @ 0.51g/t porphyry is underway with one drill hole completed (assays

pending) and another two are expected to be completed this month. Los Cerros is concurrently advancing several sites for drilling this year.

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. 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

Brock Salier (London) M: +44 7400 666 913 bsalier@sprott.com

Justin Chan (London) M: +44 7554 784 688 jchan@sprott.com

Brandon Gaspar (Toronto) M: +1 437 533 3142 bgaspar@sprott.com

Eleanor Magdzinski (Toronto) M: +1 705 669 7456 emagdzinski@sprott.com

Ticker: LCL AU	Price / mkt cap: A\$0.074/sh, A\$47m	Project PNAV today: 0.06x	Asset: Quinchia
Author: B Salier B Gaspar	Rec/O.3xNAV PT: BUY, A\$0.37/sh	1xNAV_{3Q24} FF FD: C\$1.05/sh	Country: Colombia

Commodity price	CY21A	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%	0.30x	0.13	
Tesorito South	461	100%	0.30x	0.20	
Cash (1Q22)	17.5	100%	1.00x	0.03	
Cash from options	2.4	100%	1.00x	0.00	
Resource ex rsvs @ US\$/oz	6	100%	1.00x	0.01	
Asset NAV5% US\$1850/oz	782		PT:	0.37	
*Shares diluted for options not mine build Market P/NAV5x 3Q23 0.06x					

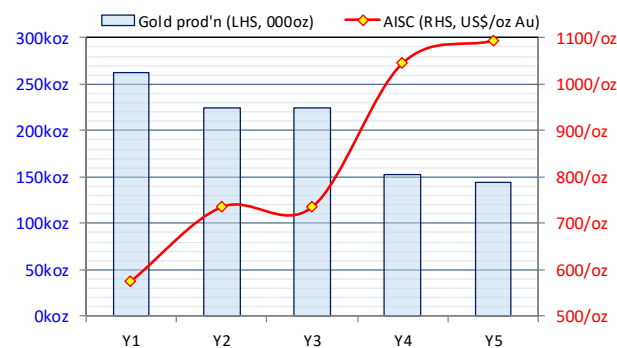
Asset value: 1xNPV project @ build start (A\$m, ungeared)*					
Project NPV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	412	515	618	721	824
Discount rate: 7%	471	583	696	808	920
Discount rate: 5%	537	660	783	906	1,029
Ungeared IRR:	30%	34%	39%	43%	47%
Project NPV (A\$/sh)	\$1650oz	\$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					
Group NAV over time^	1Q22	1Q23	1Q24	1Q25	1Q26
Quinchia NPV (A\$m)	691.9	726.6	768.9	1,045.1	1,349.3
G&A and fin. costs (A\$m)	(120.6)	(123.4)	(125.7)	(124.2)	(112.6)
Net cash prior qtr (A\$m)	19.3	31.2	23.6	(19.2)	(291.7)
Cash from options (A\$m)	2.4	2.4	2.4	2.4	2.4
Nominal expl'n (A\$m)	5.7	5.7	5.7	5.7	5.7
NAV FF FD (A\$m)	599	643	675	910	953
Shares in issue (m)	645	645	645	1,103	1,103
1xNAV/sh FF FD (A\$/sh)*	0.93	1.00	1.05	0.83	0.86

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%	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
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					
Production	Y1	Y2	Y3	Y4	Y5
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



Source: SCP estimates

Resource / Reserve	Tonnes	Grade	Ounces
Miraflores resource	9.8Mt	2.79g/t	877koz
Dosquebrados resource	20.2Mt	0.71g/t	459koz
Tesorito South resource	50.0Mt	0.81g/t	1298koz
Group resource incl Tes. S below	80.0Mt	1.02g/t	2634koz
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

Project: USES		Funding: SOURCES	
Pre-DFS expl'n / G&A:	A\$14m	Cash 2Q21 + pre-Au ITM op.:	A\$20m
Exploration to DFS:	A\$11m	Equity for DFS:	A\$21m
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\$588m	TOTAL SOURCES:	A\$578m

Share data	Basic	FD with options	FD for build		
Basic shares (m)	638.2	682.5	1,103		
Ratio analysis	CY20A	CY21A	CY22E	CY23E	CY24E
Average shares out (m)	332.0	533.9	643.8	644.6	930.8
EPS (A\$/sh)	-	-	-	-	-
CFPS (A\$/sh)	-	-	-	-	-
EV (A\$m)	16.8	20.3	16.5	24.1	88.1
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	-
P/CF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	-

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	3.1	3.5	4.0
Finance cost (A\$m)	1.3	0.5	(0.0)	-	0.4
Taxes (A\$m)	-	-	-	-	-
Net income (A\$m)	(5.3)	(4.0)	(3.1)	(3.5)	(4.4)

Cash flow, attrib.	CY20A	CY21A	CY22E	CY23E	CY24E
EBIT (A\$m)	(3.9)	(3.5)	(3.1)	(3.5)	(4.0)
Add back D&A (A\$m)	0.0	-	-	-	-
Less tax, interest (A\$m)	1.3	0.5	(0.0)	-	0.4
Wkg cap change (A\$m)	-	-	-	-	-
Other non-cash (A\$m)	(2.1)	(1.1)	0.0	-	(0.8)
Cash flow ops (A\$m)	(4.7)	(4.0)	(3.1)	(3.5)	(4.4)

PP&E: build /sust (A\$m)	(0.6)	0.2	0.0	-	247.4
PP&E - expl'n (A\$m)	(2.0)	7.4	5.6	4.0	1.0
Cash flow inv. (A\$m)	2.6	(7.7)	(5.6)	(4.0)	(248.4)
Share issue (A\$m)	16.0	23.2	20.6	-	210.0
Debt draw (repay) (A\$m)	(0.4)	(0.1)	-	-	30.0
Cash flow fin. (A\$m)	15.7	23.1	20.6	-	240.0
Net cash change (A\$m)	13.5	11.4	11.9	(7.5)	(12.8)
EBITDA (A\$m)	-	(4.0)	(3.1)	(3.5)	(4.0)

Balance sheet	CY20A	CY21A	CY22E	CY23E	CY24E
Cash (A\$m)	7.8	19.3	31.2	23.6	10.8
AR, inv, prepaid (A\$m)	0.2	0.2	0.2	0.2	0.2
PP&E + other (A\$m)	20.0	27.7	33.3	37.3	285.7
Total assets (A\$m)	28	47	65	61	297
Debt (A\$m)	-	-	-	-	30.0
Accounts payable (A\$m)	0.5	0.5	0.5	0.5	0.5
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	393.6	414.2	414.2	624.2
Earnings (A\$m)	(343.1)	(347.2)	(350.2)	(353.7)	(358.1)
Liabilities + equity (A\$m)	28	47	65	61	297

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SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	56

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