

Equity Research
25 February 2025

SPECULATIVE BUY

Share Price	\$0.058
12M Price Target	\$0.150
TSR (%)	159%

52-Week Range	\$0.037 - \$0.099
CEL Shares Outstanding	1683m
Market Capitalization	\$97.6m
Cash (31 Dec 2024)	~\$8m
Enterprise Value	\$90m

Management Team

Sergio Rotondo	Executive Chairman
Kris Knauer	CEO & Managing Director
Sonia Delgado	Executive Director
Fletcher Quinn	Non-Executive Director
Pini Althaus	Non-Executive Director
T. Hackett	Non-Executive Director

Top 5 Shareholders (25 Feb 2025)

Eduardo Elstain	12.80%
BlackRock	9.38%
Inversiones	8.79%
Kris Knauer	5.31%
Sergio Rotondo	5.30%

Share Price Performance (12 Months)



Challenger Gold (ASX:CEL)

Hualilan – H2 CY2025 High Grade Gold Production

Analyst | Eric Samuel

Summary

We initiate coverage on Challenger Exploration (ASX:CEL) with a Speculative Buy Rating and a \$0.15 price target, highlighting its potential as an emerging gold developer with two high-impact South American projects:

2.8Moz Hualilan Gold Project (Argentina, 100% owned): Originally Argentina's first gold mine, now with a November 2023 scoping study outlines a 140 Koz AuEq per year operation with an exceptional high-grade core of **1.5Moz at 5.6 g/t AuEq**, with toll treatment production set to begin in H2 2025, positioning CEL among the top 20 ASX gold producers.

4.5Moz El Guayabo/Colorado V Gold-Copper Project (Ecuador): An earlier-stage but highly prospective project, located just 5 km from Lumina Gold's (TSXV:LUM, MCap A\$300M) 16.7 Moz Cangrejos deposit, a Tier-1 scale asset.

What Makes CEL Stand Out?

With strong economics at Hualilan, significant exploration upside at El Guayabo, and near-term production catalysts, CEL is well-positioned for a re-rating. Hualilan's toll milling operation, beginning in H2 2025, will generate early revenue and reduce upfront CAPEX.

Dual Gold-Copper Projects with Tier-1 Potential

- Hualilan (Argentina): 2.8 Moz AuEq, including a high-grade core of 1.5 Moz at 5.6 g/t AuEq, positioned for low-capex, high-margin production. Argentina's first gold mine, with EIA approval granted (Oct 2024).
- El Guayabo (Ecuador): 4.5 Moz AuEq maiden resource, 5km from Lumina Gold's 17 Moz Cangrejos deposit, highlighting large-scale growth potential.

Hualilan: High-Grade, Early Production & Strong Cash Flow

- Toll Milling (450,000t at **6.4 g/t Au & 38 g/t Ag**) starts H2 2025, generating US\$90M over 4 years, covering most of the US\$145M capex for a 140koz AuEq operation.
- High-grade core (**1.5 Moz at 5.6 g/t AuEq**) supports a high-margin starter operation, ensuring fast payback and reduced financial risk.
- Remaining US\$55M capex for standalone development may be raised via a combination of debt, royalty or streaming, equity, or mezzanine finance.

Two Mining Scenarios - Both Standout Against Producing Peers

- Case 1 (1Mtpa, Flotation) & Case 2 (9.6Mtpa, Toll + Flotation + Heap leach)**

	Case 1	Case 2	Peer Ave
Peak Prod (AuEq)	140Koz	200Koz	N/A
EV/ProdOz (A\$/oz)	365	520	10,180
AISC (A\$/oz)	1,370	1,600	2,300

NPV Valuation Disconnect vs CEL Enterprise Value of A\$90M

	Case 1	Case 2
Post Tax NPV 5% Spot Prices (A\$)	A\$1,190M	A\$2,148M

- Currently, little to no value is being attributed to El Guayabo's 4.5Moz.

Major Re-Rating Catalysts

- Toll Milling Startup (H2 2025): Revenue generation should de-risk financing.
- Updated Feasibility Work: Incorporating UG optimization, heap leach expansions, and a final flotation plant design.
- Resource Upgrade at El Guayabo.

Fully Permitted

- Environmental Impact Assessment ("EIA") approved October 2024
- Enables CEL to proceed with mine construction and development
- First gold project in San Juan Province to receive EIA approval in 17 years

Mining-Friendly Jurisdictions & Supportive Policies

- San Juan, Argentina: A well-established mining jurisdiction with consistent regulations and strong infrastructure. Ecuador: Rapidly emerging as a major gold-copper hub, with improving policies to support large-scale mining investment.

Significant Growth & Exploration Upside

- 1.7 Moz AuEq at Hualilan is excluded from current studies but could be integrated into future mine plans.
- Heap leach testing shows greater than 60% Au recovery, enabling potential inclusion of 50% of excluded ounces.

Development Scenarios – Case 1 & Case 2

- Case 1: Remodelling the 2023 Scoping Study 1Mtpa flotation operation using spot prices to assess current project economics.
- Case 2: Expanded Bulk Operation building on the 2023 Scoping Study, starting with 450 kt third-party toll treatment (H2 2025) to fund most of a larger 1.6Mtpa flotation plant capex, while integrating 1.7 Moz of additional ore with a 8 Mtpa heap leach circuit.

Risk Weighted - Sum of the Parts Valuation (A\$)

Asset	Value Range	Preferred	Per Share
Hualilan (85% Risked-NPV)	\$1,190m - \$2,148m	\$250m	\$0.15
El Guayabo	\$5m - \$15m	\$8m	\$0.005
Exploration and Corporate Costs		(\$16m)	(\$0.010)
Cash		\$8m	\$0.005
Total		\$250m	\$0.15

Source: Evolution Capital estimates

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1. Argentina: A Transformed Investment Climate

Argentina is Latin America's second-largest economy (after Brazil) and is undergoing a mining renaissance. San Juan Province ranks as the country's top mining jurisdiction, supported by modern infrastructure and a pro-mining provincial government.

1.1 Key Economic Indicators & Milei Administration

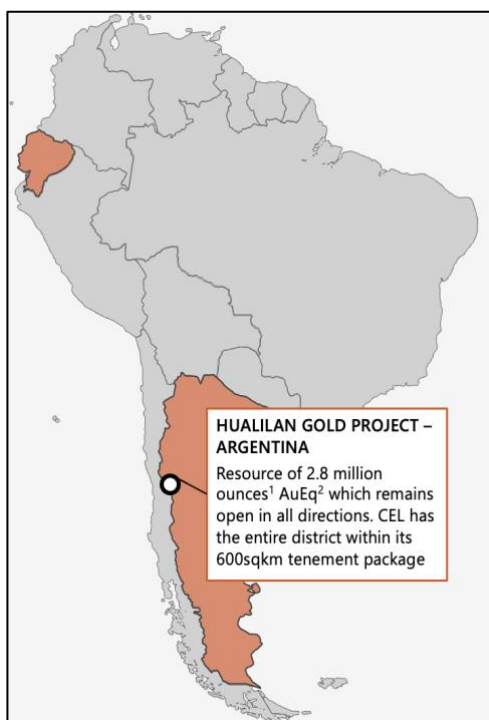
- **Mining Exports:** Projected to reach US\$4.3B in 2024, emphasizing lithium, gold, and silver.
- **Inflation Control:** Reduced from 211% (2023) to less than 30% (2025), aided by tighter monetary and fiscal policies.
- **Fiscal Discipline:** The Milei government achieved a fiscal surplus of 0.3% of GDP in 2024, the first surplus in over a century.
- **Mining-Focused Policy:** Lowered bureaucracy, streamlined permits, and potential corporate tax cuts (from 35% to 25%) stimulate foreign investment interest.

1.2 Major Mining Companies in Argentina

The presence of global majors underscores Argentina's viability. San Juan in particular supports large-scale operations, with strong government backing for gold projects like Hualilan.

- **Barrick Gold:** Operates the Veladero gold mine in San Juan.
- **Yamana Gold:** Cerro Moro gold-silver mine in Santa Cruz.
- **Glencore:** Alumbrera copper-gold mine in Catamarca.
- **Pan American Silver:** Manantial Espejo silver-gold mine, Santa Cruz.
- **Newmont:** Stake in Cerro Negro gold mine, Santa Cruz.
- **AngloGold Ashanti:** Cerro Vanguardia gold-silver mine, Santa Cruz.
- **Fortuna Silver Mines:** Lindero gold mine in Salta.

Figure 1: Hualilan Project Location



2. Hualilan Project – First Gold Mine in Argentina

- **Location & Access:** Situated ~120km north-northwest of San Juan, the capital of San Juan Province (northwestern Argentina).
- **Topography & Climate:** The project lies at an elevation of ~1,700m with a moderate, dry climate; rainfall typically occurs from December to January.
- **Tenure:** Comprises 15 mining leases plus multiple exploration licence application covering ~632km².
- **Mining Jurisdiction:** Hualilan is in a premier mining region with multiple established discoveries and a track record of gold production.
- **Mineralisation:** Drilling to date indicates the resource is open in all directions, suggesting the potential for a significantly larger gold-bearing system than originally anticipated.
- **Field Conditions:** Sparse population, thin vegetation, and substantial outcropping of geology enable year-round exploration activities.
- **Acquisition:** Challenger Exploration (CEL) secured the Hualilan Project through its 2019 acquisition of AEP Corporation.
- **Surface Rights:** Challenger has acquired the 20,000Ha containing the project and potential extensions

2.1 Hualilan Project History

Early Operations (1751–1900s):

- Small-scale artisanal mining focused on supergene zones.

Modern Exploration (1984–2005):

- 1984: Lixivia SA conducted channel sampling and drilled 16 RC holes (AG1–AG16) for 2,040m.
- 1995: Plata Mining Limited (TSE: PMT) completed 33 RC holes (Hua-1 to Hua-33) and collected ~1,500 samples.
- 1998: EPROM (for Plata Mining) carried out systematic underground mapping and channel sampling.
- 1999: Compañía Mineral El Colorado SA (CMEC) drilled 59 core holes (DDH-20 to DDH-79) alongside a 1,700m RC program.
- 2003–2005: La Mancha (TSE-listed) completed 7,447m of diamond core drilling (HD-01 to HD-48).

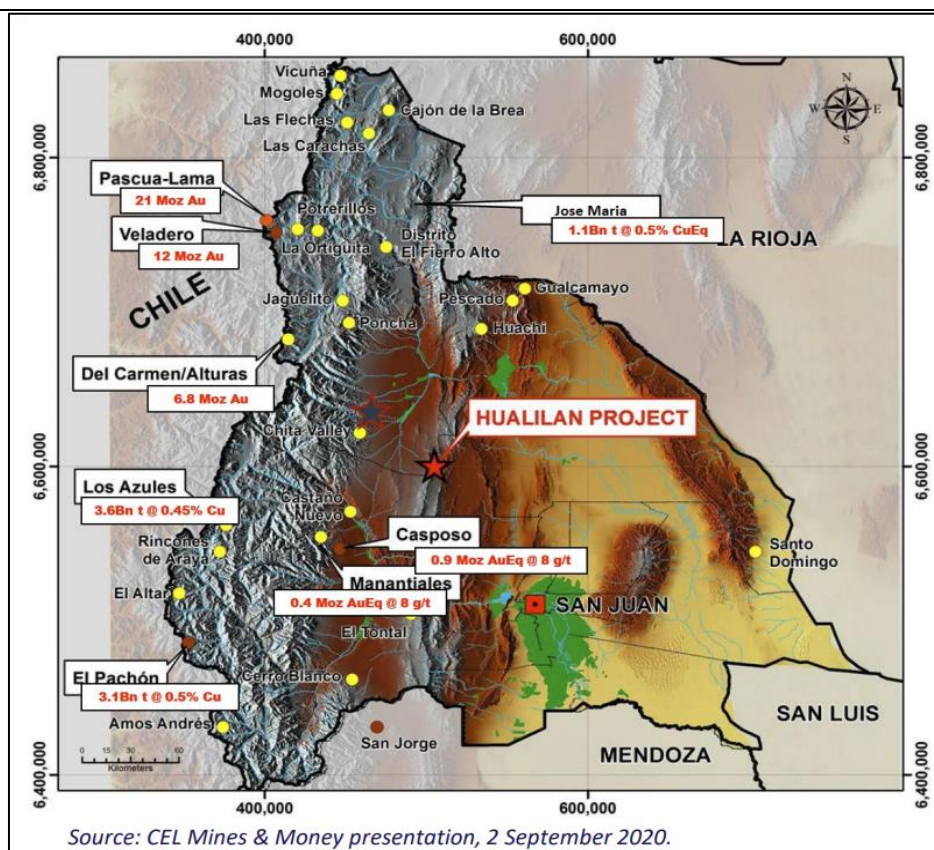
CEL Consolidation (2019–Present)

- 240,000m of diamond core
- Maiden JORC resource and upgrade to 2.8Moz AuEq
- Consolidates 632 km² regional footprint
- Scoping Study – 140koz AuEq annual production
- Regional exploration program identifying several Au targets
- Toll Milling Agreement

2.2 Hualilan Geology

- The known mineralisation at Hualilan is hosted within Ordovician limestones which are overlaid by Silurian conglomerates, sandstones and siltstones. Hualilan deposit is a zinc-enriched skarn with a late-stage gold overprint and epithermal characteristics.
- Hualilan is high-grade and extends over two kilometres, including a one-kilometre zone of limited exploration (the Gap Zone)

Figure 2: Surrounding Projects



- **Resource Size:** 2.8 Moz AuEq (JORC 2012), with ~80% in the Indicated category (~2.2 Moz)
- **High-Grade Core:** ~1.5 Moz at ~5.6 g/t AuEq (cut-off ~2.37 g/t AuEq).
- **Drilling Footprint:** ~240,000 meters of diamond/RC drilling, including 900+ CEL holes plus historic campaigns dating back to 1984.

High grade is important near surface for early payback
(Pink and red represent the higher grades)

Domain	Category	Mt	Au g/t	Ag g/t	Zn %	Pb %	AuEq g/t	AuEq (Mozs)
<i>US\$1800 optimised shell</i>	Indicated	45.5	1.0	5.1	0.4	0.06	1.3	1.9
<i>> 0.30 ppm AuEq</i>	Inferred	9.6	1.1	7.3	0.4	0.06	1.2	0.4
<i>Below US\$1800 shell > 1.0ppm AuEq</i>	Inferred	5.5	2.1	10.7	1.0	0.06	2.6	0.5
	Total	60.6	1.1	6.0	0.4	0.06	1.4	2.8

Note: Some rounding errors may be present
Table 1 : 1 Upgraded Hualilan MRE, March 2023

1 Gold Equivalent (AuEq) values Hualilan Gold Project- Requirements under the JORC Code (El Guayabo Gold-Copper Project)

- Assumed commodity prices for the calculation of AuEq is Au US\$1900 Oz, Ag US\$24 Oz, Zn US\$4,000/t, Pb US\$2000/t
- Metallurgical recoveries are estimated to be Au (95%), Ag (91%), Zn (67%) Pb (58%) across all ore types (see JORC Table 1 Section 3 Metallurgical assumptions) based on metallurgical test work.
- The formula used: $\text{AuEq (g/t)} = \text{Au (g/t)} + [\text{Ag (g/t)} \times 0.012106] + [\text{Zn (\%)} \times 0.46204] + [\text{Pb (\%)} \times 0.19961]$
- CEL confirms that it is the Company's opinion that all the elements included in the metal equivalents calculation have a reasonable potential to be recovered and sold.**

HUALILAN GOLD PROJECT

2.8Moz and growing

Total MRE at various cut off grades

Cut-off (g/t AuEq)	tonnes	Au (g/t)	Ag (g/t)	Zn (%)	Pb (%)	AuEq (g/t)	Oz (AuEq)
0.30	60,649,096	1.1	6.0	0.44	0.06	1.41	2,758,935
0.40	49,131,477	1.3	6.8	0.52	0.06	1.67	2,630,081
0.50	40,314,159	1.5	7.7	0.60	0.07	1.93	2,503,463
0.60	33,508,271	1.8	8.5	0.69	0.08	2.21	2,383,116
0.80	25,745,239	2.1	9.8	0.84	0.09	2.67	2,210,537
1.00	21,101,103	2.5	10.9	0.97	0.10	3.06	2,077,276
1.20	17,311,011	2.9	12.0	1.11	0.11	3.49	1,944,038
1.40	14,636,049	3.3	13.0	1.24	0.11	3.90	1,832,800
1.60	12,742,712	3.6	13.9	1.36	0.12	4.25	1,741,963
1.80	11,155,252	4.0	14.9	1.47	0.13	4.62	1,655,499
2.00	9,881,761	4.3	15.8	1.57	0.13	4.97	1,578,019
2.20	8,953,342	4.7	16.5	1.67	0.14	5.27	1,515,540
2.40	8,092,822	5.0	17.4	1.77	0.14	5.58	1,451,837
2.60	7,421,006	5.3	18.1	1.86	0.14	5.86	1,398,119
2.80	6,913,664	5.6	18.5	1.92	0.15	6.09	1,353,882
3.00	6,443,251	5.9	19.0	1.99	0.15	6.33	1,310,235

2.5 CEL's Work Since The 2019 Acquisition

La Mancha Historical NI 43-101 Resource

- The property was historically explored by La Mancha Resources (TSX-listed) in 2004, identifying a 627 koz gold Mineral Resource at 13.7 g/t AuEq (NI 43-101 compliant).
- Prior to CEL's involvement, small-scale operations and various drilling campaigns were undertaken, but the deposit remained open in multiple directions.

Acquisition & Initial Drilling (2019)

- CEL acquired Hualilan in 2019 and began a maiden 2,000m diamond drilling program, which was expanded to 3,000m after early success confirmed historical resource data.
- A subsequent 7,000m program followed, coupled with an IP survey over Cerro Norte (northern Hualilan).
- Channel and underground sampling in Q3 2019 reported average grades of 15.0g/t Au, 75.5g/t Ag, and 6.8% Zn, surpassing historic gold grades by ~20%.
- Discovery of Intrusion-Hosted Mineralisation (July 2020)
- CEL intersected a new intrusion-hosted gold zone (50m @ 1.4g/t Au & 3.4g/t Ag + Zn-Pb, then 116m @ 1.2g/t AuEq), delineating a near-surface conceptual target ("the Gap Zone").
- The program was scaled up to 30,000m to test high-grade vein and skarn (manto) zones (e.g., Magnata Vein, Sentazon, Muchilera Manto, Cerro Norte) and further target the newly discovered intrusive-style mineralisation below and adjacent to the skarns.

Program Expansion & Significant Intercepts (Late 2020–2021)

- By late 2020, CEL initiated a 45,000m drilling campaign, operating up to five rigs. Three rigs focused on extending high-grade skarn mineralisation along key faults, while two targeted the deeper intrusion-hosted system.
- Notable intercepts released through 2021 included:
 - 209m @ 1.1g/t AuEq from 59m
 - 130m @ 2.5g/t AuEq from 237.2m
 - 63.3m @ 9.8g/t AuEq from 108m
- Multiple broad (+200m) intervals underlining the large-scale potential of Hualilan's intrusive-related system.
- In March 2021, drilling defined a second mineralised trend ~200m west of the Gap Zone, highlighted by 126m @ 1.1g/t Au (including higher-grade sub-intervals of 71m @ 1.7g/t Au and 29m @ 4g/t Au).

Resource Growth & Ongoing Drilling (2022–2023)

- CEL's aggressive exploration strategy has now surpassed 240,000m of diamond drilling plus over 2,900m of RC drilling, supported by geophysics and extensive channel sampling.
- A new Mineral Resource Estimate (MRE) was published in March 2023, reflecting major advances in defining both high-grade skarn and intrusion-related systems.
- The deposit remains open laterally and at depth, reinforcing CEL's view that Hualilan can host a multi-million-ounce resource capable of supporting a significant mining operation.

3. Case 1 – Building on CEL’s 2023 Scoping Study

Our model based on CEL’s 2023 scoping study results in a NPV5 post tax of US\$755M and an IRR of 126% post tax and confirms the project’s robust economics on a 1Mtpa flotation focused operation.

- **Mine Life:** ~7 years. (open pit and underground)
- **Annual Production:** ~116,000 oz Au, 440,000 oz Ag, 9,175t Zn (~141,000 oz AuEq).
- **AISC:** ~A\$1370/oz, placing Hualilan in a low-cost quartile among global gold producers.
- **Spot Metal Prices:** US\$2900/oz Au, US\$32/oz Ag, 1.30/lb Zn, 0.9/lb Pb
- **NPV5 (post-tax):** ~A\$1280M.
- **IRR (post-tax):** ~126%.
- **Payback:** ~0.43 years.
- **Pre-production CAPEX** (stand-alone flotation) is estimated at ~US\$145M, separate from the toll milling arrangement.

3.1 Mine Schedule & Preliminary Economics

- **Open Pit (~18% of ore feed):** Low strip ratio targeting near-surface high-grade zones for toll milling.
- **Underground (~82% of feed):** Sub-level open stopping (SLOS) with paste fill to reduce dilution.

3.2 Mining Methods

- **Open pit:** Conventional truck-and-shovel, minimal strip ratio in toll labelled pits.
- **Underground:** SLOS with paste fill for ore continuity and ground support.

3.3 Conventional Flow Sheet with Recoveries

- **Processing Facility:** Crusher, mill, gravity recovery, conventional sulphide flotation, plus flotation tails leach (FTL) for enhanced gold and silver extraction.
- **Processing & Concentrate Payability:** Gold ~88.4%, Silver ~54.8%, Zinc ~73.1%, Lead ~93.6%.

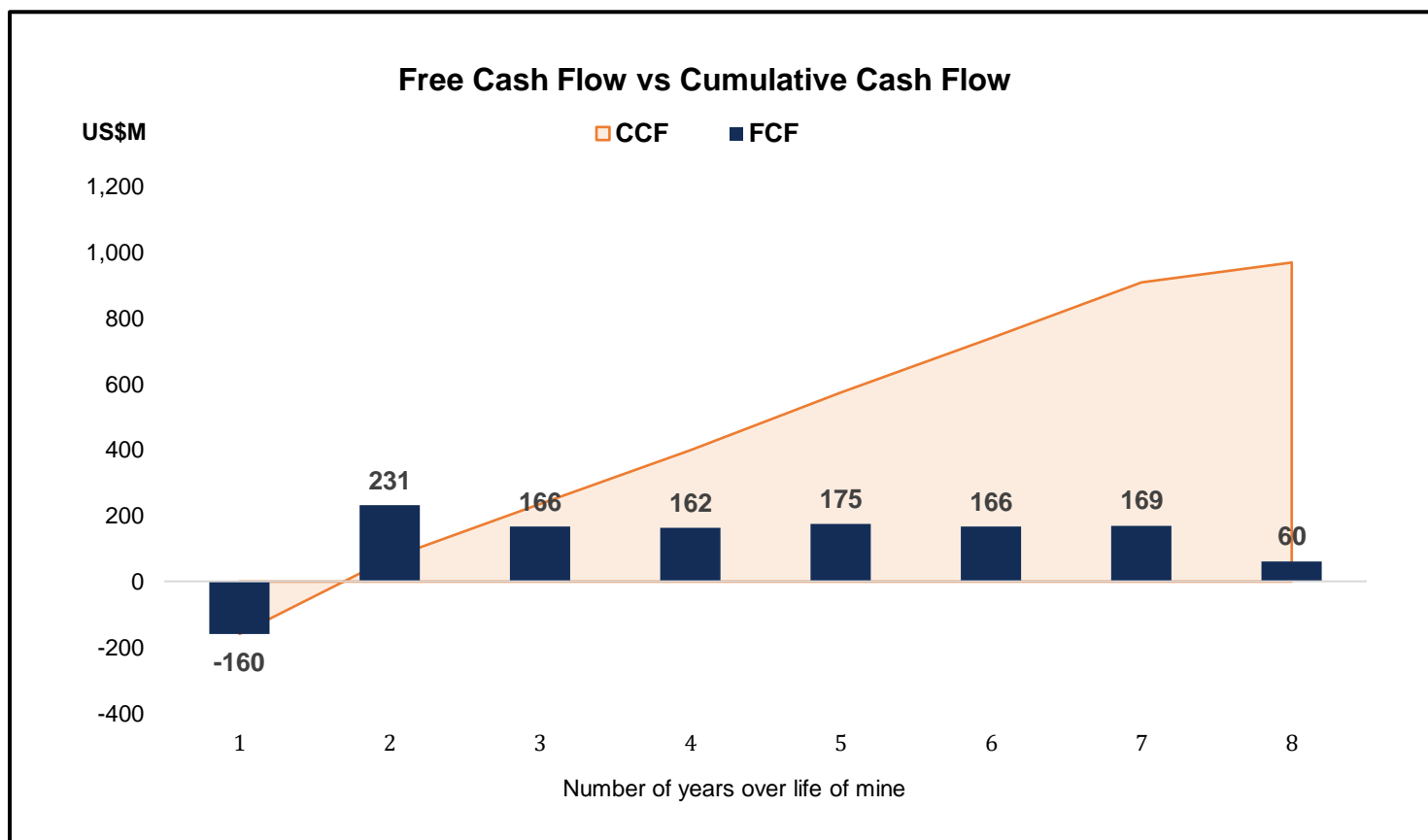
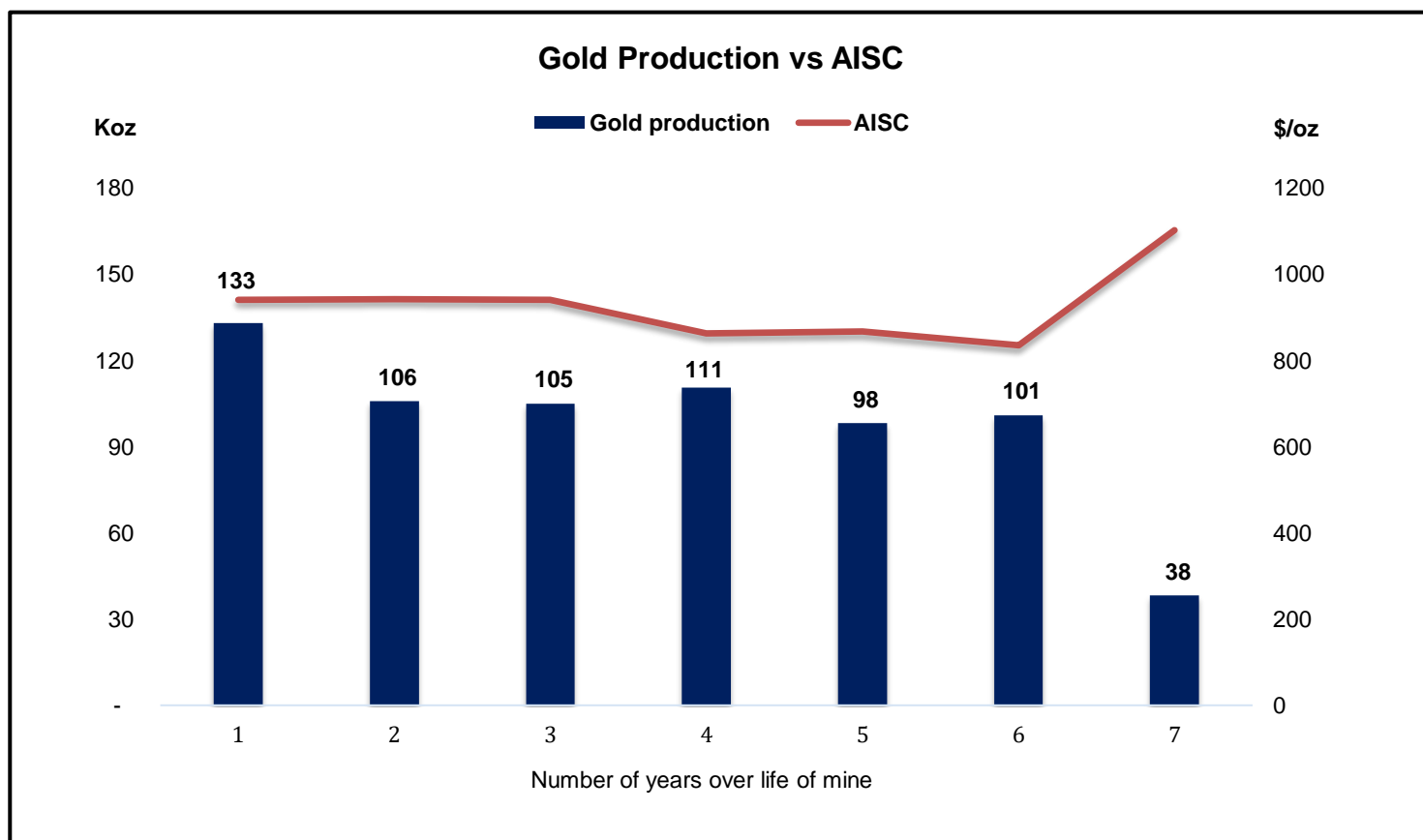
3.4 Hualilan District-Scale Upside

- 30 km Strike vs 3.5 km drilled to date.
- Additional high-grade skarn or intrusion-related gold zones could bolster the resource.
- Historical workings indicate multiple underexplored targets within a 600 square km land package.

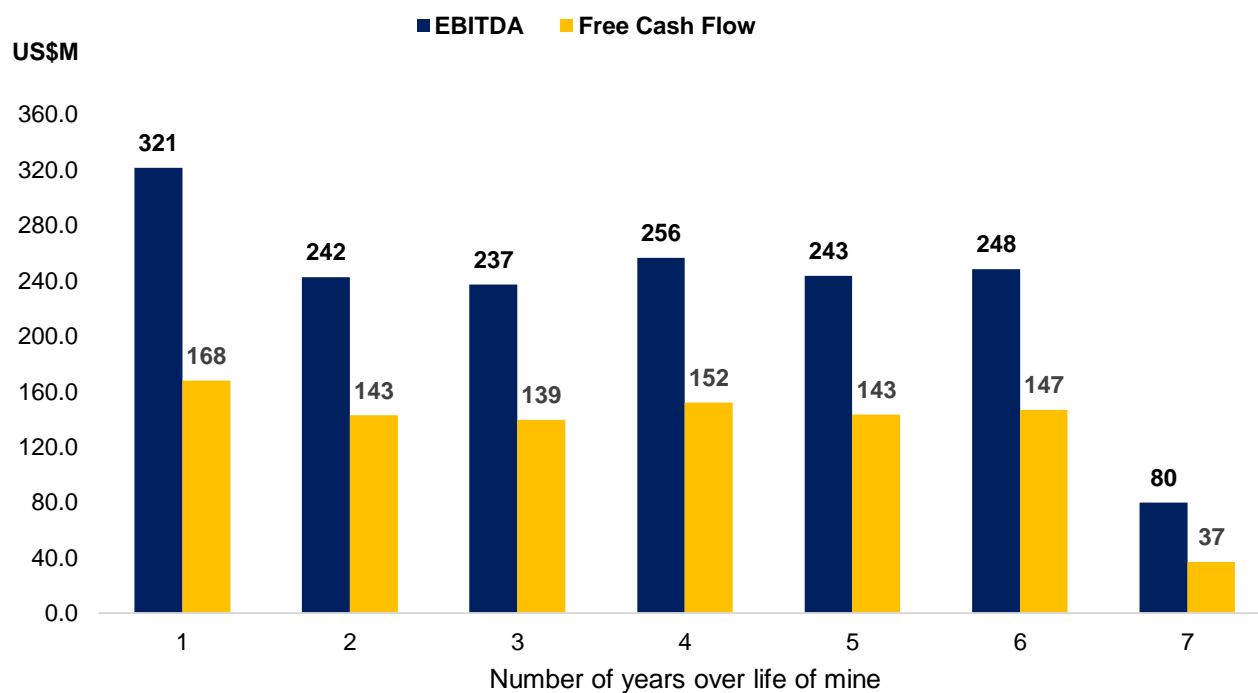
3.5 Other Growth Opportunities (not incorporated into model)

- **Reincorporating 1.7 Moz AuEq** currently excluded, possibly via heap leach or alternative mining methods.
- **Zinc & Lead Credits:** Potential optimization in metallurgical circuits to enhance payability.
- **Regional Consolidation:** Joint ventures or acquisitions might expand CEL’s footprint in San Juan Province.

Figure 6: Key Production, Earnings and Cash Flow Forecasts – Case 1



EBITDA vs Free Cash Flow



Case 1 - NPV Sensitivity Discount Rate vs Gold Price (US\$)

		Gold price				
		2500.0	2700.0	2900.0	3100.0	3300.0
Discount Rate (%)	3.0%	833	833	833	833	833
	4.0%	793	793	793	793	793
	5.0%	755	755	755	755	755
	6.0%	720	720	720	720	720
	7.0%	687	687	687	687	687

4. Case 2 – Expanded Operation

We have modelled the **Challenger Exploration** project based on the latest S.S study along with merging of toll treating agreement, flotation (1.6Mpta) and adding a heap leach circuit (8Mpta).

4.1 Expanded Heap Leach Resource & Economics

- **Incorporating 1.7 Moz:** The S.S focuses on a high-grade, low-tonnage model; ~1.7 Moz AuEq remains outside current mine design. Could recover a substantial portion of the 1.7 Moz AuEq excluded from the high-grade model, increasing mine life and overall NPV.
- **Heap Leach Potential:** Column tests indicate >60% gold recovery for lower-grade material. This could include ~50% of the excluded resource, significantly expanding the production profile.

4.2 Toll Treatment Merger

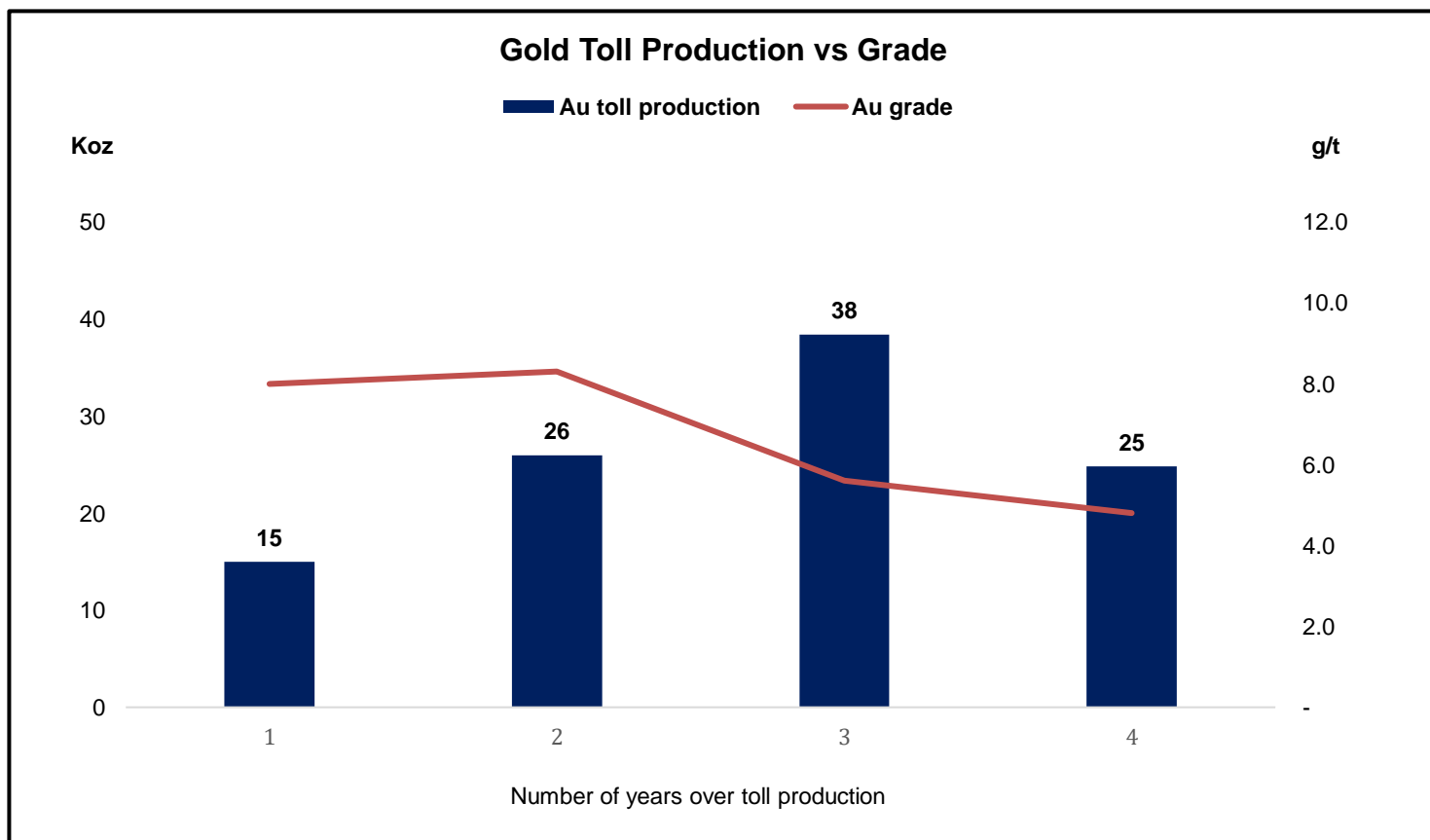
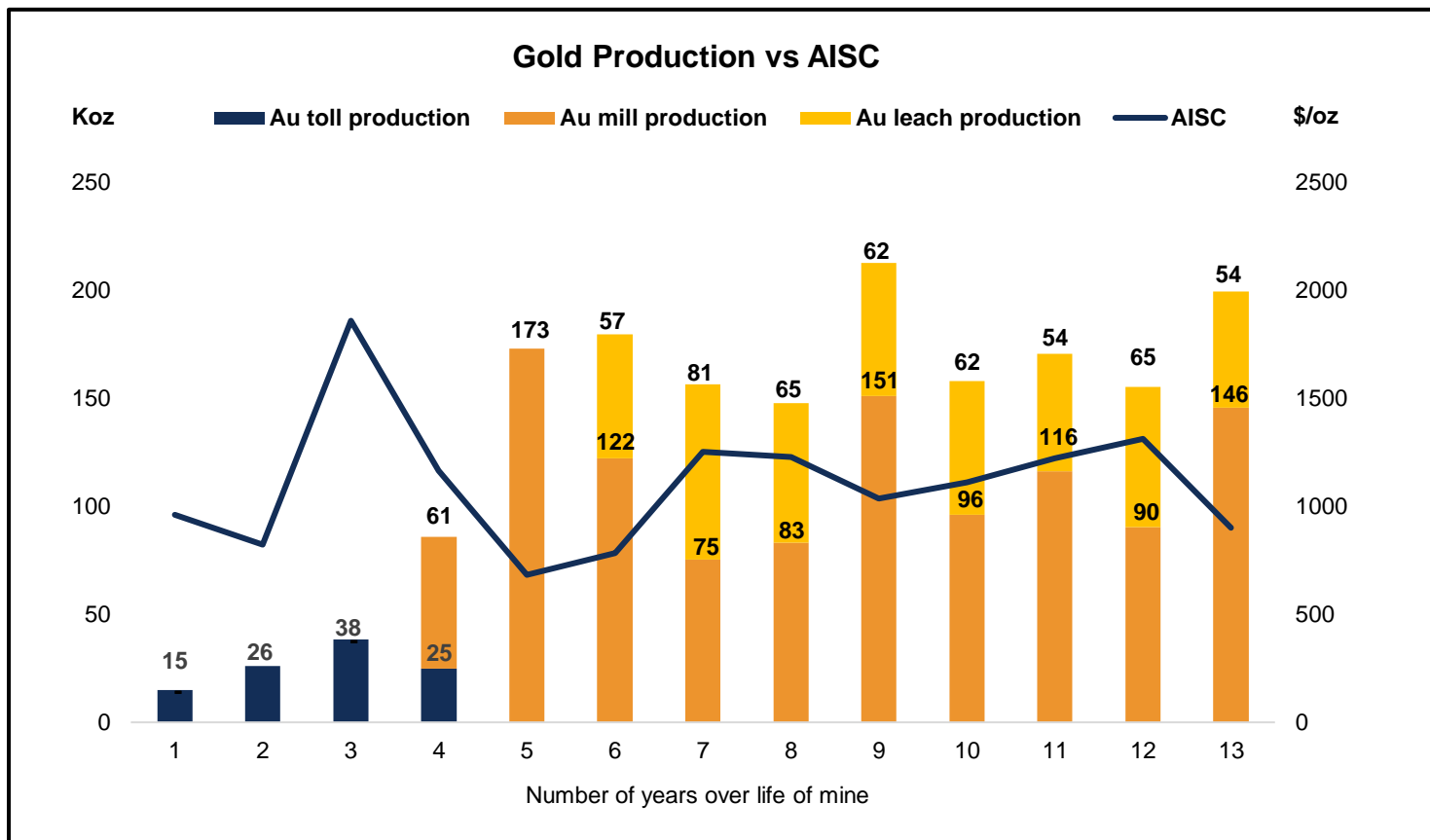
Key Advantage: Early toll revenues (~US\$90M post-tax) reduce the quantum of funding needed for the stand-alone flotation plant, accelerating CEL's path to full-scale production. A definitive Binding Toll Processing Agreement with Casposo Argentina Mining Limited (Austral Gold subsidiary) covers:

- **Capacity:** 150,000 tpa for three years (450,000 tonnes total)
- **Identified Toll Material:** 450,000t of ore containing ~100koz Au and ~460,000 oz Ag at a grade of 6.4 g/t Au, 38 g/t Ag for Toll Milling startup.
- **Upfront Payment:** US\$2M (US\$1M deferred to year two).
- **Monthly Access Fee:** US\$8.80/t, minimum ~US\$110,000/month.
- **Performance Fee:** 20-30% of milling costs, depending on gold recovery (70-85%+).
- **Operator Financing:** The toll mill operator raised US\$7M to refurbish the Casposo plant, audited by independent process groups.
- **Plant Capacity:** 300,000 tpa, double CEL's toll requirements, leaving optional upside.

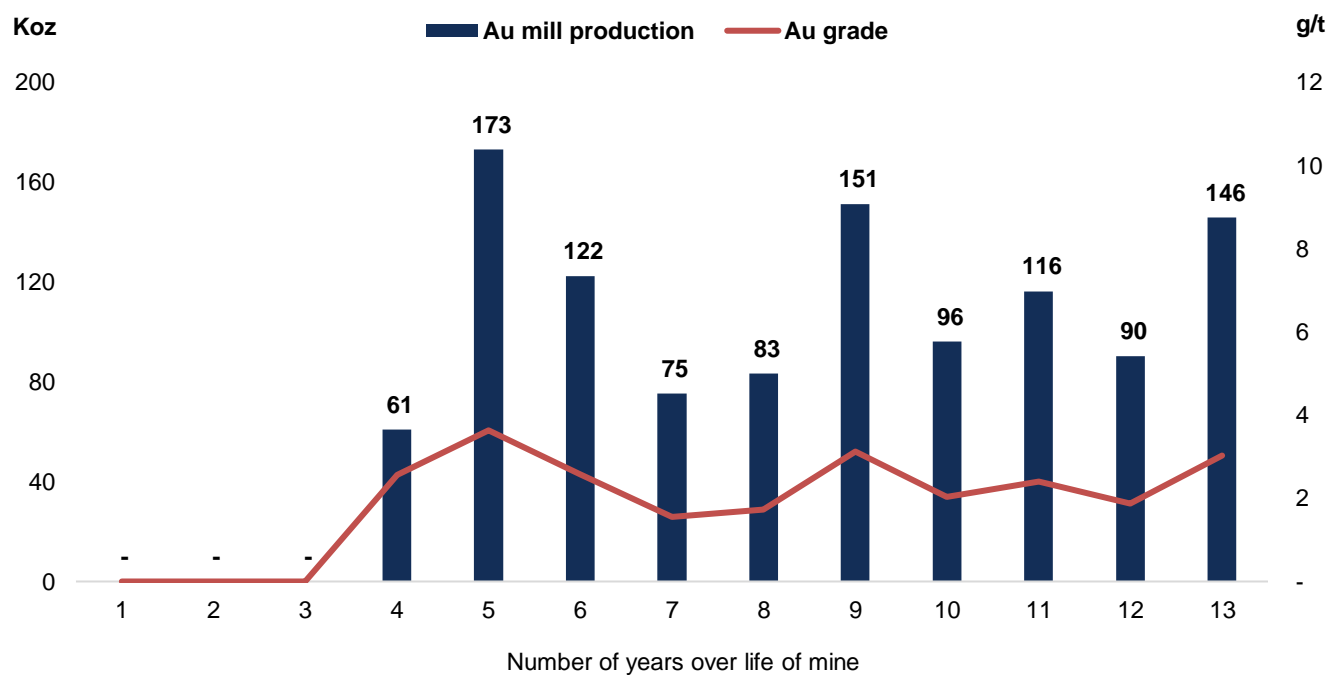
The Hualilan Case 2 Study further expands projects economics:

- **Mine Life:** 13 years. (all open pit)
 - **Year (1 - 4)** – Third Party Toll Treatment
 - **Year (4 - 13)** – Standalone float operation
 - **Year (6 - 13)** – Leach Operation
- **Av Annual Production (from Yr 4):** ~170koz, 700koz Ag, 8,500t Zn
- **AISC:** A\$1,600koz
- **Spot Metal Prices:** US\$2900/oz Au, US\$32/oz Ag, 1.30/lb Zn, 0.9/lb Pb
- **NPV5 (post-tax):** US\$1370M
- **IRR (post-tax):** 161%
- **Payback:** 1.3 years
- **Pre-production CAPEX:** ~US\$240M with US\$90M funded from profits from third party toll treatment to upgra the mill from S.S, the capex for heap leach circuit will be self-funded.

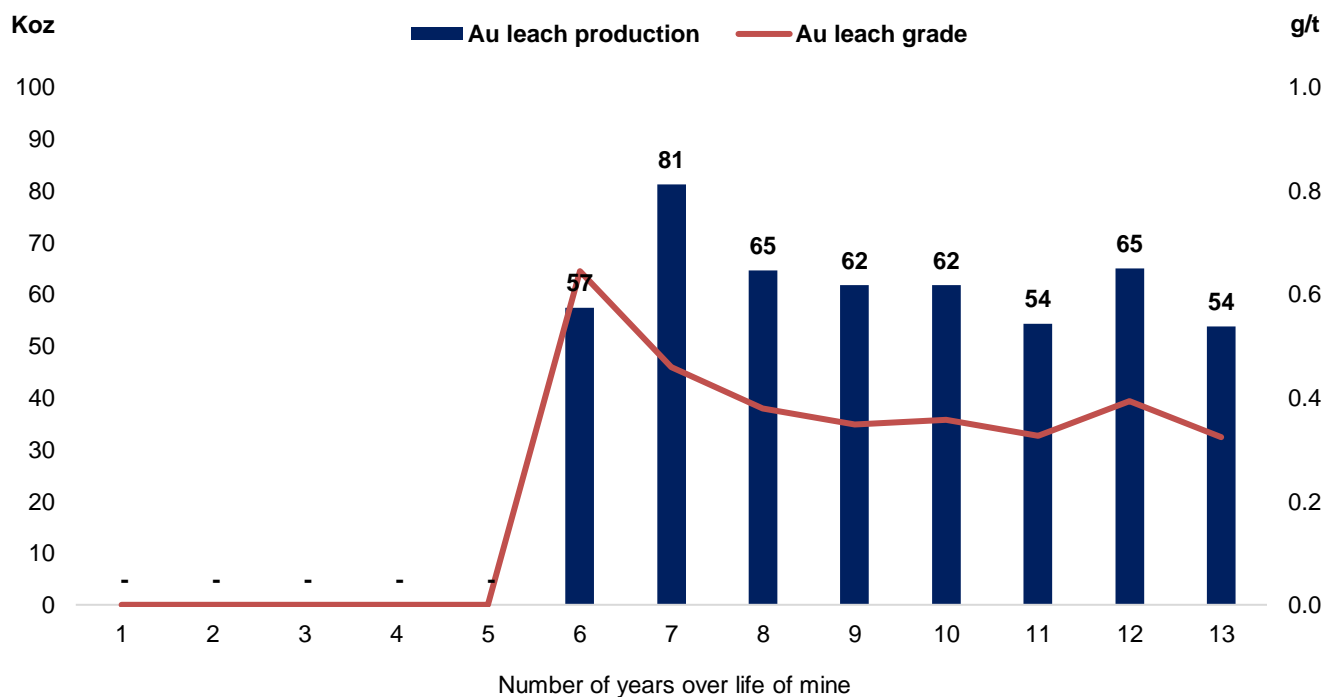
Figure 7: Key Production, Earnings and Cash Flow Forecasts – Case 2



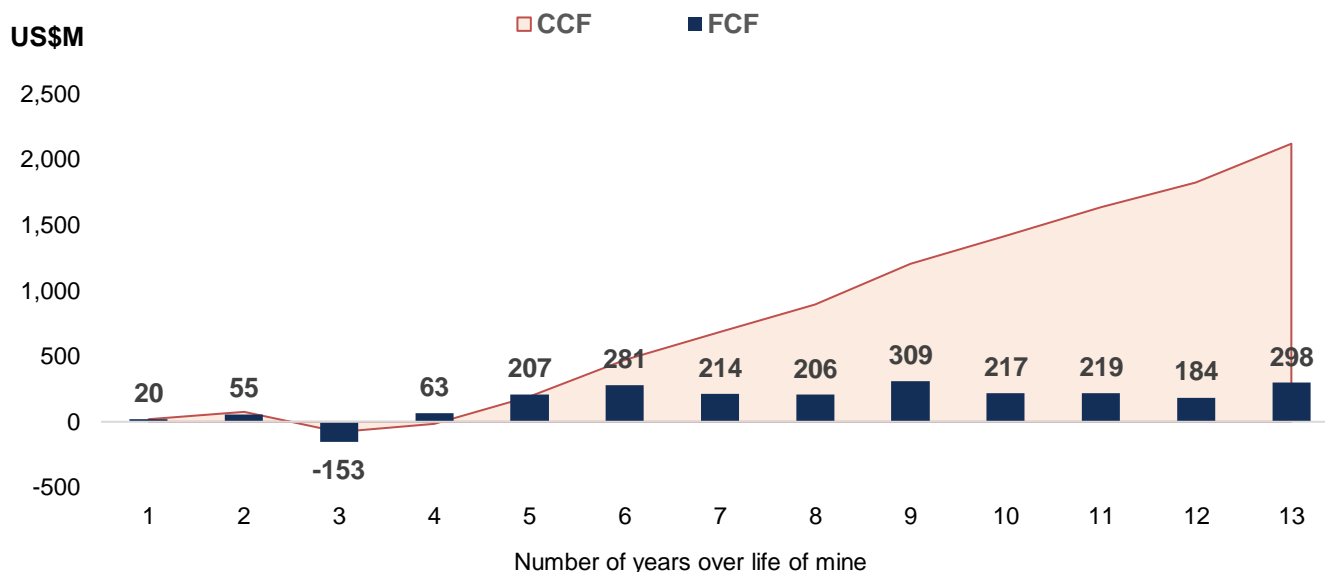
Gold Flotation Production vs Grade



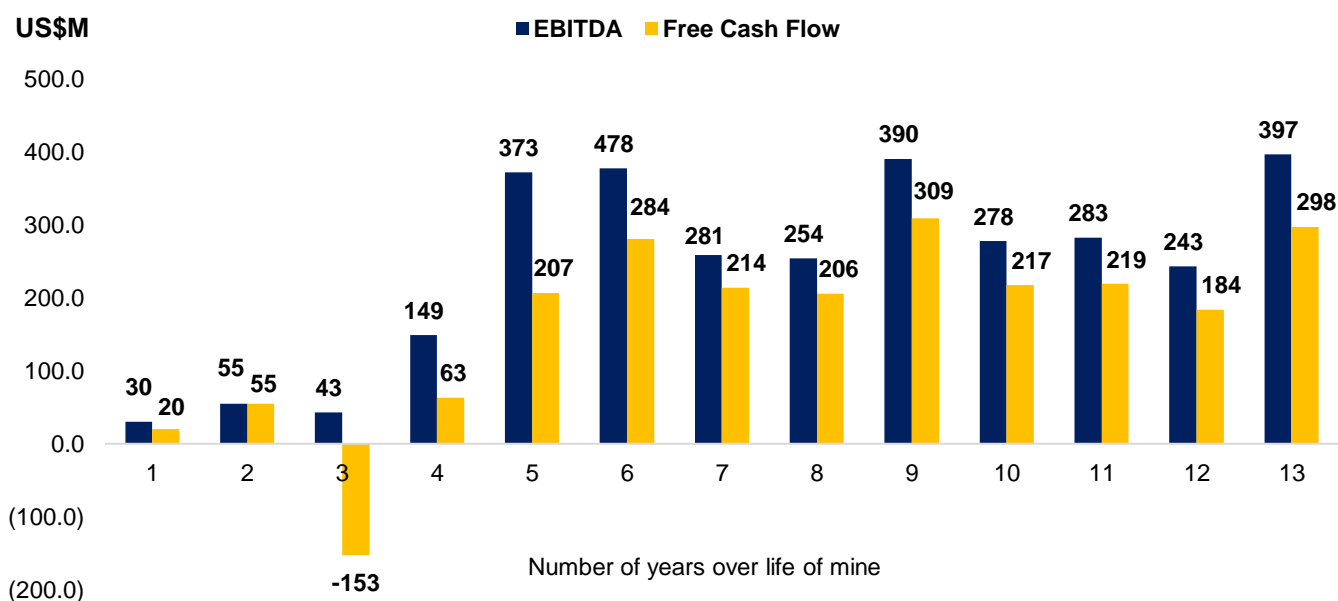
Gold Leach Production vs Grade



Free Cash Flow vs Cumulative Cash Flow



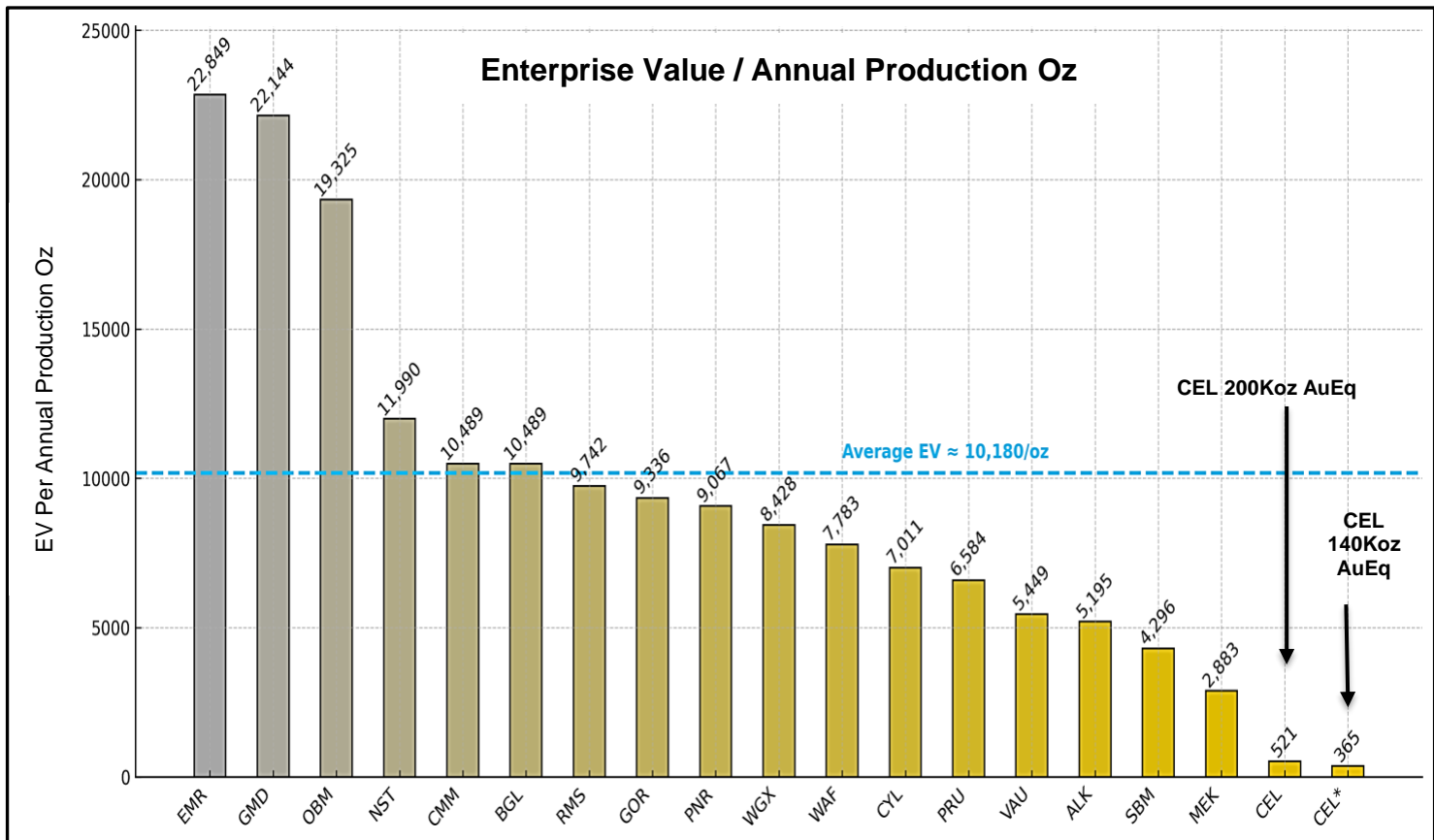
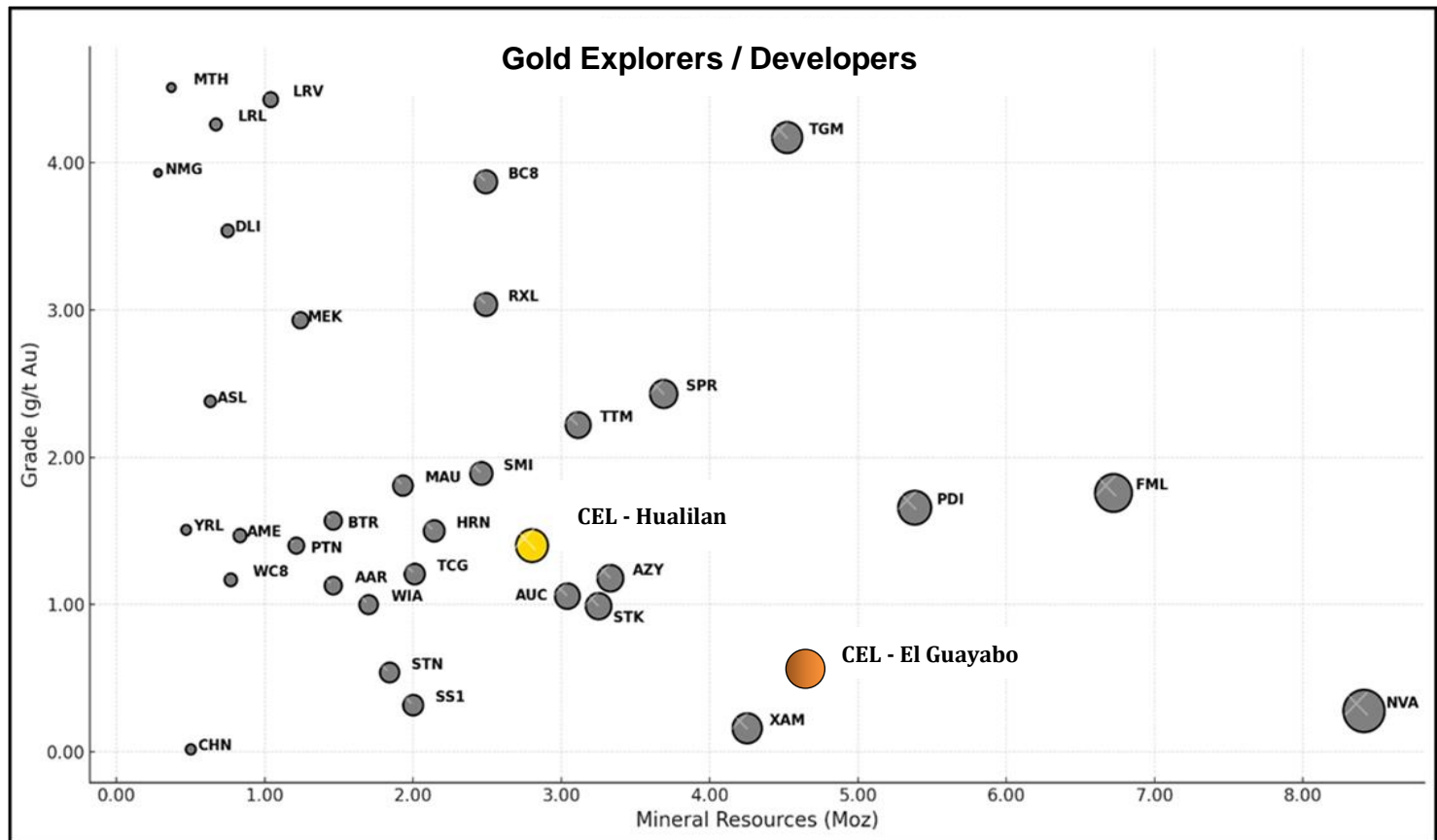
EBITDA vs Free Cash Flow

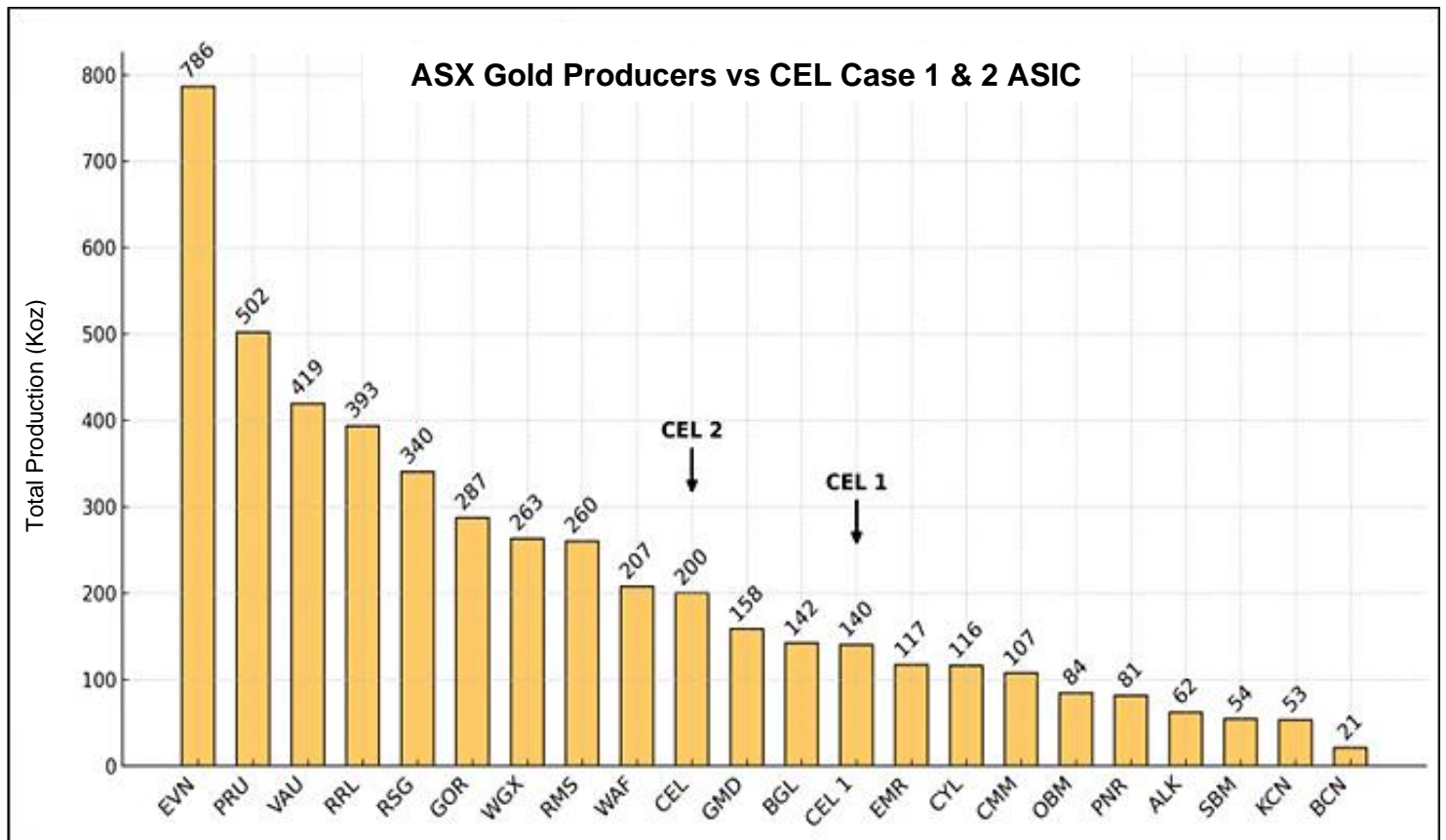
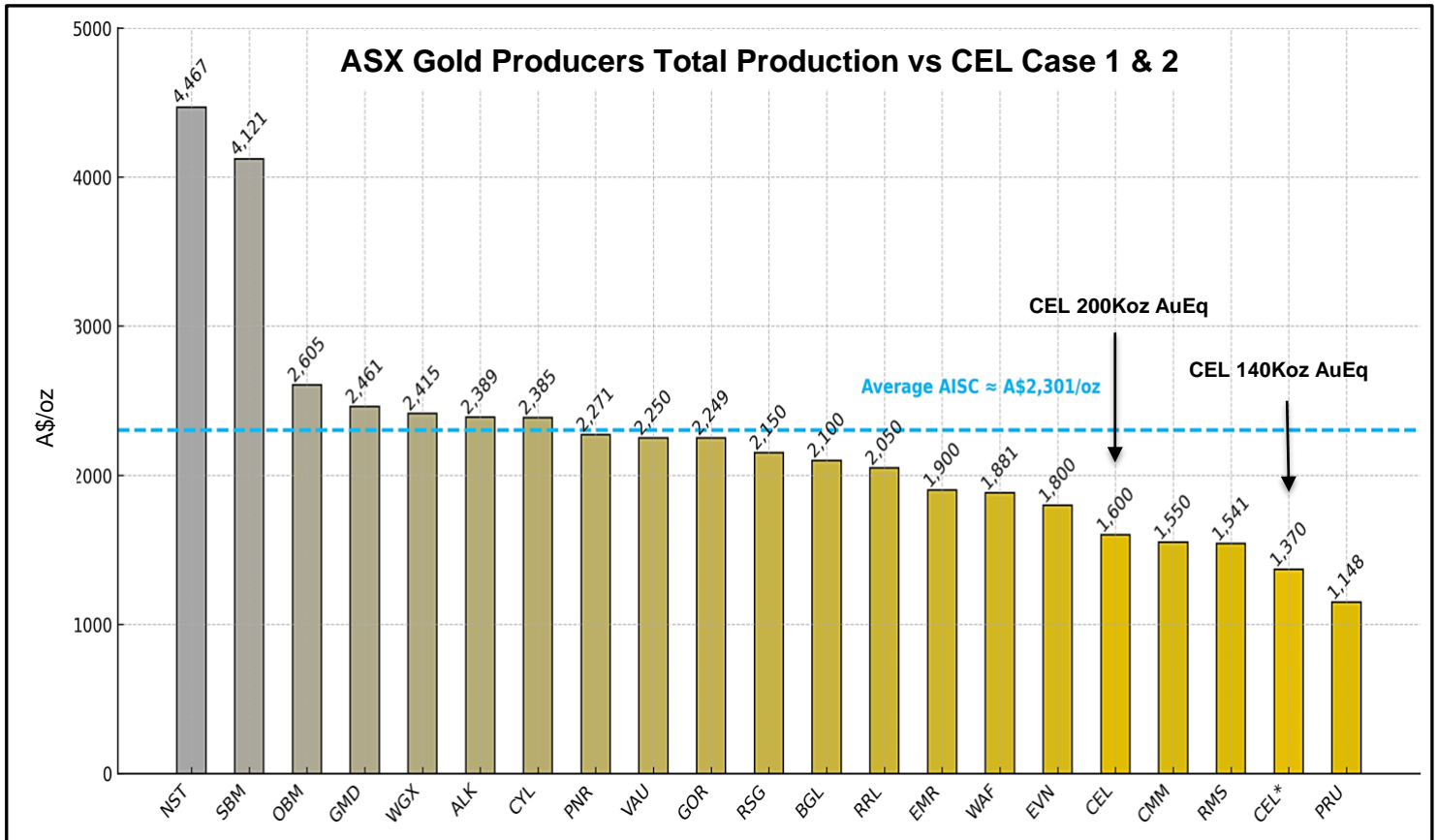


Case 2 - NPV Sensitivity Discount Rate vs Gold Price (US\$)

		Gold price				
		2500.0	2700.0	2900.0	3100.0	3300.0
Discount Rate (%)	3.0%	1622.1	1624.0	1625.9	1627.8	1629.7
	4.0%	1489.1	1491.0	1492.9	1494.7	1496.6
	5.0%	1369.0	1370.8	1372.7	1374.5	1376.4
	6.0%	1260.3	1262.1	1264.0	1265.8	1267.7
	7.0%	1161.8	1163.7	1165.5	1167.3	1169.1

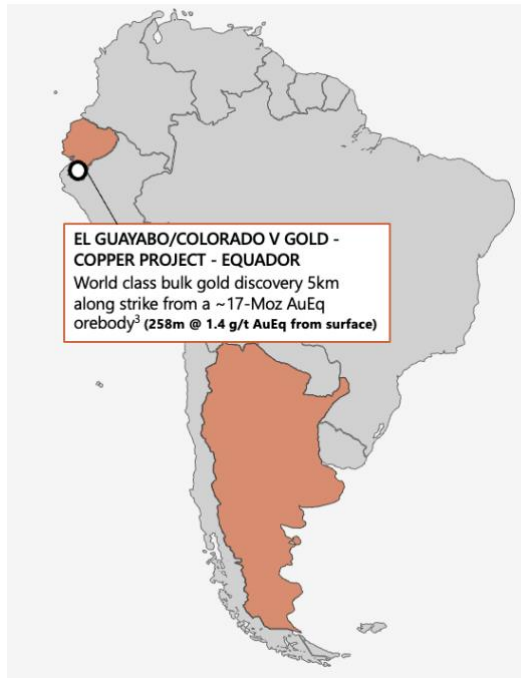
Figure 8: Hualilan Modelling Peer Comparisons (Resource, EV/Production Oz, Total Production)





Notes:

1. Newmont left out of total production

Figure 9: EL Guayabo Project Location


5. Ecuador: A Rising Mining Destination

World-Class Deposits: Major copper-gold systems hosted in one of the most prospective yet underexplored belts in the Andes. Major Mining Projects.

- **Cangrejos:** 17Moz Au, 230Moz Ag, 11Mt Cu
- **Warintza:** 6.2Mt Cu, 2Moz Au
- **Fruta del Norte:** 8.5Moz Au, 12.4Moz Ag
- **Mirador:** 3.4Mt Cu, 3.4Moz Au, 27.1Moz Ag

Corporate Investments & Mergers

- **Zijin Mining:** Acquired a 35% stake in Solaris Resources for C\$135M.
- **Anglo American:** Invested US\$42M for a 70% stake in the Pegasus Project.
- **Barrick Gold:** Committed US\$27.5M to exploration in Ecuador.
- **Harnire (Hancock):** US\$120M exploration investment.
- **Wheaton Precious Metals:** US\$300M gold stream for the Cangrejos Project.
- **Adventus Mining & Luminex Resources:** Merged with US\$17.1M equity financing.
- **Osisko & Franco Nevada:** Contributed US\$50M and US\$100M, respectively, to the Cascabel Project (SolGold).

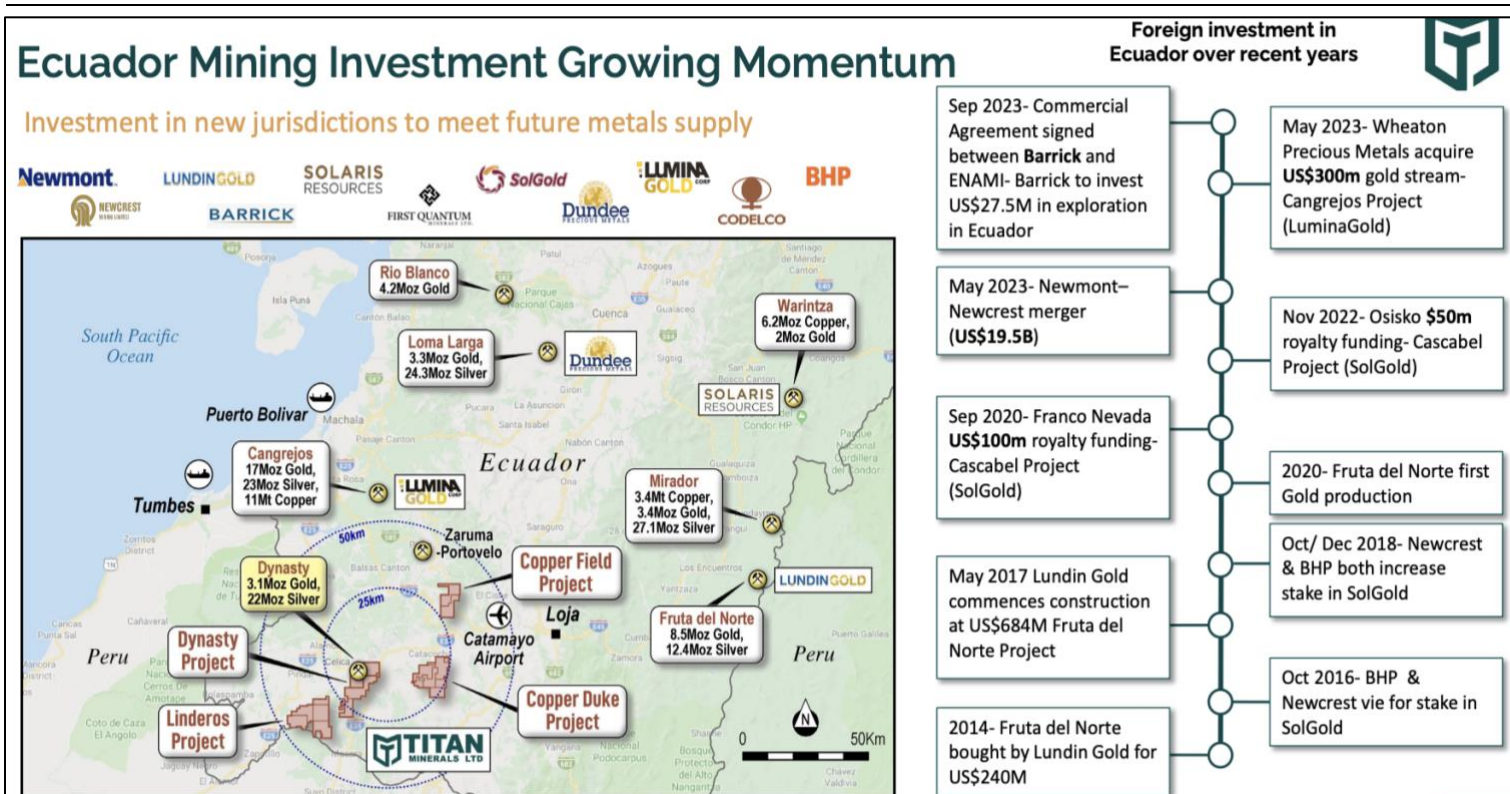
Mining-Friendly Policies: Stepped-up government support and investment-friendly tax regimes have accelerated exploration and development.

- Mining has become Ecuador's fourth-largest economic contributor (projected US\$4 billion by 2024), reflecting large-scale discoveries in underexplored sections of the Andean Copper Belt.
- Increasingly pro-mining government policies and a growing pipeline of advanced projects (e.g., Fruta del Norte, Mirador, Cangrejos) have positioned Ecuador as a compelling destination for gold-copper investments.
- Recent reforms include making new concessions available after a decade-long moratorium, creating the Mines Ministry (2015), and boosting infrastructure development.

Tax Reforms & Incentives

- **Windfall Tax:** Eliminated the 70% windfall levy on mining profits.
- **NSR Royalty:** Reduced from a 5-8% range to 3-8%.
- **Corporate Tax:** Lowered from 25% to 20%.
- **Capital Gains:** Progressive rates from 0–10% for asset sales.
- **ISD Tax:** Removed the 5% tax on foreign cash repatriation.

Figure 10: Ecuador Embracing Mining Industry



Source: Titan Metals (ASX:TTM)

5.1 El Guayabo Gold-Copper Project

Project Overview:

- **Location:** Situated in El Oro Province, Ecuador, approximately 55 km southeast of Machala, a major port city.
- **Strategic Positioning:** Adjacent to Ecuador's largest primary gold deposit, Lumina Gold's 17.7 Moz Cangrejos deposit.
- **Maiden Mineral Resource Estimate:** 4.5 Moz AuEq @ 0.52 g/t AuEq (0.3 g/t AuEq cut-off).

Ownership Structure:

- CEL holds a 100% interest in the El Guayabo Project.
- JV option with Goldking (Zhaojin) on the adjoining Colorado V concession (2,331 Ha), earning 50% (farmin terms now satisfied).

Drilling History & Potential:

- Newmont's past drilling confirmed strong copper, gold, and silver mineralization.
- Colorado V lies just 5 km from Cangrejos, expected to produce 373 koz gold & 94 kt copper annually at full production.
- Cangrejos and El Guayabo share the same geological age and mineralization system, reinforcing exploration potential.
- **Geological Potential:** A breccia and porphyry system spanning three key concessions: El Guayabo, El Guayabo 2, and Colorado V

6. Directors & Management Team



Kris Knauer (CEO & Managing Director):

- Exploration geologist.
- Investment banking experience, initially as a mining analyst.
- Led the listing of a Saudi Arabian copper-gold asset portfolio that became Citadel Resources (ASX: CGG) and served as Managing Director for its first 18 months. Under his leadership, Citadel completed a definitive feasibility study (DFS) on the Jabal Sayid copper project, ultimately leading to a \$1 billion takeover.



Sergio Rotondo (Executive Chairman):

- Background in construction having managed billion-dollar projects from design through completion.
- Core competencies are logistics, Government relations and safety.
- Original owner the Hualilan Gold Project in Argentina selling the project to CEL in an all-share deal.



Mike Zivcic (COO):

- Mining Engineer and has spent the past 12 years in operational roles in mines in Australia, West Africa, & PNG.
- Based in San Juan and for the 2-years prior to joining CEL was GM of Barrick Gold's 400,000 Oz Veladero mine in San Juan 5 hours by road from Hualilan



Sonia Delgado (Executive Director):

- Master's degree in law
- Distinguished career in the Argentinian public sector,
- Undersecretary of Planning and Mining Development Chief of Advisors (Argentina National Mining Ministry) and, most recently, Secretary of Mining for the province of San Juan.



Stuart Munroe (Exploration Manager):

- Geologist with 25+ year's experience and involved in detailed studies of controls on mineralisation, resource model assessment, and strategic planning.
- Extensive experience in the mining industry including roles as Exploration Manager for ASX Listed companies.

7. Recommendation

Challenger Exploration's capital-light phased development strategy at Hualilan starting with third-party toll milling before transitioning to a stand-alone operation strikes the right balance between early cash flow and long-term growth. High-grade resources, strong gold prices (~US\$2,900/oz), and strategic backing from the Elstain Group supports an aggressive near-term production outlook. Key catalysts include the commencement of toll milling, updated feasibility studies, and ongoing exploration success. As CEL transitions from a junior explorer to a gold producer, the potential Tier-1 scale at El Guayabo further reinforces its transformative growth trajectory.

Based on the extensive analysis of Challenger Exploration Limited (ASX: CEL) presented in this report, we recommend a Speculative Buy rating for the company with a **price target of A\$0.15 per share**. This recommendation is grounded in CEL's standout metrics against peers in terms of current market capitalisation and project economics.

Key Factors Supporting the Recommendation;

Strong Project Economics & Production Potential:

- Under our Case 1 model, the Hualilan Gold Project boasts strong financial metrics, with a post-tax NPV5 exceeding A\$1.19 billion and a post-tax IRR of 126%.
- With an ASIC of A\$1,370/oz, Hualilan ranks among the lowest-cost gold producers globally, reinforcing its profitability even in volatile commodity markets.
- Our Case 2 model, which incorporates early-stage toll treatment, an expanded flotation plant, and a heap leach circuit, unlocks significant upside potential, with a post-tax NPV5 exceeding A\$2.15 billion and a post-tax IRR of 161%.

Financial Position & Strategic Partnerships:

- The toll milling agreement ensures near-term cash flow, lowering capital expenditure requirements and allowing reinvestment into growth initiatives.

Exploration Upside & Growth Potential:

- Resource expansion drilling at Hualilan continues to confirm high-grade extensions, increasing the likelihood of a larger mineable resource.
- The El Guayabo Gold-Copper Project in Ecuador provides long-term exploration potential, diversifying CEL's asset base and offering exposure to a globally significant copper-gold region.

Argentina's Pro-Mining Shift:

- The Milei administration's economic reforms have significantly improved the investment climate, including tax incentives, currency liberalization, and a more stable fiscal outlook for mining companies.
- Major international mining operators have reaffirmed their commitment to Argentina, highlighting the country's potential as a gold production hub.

8. Investment Risk

CEL is exposed to several risks including:

- **Regulatory & Political Risks:** While Argentina has become more mining-friendly, long-term stability of reforms remains uncertain.
- **Operational Risks:** CEL must successfully transition from an explorer to a producer, requiring effective execution of its mining strategy.
- **Geology Risk:** All resource estimates are expressions of judgement based on knowledge, experience, and industry practice. Estimates, which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. The actual characteristics of an ore deposit may differ significantly from initial interpretations.
- **Commodity Price Risk:** CEL's revenues will derive mainly from the sale of gold and other products, exposing the potential income to gold price risk. The gold price fluctuates and is affected by many factors beyond CEL's control. Such factors include supply and demand fluctuations, technological advancements, and macroeconomic factors.
- **Exchange Rate Risk:** The revenue CEL derives from the sale of gold exposes the potential income to exchange rate risk. International gold prices are denominated in United States dollars, whereas CEL's operating country currency is the Argentina peso. This exposes the company to the fluctuations and volatility of the rate of exchange between the USD and the Argentina peso as determined by international markets.
- **Mining Risk:** A reduction in mine production would result in reduced revenue.
- **Processing Risks:** A reduction in plant throughput would result in reduced revenue. In all processing plants, some proportion is lost rather than reporting to the valuable product. If the recovery is less than forecast, then revenue will be reduced.
- **Operational Cost Risk:** an increase in operating costs will reduce the profitability and free cash generation of the project.
- **Management & Labour Risk:** an experienced and skilled management team is essential to the successful development and operation of mining projects.

9. Appendices

9.1 Appendix A: Detailed Toll Milling Agreement Terms

Executed a definitive Binding Toll Processing Agreement with Casposo Argentina Mining Limited, a subsidiary of Austral Gold Limited, to process mineralised material from Challenger's Hualilan Project at Casposo's Plant in San Juan, Argentina. The Agreement is expected to:

- Guarantee annual toll processing capacity of 150,000 tonnes for three years.
- Accelerate the Company's timeline to bring Hualilan into production.
- Capitalise on record gold prices to generate early cash flow to fund the larger Hualilan stand-alone development.

Identified 450,000t of ore containing ~100koz Au and ~460,00 oz Ag at a grade of 6.4 g/t Au, 38 g/t Ag for Toll Milling startup.

Toll Mill Plant Operator completes debt financing of US\$7 million to refurbish the Casposo Plant for toll milling material from Challenger's Hualilan Project.

Excellent progress towards completion of Toll Milling Study and preparation for mining:

- Indicative quotes for contract mining and trucking of Hualilan received.
- Final site visits for pit design and geotechnical clearance completed.
- Final pit designs delivered, labor model complete, mine readiness plan in progress.

Independent audit completed on the Toll Milling plant and restart plan by a leading process group:

- Confirms that the Casposo plant is well-maintained and suitable for toll treatment of Hualilan ore.
- Plant capacity of 300,000t per annum, double CEL's 150,000t requirement.

9.2 Appendix B: Argentinian Macroeconomic Overview (2025)

- GDP: ~US\$574.2B nominal, US\$1.807T (PPP), second largest in South America after Brazil.
- Inflation: Down to less than 30% from 211% in 2023, attributed to halting monetary issuance by the Central Bank and a 30% cut in public spending.
- Fiscal Surplus: 0.3% of GDP in 2024, a historic turnaround after 123 years of deficits.
- Mining Focus: Government highlights mining exports (gold, silver, lithium) as a keystone for economic stability and foreign investment inflows.
- Rio Tinto's Rincon Lithium Expansion (~US\$2.5B) underscores global confidence in Argentine resource

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