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Nevada Copper's Pumpkin Hollow do-over

Nevada Copper (CN:NCU) is taking another stab at developing its Pumpkin Hollow copper deposit, with a pre-feasibility study that envisions a high-grade underground mine and leaves the project's larger open-pit deposit for another day.



Nevada Copper's new Pumpkin Hollow PFS envisions a 5,000tpd operation

The new study should be considerably more palatable to shareholders than Nevada Copper's last take on the Yerington, Nevada-located project, which was a 70,000 tonnes per day integrated underground/openpit operation with a US\$1 billion initial price tag and an after-tax internal rate of return of 15.6%. Released in May 2015 as copper prices were in free fall, it went over like a lead balloon.

Since then, metal prices have moved favourably. But more importantly, the company seems to have taken to heart the notion that grade and margins are an easier sell than maximum tonnage.

The new PFS envisions a tidier 5,000tpd operation - even that is a walk-back from the 6,500tpd underground part of the 2015 plan - expected to produce average annual output of 50 million pounds at a grade of 1.59% copper, and 1.74% copper equivalent, over a 13-year mine life. The initial capital requirement is \$182 million, while the after-tax net present value is \$301 million, and internal rate of return is a tidy 25.2%.

"The announcement of the PFS results against the backdrop of improving copper prices, sets the stage for the next steps towards financing and a construction decision at Pumpkin Hollow," said Nevada Copper CEO Giulio Bonifacio. The two orebodies that make up the underground deposit

hold a proven and probable reserve of 758.9Mlb of contained copper, 153,000oz of contained gold and 3.3Moz of contained silver.

First production is targeted for mid-2019, which seems ridiculously aggressive at first glance, but less so considering the substantial infrastructure already in place due to the slow-burn development of the property over the past five years.

Nevada Copper actually began construction on the underground mine back in 2012, before it had the land package in place to consider going after the lower-grade 4.2 billion pound copper reserve of the openpit. Already built are a 1,900-foot shaft and 600 feet of lateral development, and the site has existing power, water and road access.

But the dream of the openpit is hardly dead, rather snooze-buttoned, with "full optionality" to pursue it at a later date. This would most likely happen when the company is producing cash from the underground mine, has re-rated as a producer, and is ideally able to factor in higher copper assumptions. Nevada Copper also sees the potential for a scaled-down openpit development with more palatable capital and funding requirements.

"Our stated objective is to be the next significant new copper producer in the Americas by way of a staged development of the underground mine followed by the openpit operation at Pumpkin Hollow," said Bonifacio.

While the timing of the integrated study in 2015 was not ideal - not to mention the company's decision at the time to shift its focus from the lower-risk underground - it's not hard to see why Nevada Copper has long seen the openpit potential as the ultimate selling point for Pumpkin Hollow. With the 4.2Bib copper reserve, along with 592,000oz Au and 23.9Moz Ag, the project has few US peers in terms of size, and comes legitimately shovel ready with permits in place and a land package owned by the company.

The macro situation is also better now than it was two years ago, with copper deficits expected to begin to bite in the near future, and cost inputs that would immediately go down if the numbers were run again today. And the company sees potential in recent drilling of near-surface targets on the northern rim, which could add tonnes, but more importantly turn what is currently waste rock into payable metal.

With Nevada Copper's shares sitting at roughly one-third of where they were before the May 2015 study, the company's enterprise value of about \$231 million does seem low considering the potential of the assets.

The other big question to be answered is the funding. So far, Nevada Copper has been largely kept afloat with infusions from Pala Investments and Red Kite Mine Finance. This has left Pala holding 47% of the common stock and a majority stake on a diluted basis, which it would like to reduce.

Pala has told Nevada Copper it would continue to provide financial support, including potentially underwriting equity financings. But the next step will likely include additional partners or investors, with an update expected shortly.

Nevada Copper has also appointed Pala executive Phillip Day as its chief operating officer to run point on bringing the project into construction, with the build decision targeted for the June quarter of next year.