

# Argus Research Initiates Equity Report Coverage on Cerrado Gold

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NEW YORK, July 15, 2021 - Argus Research, an independent investment research firm, has launched Equity Report coverage on Cerrado Gold (TSXV: CERT)

[Click here to view Full Argus Equity Report](#)

Excerpts & Highlights from the Report as conveyed by Argus Analyst Steve Silver, follow:

## BUSINESS DESCRIPTION:

Cerrado Gold is a Toronto-based mining and exploration company with an expanding portfolio of precious metal assets in South America. The company owns and operates Minera Don Nicolas (MDN), a newly producing gold and silver mine in Argentina. The mine is located in a prolific mining belt that includes mines owned by large global players AngloGold, Newmont and Yamana, and is being explored for further expansion. It also owns Monte do Carmo (MDC) in Brazil, a gold mine in the exploration and development stage. Management expects these two assets to transform the company into a mid-tier gold producer.

Cerrado was founded in 2017 on the basis of the MDC opportunity in Brazil, and acquired the newly producing MDN mine in March 2020. The company went public in 1Q21. Cerrado's strategy is to generate cash flow from the MDN mine in Argentina that will support its exploration efforts at both sites. In 1Q21, the company boosted gold production by 45% from the prior quarter and lowered production costs despite the impact of COVID-19 in Argentina, which resulted in lost operating days. Because of the pandemic's impact on the ramp up in production and costs, management expects production of 45,000 ounces at a cost of \$1,100 per ounce, and free cash flow of \$10-15 million in 2021.

## COMPETITIVE ADVANTAGE:

Cerrado's executive team has a record of success in managing mineral projects in South America from early-stage exploration to mine development and production. Its leadership and investor teams have worked together on multiple projects, including Desert Sun Mining, which, after a significant resource expansion, was sold to Yamana. Management's experience working with mining industry leaders throughout South America has provided the company with new opportunities, such as the MDN mine in Argentina. MDC was presented to the company by founders of Belo Sun Mining, a Brazilian company with a market cap of approximately \$300 million and whose partners' company is Cerrado's largest shareholder. In our view, progress at the MDN mine in Argentina highlights the executional capabilities of Cerrado's management team. Since its acquisition by Cerrado in early 2020, the mine has significantly increased production, as evidenced by its strong 1Q21 results. Management is currently targeting 45,000-55,000 ounces of production at MDN in the first full year under its control, up from 25,000 ounces previously. The company is using strategic drilling to expand the resource at MDN, underscoring management's ability to maximize production while also generating strong free cash flow that can support future exploration. We expect these expansion efforts to boost investor interest in Cerrado, which went public in 1Q21.

Lastly, we note that both the MDC and MDN projects benefit from favorable topography and strong local infrastructure. In Brazil, Monte do Carmo has access to reliable power lines, water supplies, and skilled labor, and is located near a national airport. In addition, the project has obtained permits covering 58,000 hectares (nearly 150,000 acres). In Argentina, MDN is accessible from nearby ports, and although airport and highway transportation are not in the immediate vicinity, a gas pipeline runs parallel to the highway and groundwater is readily available.

## ANALYST COMMENTARY ? EARNINGS (Click here to view Full Argus Equity Report):

In 1Q21, Cerrado posted a net loss of \$5.7 million or \$0.10 per share. However, in our view, this loss is less significant than the company's strong increase in gold production, which rose 45% from the prior quarter, and declining per ounce production costs. We also believe that Cerrado's current market cap of \$104 million CAD

(\$83 million USD), using Cerrado's fully diluted share count of 84 million, does not adequately reflect current production and expected free cash flow at the Argentina mine, or the strong prospects of the MDC mine in Brazil (whose initial PEA in 2020 suggested an after-tax NPV of \$430 million, using a 5% discount rate). We also expect the projected value of MDC to rise further after the company conducts a new PEA. Over time, we expect higher production and updated resource reports to drive increased investor interest in Cerrado, and narrow the gap between the company's market valuation and NPV.

Importantly, we expect the new PEA for the Brazil project to enable Cerrado to secure financing on favorable terms. The development of this mine will be capital-intensive, requiring investment of \$130-\$150 million. However, if the new PEA indicates an internal rate of return in line with the 76% projected in the initial report, Cerrado should be able to choose among various financing structures that would not require a dilutive equity offering. We expect this to be the company's preferred route. We note that the management team holds a roughly 35% ownership stake, and did not use equity to fund the MDN acquisition.

About Cerrado Gold (TSXV: CERT) [www.cerradogold.com](http://www.cerradogold.com)

Cerrado Gold Inc. operates as a gold mining and exploration company in South America. The company primarily explores for gold and silver deposits. It owns a 100% interest in the Minera Don Nicolas project covering an area of approximately 333,400 hectares located in Santa Cruz province, Argentina; and Monte Do Carmo gold project covering an area of approximately 58,000 hectares located in Tocantins, Brazil. The company is headquartered in Toronto, Canada.

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