

22 April 2021

Challenger Exploration Limited

COLTS - Metals and Mining

Rating
SPECULATIVE BUY

Price Target
A\$0.55

CEL-ASX

Price
A\$0.31

Market Data

52-Week Range (A\$) :	0.09 - 0.40
Avg Daily Vol (M) :	0.5
Market Cap (A\$M) :	204.0
Shares Out. (M) :	658.2
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	190
NAV /Shr (A\$) :	0.53
NAV /Shr (5%) (A\$) :	1.00
Net Cash (A\$M) :	14.5
P/NAV (x) (A\$) :	0.59



Source: FactSet

Priced as of close of business 20 April 2021

Challenger Exploration (CEL-ASX) is a gold exploration company with two key assets in South America. It holds a 75% earn-in interest at the Hualilan Gold Project in Argentina where skarn and manto gold-silver (and zinc) mineralisation is associated with a porphyry intrusive. Limited historic production has been reported and there is currently a non-JORC resource of 627koz @ 13.7g/t Au. CEL is also earning up to a 100% interest at the El Guayabo/Colorado V Gold-Copper Project in Ecuador, where previous work was undertaken by Newmont and Odin Mining & Exploration.

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Tango & Cash: High-grade gold in Argentina

Challenger Exploration (CEL-ASX) is a gold exploration company with two key assets in South America. It is earning 75% of the Hualilan Gold Project in the prolific San Juan Province of western Argentina and has just commenced a new 30,000m (recently completed 45,000m), five drill rig resource confirmation and expansion program. Hualilan already hosts a high-grade, foreign resource (NI43-101) of 627koz @ 13.7g/t AuEq dating back to La Mancha's ownership in 2003, which remains open and may present significant growth upside, in our view. The resource ranks among the highest grade ASX deposits in our extensive database. In our view, San Juan is an attractive mining destination with majors such as Barrick (GOLD-NYSE), Shandong (1787-SEHK) and Glencore (GLEN-LSE) all active in the region. CEL is also exploring the El Guayabo/Colorado V Gold-Copper Project in Ecuador through an earn-in of up to 100%. The project is at a much earlier stage than Hualilan even though it is located 5km from Lumina Gold's (LUM-TSXV) 16.7Moz Cangrejos deposit.

Unlocking the potential of Hualilan: Hualilan's high-grade mineralisation is classed as skarn-type, related to underlying intrusives, and comprises gold, silver and zinc. Through ongoing drilling, CEL is demonstrating the potential to grow the historic skarn resource as well as define a bulk intrusion-related opportunity that has large scale potential to support a long life asset within the granted Hualilan mining lease.

Recent drilling (e.g. **5.2m @ 21g/t AuEq**) has extended the high-grade skarn mineralisation beyond the historic resource extents. Separately, a new intrusive system is emerging over a ~2km strike (e.g. **131m @ 2.5g/t AuEq**) and includes the 'Gap Zone' between two defined skarn/east-west zones. A second mineralised trend has also been uncovered (e.g. **126m @ 1.1g/t AuEq**) from a zone 200m west of the Gap Zone.

We see potential for CEL to define an initial 1-1.5Moz @ 7g/t AuEq based on the work to date around the Magnata and Sanchez faults, as well as a portion of the Gap Zone. This could fall into an interim resource by mid-year. If the Gap Zone (and surrounds) can be defined over its +1.5km strike and averages 75m in thickness (there is precedence in recent results), we see potential for ~4Moz @ 1g/t AuEq; and then there is the 26sqkm of surrounding leases under application by CEL. The bottom line is that we believe this project boasts immense potential and is not too dissimilar to DeGrey Mining's (DEG-ASX) Hemi discovery in terms of intrusive host rocks and overall scale (see Figure 7).

Development scenario: Augmented by ongoing exploration success (resource growth required), we see a number of potential development pathways for CEL to produce a concentrate for trucking to the port of Coquimbo, Chile (~400km by road):

1. A smaller scale, 0.8Mtpa, high-grade starter option (1.3Moz @ 7g/t AuEq inventory).
2. A larger bulk, 6-7Mtpa, lower grade operation (4Moz @ 1g/t AuEq inventory).
3. Acquisition of CEL by a mid-tier producer in the region.

Valuation and recommendation: We initiate coverage of CEL with a SPECULATIVE BUY recommendation and a price target of A\$0.55. As with all Canaccord COLTS, our valuation is preliminary in nature and should be viewed as a what-if case given further resource growth is required and no formal mining studies have been published; hence our 14% discount rate. We have modelled a number of possible development scenarios using weighting for 1.0x forward curve and spot gold prices. For reference, a 5% discount rate values CEL at over A\$1bn (A\$1.00/share). It is our view that CEL offers excellent exposure to a high grade, untapped project in a premier Latin American jurisdiction with the added free kick of an early stage gold-copper project with large scale potential in Ecuador.

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The recommendations and opinions expressed in this research report accurately reflect the research analysts' personal, independent and objective views about any and all the companies and securities that are the subject of this report discussed herein.

For important information, please see the Important Disclosures beginning on page 19 of this document.

Figure 1: CEL Explorer-Developer Summary

SUMMARY

CHALLENGER EXPLORATION

CEL:ASX

Analyst :

Paul Howard

Rating:

SPEC BUY

Date:

21/04/2021

Target Price:

A\$0.55

Year End:

June

Market Information

Share Price	A\$	0.31
Market Capitalisation	A\$m	204.0
12 Month Hi	A\$	0.32
12 Month Lo	A\$	0.10
Issued Capital	m	658.2
Options	m	237.9
Fully Diluted	m	896.1

Valuation

	A\$m	A\$/share
Hualilan	NPV @ 14%	0.38
Exploration (incl. Ecuador)		0.15
Corporate	(14)	(0.02)
Cash (est. at end of Q)	15	0.02
ITM Options	0.05	0.00
TOTAL NAV	474	0.53
Price:NAV		0.59x
Target Price (1.00 x NAV)		0.55

Assumptions

	2021e	2022e	2023e	2024e
Gold Price (US\$/oz)	1,846	1,731	1,749	1,776
Silver Price (US\$/oz)	24.95	25.03	25.48	24.37
Zinc Price (US\$/lb)	1.17	1.13	1.08	1.05
AUD:USD	0.75	0.77	0.77	0.77

Previous Milestones

Listed on the ASX in November 2007 as Sunset Energy Ltd (SEY). Focused on oil & gas exploration in California.	2007
Developed its US oil and gas assets, before selling its 50% interest in the Maricopa asset in California for US\$1.3m.	2008-11
Focus shifts to its South African assets. Appointment of new MD. Placement undertaken at 6cps to raise A\$1m.	2012-13
RSA government commences processing Exploration Right application. Placement undertaken at 6cps to raise A\$1.2m	2014
CEL continues to progress its Exploration Right application and consultation process with the RSA government.	2015
Proposed legislation by the RSA Govt outlines a 20% free carried interest for the State in new exploration & production rights.	2016
RSA government announces it will proceed with the development of shale gas in the Karoo basin.	2017
Rights issue raises ~\$970k at 1cps. RSA Department of Mineral Resources begins drafting a new bill specific to oil & gas.	2018
Acquired earn-in rights to two South American projects: Hualilan (Au-Ag, Argentina, 75%) and El Guayabo (Au-Cu, Ecuador, 100%)	Feb-19
Company undertook a 1:5 consolidation and raised A\$5m at 3cps (post-consolidation) to progress South American assets.	May-19
Existing board resigns. New Non-Executive Chairman, Managing Director and CFO/Finance Director appointed.	Jul-19
Assay results from first drill program at Hualilan return 6.2m @ 34.6g/t Au, 10.3m @ 10.4g/t Au and 6.7m @ 14g/t Au.	Dec-19
Increased El Guayabo tenement position by +830% to ~35.5km ² . Placement @ 10cps raises A\$6.5m.	Jan-20
CEL confirms discovery of large-scale, historic gold system at Colorado V (El Guayabo) concession in Ecuador.	May-20
CEL makes new discovery at Hualilan. Raises A\$20m at 20cps to accelerate gold projects.	Jul-20
Drilling confirms major intrusion-hosted gold system underlying high-grade mineralisation at Hualilan.	Oct-20
Drilling at Hualilan extends mineralisation returning: 12m @ 20.4g/t Au, 110.5m @ 2.5g/t Au and 6.5m @ 14.3g/t Au.	Jan-21
Discovery of new high-grade zone at Hualilan with 130.8m @ 2.3g/t Au. Drilling also intercepts 209m @ 1.0g/t Au.	Feb-21
Discovery of second trend at Hualilan. Drilling returns 6m @ 89.3g/t Au. 200m step out delivers 4.3m @ 31.8g/t Au	Mar-21

Upcoming news flow

Hualilan JORC resource.	JunQ21
Ongoing drilling results (high-grade skarn-type, bulk intrusion-type, regional drilling).	Jun-SepQ21
Update to Hualilan JORC resource (to include bulk intrusion drilling demonstrating scale).	DecQ21
Low risk expiration results (target generation) from El Guayabo/Colorado V, Ecuador.	Sep-DecQ21

Resources	Mt	g/t Au	g/t Ag	%Zn	Au Eq. (g/t)	AuEq (Moz)
Meas+Ind	0.45	12.4	50	2.8	14.1	0.20
Inferred	0.98	11.8	50	2.4	13.4	0.42
RESOURCES	1.42	12.1	50	2.5	13.7	0.62
Hualilan	1.42	12.1	50	2.5	13.7	0.62

Source: Company reports, Canaccord Genuity estimates. Commodity equivalents based on in-ground, non-recovered metal at spot prices as at 21-Apr-21

Company Description

Challenger Exploration is a gold exploration company with two key assets in South America. It holds a 75% earn-in interest at the Hualilan Gold Project in Argentina where skarn and manto gold-silver (and zinc) mineralisation is associated with a porphyry intrusive. Limited historic production has been reported and there is currently a non-JORC resource of 627koz @ 13.7g/t Au. CEL is also earning up to a 100% interest at the El Guayabo/Colorado V Gold-Copper Project in Ecuador, where previous work was undertaken by Newmont and Odin Mining & Exploration.

Directors & Management

F Quinn	Non-Executive Chairman
K Knauer	Managing Director
S Funston	Executive Director

Options

	Number	Price	Expiry
Options 1 (\$3.5m advanced by Riverfort)	m	85.44	0.04
Options 2	m	1.20	0.04
Options 3	m	10.00	0.45
Performance Rights	m	141.25	0.32
Total Options	m	237.89	0.21

Projects

Projects	Interest	Location	Commodity
Hualilan Gold Project	earning 75%	Argentina	Au-Ag-Zn
El Guayabo Gold Project	earning 100%	Ecuador	Au-Cu



Valuation

Our preliminary valuation for CEL is based on assessment on the Hualilan Gold Project and is derived from a risk-weighted combination of production scenarios, likelihood of being acquired and a resource multiple (weighted by Au grade) based on a global peer comparison. We have ascribed a nominal value to the El Guayabo/Colorado V Project given it is at a much early stage of exploration.

CG production scenario

We have modelled two potential production scenarios for the Hualilan Gold Project assuming CEL can update and expand the current resource in line with JORC guidelines. Our production scenarios are based on a high-grade inventory and a larger bulk opportunity. The smaller scale scenario may dovetail into the bulk opportunity. Like many offshore gold projects, as highlighted in [Figure 17](#), we assume a high rate (75%) of resource conversion to lower risk categories. Our production scenarios are as follows:

1. A ~7Mt @ 7g/t AuEq inventory optimised through a 0.8Mtpa plant for a seven-year LOM producing ~145kozpa AuEq. Capex in the order of US\$150m with AISC of ~US\$600/oz, aided by the high grades.
2. A much larger 6-7Mtpa opportunity, processing 1g/t AuEq material to produce (payable) 250koz Au per annum over +10 years. Capex in the region of US\$475m for a gravity and floatation plant and AISC of ~US\$800/oz.

The above scenarios are contingent on the ability to produce a concentrate for trucking to a port. The port of Coquimbo, Chile (~400km by road) would appear to be the closest suitor, in our view.

Acquisition

We have also modelled a case where CEL is acquired by a mid-tier producer in the region/aspiring regional producer. Recent activity includes the following:

- While the region is dominated by TSX-listed players ([Figure 2](#)), we do note South 32's (S32-ASX) recent deals in the San Juan Province of Argentina. In February 2021, it announced that it was acquiring up 75% of Sable Resources' (SAE-TSXV) greenfield Don Julio Project by spending US\$10m. In November 2019, it entered an agreement to earn up to 50.1% of Minsud Resources' (MSR-TSXV) Chita Valley Project for A\$15m.
- In 2017, Shandong Gold Mining acquired a 50% interest in Barrick's Veladero Gold Mine for US\$960m.

Resource multiple

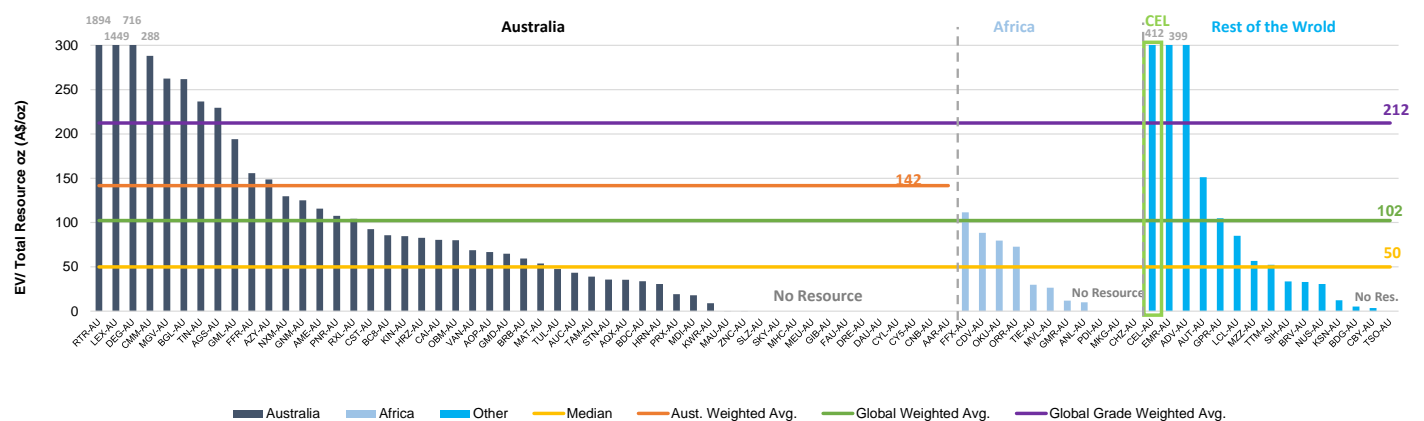
While we note that CEL's EV/Au resource oz of A\$412m implies it is trading above where our grade weighted average EV/Au Resource oz multiple for the ASX peer group of global developers ([Figure 3](#)) suggests it should (our A\$212/oz implies an EV of A\$100m for CEL's 75% ownership). We believe this metric does not adequately ascribe value to high-grade deposits and/or those with a large amount of exploration upside, hence we have only applied a low 10% weighting to this scenario in our valuation. We note that other high-grade developers also trade at similar premiums – Bellevue Gold (BGL-ASX) has an EV of A\$712m and has an implied EV based on our EV/Au Resource oz multiple A\$573m. DEG is an example of an explorer with large potential resource growth yet has an implied EV of A\$460m compared to its current EV of A\$1,553m.

Figure 2: CEL's Hualilan Gold Project relative to neighbours



Source: Company reports

Figure 3: ASX Developer-Explorer EV/Au Resource oz



Source: Company reports, FactSet, EV based on DecQ'20 cash, debt and subsequent placements

Net asset valuation

A risk weighted valuation based on likely outcomes of our modelled production scenarios, acquisition event and resource multiple is presented in Figure 4. We have essentially given a 90% weighting to our production and acquisition cases. Note that we model scenarios at spot and using the Canaccord Genuity commodity price deck.

Our per-share valuation/target price is based on a diluted share count of 896.1m shares. Figure 5 details our NAV estimate for CEL, comprising a risk weighted NPV and Resource multiple-based valuation, and a nominal value for the exploration opportunities regionally in Argentina and also at the El Guayabo/Colorado V (we note Los Ceros' (LCL-ASX) EV of A\$75m and that it has returned similar thick gold intercepts, to those at El Guayabo, at its Quinchia Gold Project in neighbouring Columbia). Given there are no published mining studies and a foreign resource (non-JORC), we have used a 14% discount rate. We see resource growth and operating in Argentina amidst COVID-19 as risk factors to be considered. With +75% potential upside in our initial target price of A\$0.55, we initiate coverage with a SPECULATIVE BUY recommendation.

Figure 4: Risk weighted valuation for CEL

Valuation Scenarios - 100% attributable	A\$m	Weighting	Valuation
0.8Mtpa operation producing 146kozpa AuEq for 7 years - CG Price Deck	\$457	30%	
0.8Mtpa operation producing 146kozpa AuEq for 7 years - Spot Prices	\$451	15%	
90% 7Mtpa operation producing 246kozpa AuEq for 13 years - CG Price Deck	\$562	30%	\$487
7Mtpa operation producing 246kozpa AuEq for 13 years - Spot Prices	\$547	15%	
100% of Project acquired by a major/mid-tier for a 50% premium	\$313	10%	
10% Resource Multiple (based on Grade W.Avg Expl/Dev of A\$212/oz)			\$133
Hualilan Project Valuation (scenario & resource multiple - blended 90:10)			\$451

Source: Canaccord Genuity estimates

Figure 5: CG NAV estimate

DCF DISCOUNT RATE	14%	On issue	658.181		
AUD:USD	0.7679	inc. ITM opt	896.1		
AUD:GBP	0.5545	Diluted	896.1		
	A\$M	RISK ADJ.	EQUITY	A\$M	/ share diluted
Hualilan	451.29	100%	75%	338.47	\$0.38
Exploration (incl. Ecuador)	135.00			135.00	\$0.15
Corporate	-13.5			-13.54	(\$0.02)
Cash (est. at end of Q)	14.50			14.50	\$0.02
ITM Options	0.05			0.05	\$0.00
TOTAL	587.30			474.48	0.53
				Target (Rounded)	A\$0.55
				P/NAV	0.59x

Source: Canaccord Genuity estimates



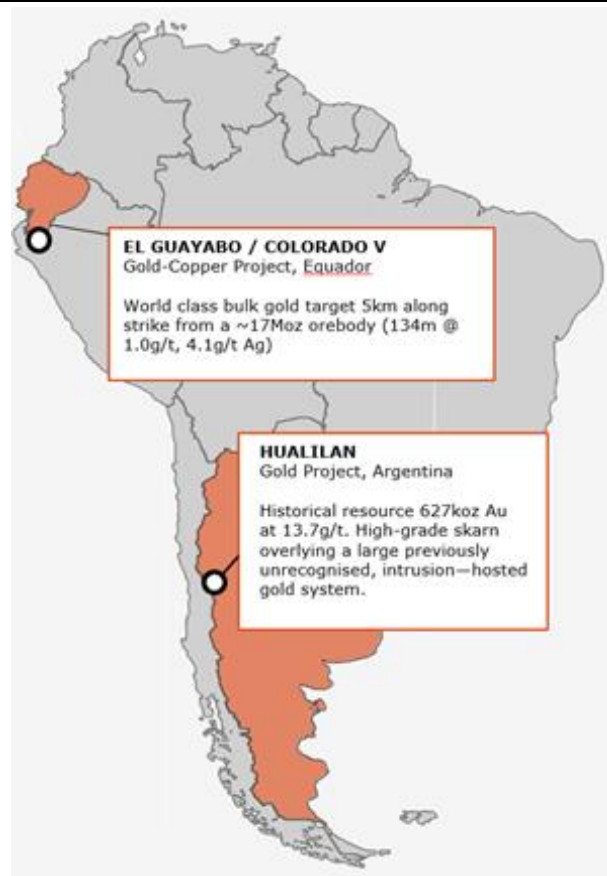
Company background

Challenger Exploration is a gold exploration company with two key assets in South America. It holds a 75% earn-in interest at the Hualilan Gold Project in Argentina where skarn and manto gold-silver (and zinc) mineralisation is associated with a porphyry intrusive. Limited historic production has been reported and there is current non-JORC historical resource of 627koz @ 13.7g/t Au. CEL is also earning up to a 100% interest at the El Guayabo/Colorado V Gold-Copper Project in Ecuador, where previous work was undertaken by Newmont and Odin Mining & Exploration.

CEL originally listed on the ASX in November 2007 as Sunset Energy Ltd, focusing on oil and gas exploration in the US (California and Texas). In mid-2019, shortly after acquiring the rights to the South American projects, it underwent a capital restructure (5:1 consolidation) as well as a complete management and board overhaul. It raised A\$5m at A\$0.03/share and commenced a 2,000m drill program at Hualilan and expanded its tenement position at El Guayabo to 35.5km². After drilling at Hualilan returned positive results, the company completed a A\$6.5m raise at A\$0.10/share to accelerate exploration.

In mid-2020 CEL confirmed the discovery of a large-scale gold system at Hualilan and subsequently undertook a A\$20m at A\$0.20/sh to expedite an aggressive 45,000m drill program across at Hualilan, fund early-stage studies and expand the tenement position. The funds were also used to re-assay historic drilling and undertake rock saw channel sampling at the Colorado V prospect, which in late 2020 confirmed the potential for a major gold porphyry.

Figure 6: Project location map



Source: Company reports

Directors and management

CEL's lean management team brings a diverse set of skills to the table, including technical (geological), as well as commercial (investment banking and corporate finance), with all Directors having previously sat on the boards and/or held executive position with various of ASX-listed companies. The CEL board consists of:

- Non-Executive Chairman – Fletcher Quinn
- CEO & Managing Director – Kris Knauer
- CFO and Finance Director – Scott Funston

See [Appendix 2](#) for full Director bios.

Asset overview: Hualilan

Location, access and ownership

The Hualilan Project is located approximately 120km north-northwest of San Juan, the capital of San Juan Province in north-western Argentina. The project is accessible via sealed roads to within 400m of the licence and then by a series of unsealed roads around the licence. The closest town on the power grid is approximately 40km to the north of the Hualilan Project and power itself is within 2km of site. The project is located ~400km by road to the nearest concentrate export port of Coquimbo, through the Andes and into Chile. The Hualilan Gold Project is located at an elevation of approximately 1,700m and the climate is moderate and dry with rain most common from December to January. The area is sparsely populated, vegetation is thin and geology is well exposed at surface. Field operations are possible year-round.

CEL gained access to the Hualilan Project through its 2019 acquisition of AEP Corporation, which owned the right to earn up to 75% of the Hualilan Gold Project from Golden Mining SRL.

Hualilan exploration and mining history

Work at Hualilan dates back a considerable period in time; over 500 years. There is 6km of underground workings that pass through mineralised zones dating back 150 years. Little to no data is publicly available that describes the underground mine. According to CEL, records of the underground geology and sampling are currently being compiled and digitised. Historically, intermittent sampling has produced a wide range of data by several geologists, although no work has been completed since 2006. The key historical exploration drilling and sampling results are listed below:

- 1984 – Lixivia SA channel sampling & 16 RC holes (AG1-AG16) for 2,040m.
- 1995 - Plata Mining Limited (TSE: PMT) 33 RC holes (Hua- 1 to 33) + 1,500 samples.
- 1998 – Chilean consulting firm EPROM (on behalf of Plata Mining) systematic underground mapping and channel sampling.
- 1999 – Compania Mineral El Colorado SA ("CMEC") 59 core holes (DDH-20 to 79) plus 1,700m RC program.
- 2003 – 2005 – La Mancha (TSE Listed) undertook 7,447m of DDH core drilling (HD-01 to HD-48).

Regional geology

The known mineralisation at Hualilan is hosted within Ordovician limestones which are overlaid by Silurian conglomerates, sandstones and siltstones. The upper part of the Ordovician limestone contains a chert unit which has attracted bedding parallel fault movement by virtue of the competency contrast between the limestone and chert. The entire sequence is folded and thrust-repeated, generally north striking and moderately west dipping. The sedimentary rocks are intruded by mid-Miocene stocks, dykes and sills. Surface weathering depth ranges from 25m to 50m and is dependent on fault and fracture location, being deeper around the fault zones. Mineralisation occurs in all rock types, but it preferentially replaces within the limestone and faults. The mineralisation has been classified as manto-style (distal skarn) with vein-hosted mineralisation. It has been divided into three phases; prograde skarn, retrograde skarn and a late quartz – galena event. Gold occurs in native form, in tellurides (hessite) and as inclusions with pyrite and chalcopyrite. The mineralisation also commonly contains chalcopyrite, sphalerite and galena.

Mineralisation is either parallel to bedding, in bedding-parallel faults or in east-west striking, steeply dipping quartz dominated veins that cross the bedding at a high angle. The veins have thicknesses of 1- 4m and contain sulphides. The intersection between the bedding parallel mineralisation and the east-striking cross veins seems to be important in localising the mineralisation.

Hualilan

CEL is earning 75% of the Hualilan Gold Project and has just commenced a new 30,000m, five drill rig resource confirmation and expansion program having recently completed a successful 45,000m program. Hualilan already hosts a high-grade, foreign resource (NI43-101) of 627koz @ 13.7g/t AuEq dating back to La Mancha's ownership in 2003, which remains open and may present significant growth upside.

As highlighted in [Figure 19](#), the resource (albeit non-JORC) ranks among the highest grade ASX deposits in our extensive database; in fact, it is the highest grade deposit in our database aided by the gold equivalent grade (+silver and zinc). According to management, it is perhaps best viewed as a 10g/t Au deposit currently, with all likelihood that grade falls marginally through dilution from inclusion of the initial intrusion-related drill results in the next resource update.

Historically, Hualilan has been classed as a high-grade skarn-type (manto), with much of the historic work focussing on grade. However, CEL has recently demonstrated that underlying intrusives host broad intersections of lower grade gold (1-2g/t Au); and in some instances, high grade vein related mineralisation is present within the intrusives at depth. Through ongoing drilling, CEL is demonstrating the potential to grow the historic skarn resource as well as define a bulk intrusion-related opportunity that has large scale potential to support a long-life asset within the granted Hualilan mining lease.

CEL work to date

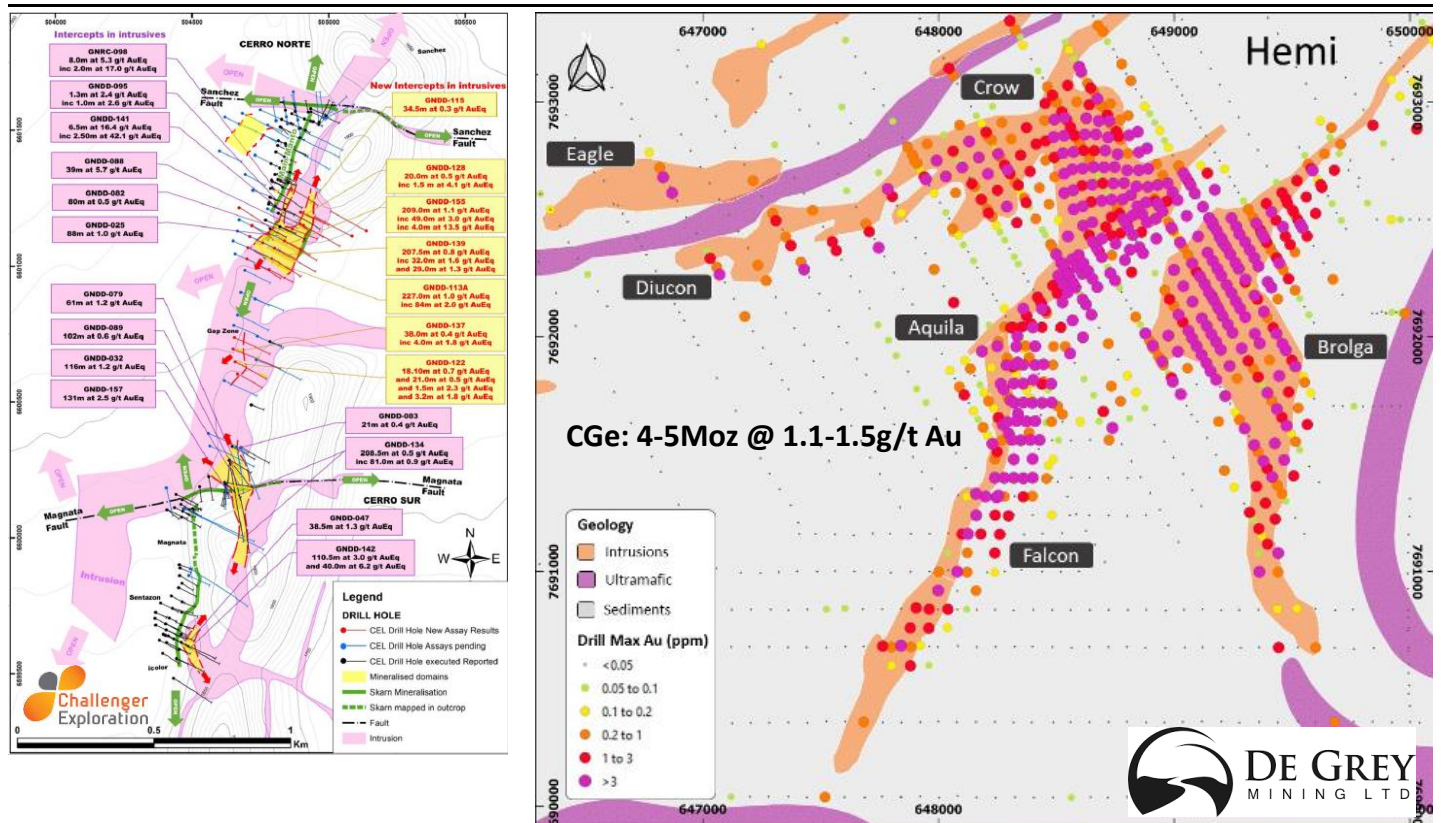
- CEL undertook a maiden 2,000m drill program in late 2019, which was expanded to 3,000m following initial success in confirming previous resource drilling.
- A follow-on 7,000m program ensued as well as an IP survey covering Cerro Norte (northern portion of Hualilan).
- In July 2020, a new style of intrusion-hosted gold mineralisation was discovered (50m @ 1.4g/t au, 3.4g/t Ag +Zn-Pb, followed by 116m @ 1.2g/t AuEq) and aided in the definition of a near surface conceptual intrusion-hosted target ([Figure 8](#)) what is now known as 'the Gap Zone'.
- Drilling was further expanded to 30,000m as CEL endeavoured to test new high-grade vein and skarn (manto) mineralisation at zones including Magnata Vein, Sentazon, Muchilera Manto & Cerro Norte. At the same time, it was targeting the new intrusive-style mineralisation beneath and adjacent to the skarns.

- By the SepQ'20 and into 2021, the program had expanded further to 45,000m and comprised five rigs testing additional zones at Sanchez and the Main Manto, all the while continuing the intercept broad, lower grade intrusion-related mineralisation.
- In March 2021, three new holes defined a second mineralised trend 200m west of the Gap Zone. Results included 126m @ 1.1g/t Au from 208m (incl. 71m @ 1.7g/t Au, 29m @ 4g/t Au).
- The company has also undertaken sampling of the historic adits and underground access tunnels, and have demonstrated that mineralisation continues up plunge of the high grades drilled at depth. The lack of sulphides led the historic miners to not sample these drives.

Similarities to DeGrey's Hemi

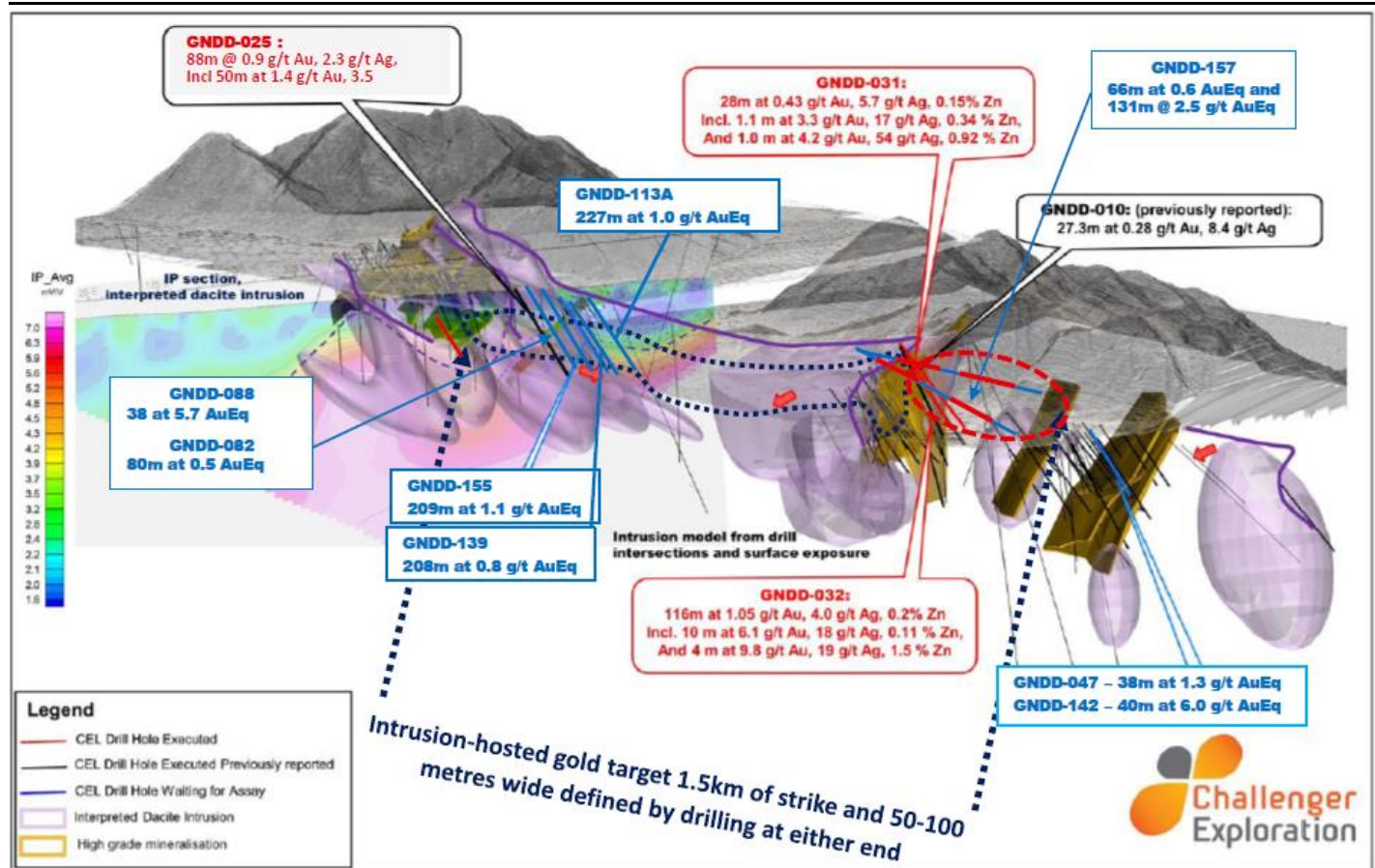
In our view, the project has potential to be very large and is not too dissimilar to DEG's Hemi discovery in terms of intrusive host rocks and overall scale. Figure 7 is a side-by-side comparison of Hualilan and Hemi. With grades and thickness arguably larger at Hualilan, it is not inconceivable that although it has a smaller footprint, Hualilan can grow to a similar scale as Hemi. CEL is awaiting grant of leases surrounding Hualilan, which will open up a further 26km² of prospective ground.

Figure 7: Comparison in terms of scale of CEL's Hualilan Gold Project to that of DEG's Hemi discovery



Source: Company reports

Figure 8: CEL's conceptual intrusion-hosted target: IP showing large interpreted intrusions adjacent to high-grade zones



Source: Company reports

San Juan is a prolific destination

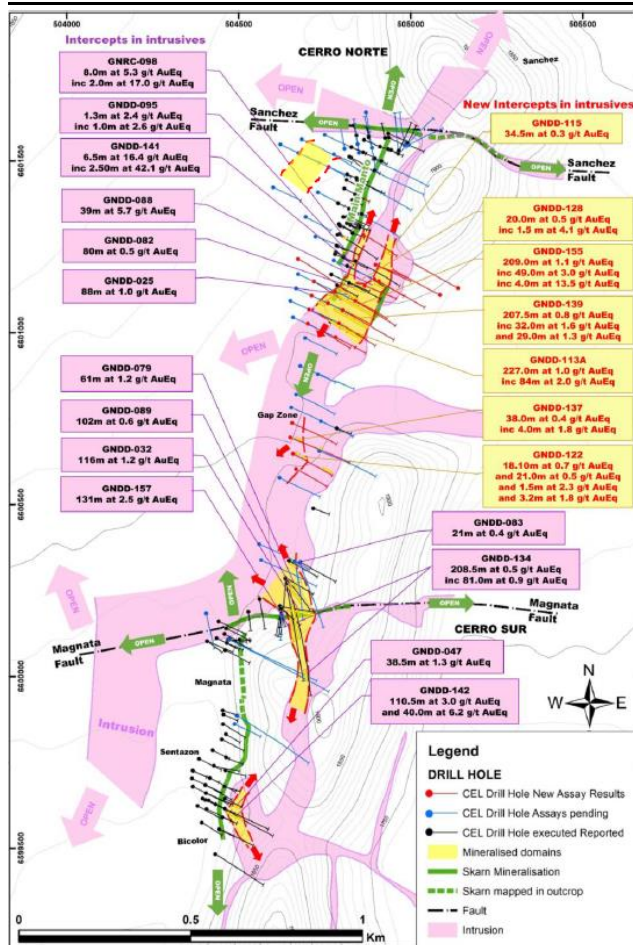
Highlighted below are a number of projects in various stages of development in the San Juan Province. Major, global miners are well established in the region.

Figure 9: A subset of San Juan Province producers, developers and explorers

Company	Ticker	Mine/Deposit	Stage	Commodity	Total Resource (Mt)	Grade	Contained Metal
Barrick	GOLD:NYSE	Pascua-Lama	C&M	Au-Ag-Cu	450	1.54g/t Au	22.2Moz Au
Barrick / Shandong	GOLD:NYSE / 1787:SEHK	Veladero	Operating	Au	348	0.66g/t Au	7.4Moz Au
Mineros S.A.	MINEROS:BVC	Gualcamayo	Operating	Au-Cu-Zn-Mo	55	2.0g/t Au	3.6Moz Au
Austral Gold	AGD-ASX	Casposo	C&M	Au-Ag	2	4.0g/t Au	253koz Au
Glencore	GLEN:LSE	El Pachón	Feasibility underway	Cu-Mo	3,124	0.48% Cu	15.1Mt Cu
McEwen	MUX-TSX	Los Azules	PEA	Cu-Au	3,628	0.37% Cu	13.4Mt Cu
Aldebaran	ALDE-TSXV	El Altar	Resource	Cu-Au-Ag	1,406	0.424% Cu	5.96Mt Cu
Josemaria (Lundin)	JOSE-TSX	Josemaria	Feasibility	Cu-Au-Ag	1,904	0.245% Cu	4.8Mt Cu
South 32 / Minsud	MSR-TSXV	Chita Valley	Resource	Cu-Mo-Ag-Au	42	0.42% Cu	175kt Cu

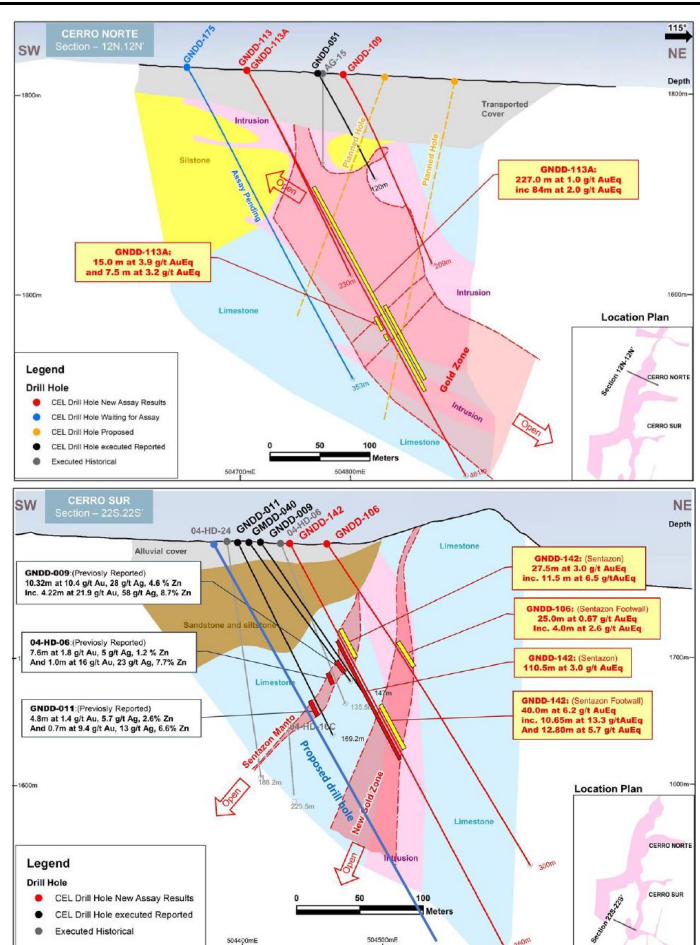
Source: Company reports

Figure 10: Hualilán (Cerro Norte & Cerro Sur) overview



Source: Company reports

Figure 11: Discovery of new zones in Cerro Norte and Cerro Sur



Source: Company reports

Metallurgy

In February 2021, CEL announced strong initial network results from high-grade samples taken from the skarn mineralisation at Hualilán. Simple gravity and single stage flotation returned gold recoveries of 91-94% and silver recoveries of 84-86%. Furthermore, rougher flotation tests produced a Cu/Pb conc. and a Zn rougher conc. with recoveries of 89% (Au), 84% (Ag), 79% (Zn) and 79% (Pb). Further work will be undertaken in a Phase 2 program, including work on the lower grade intrusions. Grind sizes of 86-106µm achieved these results.

Canaccord Genuity uses a gold recovery of 85% in its model assumptions.

Resources

La Mancha completed two resource estimates in 2003 and 2006. The resource from May 2003 is reported in accordance with guidelines as outlined in NI43-101 and is therefore non-JORC.

The 2006 estimate did not include the east-west mineralised Magnata Vein despite the known mineralisation in the Magnata Vein being drilled on a 25m x 50m spacing. CEL's Competent Person is unsure why tonnage reduction factors of 25%, 50%, and 75%, were applied to the calculated Indicated, Inferred and potential tonnages in the 2006 resource. The CP does not believe these tonnage reduction factors are appropriate nor does this 2006 resource appropriately reflect the CP's view of the deposit. CEL has therefore chosen to refer to the 2003 resource as the best estimate for the historic resources at Hualilan. We believe the above ambiguity presents an element of risk to CEL, which may be mitigated in the upcoming resource update.

Figure 12: Hualilan Gold Project Resources (non-JORC)

Resources	Mt	g/t Au	g/t Ag	%Zn	Au Eq. (g/t)	AuEq (Moz)
Meas+Ind	0.45	12.4	50	2.8	14.1	0.21
Inferred	0.98	11.8	50	2.4	13.4	0.42
RESOURCES	1.42	12.1	50	2.5	13.7	0.62
Hualilan	1.42	12.1	50	2.5	13.7	0.62

Source: Company reports, Canaccord Genuity estimates.
Commodity equivalents based on in-ground, non-recovered metal at spot prices as at date of publication.

Asset overview: El Guayabo/Colorado V Gold-Copper Project

Location, access and ownership

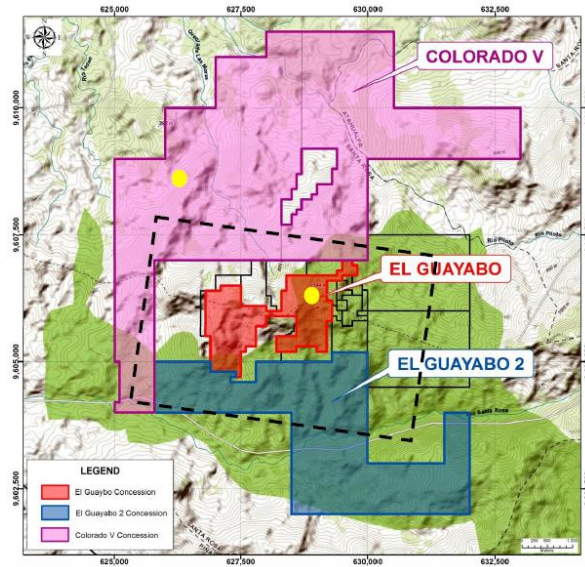
The El Guayabo/Colorado V Project is situated in El Oro Province, in southern Ecuador. The project is located 36km southeast of the provincial capital, Machala which is located on the coast. El Oro Province is named after the historically important gold production which was a significant contributor to the provincial economy. The El Guayabo/Colorado V Project lies in the central to north-central part of the Portovelo-Zaruma gold mining district within the Cangrejos Zaruma intrusive belt. Access to the El Guayabo/Colorado V Project is possible from the town of Santa Rosa by paved road (18km) and gravel road (5km). The exploration licences encompass an area of over 2,600 hectares.

CEL initially gained access to the El Guayabo Project through its 2019 acquisition of AEP Corporation, which owned the right to earn up to 100% of the project. Later, in January 2020, it signed an additional farm-in agreement with local company Goldking Mining to explore the Colorado V ground adjacent to El Guayabo to the north.

Regional geology

According to SRK Consulting, the El Guayabo/Colorado V Project is located at the western end of the late Oligocene to Early Miocene Cangrejos Zaruma intermediate alkaline intrusive belt, which is controlled by an NW-striking fault zone. The intrusions range in age from 40 to 10Ma, suggesting a long-lived intrusive complex as is the case for much of western South America (Chile – Peru – Bolivia). The intrusions in the belt are commonly overprinted by late porphyry dykes and intrusion breccia suggesting deeper, evolving magmatic systems are feeding shallower systems. The host rocks for the intrusive complex are metamorphic basement and Oligocene – Mid-Miocene volcanic rocks. This suggests the intrusions are of a similar age to the host volcanic sequence, which also suggests an evolving basement magmatic system. The NW-striking fault zone to the SW of the El Guayabo/Colorado V Project is a bounding structure for the volcanic basin suggesting it may have a regional control on the intrusive complex.

Figure 13: El Guayabo/Colorado V Gold - Copper Project map



Source: Company reports

El Guayabo/Colorado V

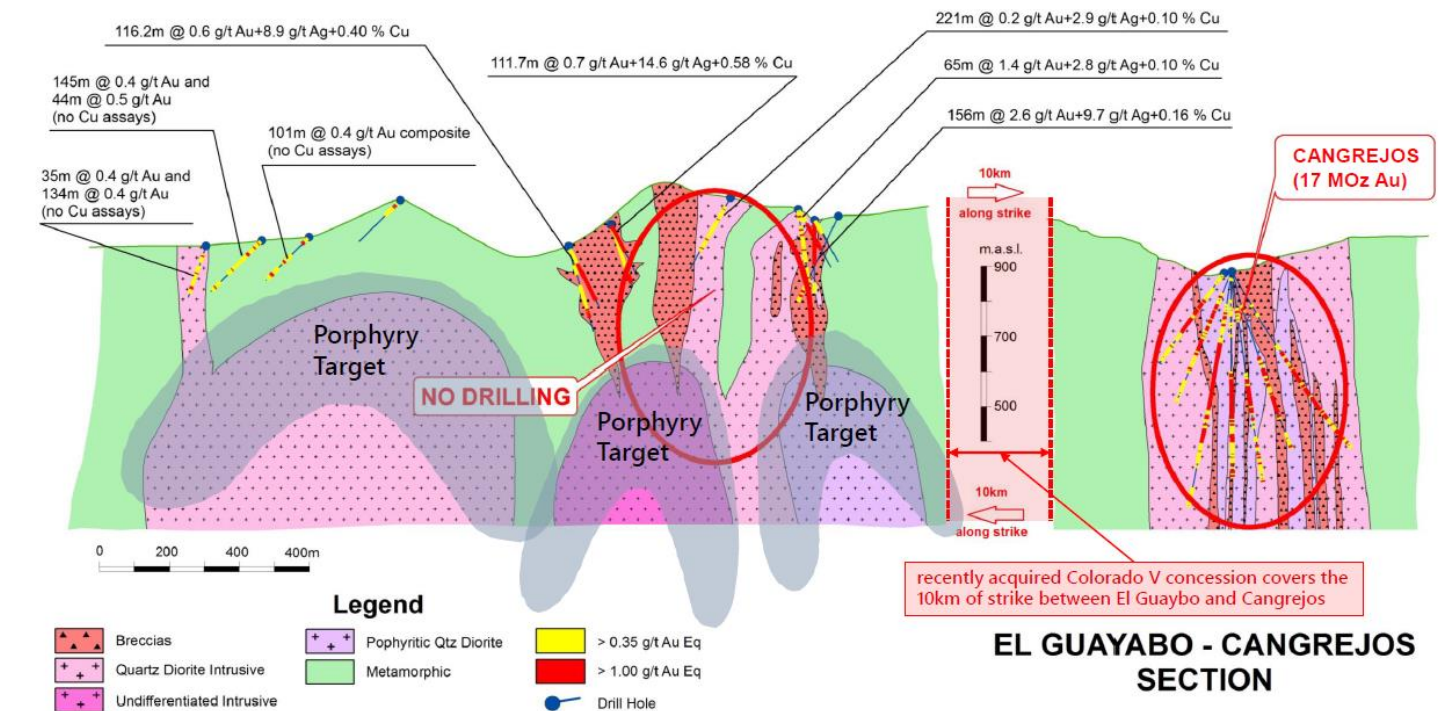
CEL is exploring the El Guayabo/Colorado V Gold-Copper Project in Ecuador through an earn-in of up to 100%. The project is at a much earlier stage than Hualilan even though it is located 5km from Lumina Gold's (LUM-TSXV) 16.7Moz Cangrejos deposit. The project is a breccia and porphyry play comprising three concession areas: El Guayabo, El Guayabo 2 and Colorado V.

El Guayabo was last drilled by Newmont Mining Corporation Limited and Odin Mining and Exploration Limited in 1995 and 1997 targeting gold in hydrothermal breccias. The drilling to date has demonstrated potential to host significant copper and associated gold and silver mineralisation. Drilling has returned a number of intersections of greater than 100m of intrusion related breccia and vein hosted mineralization. The El Guayabo/Colorado V Project has multiple targets including breccia hosted mineralization, an extensive flat lying late stage vein system and an underlying porphyry system target.

CEL work to date

- Since acquiring in February 2019, CEL has undertaken relogging and sampling of a number of historic drill holes, as well as surface and underground mapping.
- In the JunQ'20, CEL confirmed the discovery of a large-scale gold system at Colorado V, retuning 151m @ 0.9g/t Au & 3.8g/t Ag from 225m and 146m @ 1.5g/t au & 1.8g/t au from 211m. Small scale workings over a 500m trend define the mineralisation.
- In the SeptQ'20, CEL elected to renegotiate the acquisition terms for El Guayabo, purchasing the project 100% through the issue of 18m shares no later than 15 December 2022.
- Further assaying of historic drilling has continued as the company builds a geological model over the project. Given the success to date at Hualilan, El Guayabo/Colorado V has taken somewhat of a back seat for now.

Figure 14: El Guayabo – Cangrejos section and geological model

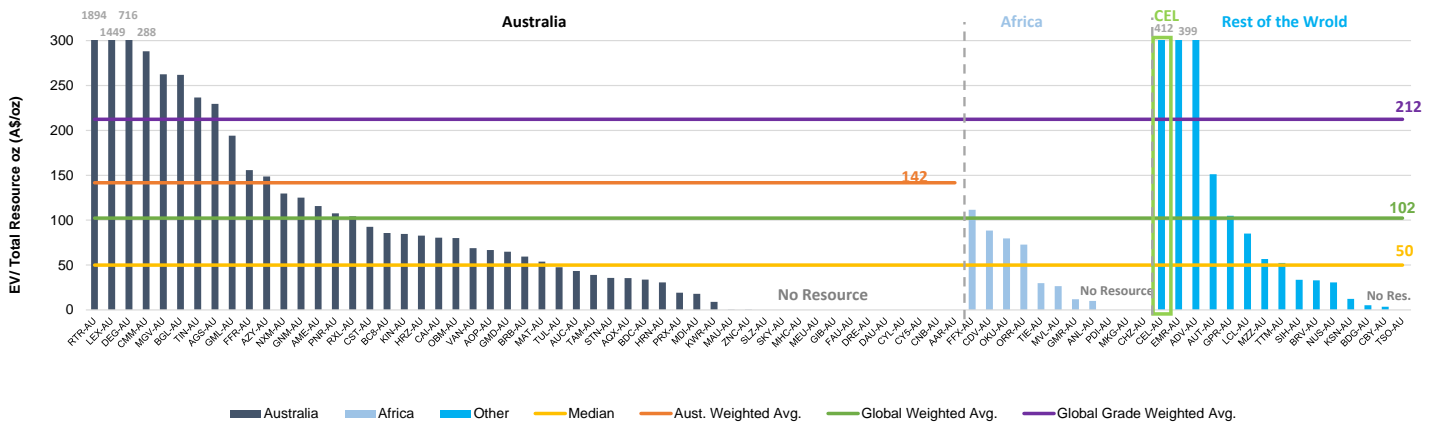


Source: Company reports

Asset overview: Karoo Basin Shale Gas

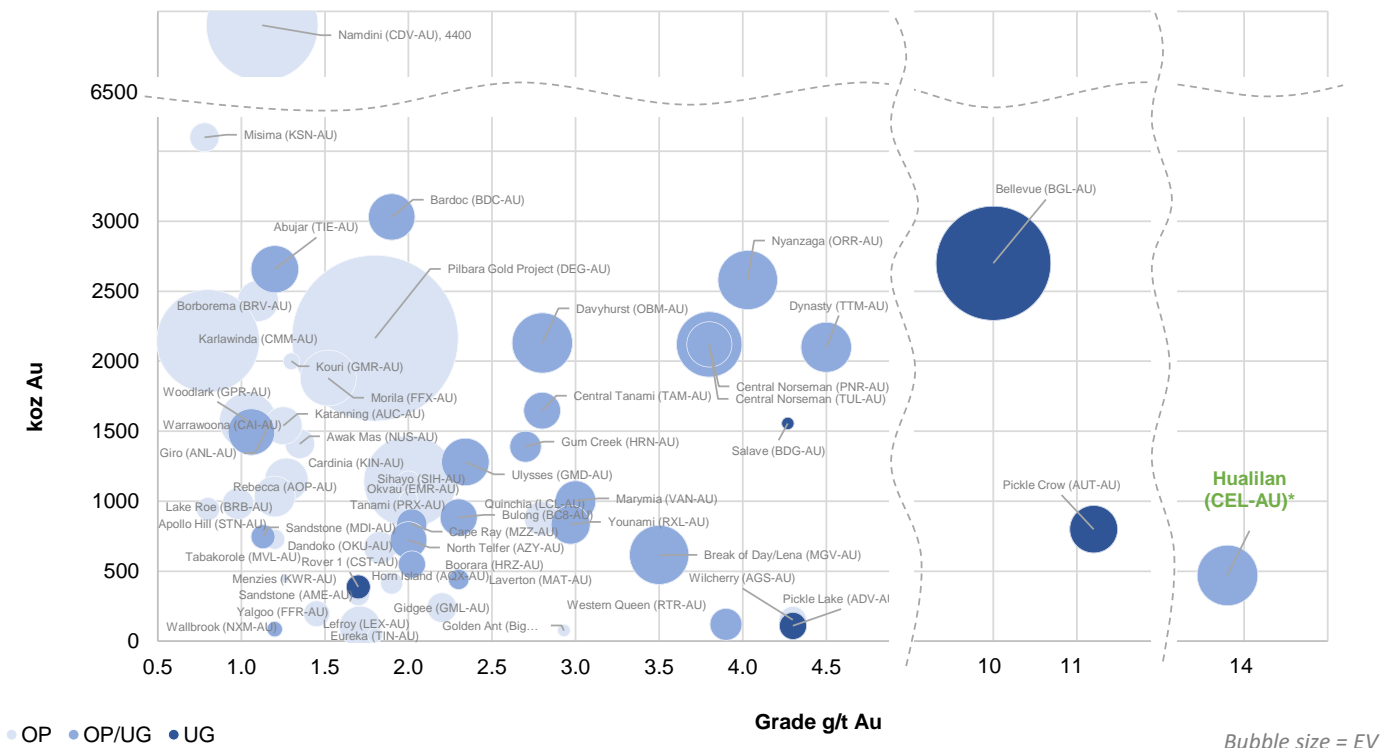
CEL has held (95%) Cranemere prospect in the Karoo Basin, South Africa for the past decade. There has been strong opposition from environmental groups and landowners to the hydraulic fracturing processes used in shale gas, and hence the project has not progressed. We do not ascribe any value to this stalled project.

Figure 18: EV/Total Resource oz (by region)



Source: Company reports, FactSet
Note: EV based on DecQ'20 cash position and subsequent placements.

Figure 19: Resources versus gold grades versus EV



Source: Company reports, FactSet
Note: Bubble size represents company EV in A\$m. EV based on DecQ'20 cash position and subsequent placements. *Non-JORC.

Appendix 2 – Board of Directors

Fletcher Quinn – Non-Executive Chairman

Mr Quinn has over 35 years' experience in venture capital, corporate finance and investment banking including extensive experience with both listed and unlisted companies, including public company development, management and governance. He was the foundation chairman for ASX entities Citadel Resources and Sirocco Resources.

Kris Knauer – CEO and Managing Director

Mr Knauer started his career as an exploration geologist before moving into investment banking, initially as a mining analyst. He is an experienced listed company CEO. Mr Knauer led the listing of a package of copper/gold assets in Saudi Arabia to create Citadel Resources becoming the Managing Director for the first 18 months. Citadel completed a DFS on the Jabal Sayid copper project in Saudi Arabia prior to being taken over for \$1bn.

Scott Funston – CFO and Finance Director

Mr Funston is a qualified Chartered Accountant and Company Secretary with nearly twenty years' experience in the mining industry and accounting profession. His expertise is financial management, regulatory compliance and corporate advice. Mr Funston possesses a strong knowledge of the Australian Securities Exchange requirements and has previously assisted a number of ASX listed resources companies as CFO and Company Secretary operating in Australia, South America, Asia, Africa, USA. Most recently he was CFO and Company Secretary of Avanco Resources, a Brazilian focussed copper and gold producer, that was acquired by Oz Minerals Limited.

Appendix 3 – Investment risks

Financing risks

As an exploration/pre-production company with no material income, CEL is reliant on equity and debt markets to fund development of its assets and progress its development pipeline. Additional capital may dilute shareholders.

Development and exploration risks

Development and exploration are subject to a number of risks and can require a high rate of capital expenditure. Risks can be associated with conversion of Resources and lack of accuracy in the interpretation of geochemical, geophysical and drilling data. It is not known whether exploration will delineate further Resources, nor that the company will be able to convert the current mineral resource into minable reserves.

Operating risks

If and when in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can materially impact forecast production from original expectations.

Commodity price and currency fluctuations

As with any mining company, CEL is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

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Investment Recommendation

Date and time of first dissemination: April 21, 2021, 17:30 ET

Date and time of production: April 21, 2021, 17:13 ET

Target Price / Valuation Methodology:

Challenger Exploration Limited - CEL

Our valuation is preliminary in nature and should be viewed as a what-if case, given further resource growth is required and no formal mining studies have been published.

We have modelled a number of possible development scenarios using weighting for 1.0x forward curve and spot gold prices, and have applied a conservative 14% discount rate to our NPV. We have also included a takeover scenario and a resource multiple based on similar global peers' EV/Resource oz multiple.

Risks to achieving Target Price / Valuation:

Challenger Exploration Limited - CEL

Financing risks

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Development and exploration risks

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Colts Stock Ratings (as of 04/21/21)

Rating	Coverage Universe		IB Clients
	#	%	%
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Hold	0	0.00%	0.00%
Sell	0	0.00%	0.00%
Speculative Buy	3	100.00%	66.67%
	3*	100.0%	

*Total includes stocks that are Under Review

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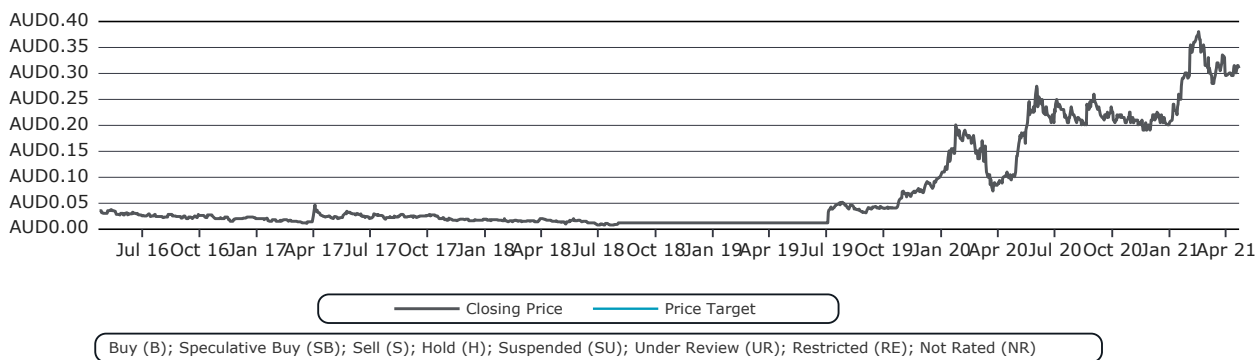
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Challenger Exploration Limited Rating History as of 04/21/2021



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