



Nevada Copper

Global | Mining | TSX:NCU

21 May 2018

The next mid-tier US copper producer

Following a financial restructuring in early-2018, Nevada Copper needs to raise only a further US\$80m to bring its fully-permitted, 100%-owned Pumpkin Hollow copper project in Nevada into production. PH consists of two mines; PH U/G will produce 52Mlb pa of payable copper in concentrate and we believe a second stage open-pit can be financed from cash flow, to increase production by up to 180Mlb pa.

With US\$200m in sunk capex, including a shaft already at mining depth, we believe that Pumpkin Hollow is the next cab off the rank in terms of major copper development projects. In our view, NCU offers near-term production, strong management team, best-in-class leverage to rising copper prices, a low risk jurisdiction and also includes exploration, and hence valuation, upside.

First copper production by 2019

Having restructured debt at the start of 2018 and announced a backstopped equity issue with key investor, Pala, the company is now targeting first production on its underground copper project by the end of 2019. It has already completed shaft sinking and is now at the advanced development phase.

New, high quality mgmt. team

NCU recently appointed Matthew Gili as CEO and has also built out its management team, adding experienced Mining Engineer Phillip Day as COO and recently hiring a VP Operations and Surface Construction Manager. It also announced plans to appoint former RIO CEO Tom Albanese, and Capital FM Ernie Nutter to its Board.

New strategy: value not volume

With the new Board and Management team comes a new focus. The U/G project had already been re-engineered to focus on value and returns and now the Open Pit project is being re-designed as well. Management plans to publish an OP PEA which focuses more on higher grade areas, with a significantly lower upfront capital cost.

Operational leverage to copper

We model NCU via a sum of the parts valuation using a 10% discount rate. We apply a 20% risk discount to the UG and 40% to the OP, and we use a fully diluted number of shares to reflect the coming equity raising. While our risked NAV at \$3.05/lb copper is C\$1.24/sh, at \$4/lb it is C\$2.18/sh and would be C\$5.17/sh on an un-risked basis.

Share data

| | |
|----------------------------------|-------------------|
| Shares - m (basic/fully diluted) | 445.2m / 605.5m |
| 52-week high/low | C\$0.41 / C\$0.84 |
| Free float | 27% |
| 3M average daily volume | 79,570 |
| Market capitalisation (US\$m) | 236 |
| Net debt (cash) (US\$m) | 48 |
| Enterprise value (US\$m) | 284 |
| Dividend yield | 0.0% |
| Fair Value (C\$)** | 1.24 |

| NCU valuation | C\$m | C\$/sh |
|-----------------|------------|-------------|
| PH Underground | 227 | 0.37 |
| PH Open Pit | 482 | 0.80 |
| Net cash (debt) | -62 | -0.10 |
| Unpaid capital | 103 | 0.17 |
| NAV** | 750 | 1.24 |

*Including unpaid capital
**Fully diluted, post raise

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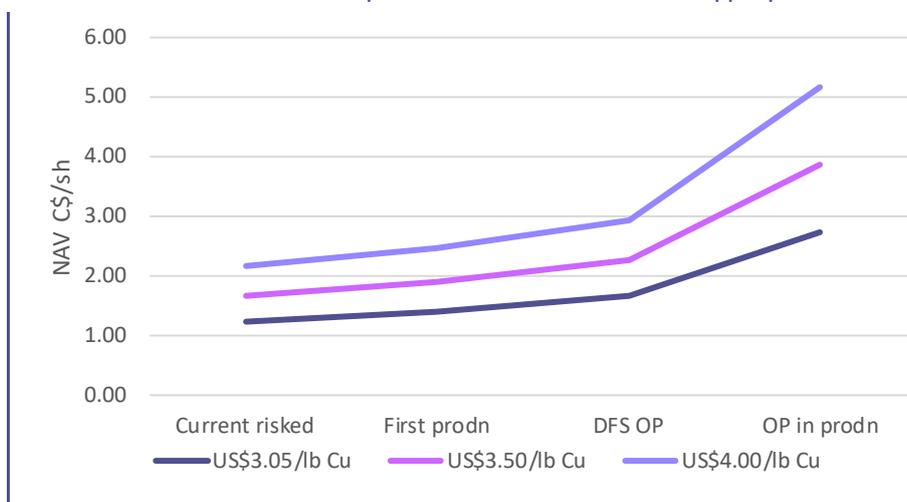
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NCU valuation at different development milestones for different copper prices



Source: Arlington Group estimates. OP: Open Pit



Source: Arlington Group, Bloomberg

Prepared by Arlington Group Asset Management Limited

See important disclosures at end of this report

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Investment Summary

Nevada Copper is developing the Pumpkin Hollow copper project in Nevada, US. Pumpkin Hollow consists of two projects; an U/G project boasting a reserve of 35.6Mton at 1.29% copper and a second stage O/P with a reserve of over 500Mton at 0.39% copper (with exploration potential to significantly grow this).

The project commenced in the previous cycle and was originally planned as a high volume/high tonnage project. Strategic shareholders Pala Investments have now refocused the project to maximise value and returns by focusing on the higher-grade underground project first. This has significantly lowered the planned upfront capex requirement. Management is also re-focusing the open pit project to focus on capital efficiency and early-stage returns.

Following a significant financial restructuring in late-2017/early-2018 the company is now close to emerging from its transitional stage and has recently appointed Matthew Gili (previously with Barrick and Rio Tinto) as CEO. It has also bulked out its development team with a number of new hires, and has appointed Tom Albanese, former CEO of Rio Tinto and Vedanta Resources, and Ernie Nutter, former Capital Group fund manager, to its Board.

Pumpkin Hollow is one of the global copper development projects which has the least exposure to political risk. It is located in a mining-friendly location with good infrastructure. US President Trump's strategy of lowering Federal corporate tax rates is also likely to be supportive, in our view. It compares favourably with other copper development projects on its capital intensity.

Shaft-sinking has been completed and c.US\$200m of development capex has already been spent. Following a second fundraising in 2018, we believe that the project will be fully funded and our base case for stage two O/P development is that the company will not have to return to the equity market for funds.

The project has high operational leverage to copper prices and each US¢25/lb increase in the copper price results in a 20% increase in our risked NAV. Our current NAV is based on a long-term copper price of US\$3.05/lb.

We model Nevada Copper using a sum of the parts valuation for both the Underground and the Open Pit projects.

- **Underground:** We use a DCF with a 10% discount rate and we further apply a 20% risk discount. The assumptions in our DCF are based on the NI43-101 PFS report released in September 2017. When the project comes into production we would expect to remove the risk discount and lower our discount rate to 8%, resulting in substantial valuation uplift.
- **Open pit:** We have modelled a two-stage project starting with 30Kton/day and doubling after 10 years, producing 130Mlbs pa (180Mlbs after year 10) of copper in concentrate with op. costs (excl. royalty) of c.US\$1.65/lb over the first 20 years. We forecast upfront capex at US\$550m. Our DCF uses a 10% discount rate and we apply a 40% risk discount to the NPV to reflect the uncertainties associated with our assumptions.

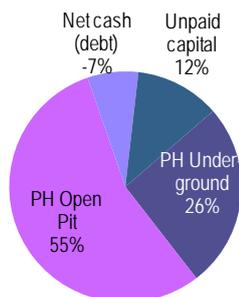
We calculate our valuation by forecasting the fully diluted number of shares following the second stage fundraising needed to raise the remaining funds for the underground project. We assume that to raise a further US\$80m, 159.8m shares would need to be issued at C\$0.65/sh.

We value NCU at C\$1.24/sh (on a fully diluted basis) but note potential for significant uplift from that level. First production would result in a significant de-risking and the leverage to the copper price means that our valuation rises. Even a US¢10/lb increase in our long-term copper price would result in an 8% increase in our valuation to C\$1.34/sh. A US¢25/lb increase would lead to a 20% increase, to C\$1.49/sh, c.119% above the current share price.

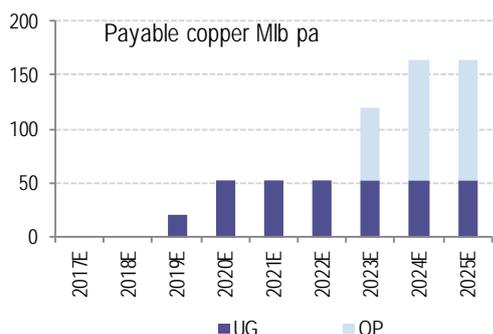
| Valuation | US\$m | C\$m | C\$/sh* | Forecast assumptions | 2016 | 2017 | 2018E | 2019E | 2020E |
|-----------------|-------|------|---------|---------------------------|-------------|-------------|--------------|--------------|--------------|
| PH Under-ground | 176 | 227 | 0.37 | Copper | | | 3.05 | 3.05 | 3.05 |
| PH Open Pit | 374 | 482 | 0.80 | Gold | | | 1300 | 1300 | 1300 |
| Net cash (debt) | -48 | -62 | -0.10 | Silver | | | 16.00 | 16.00 | 16.00 |
| Unpaid capital | 80 | 103 | 0.17 | | | | | | |
| NAV | 582 | 750 | 1.24 | Production summary | 2016 | 2017 | 2018E | 2019E | 2020E |

*No. of shares reflects forecast

Asset valuation summary



Pumpkin Hollow Cu production forecasts



Reserves summary

| Underground | Mton | Cu | Cu equiv |
|-------------------|--------------|--------------|-----------------|
| Reserves | | | |
| Proved | 8.9 | 1.59% | 1.70% |
| Probable | 23.7 | 1.17% | 1.20% |
| Total | 32.6 | 1.29% | 1.38% |
| Open pit | Mton | Cu | Cu equiv |
| North | | | |
| Proved | 122.4 | 0.48% | 0.51% |
| Probable | 178.2 | 0.42% | 0.45% |
| Total | 300.6 | 0.45% | 0.47% |
| South | | | |
| Proved | 143.1 | 0.33% | 0.35% |
| Probable | 95.5 | 0.31% | 0.33% |
| Total | 238.6 | 0.32% | 0.34% |
| Total - OC | | | |
| Proved | 265.5 | 0.40% | 0.42% |
| Probable | 273.8 | 0.38% | 0.41% |
| Total | 539.3 | 0.39% | 0.41% |

Source: Company data, Arlington Group estimates

| | | | | | |
|---------------------------------|--|--|--|------|-------|
| Copper in concentrate (Mlbs) | | | | 22.1 | 54.4 |
| Copper in concentrate (Ktonnes) | | | | 10.0 | 24.7 |
| Gold (Koz) | | | | 2.5 | 9.1 |
| Silver (Koz) | | | | 49.7 | 163.5 |

| PROFIT & LOSS (US\$m) | 2016 | 2017 | 2018E | 2019E | 2020E |
|--|--------------|--------------|--------------|--------------|-------------|
| Revenues | - | - | - | 68 | 172 |
| Cost of sales | - | - | - | 50 | 110 |
| EBITDA | -4 | -0 | -8 | 28 | 60 |
| D&A | - | - | - | 33 | 32 |
| EBIT | -4 | -0 | -8 | -5 | 28 |
| Net interest income/(expense) | -3 | 0 | 0 | 1 | -6 |
| Other financials income/(expense) | -22 | -11 | -11 | -0 | -0 |
| Adjusted PTP* | -29 | -11 | -19 | -4 | 22 |
| Taxation | - | - | - | - | - |
| Post-tax income | -29 | -11 | -19 | -4 | 22 |
| Net income (adjusted) | -29 | -11 | -19 | -4 | 22 |
| Per share data (US\$) | | | | | |
| EPS (adjusted, basic*) | -0.34 | -0.11 | -0.07 | -0.01 | 0.04 |
| EPS (adjusted, diluted*) | -0.33 | -0.10 | -0.03 | -0.01 | 0.04 |
| Shares outstanding (period end, basic) | 88 | 111 | 445 | 605 | 605 |
| Shares outstanding (fully diluted) | 88 | 111 | 605 | 606 | 606 |

| BALANCE SHEET (US\$m) | 2016 | 2017 | 2018E | 2019E | 2020E |
|--------------------------|------------|------------|------------|------------|------------|
| Assets | | | | | |
| Cash & equivalents | 5 | 1 | 104 | 43 | 61 |
| Inv'ts in Assocs/JVs | - | -0 | -0 | -33 | -65 |
| Total assets | 245 | 245 | 452 | 460 | 497 |
| Liabilities | | | | | |
| Interest bearing debt | 165 | 165 | 80 | 80 | 80 |
| Total liabilities | 168 | 168 | 83 | 90 | 100 |
| Shareholders equity | 76 | 78 | 369 | 370 | 396 |
| Minority interests | - | - | - | - | - |
| Net debt | 161 | 164 | -23 | 38 | 20 |

| CASH FLOW (US\$m) | 2016 | 2017 | 2018E | 2019E | 2020E |
|---------------------------------------|-----------|-----------|-------------|------------|------------|
| Total cash from operations | -2 | -8 | -16 | 16 | 36 |
| Inv'ts in Assocs/JVs | - | - | - | - | - |
| Net (acquisitions)/disposals | - | - | - | - | - |
| Cash from investing activities | -6 | -3 | -103 | -77 | -19 |
| Cash from financing activities | 10 | 8 | 222 | - | - |
| Net cash flow | 3 | -3 | 103 | -61 | 17 |

| PROFITABILITY & VALUATION | 2016 | 2017 | 2018E | 2019E | 2020E |
|---------------------------|------|------|-------|-------|-------|
| EBIT margin, % | NM | NM | NM | -7% | 16% |
| ROIC (EBIT), % | NM | NM | NM | NM | NM |
| EV/EBITDA, x | NM | NM | NM | 10.8 | 5.0 |
| PE (adj.), x | NM | NM | NM | NM | 15.0 |

* excluding non-recurring items

Company description

Nevada Copper is a TSX-listed stock which is developing the Pumpkin Hollow copper project in Nevada, US. Pumpkin Hollow consists of a polymetallic resource containing copper, as well as silver and gold by-products. The first stage project at Pumpkin Hollow is an underground mine producing 51Mlb of copper, 8Koz of gold and 181Koz of silver per annum over a 12-year mine life. However, there are also deposits amenable to open pit mining and the company has identified an open pit project which it plans to bring into production for the second stage of development.

Company history

1960: Pumpkin Hollow deposit discovered by US Steel using airborne magnetic surveys.

December 1999: Nevada Copper first floated on the TSX as Astron Resources Corp.

August 2006: Pumpkin Hollow project acquired by Astron Resources Corp.

November 2006: Astron Resources Corp. renamed Nevada Copper Corp.

November 2007: Reports updated NI43-101 compliant resource with M&I resources of 342.7Mtons at 0.58% Cu and Inferred resources of 438.2Mtons at 0.45% Cu at a 0.20% cut-off grade.

March 2008: Publishes a PEA for an integrated underground and open pit operation producing 95Kton pa copper over a mine life exceeding 20 years for capital cost of US\$780m and operating cost of US\$1.02/lb net of by-product credits.

June 2009: Zhongtiaoshan NFM Group (ZTS) invests US\$2m via a convertible debenture

July 2009: Reports updated NI43-101 compliant resources with M&I resources of 488.2Mtons at 0.58% Cu and Inferred resources of 440.8Mtons at 0.42% Cu at a 0.20% cut-off grade.

October 2009: Capstone Mining invests via a C\$11.25m private placement with funds to be used to fund a PFS.

August 2010: Pala Investments announces that it acquired 5.4m shares representing 10.17% of the issued share capital of NCU.

November 2010: Company announces it will proceed directly to DFS at Pumpkin Hollow.

November 2010: Pala Investments acquires further 10% of NCU's shares taking its holding to 29.1%.

February 2011: Company releases further information on DFS which is to target a two-phase operation with the first phase comprising an underground operation processing 8Kton/day, with the second stage comprising two open pit operations processing 60Kton/day.

March 2011: Reports updated NI43-101 compliant resources with M&I resources of 531.0Mtons at 0.55% Cu and Inferred resources of 495.1Mtons at 0.37% Cu at a 0.20% cut-off grade.

April 2011: Receives State and County permits for underground development and access.

July 2011: Raises C\$65m via bought deal financing.

January 2012: Reports DFS for Pumpkin Hollow project consisting of a 60Kton/d open pit and 7Kton/d underground operation feeding a single 67.5Kton/d concentrator with production planned to start mid-2015 and mine life of 18 years. Initial capital costs forecast at US\$1.04bn with LoM operating costs of US\$1.43/lb.

April 2012: Pala raises holding to 34.15%.

June 2012: Company decides to pursue a staged development profile commissioning a FS for a 5-7.5Kton/d high grade underground mine and mill followed by a second stage open pit project. Notes that shaft sinking is underway with depth currently at 36 feet.

July 2012: Pala raises holding to 37.58%.

September 2012: Reports updated NI43-101 compliant resources with M&I resources of 534.4Mtons at 0.45% Cu and 0.20% cut-off in the Western deposits and 50.6Mtons at 1.45% Cu at 0.75% cut-off in the Eastern Deposits.

October 2012: Announces plans to buy 46m shares in Mercator Minerals representing 17.8% of that company's capital, from Pala in exchange for issuance of 7.315m NCU shares, taking Pala's holding to 43.1%.

November 2012: Publishes FS for Pumpkin Hollow stage 1 targeting a 6.5Kton/d underground operation producing 66.9Mlb pa in years 1-10 for a capital cost of US\$329m and LoM operating costs of US\$1.51/lb.

March 2013: Closes a US\$200m, 6 year senior secured loan facility at a rate of LIBOR +6% with Red Kite. Under the terms of the loan the principal would be settled based on copper concentrate offtake from the mine.

September 2013: Company reports it receives all outstanding permits for stage 1 underground mine.

October 2013: Announces a US\$24m equipment finance facility with Caterpillar.

October 2013: NI43-101 FS confirms viability of Stage 2 open pit project processing 70Kton/d with first production in 2016 and 22 years mine life producing 197Mlb pa of copper with 23.3Koz of gold and 808.9Koz of silver for capital cost of US\$926m and US\$1.69/lb operating costs, in years 1-10.

August 2014: Announces US\$20m bridging loan facility with Pala.

December 2014: Refinances US\$200m loan facility and offtake with Red Kite at LIBOR+10% pre-completion and LIBOR+7.5% post-completion of the project.

May 2015: Announces results of integrated project FS for 63.5Kton/d open pit and 6.5Kton/d u/g mine feeding a single 70Kton/d concentrator for initial capital costs of US\$1.07bn and year 1-5 C1 costs of US\$1.49/lb, producing 275Mlb pa of copper in years 1-5.

August 2015: Announces fully permitted for integrated project.

February 2016-November 2017: Various amendments to loan terms and bridging facilities with both Red Kite and Pala.

December 2017: Announces US\$378m recapitalisation including US\$70m underground precious metals streaming agreement with Triple Flag, US\$80m senior secured loan with Red Kite, US\$53m debt to equity conversion by Red Kite and Pala, US\$25m working capital facility with Concord, US\$90m equity offering and US\$60m equity backstop agreement from Pala.

February 2018: Announces the appointment of Tom Albanes, former CEO of Rio Tinto and Vedanta Resources, and Ernie Nutter, renowned former Mining

Analyst and Capital Group Fund Manager, to Advisory Board, and subsequently to the main Board.

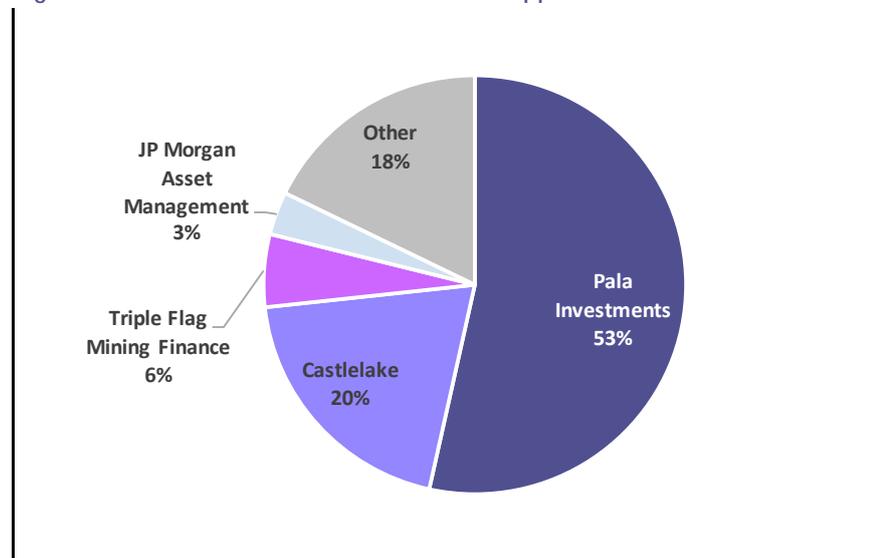
March 2018: Appoints Matthew Gili, formerly of Barrick Gold and Rio Tinto, as President and CEO.

May 2018: Announces first drilling results from the open pit extension zone with both holes encountering multiple zones of mineralisation. Standout intercept was 42.7m at 2.05% Cu from 94.5m.

Shareholder structure

At the current time, Pala Investments is the largest shareholder in Nevada Copper with 53.5% of outstanding shares, as well as 5.0m warrants. It is not currently known how many new shareholders are likely to be brought in via the new placing, but Pala has indicated its intention to dilute its holding down to c.30% of the share register over time in order to enhance liquidity and corporate governance.

Figure 1: Shareholder structure of Nevada Copper

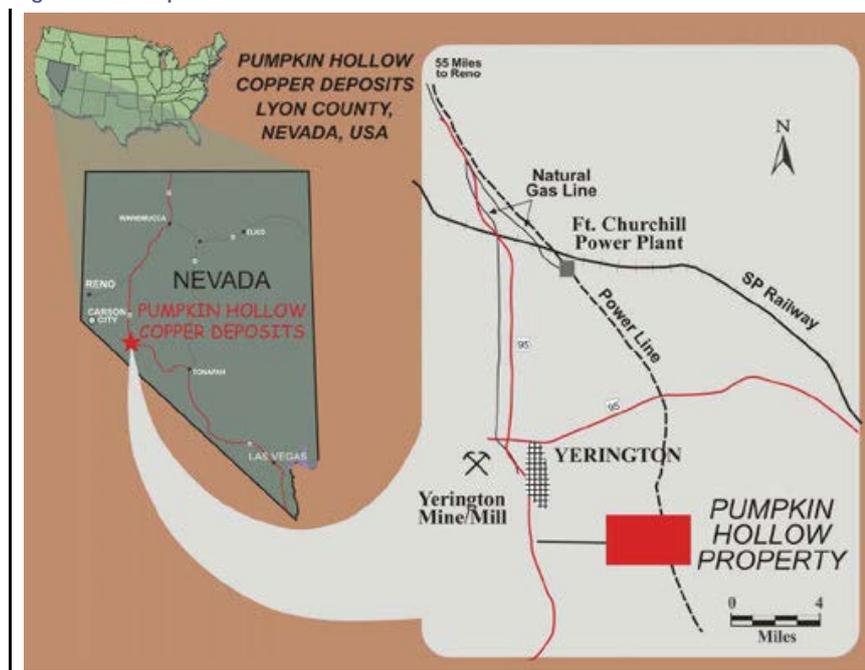


Source: Bloomberg, Company data

Pumpkin Hollow - the next US copper mine

The Pumpkin Hollow project is located c.7 miles southeast of Yerington, Nevada, itself 80 miles southeast of Reno. The orebodies are located in the north-south trending Mason Valley. NCU has mineral rights covering 17,513 acres of which 1,537 acres are held under licence from RGGG (with accompanying royalty) and the balance was acquired from the Federal Government in 2015.

Figure 2: Pumpkin Hollow location



Source: Company data

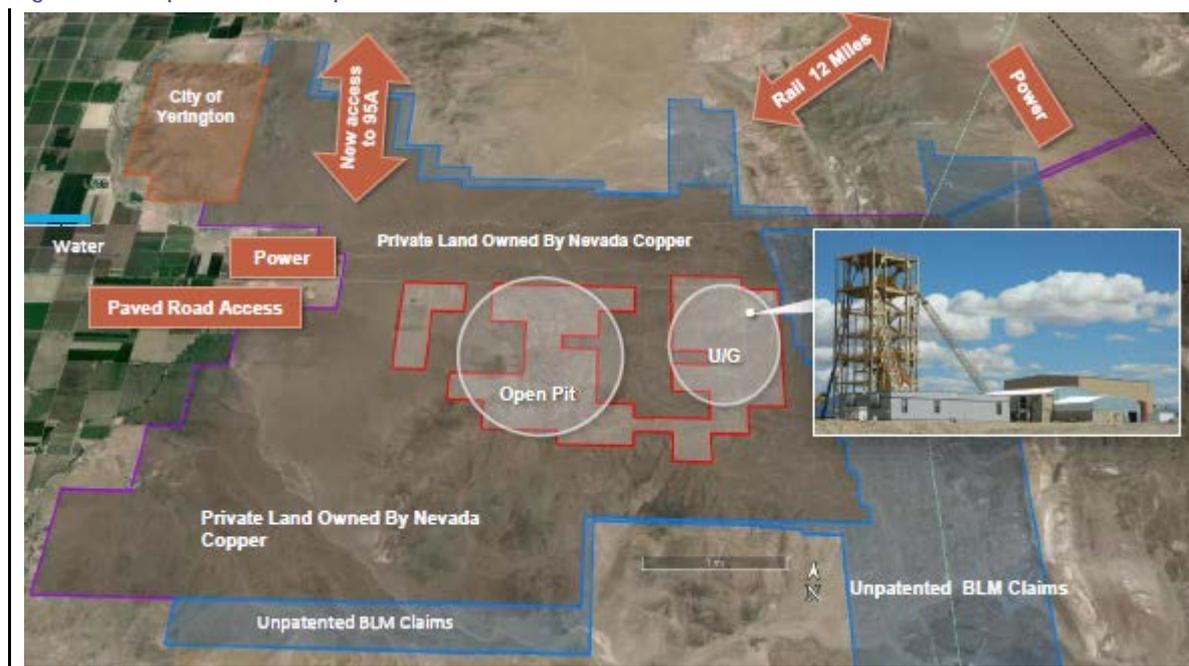
There is good infrastructure for the project with access to the state sealed road network and a 120kV power line to the east of the property. There is a rail line to the northeast, and also access to water via wells on site or an existing pipeline take-off point 6 miles away.

Geology and setting

The deposit is a skarn/Iron Oxide Copper Gold (IOCG) deposit, located within a porphyry copper district. The project consists of a number of separate deposits with different mineralogies:

- Northwest deposit is a sub-horizontal, pipe-like copper rich magnetite skarn breccia.
- South deposit was the first discovery on the property and is a magnetite-chalcopyrite contact orebody associated with an intrusive contact of granodiorite into limestone.
- Southeast deposit is a 300-foot wide lens of chalcopyrite-magnetite-garnet-actinolite skarn within limestone. It has high magnetite grades.
- East deposit consists of flat lying and gently dipping stacked mineralised zones within limestone at depths of 1400-2200 feet.
- E2 deposit is a steeply northwest-dipping lens of high grade Cu-magnetite skarn breccia within limestone. The chalcopyrite-magnetite mineralisation follows the marble front and it is separated from the East deposit by an area of rotational faulting.

Figure 3: Pumpkin Hollow deposit locations



Source: Company data

Between 1960 and 2017 797 drillholes were put into the property, totalling 1,185,147 feet. Of that, Nevada Copper has drilled c.600,000 feet since 2006.

Most recent mineral resources were prepared by Tetra Tech based on drill results up to the end of 2013. There are two primary areas of the resource:

- Western Area which is amenable to open pit mining and has been modelled at lower cut-off grades. It consists of the Northwest, South and Southeast deposits. M&I resources total 566.4Mtons at 0.43% Cu (0.15% cut-off), 0.001oz/ton Au and 0.047oz/ton Ag.
- Eastern area which is focused on underground mining. It consists of the East and E2 deposits and has been modelled at higher cut-off grades. M&I resources total 54.1Mtons at 1.39% Cu (0.75% cut-off), 0.005oz/ton Au and 0.116oz/ton Ag.

Pumpkin Hollow stage 1

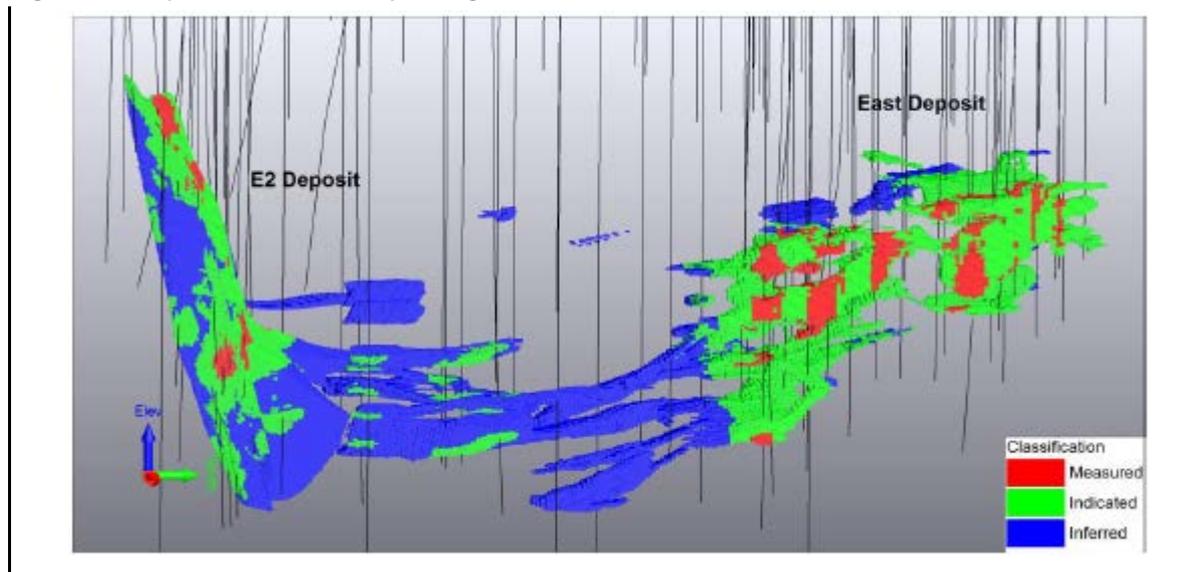
The initial feasibility studies for Pumpkin Hollow were carried out at a very different time in the mining industry. The focus was on scale rather than value. Since the new management team has come into the project it has re-focused on maximising value over scale. The new underground project is a case in point.

Mining plan

The underground mine has been planned as a 5Kton/day operation using mechanised transverse longhole stoping with cemented paste fill (CPF) in the primary and secondary stopes and uncemented paste fill (UPF) in the remaining secondary stopes. It will target zones between the 1040 and 2840 levels. Access will be via the vertical shaft, which has already been completed to the 1900 level.

Waste rock will initially be hoisted to the surface and disposed of in a stockpile but latterly, once the surface paste fill plant is commissioned, it will remain underground and be used as backfill for secondary stopes.

Figure 4: Pumpkin Hollow East deposits grade shells



Source: Company data

Mining will be carried out using longhole drilling and blasting with ore and waste material removed using Load, Haul Dump (LHD) machines direct to ore passes. Ore will be transported via haul trucks and/or ore passes to Coarse Ore Bins (COBs) for storage, before being hoisted to the surface. Haul trucks will be used to move ore and waste underground with the majority of the underground mobile mining fleet battery powered.

Uncrushed rock will be hoisted to the surface and pass through the primary crushing facility where it will be crushed then either stockpiled to the low-grade stockpile or stockpiled for direct feed to the processing plant.

Processing and recovery

The plant will consist of a coarse ore storage facility, a SAG (Semi-Autonomous Grinding) mill, a ball mill comminution circuit (SABC), rough flotation, regrind, and cleaner flotation circuit. Concentrate produced by flotation will be thickened, filtered and sent to a stockpile for subsequent transport.

The final tailings from the flotation process will be thickened and filtered to produce Dry Stack Tailings (DST) which will be included in the underground backfill. DST is preferred to tailings discharged directly from the concentrator due to its lower water content. NCU plans to ship its concentrate by rail from a transloading facility near Yerington to export ports and US copper smelters.

Pumpkin Hollow stage 2

The currently published stage 2 project envisages a large-scale project mining both the North and South pits. As with the underground mine, management is currently looking to refocus on value rather than scale and a PEA is expected to be completed in mid-2018. Management is targeting mineralisation with higher grades and lower pre-strip requirements in the early stages, with the main focus on production from the higher-grade North deposit. This will result in a lowering of the planned initial capacity of the processing operations from 65Kton/d to c.30Kton/d. Capacity would likely increase at a later stage.

The DFS open pit development was calculated using slightly different breakeven cut-off grades, 0.162% for the North cone and 0.165% for the South cone. The

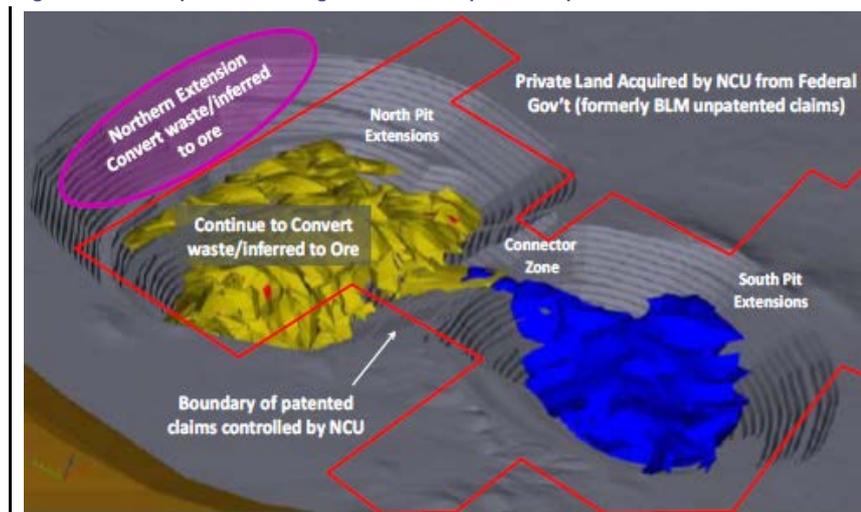
forecast. In addition, Management noted that it is now unlikely to go for the Pittsburgh shipping option, but still prefers California as an export port for the West Coast and is considering other ports such as Stockton and Oakton.

Exploration upside

We see three major routes for exploration upside at Pumpkin Hollow:

1. In the UG project, we note that the material between the East and E2 deposits currently resides in the Inferred Resource category because of drill spacing and is not included in the Reserve definition. Therefore, we note potential exploration (and production) upside as the company starts to tunnel along the c.1km between the deposits. Occurrence of mineralisation in this area could increase mine life at the Underground project, in our view.
2. We believe that significant exploration upside exists for the project based on drilling of the Private Land acquired from the Federal Government which was previously not drilled to avoid complicating the land transfer process. We are hopeful that drilling underway on that land around the OP project will:
 - Extend the mineralised zone;
 - Convert waste into ore resulting in reduced stripping costs;
 - Improve grades via In-pit infill drilling.

Figure 7: Land plan showing resource expansion potential



Source: Company data

3. We see significant potential for regional exploration upside at Pumpkin Hollow. There are previous drill holes outside the current project area with significant copper intercepts and further exploration could identify additional targets. We also note that there has been very little modern regional geophysics on the licence area and we would be interested to see some additional study.

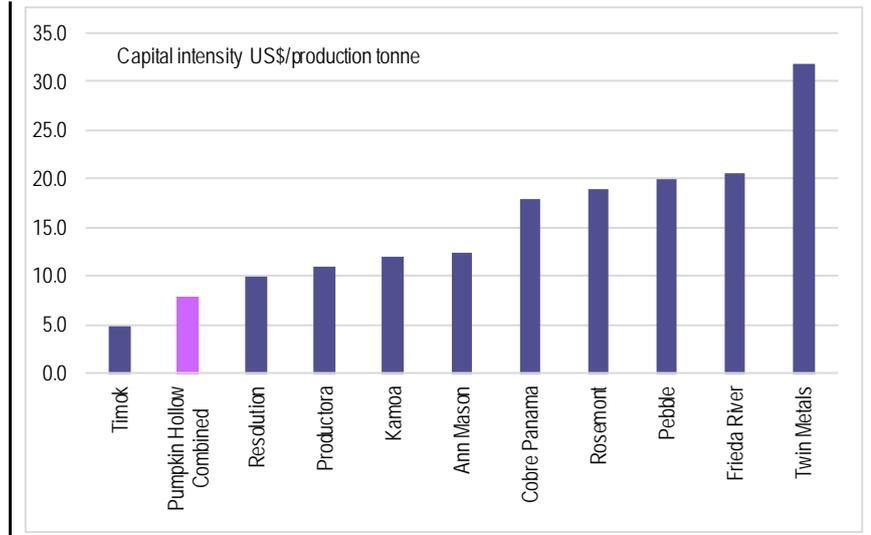
We note that on 15 May 2018, the company released assay results from the first two holes of the open pit program, both of which boasted strong copper mineralisation over significant intersections, with the standout intercepts being 42m at 2.05% copper from 94.5m and 84m at 0.57% copper from 141.7m, both substantially above the open pit reserve grade. We believe this further supports our view of potential grade and tonnage uplift in the open pit.

Peer group comparison

No matter whether you compare Pumpkin Hollow with a domestic US or international peer group of copper projects, it still stands out in our view.

In an international comparison, Pumpkin Hollow is one of the lowest capital intensity projects, with start-up capital limited to US\$184m and no additional outside equity required to start the stage 2 project based on our assumptions. In its international peer group only Nevsun Resources' Timok project has a lower capital intensity.

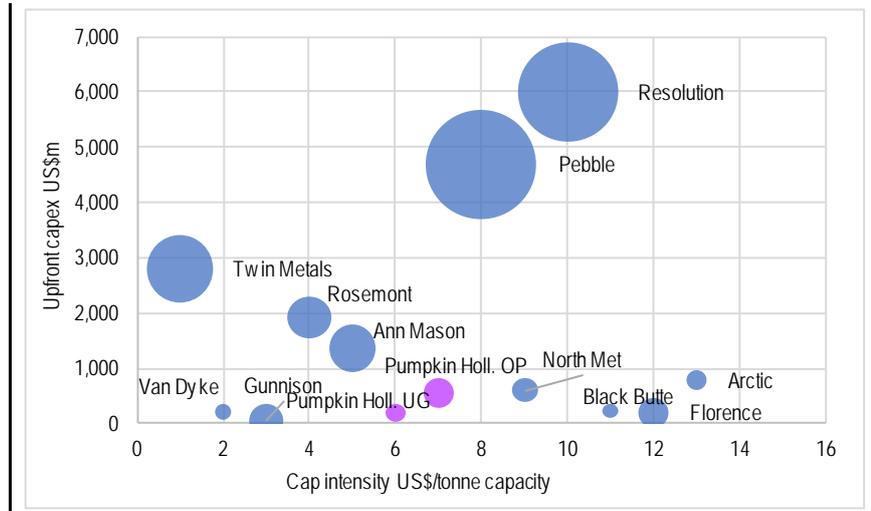
Figure 8: Capital intensity comparison with global peer group*



Source: Company data, Arlington Group estimates. *Projects with planned capacity greater than 50Ktpa.

While there are a number of US projects with a lower capital intensity than Pumpkin Hollow, none of them are at such an advanced stage of development and, indeed, none are fully permitted as is Pumpkin Hollow. In addition, the UG project also compares very competitively with the peer group and we believe that, once the Open Pit PEA is released, that it will also compare favourably.

Figure 9: Capital intensity comparison with US peer group*



Source: Company data, Arlington Group estimates. * bubble size = contained copper resource

It is also worth noting that, of the US peer group, only Excelsior Mining's Gunnison project has a lower upfront capital cost.

In terms of operating costs, the project is around the middle of the cost curve with respect to both cash costs and all in sustaining costs on a combined basis giving reasonable protection should copper prices fall during the cycle. It is also middle of the road with respect to resource life but we note potential to extend resource life and potentially lower operating costs based on current exploration within and close to the pit shell.

Valuation

We value Nevada Copper using a sum of the parts valuation utilising DCFs for the two parts of the Pumpkin Hollow project:

- **Underground:** We use a DCF with a 10% discount rate and we further apply a 20% risk discount. The assumptions in our DCF are based on the NI43-101 PFS report released in September 2017. When the project comes into production we would expect to remove the risk discount and lower our discount rate to 8%.
- **Open pit:** Given the ongoing PEA for the open pit project, and the likely disparity between this and the high-volume project previously expected, we decided to use our own assumptions for our DCF. We have modelled a two-stage project starting with 30Kton/day and doubling after 10 years, producing 130Mlbs pa (180Mlbs after year 10) of copper in concentrate with op. costs (excl. royalty) of c.US\$1.65/lb over the first 20 years. Upfront capex is modelled at US\$550m. Our DCF uses a 10% discount rate and we apply a 40% risk discount to the NPV to reflect the uncertainties associated with our assumptions.

We calculate our target price by forecasting the fully diluted number of shares following the second stage fundraising needed to raise the remaining funds for the underground project. We assume that to raise a further US\$80m, 159.8m shares would need to be issued at C\$0.65/sh.

We assume that the Open Pit project could be funded using a 50/50 debt equity contribution with most of the equity derived from cash flow from the Underground. Our base case therefore does not assume significant further equity issuance for the Open Pit project.

It is possible that, if the commodity market environment justifies it, Management may decide to accelerate development of the Open Pit project. If they decided to do so, then we would have to adjust our model to reflect the possibility of equity issuance to fund the Open Pit project.

Figure 10: Derivation of NCU sum of the parts valuation

| Sum of the Parts | | | | | | | |
|-----------------------------------|-------------|---------------|-------------|---------------|-------------|------------|---------------|
| Project | Status | Discount rate | NPV / US\$m | Risk discount | NAV / US\$m | NAV / C\$m | NAV* / C\$/sh |
| Pumpkin Hollow UG | Development | 10% | 220 | 20% | 176 | 227 | 0.37 |
| Pumpkin Hollow OP | Evaluation | 10% | 623 | 40% | 374 | 482 | 0.80 |
| Total Mining Assets | | | | | 550 | 709 | 1.17 |
| Cash | | | | | 47 | 61 | 0.10 |
| Senior Debt | | | | | -95 | -123 | -0.20 |
| Net Cash/(Debt) | | | | | -48 | -62 | -0.10 |
| Unpaid capital | | | | | 80 | 103 | 0.17 |
| Sum of the Parts valuation | | | | | 582 | 750 | 1.24 |

Source: Arlington Group estimates. *Fully diluted

We use flat price assumptions over the life of the operation and use an annual cost inflation factor of 1.0%. The Figure below shows the key input assumptions used in the model.

Figure 11: NCU model input assumptions

| Assumption | Scale | Price used |
|-------------------------|---------|------------|
| Copper | US\$/lb | 3.05 |
| Gold | US\$/oz | 1,300 |
| Silver | US\$/oz | 16.0 |
| Copper TC | US\$/st | 75 |
| Copper RC | US\$/lb | 0.08 |
| Gold RC | US\$/oz | 5 |
| Silver RC | US\$/oz | 0.4 |
| Shipping costs | US\$/st | 40 |
| USDCAD | | 1.29 |
| Cost inflation (annual) | | 1.0% |
| LIBOR | | 2.40% |

Source: Arlington Group estimates

Sensitivities

There are two factors which are most likely to impact our valuation:

Copper price

We note that NCU is highly operationally leveraged to the copper price. A US\$25/lb increase in the copper price would result in 20% increase in our risk-adjusted NAV. A table showing copper price sensitivity is shown below.

Figure 12: NCU model copper price sensitivity

| Cu price US\$/lb | 3.05 | 3.25 | 3.50 | 3.75 | 4.00 |
|------------------|------|------|------|------|------|
| NAV (risked) | 1.24 | 1.44 | 1.68 | 1.93 | 2.18 |

Source: Arlington Group estimates

Placing price

The eventual price that shares are placed at for the raising will have a significant impact on our valuation. Our base raising price is C\$0.65 for US\$100m at a USDCAD rate of 1.29. This would lead to the issue of 199.8m shares. The table below shows sensitivity of our valuation to FX and placing price.

Figure 13: NCU model NAV sensitivity to placing price

| Placing price C\$ | Cu price US\$/lb | | | | |
|-------------------|------------------|------|------|------|------|
| | 3.05 | 3.25 | 3.50 | 3.75 | 4.00 |
| 0.55 | 1.18 | 1.37 | 1.61 | 1.84 | 2.08 |
| 0.60 | 1.21 | 1.41 | 1.65 | 1.89 | 2.13 |
| 0.65 | 1.24 | 1.44 | 1.68 | 1.93 | 2.18 |
| 0.70 | 1.26 | 1.47 | 1.72 | 1.96 | 2.22 |
| 0.75 | 1.28 | 1.49 | 1.74 | 2.00 | 2.25 |
| 0.80 | 1.30 | 1.51 | 1.77 | 2.03 | 2.29 |

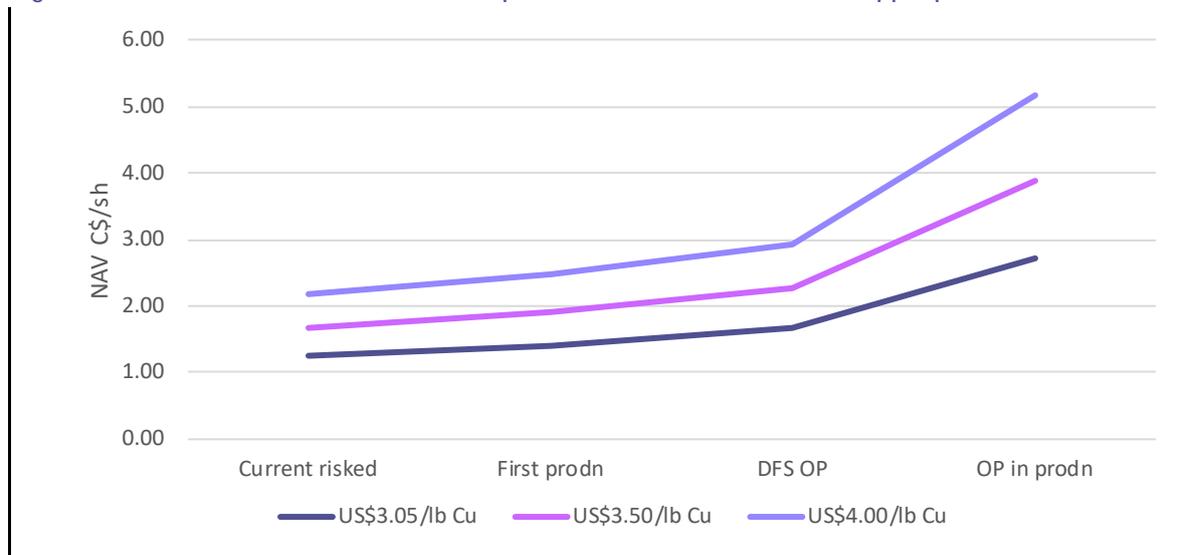
Source: Arlington Group estimates

De-risking leads to significant valuation uplift

We have included risk discounts and higher discount rates in our model to account for the early development stage of the project, but we note that as the project passes through different development milestones we would expect a significant valuation uplift due to de-risking. The chart below shows the

different de-risking stages at different copper price forecasts and we believe it illustrates how significant the valuation upside is for this stock.

Figure 14: NCU valuation at different development milestones for different copper prices



Source: Arlington Group estimates. OP = Open Pit

Catalysts and risks

Catalysts

- In our view, the key driver for NCU stock price performance will be copper prices. As one of the more operationally-leveraged projects in the copper segment, increasing copper prices will have a material impact on stock valuation and hence price performance.
- Successful completion of the second stage equity offering would significantly de-risk the stock for many investors. We have already included dilution impact on valuation in our model so there would only be a significant valuation impact if the placing took place at a price materially above or below our base placing price (C\$0.65/sh).
- The company has the option to refinance the US\$80m Red Kite debt and is in discussions with a number of potential providers for longer term debt at significantly lower interest rates. We calculate that a successful refinance could add 3-5% to our calculated risked NAV.
- We currently model the sale of copper to Asia but note medium-term shortages of concentrate at US smelters are possible. If the company decides to sell to US smelters that would result in a significant reduction in our base case transportation cost which could add 3-5% in our risked NAV.
- We note that the company has a one-time option to buy back the Precious Metals stream to 55% of production from 90% on 31 March 2020 by making a payment of US\$36m. If the gold price continues to rise, and/or there is exploration upside at the U/G project, we believe that a decision to action this would be a value-accretive move for the company.
- Updated resources and reserves data for either project would be positive since it would enable us to increase the mine lives that we currently model (14 years for underground and 31 years for the Open Pit).
- A completed PEA and then DFS for the Open Pit would enable us to firm up our conservative forecasts, which could result in an increase in our estimated valuation for the project.

- First production from Pumpkin Hollow underground would be a significant de-risking event. We would eliminate our 25% risk discount on NPV and also reduce our discount rate to 8% from 10% currently.
- First production at the Open Pit would allow us to fully de-risk our NPV for the project, resulting in significant valuation uplift.

Risks

- While higher copper prices are a significant potential catalyst for the stock, lower prices are also a potential risk to stock price performance.
- As with all development stocks there is a risk of delays to commissioning which would likely have a detrimental effect on the share price.
- While generally ability to raise funds for the second equity offering would be an issue, in this case Pala has backstopped the required equity issuance so we do not really see this as a risk. However, a raising price materially below that which we have modelled would result in a decrease in our valuation for the stock.

Reserves

Figure 15: Pumpkin Hollow Open Pit and Underground reserves

| Reserves - Western Open Pits | | | | | | | | |
|---------------------------------------|----------------|--------------|-------------|-------------|------------------|----------------|-------------------|-------------|
| Classification | Ore | Copper | Gold | Silver | Contained Copper | Contained Gold | Contained Silver | Cu Equiv. |
| | Kton | % | g/ton | g/ton | Mlbs | Oz | Oz | % |
| North Deposit | | | | | | | | |
| Proven | 122,403 | 0.479 | 0.04 | 1.59 | 1,172.7 | 174,708 | 6,861,605 | 0.51 |
| Probable | 178,241 | 0.422 | 0.03 | 1.45 | 1,504.8 | 178,241 | 9,096,741 | 0.45 |
| Total | 300,644 | 0.445 | 0.03 | 1.50 | 2,677.6 | 352,949 | 15,958,346 | 0.47 |
| South Deposit | | | | | | | | |
| Proven | 143,117 | 0.328 | 0.03 | 1.06 | 937.8 | 143,117 | 5,374,544 | 0.35 |
| Probable | 95,524 | 0.312 | 0.03 | 0.77 | 595.1 | 95,524 | 2,606,314 | 0.33 |
| Total | 238,641 | 0.321 | 0.03 | 0.95 | 1,532.9 | 238,641 | 7,980,858 | 0.34 |
| Total Open Pits | | | | | | | | |
| Proven | 265,520 | 0.397 | 0.03 | 1.31 | 2,110.6 | 317,825 | 12,236,149 | 0.42 |
| Probable | 273,765 | 0.384 | 0.03 | 1.21 | 2,099.9 | 273,765 | 11,703,055 | 0.41 |
| Total | 539,285 | 0.39 | 0.03 | 1.26 | 4,210.5 | 591,590 | 23,939,204 | 0.41 |
| Reserves - Eastern Underground | | | | | | | | |
| Classification | Ore | Copper | Gold | Silver | Contained Copper | Contained Gold | Contained Silver | Cu Equiv. |
| | Kton | % | g/ton | g/ton | Mlbs | Oz | Oz | % |
| Proven | 8,923 | 1.587 | 0.17 | 3.52 | 283.2 | 53,131 | 1,109,132 | 1.70 |
| Probable | 23,680 | 1.174 | 0.14 | 3.10 | 555.9 | 115,864 | 2,588,637 | 1.20 |
| Total | 32,603 | 1.287 | 0.15 | 3.22 | 839.2 | 168,995 | 3,697,769 | 1.38 |

Source: Company data

Board and Management

Matthew Gili, President and CEO: has over 20 years of experience in the mining industry having previously held executive roles with Barrick Gold and Rio Tinto. Prior to joining the NCU, he was at Barrick Gold where he served as EGM for the Cortez district in Nevada, Chief Technical Officer and, most recently, as Senior VP, Operations Projects. His previous roles include MD of Palabora Mining and, in a 15-year career with Rio Tinto, VP Resource strategy for the Oyu Tolgoi project and then COO Mongolia. He has a BSc in Mining Engineering from University of Idaho, and also holds an Idaho professional engineer certification.

Robert McKnight, Executive VP and CFO: has over 30 years of experience in the resource business with a wealth of knowledge in project finance, mergers and acquisitions, feasibility studies and valuations. He is a geological engineer with broad experience in the mining industry having held senior roles with Brascan Resources, Wright Engineers, Getty Resources, TOTAL S.A., Endeavour Financial, Pincock Allen & Holt Ltd., AMEC, Yukon Zinc and most recently Selwyn Resources. He is a graduate of the University of British Columbia and Simon Fraser University with degrees in Geological Engineering and Business Administration.

Phillip Day, COO: has significant project delivery and operating experience, and brings key project management skills required to advance the Underground Project into construction phase. His project construction experience includes senior roles with AMEC Americas, where he managed a number of major projects, including the brownfields expansion of Corrego do Sítio Gold Project and the \$1 billion Gramalote gold study for AngloGold Ashanti. Previously he worked in managerial, operational and technical roles for BHP Billiton and WMC Resources as well as commissioning and operation of the Minara Resources Murrin Murrin Nickel Laterite project. He is presently Head of Technical and Operations at Pala Investments.

Stephen Gill, Non-Executive Chairman: is a Managing Partner at Pala Investments Ltd where he has been since 2008, during which time he has been involved in many of Pala's principal investments covering a range of commodities. He has also supported many of Pala's investee companies in defining and implementing strategic initiatives and is involved in the oversight of Pala's liquid investment strategies portfolio. Prior to joining Pala, he was at AMEC Plc where he advised on a range of natural resources transactions and acted as an advisor across a range of private equity transactions. He has acted as a director on a number of private and public mining company boards.

Tom Albanese, Director: was previously CEO and a Director of Vedanta Resources plc and Vedanta Limited from 2014 to 2017 and CEO of Rio Tinto plc from 2007 to 2013, and previously served on the Boards of Ivanhoe Mines Limited, Palabora Mining and Turquoise Hill Resources. He holds a MSc in Mining Engineering and a BSc in Mineral Economics, both from the University of Alaska Fairbank. He is currently a director of Franco-Nevada Corp.

G. Ernest "Ernie" Nutter, Director: a highly regarded mining analyst, formerly with one of the world's largest money managers, Capital Group, from 2004 until his retirement in 2017. Prior to this, he spent over 13 years with the Royal Bank of Canada (RBC) where he was MD of RBC Capital Markets, Director of RBC's Global Mining Research team and former Chairman of RBC Dominion Securities' Strategic Planning Committee. He holds a BSc in Geology from Dalhousie University.

Lucio Genovese, Director: has 28 years of experience in both the merchant and financial sector of the metals and mining industry. He is the CEO of Nage Capital Management in Baar, Switzerland. He is also Chairman of Firestone Diamonds

plc and a member of the board of Mantos Copper S.A., Ferrous Resources Limited and Ferrexpo AG. He was previously at Glencore International where he held several senior positions including CEO of the CIS region and manager of the Moscow office. He is a Chartered Accountant and has a B.Comm and B.Acc from the University of Witwatersrand, Johannesburg (South Africa).

Michael Brown, Director: is MD, Technical and Operations at Pala Investments AG. Prior to joining Pala, he worked for De Beers Consolidated Mines Ltd as COO, responsible for all operations in South Africa, including production at five mines, the planning and execution of construction projects, strategic business development and health, safety and environmental control. He was previously Head of Strategic Business Development at De Beers. He managed a number of major projects, including the \$750 million Finsch block 5 feasibility study, the \$1.3 billion Venetia underground mine pre-feasibility study; the \$35 million Venetia resource extension project, and a \$200 million construction project at Voorspoed.

Evgenij Iorich, Director: has over 15 years of investment and asset management experience and is currently Managing Partner at Pala Investments Ltd. He has worked with a number of Pala's portfolio companies, including, Peninsula Energy, Sierra Rutile and Asian Mineral Resources on a range of strategic initiatives, M&A opportunities, operational and financial planning and structuring. He is a director of Peninsula Energy and, in addition, with his considerable experience in oil and gas, is also a director of Serinus Energy. Prior to joining Pala in 2006 he held senior roles at Mechel. He has a MA from the University of Zurich.

Abraham (Braam) Jonker, Director: is a registered Chartered Accountant in British Columbia (Canada), England and Wales as well as South Africa. He is also a member of the Chartered Institute of Management Accountants in the United Kingdom and holds a Master's Degree in South African and International Tax from the Rand Afrikaans University. He has more than 20 years of extensive management, accounting and corporate finance experience across five continents, mostly in the mining industry. He currently serves as Chairman of the Board of Golden Reign Resources and is Lead Independent Director of the Board of Directors of Mandalay Resources Corporation. He was CFO of Western Coal Corporation at the time of its take-over by Walter Energy for \$3.3 billion.

Justin Cochrane, Director: is currently President and COO of Cobalt 27 Capital Corp. and has over 16 years of royalty and stream financing, M&A and corporate finance experience. Prior to Cobalt 27, he served as Executive Vice President and Head of Corporate Development for Sandstorm Gold Ltd for five years. At Sandstorm, he was responsible for the structuring, negotiation and execution of over \$500m of royalty and stream financing contracts around the world. Prior to Sandstorm, he spent nine years in investment banking and equity capital markets with National Bank Financial where he covered the resource, clean-tech and energy technology sectors. In addition, he is currently a board member of Duke Royalty Limited. He is a Chartered Financial Analyst and a registered and licensed security advisor in Canada.

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Prices as of close on 18/05/2018

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