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CHALLENGER GOLD (ASX:CEL)

Toll treatment to start production at Hualilan

2nd September 2024

Challenger Gold

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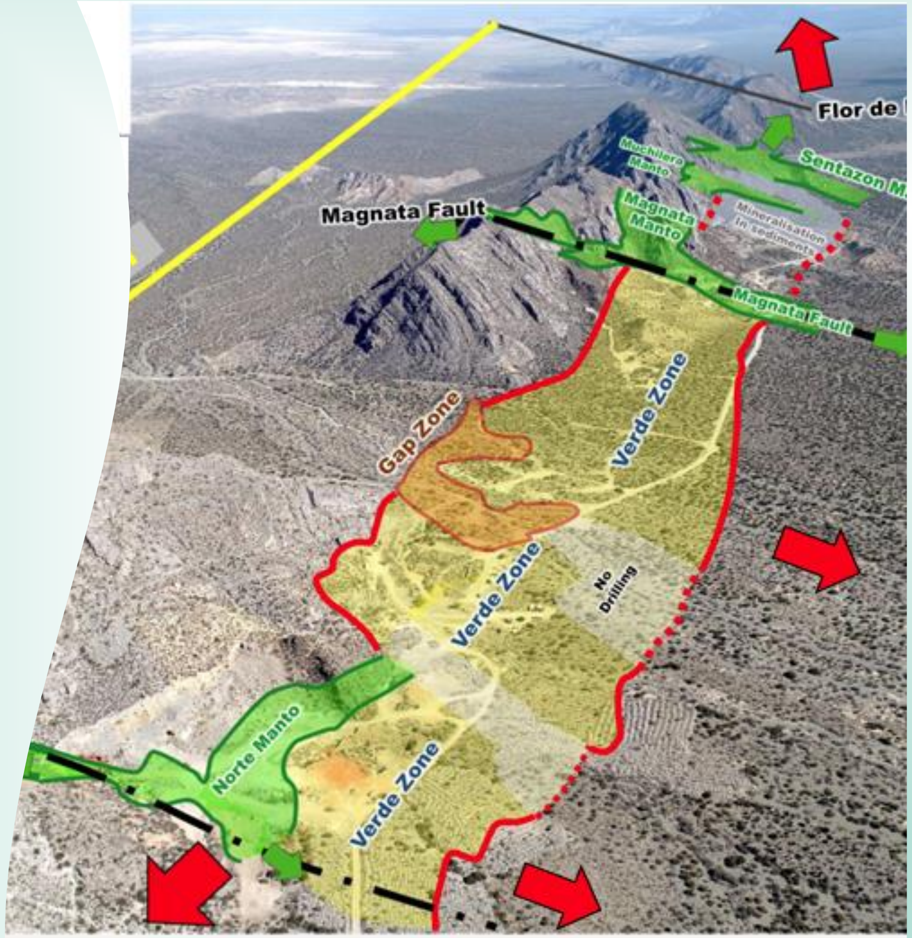

Flor de
Muchilero Manto
Sentazon M
Magnata Fault
Magnata Manto
Mineralisation in sediments
Magnata Fault
Gap Zone
Verde Zone
No Drilling
Verde Zone
Norte Manto
Verde Zone

Executive Summary

Equity raise and toll treatment agreement to move the Hualilan project forward

ASX Code	CEL
Share Price	$0.054
Market Cap	$75.8m
Net Debt	$16.1m
Enterprise Value	$91.9m

Issued Capital (post raise)	1,573m
Free Float	1,362m
Avg Daily Volume (3M Rolling)	1,435,561
52 Week High/Low	0.10/0.04

Resources (gold)	5.745
Resources (gold equivalent)	7.283
EV/oz of gold	A$16/oz
EV/oz of gold equivalent	A$12/oz
EV/ Australian developer/explorers	A$99/oz

Our View

- The option of starting mining and generating cash flow from a tolling arrangement makes a lot of sense.
- The agreement negotiated by CEL removes the funding hurdle for early production and will provide the means to progress the equity portion of a future flotation plant development at Hualilan.
- The mining of the pits for tolling is similar to that previously proposed by CEL in its scoping study and will not have a meaningful impact on the larger development as lower grade material or material not suitable for toll treatment will be stockpiled.
- The private placement of $6.6m and issue of warrants to the Elsztain Group ensures an alignment of goals and enabling the Tolling arrangement to proceed in FY25 and progress the planning & development of the larger flotation plant.

Tolling snapshot

- **Timing:** July 2025 to June 2028, subject to timing of mining and trucking permits in San Juan.
- **Gold and silver production:** 71,000oz of gold and 297,000oz of silver or approximately 2,000oz of gold equivalent per month.
- **Operating cost:** US$840/oz on a gold equivalent basis or US$1111/oz including royalties and export duties.
- **Life of tolling cash flow:** over the 3 years of operation and using consensus commodity prices and estimated costs the tolling should generate pre-tax cash flow of US$81.2m and US$68.5m after tax after utilizing the US$45m in Argentinian tax losses the company has available.
- **NPV_5 for starter pits:** the pre-tax NPV calculated on a monthly basis is US$75.6 (A$111.9) and after tax US$64.1m (A$94.9m).
- **Changes to forecasts:** Our sum of the parts valuation for CEL is now A$521.9m (or 33cps diluted for the proposed equity raises) versus our May 2024 forecast of A$522.9 (38cps pre-issues**).**

Equity issues

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Private placement

- Executed binding term-sheet including a A$6.6M Strategic Private Placement by Dolphin Real Assets Fund SPC Ltd. a part of the Elsztain Group (an existing shareholder) that is expected to facilitate the processing of metals from the Hualilan project through a tolling agreement.
- 147,726,678 ordinary shares at $0.045.
- Toll Milling opportunity for Hualilan's ore (the " Toll Milling Agreement") that is also expected to provide funding for costs of mining, transporting, and processing until CEL receives revenue from initial gold sales.
- Each share will have an ordinary share purchase warrant which will have a period of two (2) years from the Closing Date at a strike price equivalent to the Placement Price plus 10% during the first 12 months then the Placement Price plus 20% after 12 months.
- The warrants may not be exercised to the extent that the issue of the underlying CEL´s shares would cause the Purchaser (alone or together with any affiliates and/or any other person with whom the Purchaser may have an agreement or arrangement providing voting power) to exceed voting power in excess of 19.99% in CEL unless CEL shareholders resolve to approve the issue.

Share Purchase Plan

- The Company intends to undertake a Share purchase Plan, capped at $1 million, to allow shareholders to invest at the proposed price of the Strategic Placement.
- 22,222,222 shares at at $0.045.

TSX Listing and Board Renewal

- CEL plans to list on the TSX in 2024 and is planning on lodging NI 43-101 reports for Hualilan and El Guayabo this month to be compliant.
- The listing has been discussed as a means of broadening the potential investor base and now feels that the time is right now that it can demonstrate a pathway to production and strategy for financing the larger Hualilan project.
- CEL plans to appoint 1-2 Canadian based independent directors as part of the listing which are likely to replace existing CEL directors.

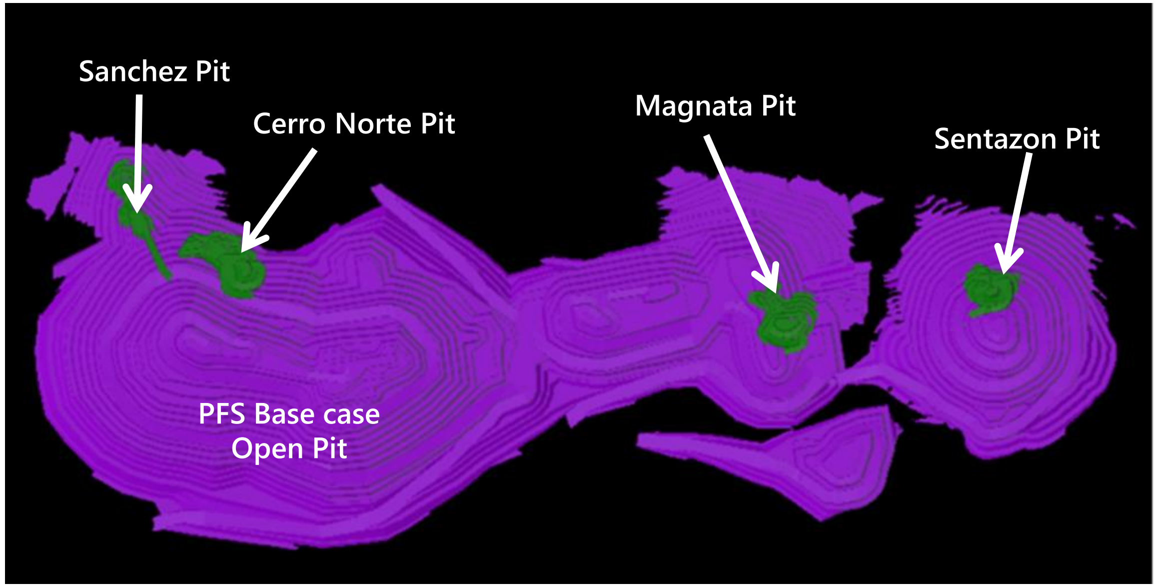
Top 5 Post Placement & SPP		
Eduardo Elsztain	214.0	13.6%
Blackrock	154.6	9.8%
Kris Knauer	89.3	5.7%
Sergio Rotondo	89.0	5.7%
Fletcher Quinn	24.1	1.5%
FP Ordinary shares	1573.6	
Performance rights	58.1	
Warrants	147.7	
Options	126.7	

Toll Mining Inventory

Higher grade oxide material suitable for a leach plant

- The company has generated four starter-pits within the PFS Base Case pit which is a larger pit than the one released as in the Scoping Study which had an inventory of 1.4Mt at 3.6/t Au and 23g/t Ag. The Tolling Starter pits were optimised for lower strip ratios and higher grades.
- Open pit designs have been completed for these pits generating a Potential Mining Inventory (PMI) for Toll Milling of 478,000t which starts at surface. The average grade of this Toll Milling Inventory is 5.8g/t Au & 32.2g/t Ag containing 85,550oz (Au) and 495,334oz (Ag). This represents 3% of the total Hualilan mineral resource of 2.8Moz AuEq.
- The bulk of the material to be mined for tolling will be oxide mineralisation suitable for the toll milling plant and the lower grade or sulphide ore which will be stockpiled on site after mining to provide feed for heap leach or flotation circuits.
- We assume that the waste shown in the table is used as part of the infrastructure build such as roads and bunds for future tailings dams.
- Note that details of the PFS Base Case Open pit illustrated here have not been released to the market but were completed to a stage where CEL could use them as part of the mine planning for toll treatment.
- Now that toll treatment is an option the PFS is likely to be delayed in order to incorporate tolling and early open pit mining in the larger pit. There will a requirement to carry out a reasonable amount of rescheduling and optimization of the big pit PFS Base Case Pit rather than just building on the Scoping Study which would have been the intention.

Potential Mineral Inventory	Material (t)	Au (g/t)	Ag (g/t)	Au Contained (oz)	Ag Contained (oz)	Strip Ratio (PMI vs. SP + Waste)
Sanchez Pit	94,831	6.88	11.72	20,965	35,746	2.2
Norte Pit	145,245	6.76	37.65	31,552	175,797	3.5
Magnata Pit	177,497	4.55	40.19	25,969	229,332	4.2
Sentazon Pit	60,852	5.14	27.84	10,064	54,459	6.6
Total PMI – Toll Treated	478,426	5.76	32.20	88,550	495,334	3.9
Total PMI - Stockpiled	387,064	1.33	11.71	16,606	145,721	
Waste	1,480,359					
Total Material Moved	2,345,849					



Cash flow modelling

A bench-by-bench view of the open pit

- Our analysis of the scoping study and a previous site visit led us to enquire further on the mine plan, as using simple averages shown in the Potential Mineral Inventory table would not have enabled us to reflect the pit optimization. The grades vary with depth and areal extent as the Skarn mineralisation while high grade is controlled by the rock types and structure and changes from bench to bench in the open pit.
- CEL was kind enough to provide us with the bench data which we have modelled on a month by month and pit by pit basis. Mining is expected to start with Magnata for the months 1-14, Sanchez 15-19, Norte 20-19, and Sentazon 30-36. We have broadly assumed that total mining is at a rate of 50-60,000t of ore and waste per month and that the feed to the tolling plant reflects the strip ratio in the period.
- In terms of operating assumptions, we have used:
  - mining costs of US$9/t to reflects the strip ratio, the scale and the contractor margin and is effectively almost triple what we had previously allowed for in our full-scale modelling and similar larger scale projects.
  - The treatment cost of US$80/t reflects an operating cost of US$65/t and a tolling margin of US$15/t which seems reasonable.
  - The trucking cost of US$15/t is based on guidance from CEL on trucking costs in the province and a sub 200km haul.
  - Recoveries are based on the mid point of the average recoveries quoted by CEL for leaching of oxide ore in the release to the exchange.
- All of which delivers a healthy life of tolling EBITDA margin of 49%.

CapIQ Consensus precious metals price forecasts (Aug 30, 2024)

	FY24	FY25	FY26	FY27	FY28
Gold (US$/oz)	2,273	2,306	2,225	2,147	2,176
Silver (US$/oz)	27.54	28.35	27.74	26.84	26.26

Summary of project physicals

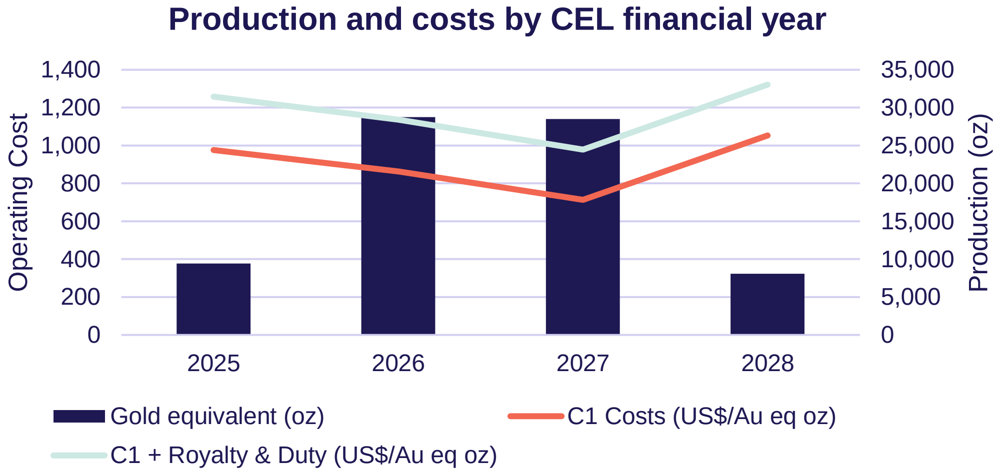
	Average	36 months
Material moved (t)	54,344	1,956,376
Ore (t)	13,223	476,017
Waste (t)	41,121	1,480,358
Gold Grade (g/t)	5.80	5.80
Silver Grade (g/t)	32.37	32.37
Gold Recovery	80%	80%
Silver Recovery	60%	60%
Gold produced (oz)	1,974	71,060
Silver produced (oz)	8,258	297,293
Gold equivalent (oz)	2,076	74,750

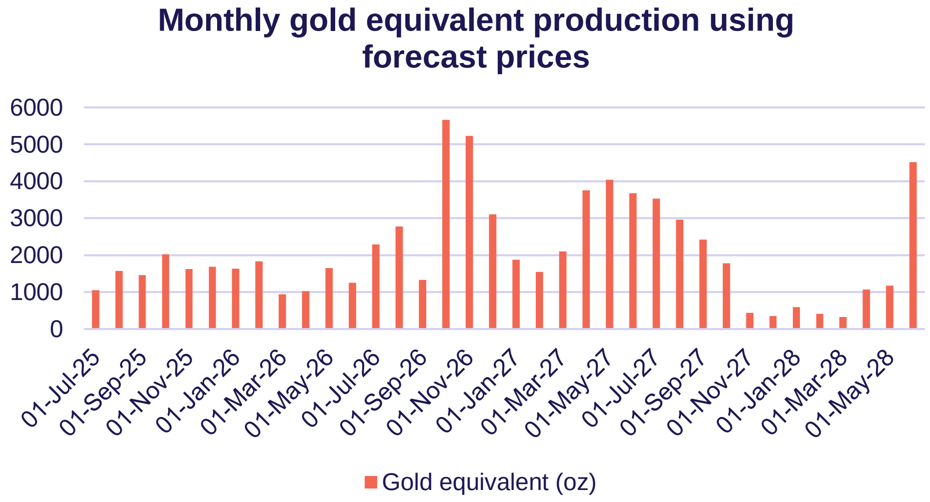
Operating Assumptions	
Mining Cost (US$/t ore/waste)	9.00
Treatment Cost (US$/t ore)	80
Trucking Cost (US$/t ore)	15
Gold recovery	80.0%
Silver recovery	60.0%

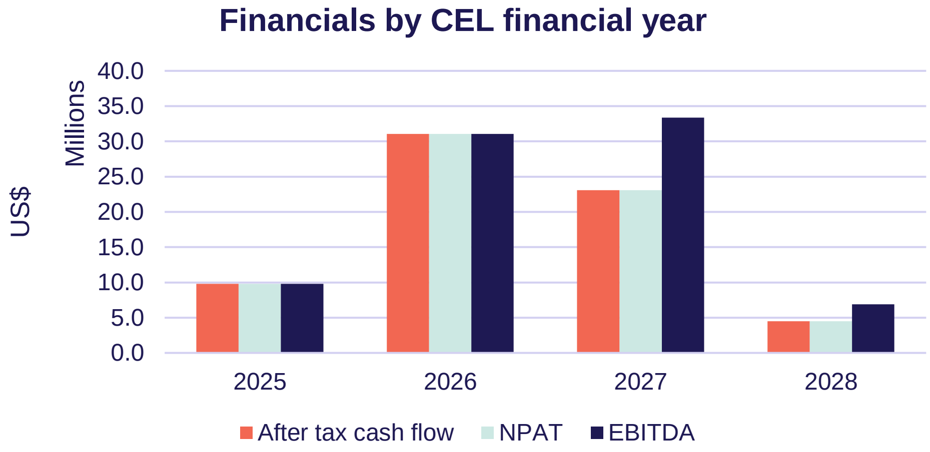
Average toll milling outcomes	$/t of ore
Recovered gold and silver	345
Royalty / Export duty	-43
Mining (ore & waste)	-37
Trucking	-15
Toll Treatment	-80
EBITDA (toll milling)	**171**

Gold and silver production

Healthy operating margin even after toll treatment







- The cash flow, EBITDA & NPAT generated by tolling should eliminate a significant proportion of the funding overhang that plagues explorer/developers like Challenger Gold. The cash generated from Hualilan and plans to realise value for the Ecuadorian assets should go a long way to reduce the level of equity required to deliver the Hualilan flotation circuit.

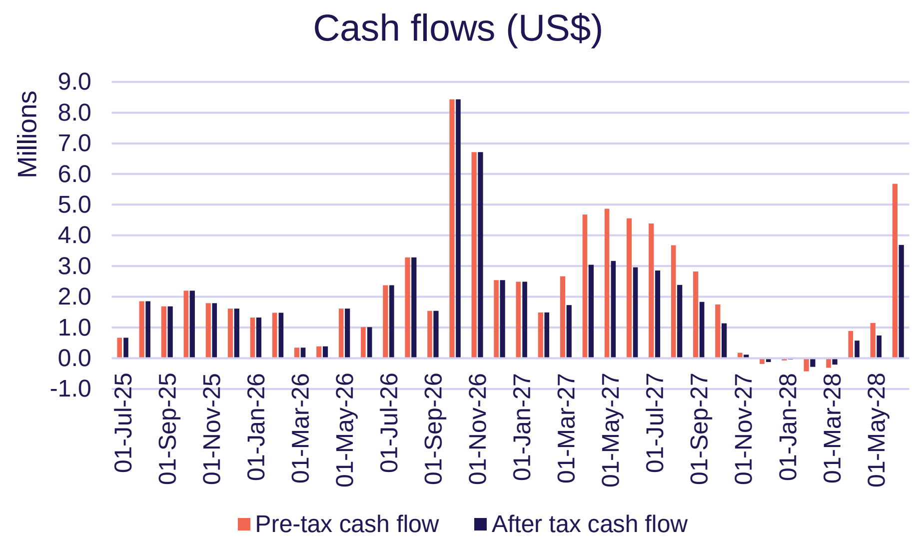
Potential for some optimisation

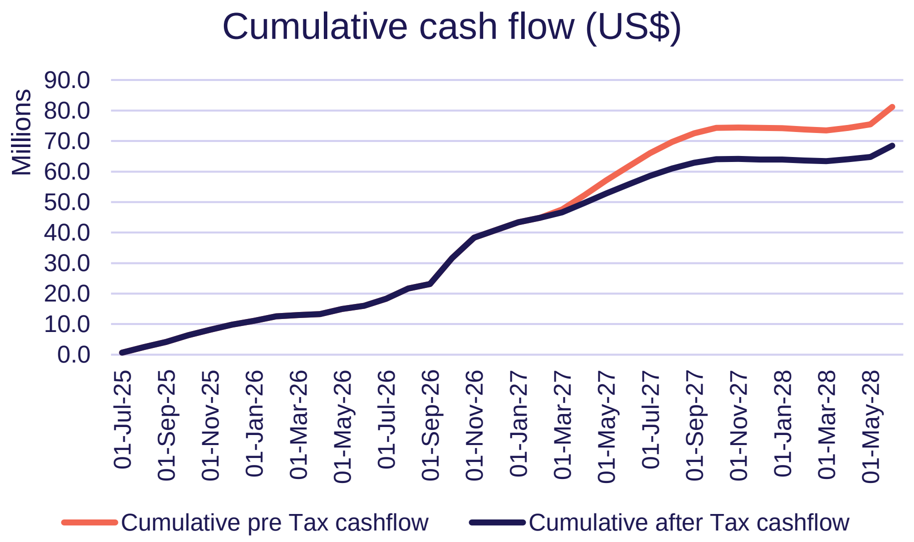
Tax losses on past expenditure provide a useful deduction

- We have assumed that toll treatment of ore commences in July 2025. The start date is reliant on the approval of the Mining EIA which has been submitted and the Trucking EIA is about to be submitted to the San Juan authorities.
- The charts on the previous page show the variability in gold and silver production by modelling on a pit-by-pit basis with no attempt to smooth production. The resultant mine cashflow profile shadows a similar outcome and be reasonable to expect that some minor modifications or blending might lead to more consistent cash flows and potentially a higher NPV.
- The project has the benefit of US$45m in tax losses. Based on our monthly modelling the project will not be liable for any tax payment for 20-months of the 36-month project life.
- Other assumptions:
  - Argentinian corporate tax rate - 35%
  - San Juan Provincial Royalty – 3.0%
  - Export tax - on gold - 8.0%, on silver - 4.5%
  - Community tax – 1.5%
- We have assumed that there are no D&A deductions for calculating the tax, given that plant and equipment is likely to all fall into operating costs for the mining and trucking.
- The NPV_5 after tax of US$64.1m or ~A$94m on current FX rates is equivalent to CEL's Enterprise Value and reflects the mining of the only 3% of the current gold equivalent resource base and only 36 months of production at 50-200ktpa of ore versus the scoping study of 1Mtpa for seven years of the broader resource base.

NPV's for toll treatment using consensus commodity forecasts

Discount Rate	0%	5%	10%	15%
Pre-tax NPV (US$m)	81.2	75.6	70.6	66.3
Post-tax NPV (US$m)	68.5	64.1	60.2	56.8



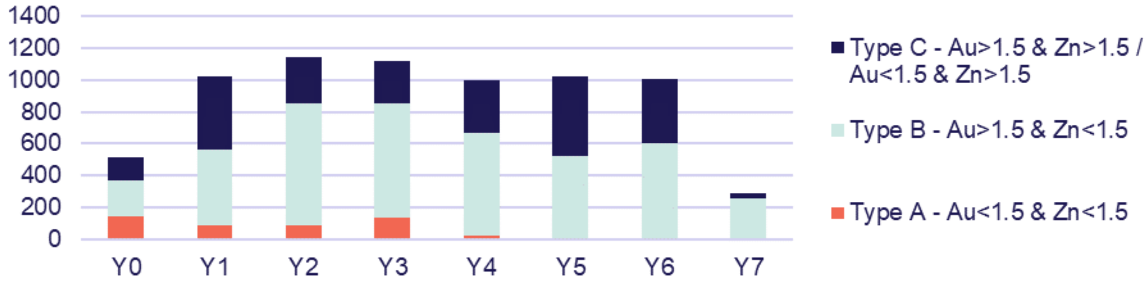


PFS or PEA to merge tolling and flotation

Further details to come

- As a quick update to our scoping study-based model of the Hualilan project we have removed the Type B (>1.5g/t Au and <1.5% Zn) ore from our open pit modelling as this broadly equates to the higher-grade ore proposed to be mined for toll treatment. We have also adjusted the waste in the scoping study plan.
- Type A & C open pit was left in our model as previously planned. This outcome is unlikely in the PFS as we note comments by CEL over the last quarter on the work being done in the PFS and the increased size of the Base PFS Pit shown in the documentation with this release. It would appear from metallurgical test work carried out to date that the PFS (or potentially a PEA) will include a heap leach of low-grade ore and that the overall open pit mine-plan will need to change from the scoping study.
- The impact on our valuation of the flotation plant related mining & processing model was to lower the pre-tax NPV_5 to US$358m and after-tax US$265m, a decrease of US$51m and US$30m, respectively. We have left the capital expenditure unchanged which does not take into account any pre-production open pit development or infrastructure spend and will need to be updated when further details become available.
- Without any changes in scope, it would appear that the project pre-production capex for the flotation plant might end up being in the order of US$145m. Following the tolling agreement, CEL will have generated US$68.5m in after tax cash flow . This would leave US$76.5m to be funded, a relatively small hurdle for a mix of debt, equity or streaming style funding to take the overall project forward.

Scoping study mining schedule by mineralisation type (kt)



Scoping study capital expenditure estimates (US$m)

Description	Pre-production	Sustaining	Total
Open Pit Development	5.8		5.8
Underground development	21.8	45.0	66.8
Process Plant	59.0	9.0	68.0
TSF	5.4	3.0	8.4
On-site infrastrucure	8.7	1.5	10.2
Owner's costs	15.6		15.6
Indirect costs	2.7		2.7
Contingency	14.7	0.5	15.2
Total Capital Expenditure	133.7	59.0	192.7
Other pre-production costs	18.4	0.0	18.4
Total	**151.7**	**59.0**	**211.1**

Sum of the parts

Now three components in the valuation

- We have updated our sum of the parts valuation for CEL which led to an overall uplift in the value attributed to Hualilan. Following the remodelling of the flotation project, including higher consensus metal prices for the near-term tolling period and a decrease in the value attributable to Ecuador exploration as a result of the share price depreciation of comparable companies.
- Our sum of the parts valuation for CEL is now A$512.9m down marginally from our last update in May 2024 which was A$522.9m.
- The next update to our valuation is likely to come with the release of the NI 43-101 for the Ecuadorian resources as it should allow us to build a notional cash flow model for future development rather than using comparable trading multiples of other Ecuadorian Companies.
- The listing on the TSX may also lead to the company updating the scoping study for Hualilan to incorporate the toll treatment in a Preliminary Economic Assessment (PEA) ahead of publishing a Preliminary Feasibility Study.
- Over the next 6 months we would also to expect to see the company get the Mining and Trucking Approvals in San Juan and perhaps move to monetisation of the Ecuadorian assets following the release of the NI 43-101.

Sum of the parts valuation post placement and SPP diluting for new issued capital and including cash raised

	A$m	A$ps
Hualilan Flotation	392.2	0.25
Hualilan Tolling	94.9	0.06
Ecuador	42.4	0.03
Other	0	0.00
Project	**529.6**	**0.34**
Net debt	8.5	0.01
Valuation	**521.1**	**0.33**

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