



Challenger Exploration Limited (CEL.ASX)

Drilling to Redefine Hualilan

Disclosure

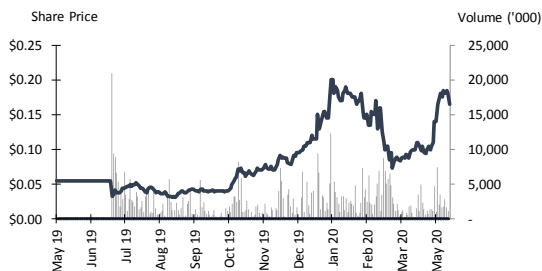
The analyst does not own CEL securities.

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Cranport Pty Ltd does not own CEL securities.

Refer to end of report for details.

Recommendation	Speculative Buy
Previous	N/A
Risk	High
Price Target	N/A
Previous Target	N/A
Share Price (A\$)	\$ 0.165
ASX Code	CEL
52 week low - high (A\$)	0.031-0.20
Valuation (A\$), risked	N/A
Valuation Methodology	N/A
Capital structure	
Shares on Issue (M)	536
Market Cap (A\$M)	88
Net Cash/(Debt) (A\$M)	6
EV (A\$M)	82
Options and warrants (M)	32
12mth Av Daily Volume ('000)	2,121
Board	
Fletcher Quinn	Non-Executive Chairman
Kris Knauer	Managing Director
Scott Funston	Executive Director
Major Shareholders	
Kris Knauer	7.9%
Share Price Graph	



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Event:

- Coverage of Challenger Exploration Ltd (CEL.ASX).

Analysis:

- **Challenger Exploration (CEL)** is a gold-copper explorer with two assets: 1) 75% interest earn-in in the Hualilan gold-silver project in Argentina and 2) 100% interest earn-in in the El Guayabo gold-copper project in Ecuador.
- **Argentinian advanced exploration – Hualilan mineralisation remains open in most directions and at depth.** Positive results from maiden drilling have been successful in extending mineralisation in multiple directions and in confirming high grades.
- **Continued drilling to extend mineralisation.** The company has started a second drilling campaign (7,500 metre, ~60 holes) to extend mineralisation. Assays from the initial second drilling campaign are imminent. The company intends to sustain a systematic drilling campaign to address historical under-drilling of target structure.
- **Historical Hualilan resource to be brought up to JORC compliance later this year.** The historical non-JORC resource at Hualilan stands at 627koz at 13.7g/t Au, and prior metallurgical test work has indicated 80% recovery. There is potential for upside risk to the Resource, dependent on drilling results from recent campaigns. The company also intends to release a JORC compliant resource by the end of CY20.
- **El Guayabo is CEL's Ecuadorean asset, a copper-gold project at the exploration stage with near surface porphyry/breccia targets.** CEL has undertaken extensive exploration over the last year to generate drilling targets, as well as land acquisition to increase tenement nine times to 35km². Results from assaying historical core samples are pending. The company is generating drilling targets for 1H 21 and then extensive drilling program is slated to be in 2H21 and 1H22.
- **Cash of \$6M at March 2020 quarter end and no debt.** The company anticipates it is fully funded for exploration objectives, having previously forecast a cash position of \$2.4M at the completion of the programs.

Earnings and Valuation:

- We do not forecast earnings or derive a valuation for CEL at this stage.

Recommendation:

- We recommend CEL as a **Speculative Buy**. We hold the view that should CEL demonstrate exploration success and delineate a larger and JORC compliant resource, its equity valuation could significantly exceed its current market capitalisation.
- **Hualilan is the clear near term focus for CEL;** further drilling continues in earnest to prove up the resource, while we expect a series of drill results to support a JORC compliant update to resource by year end.
- **Catalysts for the stock** include: 1) further drill and assay results at both Hualilan and El Guayabo; 2) Hualilan resource updates; and 3) JORC compliant resource for Hualilan.



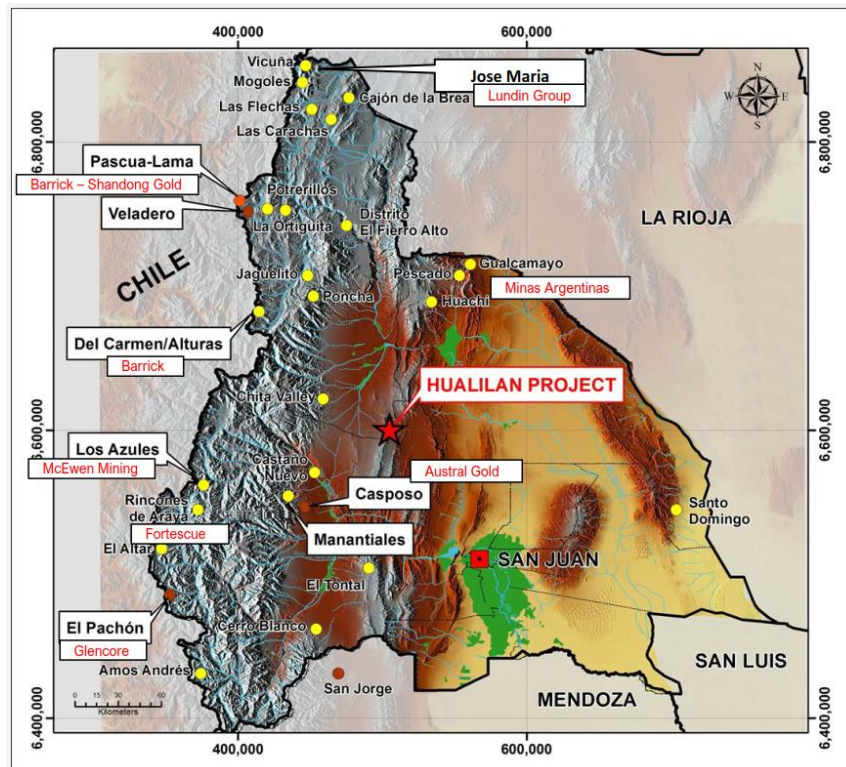
CHALLENGER EXPLORATION LIMITED

- Challenger Exploration Ltd (CEL.ASX) is a gold-copper explorer with the right to earn 75% interest in an advanced gold exploration project, Hualilan, in Argentina and earn 100% interest in a copper-gold exploration project, El Guayabo, in Ecuador. Hualilan is the clear near term focus for CEL; further drilling continues in earnest to prove up the resource, including a series of drill results shortly to support a JORC compliant update and potential upgrade to resource size by year end.

HUALILAN GOLD PROJECT, ARGENTINA (NIL INTEREST, EARNING UP TO 75%)

- The Hualilan Gold Project is a skarn and manto gold-zinc-silver deposit located in San Juan province, Argentina. The project comprises two areas Cerro Sur and Cerro Norte. The historical (non-JORC) resource is 627koz at 13.7g/t Au. Existing mineralisation is on granted mining leases and CEL also has the surrounding 26km² on exploration licence application. Mineralisation is open in most directions along strike and at depth.
- The company is looking to extend existing mineralisation through further drilling. The area has been drilled extensively in the past with 188 drill holes for 15,023 metres from 1984 to 2006. Prior metallurgical work has demonstrated 80% gold and silver recoveries via flotation plus production of a zinc concentrate stream.

Figure 1: Hualilan Project



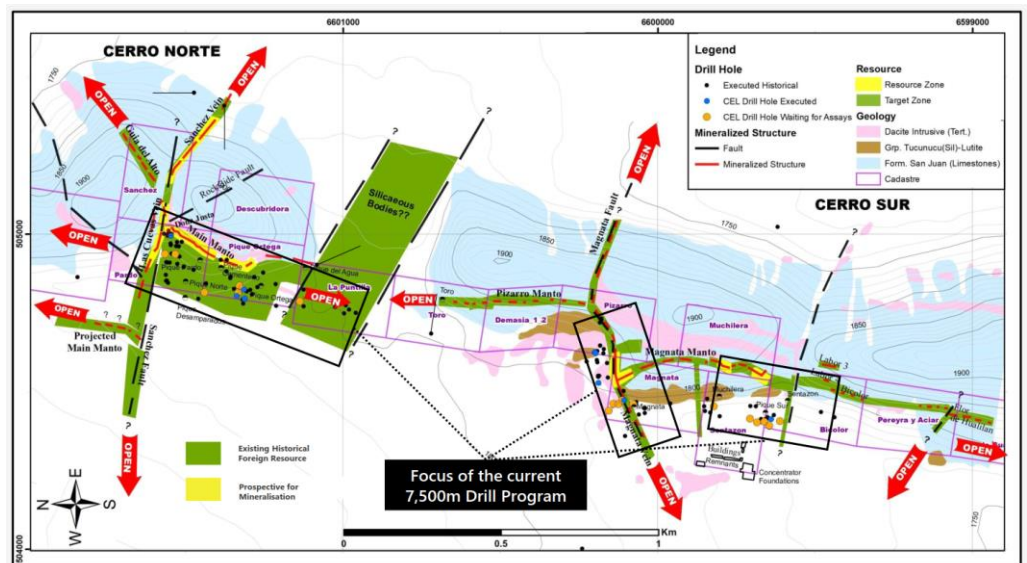
Source: Company.

- CEL is able to earn up to 75% of the project, subject to an initial \$1M expenditure, issue of 65M shares, and the completion of a definitive feasibility study within five years. The staged farm-in allows CEL to earn the initial 25% subject to the \$1M spend and a 15M share issue, with the step up to 75% on satisfaction of the remaining conditions. The remaining 25% interest is held by the vendors of the Hualilan concessions.

Targeting rapid expansion of mineralisation by campaign drilling

- The company started a second 7,500 metre drilling program (~60 holes) in February 2020. So far 2,115 metres (16 holes) have been completed, with assays pending. An additional 4,885 metres (~35 holes) will aim to extend the existing mineralisation.
- The maiden 1,500 metre resource extension drill program successfully extended mineralisation in multiple directions and confirmed high grades. The company holds the view sufficient drilling will confirm the ultimate size of Hualilan, with the limit to mineralisation being systematic drilling to delineate the resource and expansion potential at depth and along strike.

Figure 2: Cerro Norte and Cerro Sur Plan



Source: Company.

Milestones

- Upcoming milestones for the Hualilan project over the next twelve months, include:
 - Further drill results and pending assays from initial drilling of the second campaign;
 - Metallurgical test work, expected in Q2 2020;
 - Geophysics to define extensions down to 300 metres;



- Additional infill program, 2H 2020; and
- Upgraded JORC compliant resource, late CY2020.

EL GUAYABO GOLD-COPPER PROJECT, ECUADOR (19.9% INTEREST, EARN-IN UP TO 100%)

- El Guayabo is a breccia and porphyry copper-gold project in Ecuador and a longer term exploration play. Over the past twelve months, the company has undertaken extensive exploration, as well as increased land holding nine times to 35km².
- The company has a 19.9% interest in El Guayabo and a right to earn up to 100% interest. The staged farm-in allows CEL to earn an additional 16.1% after incurring \$2M spend, and a further 16% after an additional US\$3M. The remaining 48% is subject to the issue of 180M shares. The balance of the interest is held by the vendors of the El Guayabo concession.
- El Guayabo has been drilled by previous owners Odin and Newmont, however prior drilling was not conducted with a copper-gold focus or porphyry expertise. Historical drilling has demonstrated potential to host copper-gold mineralisation, and has returned a number of intersections of 100m+ intrusion related breccia and vein hosted mineralisation.
- CEL is undertaking work including assays of historical drill samples, along with rock and soil sampling, and completion of surface mapping to compile drill targets, slated for 2H21 and 1H22.

FINANCIALS

- The company had cash of \$6M at the end of March 2020 and no debt. CEL considers it is fully funded for its near term exploration objectives, having previously forecast a cash position of \$2.4M at the completion of its drilling, metallurgical work, and geophysics programs. Cash burn for the March quarter was \$1.8M.

EARNINGS AND VALUATION

- We do not forecast earnings or derive a valuation for CEL at this early stage and await further updates on the JORC resource and production parameters to provide these metrics.

RECOMMENDATION - INITIATE WITH SPECULATIVE BUY

- We initiate with a Speculative Buy recommendation on CEL. We hold the view that should CEL demonstrate exploration success and delineate a larger and JORC compliant resource, its equity valuation could significantly exceed its current market capitalisation.
- Catalysts for the stock include: 1) further drill and assay results at both Hualilan and El Guayabo; 2) Hualilan resource updates; and 3) JORC compliant resource for Hualilan.



BOARD

- **Fletcher Quinn, Non-Executive Chairman.** Over 35 years of experience in venture capital, corporate finance, and investment banking. Foundation Chairman of Citadel Resources.
- **Kris Knauer, Managing Director.** Started his career as an exploration geologist before moving into investment banking, initially as a mining analyst. Led the listing of a package of copper-gold assets in Saudi Arabia to create Citadel Resources becoming the founding Managing Director.
- **Scott Funston, Executive Director.** Qualified Chartered Accountant and Company Secretary/CFO with almost twenty years of experience in the mining industry.

RISKS

The following risks may negatively impact the CEL share price:

- **Resource risk.** CEL may not be able to determine a JORC Resource or Reserve that may be economically mineable for Hualilan or El Guayabo or other projects, which can negatively impact valuation and earnings.
- **Permitting risk.** There is a risk the company may not be able to secure a permit due to economic, environmental, or government issues.
- **Sovereign risk and geopolitical risk.** Any change in government, policy, legislation, or fiscal policy of Argentina or Ecuador may markedly impact the ownership, financing, permitting, or economics of the company's projects.
- **Commodity price risk.** Declines in gold, silver, or copper prices may negatively impact the revenues and profitability of CEL's projects.
- **Currency risk.** The CEL share price is denominated in AUD and yet the company's major commodity exposures are priced in USD. Any rise in the AUD may reduce translational impact of USD into AUD.
- **Operating risk.** Problems may occur during the mining, processing, transporting and selling of CEL's commodities that may negatively impact revenues, costs, and profit.
- **Financing risk and dilution risk.** CEL is currently not generating earnings, however it will require funds to advance and develop its project. There is a risk that this may result in the company raising equity which may dilute shareholders, or the company borrowing debt which it may not be able to service.
- **Economic and market risk.** Should global economic growth decline or share markets fall, this may reduce the appetite for both CEL's commodity exposure and its shares, negatively impacting the share price.



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Disclosure review. All the disclosures in the report have been reviewed and checked by Rob Telford, Corporate.
