

**Ticker:** LCL AU      **Cash:** A\$14m      **Project:** Quinchia  
**Market cap:** A\$19m      **Price:** A\$0.03/sh      **Country:** Colombia  
**REC. (unc):** BUY      **TARGET (-26c):** A\$0.11/sh      **RISK RATING (unc):** SPECULATIVE

Our thesis in Los Cerros 12M ago was threefold; (i) a large higher-grade OP MRE after initial 238m @ 2.1g/t, benefitting from a higher-grade starter after 36m @ 3.3g/t; (ii) blue-sky upside in event of nearby anomalies representing a porphyry cluster, with (iii) downside protection from the 459koz UG reserve at DFS level. Winding forward a year, the high-grade OP area was smaller than we would have liked, but does have a core 540koz @ 1.2g/t; greenfield exploration had no success after today's results; so downside protection from a smaller 'digestible' project is left. While the sell-off is understandable given current markets and lack of drill success, the ~1.1Moz core-pit and UG, combined with A\$14m cash today, should fund a solid PEA and even maintain optionality on acquisitions in these weak markets. Also, while not immediate, exploration holdings to the north at 'Andes', offer more speculative upside. Consequently, we lower our projected 1.3Mt @ 0.8g/t OP pit (which we blend with 458koz @ 3.3g/t UG) to 500koz @ 1.2g/t, and reduce our mill scenario from 5.6Mtpa / A\$505m capex to 2Mtpa / A\$250m. This lowers production from 155koz pa to 94koz pa, and NPV from A\$757m to A\$569m, but maintains a 40% IRR given the early-years >1.5g/t feed over several quarters. Even smaller scenarios starting with UG only (to allow time to permit a pit) could be feasible too. Given the high cost of capital now / low share price, we lower our NAV multiple from 0.3x to 0.1x until a PEA is released or markets recover to attribute exploration value. As such, **we maintain our BUY rating but lower our PT from 37c to 11c 0.1xNAV<sub>1850-5%</sub>**. With geotech and metallurgy key inputs to a PEA, and a healthy balance sheet, the company is well positioned to execute on this strategy. However, the market clearly doesn't care. At current prices, this leaves M&A a 'risk' in our view, with smaller carve-out projects eminently deliverable by mid-tier peers, and the cost (now) unfortunately (for existing holders) extremely low. This provides little solace to equity holders from last year, but at least presents optionality / upside from current low share prices.

**Table 1. Old and new SCP estimates for smaller operation**

Quinchia (100%)	SCP			Quinchia (100%)	SCP		
	Old	New	Δ old		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)	52,600	13,000	-75%	G&A (US\$/t)	4.00	4.00	0%
Pit ounces (000oz)	1,336	502	-62%	LOM AISC (US\$/oz Au)	1,214	922	-24%
Pit grade (g/t)	0.79	1.20	52%	Total build capex (A\$m)	505	250	-51%
Mine life (years)	10.5	9.3	-12%	Total sust. capex (A\$m)	22	22	0%
Strip ratio (x)	1.7	1.0	-41%	Gold price (US\$/oz)	1,850	1,850	0%
LOM throughput (ktpa)	5,600	2,000	-64%	USD / AUD	0.74	0.69	-6%
Blended ROM grade (g/t)	0.98	1.72	76%	<b>NPV-1850 post-tax (A\$m)</b>	<b>757</b>	<b>621</b>	<b>-18%</b>
Recovery (%)	90.5%	91.0%	0%	<b>IRR post-tax (%)</b>	<b>39%</b>	<b>43%</b>	<b>11%</b>
<b>Prod'n Au LOM (000oz pa)</b>	<b>155</b>	<b>94</b>	<b>-39%</b>				

Source: SCP estimates

## No luck on deep drilling: Back-to-basics strategy, trading close to cash leaves M&A a 'risk'

Los Cerros reported six deep exploration holes around the existing MRE. **Tesorito North**, under the bulk OP resource tested two conceptual targets with no success. **Ceibal** to the south, a bulk ~0.5g/t area, tested potential causative porphyry locations, similarly without success. **Miraflores Deeps**, under the UG reserve, intersected the breccia but at low grade with 393m @ 0.19g/t ~200m under existing resources. The **company strategy** now sees a cessation of deep exploration holes, with A\$14m of cash to be preserved outside small spend on feasibility studies on the existing resources.

## 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

- 2H22: SCPe scoping study

## Research

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<b>Ticker:</b> LCL AU	<b>Price / mkt cap:</b> A\$0.03/sh, A\$19m
<b>Author:</b> B Salier E Magzinski	<b>Rec/0.1xNAV PT:</b> BUY, A\$0.11/sh

<b>Project PNAV today:</b> 0.03x	<b>Asset:</b> Quinchia
<b>1xNAV<sub>3Q24</sub> FF FD:</b> C\$0.85/sh	<b>Country:</b> 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%	0.10x	0.04	
Tesorito South	325	100%	0.10x	0.05	
Cash	14.0	100%	1.00x	0.02	
Cash from options	0.1	100%	1.00x	0.00	
Exploration value	-	100%	1.00x	-	
Asset NAV5% US\$1850/oz	635		PT:	0.11	
*Shares diluted for options not mine build Market P/NAV5% 3Q23 0.03x					

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

Project NPV (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	379	436	493	551	608
Discount rate: 7%	434	497	559	622	684
Discount rate: 5%	498	566	635	703	772
Ungeared IRR:	36%	40%	43%	47%	50%
Project NPV (A\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	0.08	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	0.13	0.14

\*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)	568.5	597.0	629.7	770.3	933.0
G&A and fin. costs (A\$m)	(78.3)	(78.9)	(79.1)	(76.6)	(69.6)
Net cash prior qtr (A\$m)	19.3	11.2	3.6	3.4	(135.7)
Cash from options (A\$m)	0.1	0.1	0.1	0.1	0.1
Nominal expl'n (A\$m)	-	-	-	-	-
NAV FF FD (A\$m)	509	529	554	697	728
Shares in issue (m)	654	654	654	1,089	1,089
1xNAV/sh FF FD (A\$/sh)*	0.78	0.81	0.85	0.64	0.67

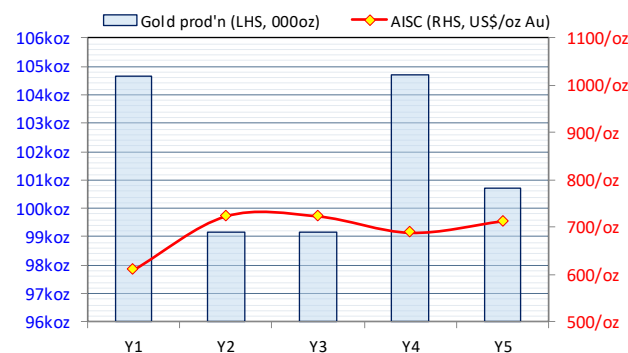
**G geared NAV at first pour, diluted for build, net G&A and fin. costs^**

NAV, first gold (A\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	493	558	623	688	753
Discount rate: 7%	534	603	672	741	810
Discount rate: 5%	580	654	728	802	875
Geared project IRR:	33%	36%	40%	43%	46%
NAV, first gold (A\$/sh)*	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
Discount rate: 9%	0.36	0.43	0.51	0.60	0.68
Discount rate: 7%	0.41	0.50	0.59	0.68	0.77
Discount rate: 5%	0.48	0.57	0.67	0.77	0.87

^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)	611	723	723	689	713

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
<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

**Project: USES Funding: SOURCES**

Pre-DFS expl'n / G&A:	A\$14m	21 + pre-Au ITM op.:	A\$14m
Exploration to DFS:	A\$11m	Equity for DFS:	A\$0m
Build capex:	A\$250m	d equity @ 0.3xNAV:	A\$125m
Fin. cost + WC over DFS:	A\$27m	% geared debt @ 8%:	A\$162m
TOTAL USES: A\$301m TOTAL SOURCES: A\$301m			

**Share data Basic FD with option FD for build**

Basic shares (m)	638.2	662.6
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**Ratio analysis CY20A CY21A CY22E ± CY24E**

Average shares out (m)	332.0	533.9	651.9	925.7
EPS (A\$/sh)	-	-	-	-
CFPS (A\$/sh)	-	-	-	-
EV (A\$m)	2.1	(3.2)	8.4	24.3
FCF yield (%)	-	-	-	-
PER (x)	-	-	-	-
P/CF (x)	-	-	-	-
EV/EBITDA (x)	-	-	-	-

**Income statement CY20A CY21A CY22E ± CY24E**

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	3.1	4.0
Finance cost (A\$m)	1.3	0.5	(0.0)	0.2
Taxes (A\$m)	-	-	-	-
<b>Net income (A\$m)</b>	<b>(5.3)</b>	<b>(4.0)</b>	<b>(3.1)</b>	<b>(4.2)</b>

**Cash flow, attrib. CY20A CY21A CY22E ± CY24E**

EBIT (A\$m)	(3.9)	(3.5)	(3.1)	(4.0)
Add back D&A (A\$m)	0.0	-	-	-
Less tax, interest (A\$m)	1.3	0.5	(0.0)	0.2
Wkg cap change (A\$m)	-	-	-	-
Other non-cash (A\$m)	(2.1)	(1.1)	0.0	(0.4)
<b>Cash flow ops (A\$m)</b>	<b>(4.7)</b>	<b>(4.0)</b>	<b>(3.1)</b>	<b>(4.2)</b>
PP&E: build /sust (A\$m)	(0.6)	0.2	0.0	120.0
PP&E - expl'n (A\$m)	(2.0)	7.4	5.6	1.0
<b>Cash flow inv. (A\$m)</b>	<b>2.6</b>	<b>(7.7)</b>	<b>(5.6)</b>	<b>(121.0)</b>
Share issue (A\$m)	16.0	23.2	0.6	125.0
Debt draw (repay) (A\$m)	(0.4)	(0.1)	-	15.0
<b>Cash flow fin. (A\$m)</b>	<b>15.7</b>	<b>23.1</b>	<b>0.6</b>	<b>140.0</b>
Net cash change (A\$m)	13.5	11.4	(8.1)	14.8
EBITDA (A\$m)	-	(4.0)	(3.1)	(4.0)

**Balance sheet CY20A CY21A CY22E ± CY24E**

Cash (A\$m)	7.8	19.3	11.2	18.4
AR, inv, prepaid (A\$m)	0.2	0.2	0.2	0.2
PP&E + other (A\$m)	20.0	27.7	33.3	158.3
<b>Total assets (A\$m)</b>	<b>28</b>	<b>47</b>	<b>45</b>	<b>177</b>
Debt (A\$m)	-	-	-	15.0
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	15.7
Issued capital (A\$m)	370.5	393.6	394.2	519.2
Earnings (A\$m)	(343.1)	(347.2)	(350.2)	(357.9)
<b>Liabilities + equity (A\$m)</b>	<b>28</b>	<b>47</b>	<b>45</b>	<b>177</b>

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TENDER:	0
NOT RATED:	0
TOTAL	50

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