

The pit of despair – can Nevada Copper dig itself out?

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Going from a junior exploration company to an actual mining company is no small task. It's one thing to raise small chunks of cash when necessary to continue exploration and drilling programs. It's a whole different ballgame to set about putting a greenfield mine into production. Not only do you need a lot of committed capital to implement all the infrastructure required, you also need nature to cooperate as well. Whether it be flooding, forest fires or unanticipated geological structures that add unexpected costs along the way, it can make the light at the end of the tunnel not a sign that you are almost finished but that of an oncoming train.

One company that appears to be traveling headlong into the oncoming train is [Nevada Copper Corp.](#) (TSX: NCU), which is unfortunate given how close they appear to be to sustainable copper production at their [Pumpkin Hollow Copper Project](#) in Nevada. Pumpkin Hollow has substantial reserves and resources including copper, gold and silver. Its two fully-permitted projects include the high-grade Underground Mine and processing facility, which is now in the production stage, and a large-scale open-pit project, which is advancing towards feasibility status. That is until project financing started to become a little more challenging.

The first warning sign that all was not going according to plan occurred in August 2021 when the Company [reported Q2 results](#), an operational update and the sudden departure of the CEO effective the day after the press release. Included in the operational update were some credit facility amendment discussions as well

as expansion of another credit facility. It's hard to say exactly what part(s) of the news release the night before spooked the market, but the share price experienced a 30% one-day drop from C\$1.65/share to C\$1.15.

However, under the stewardship of the new CEO, Nevada Copper seemed to get things back on track. First, in mid-October, they announced a [transformative balance sheet improvement](#) that included a two-year deferral of first loan repayments on the Senior Project Facility, consolidation and extension of shareholder loans and increased availability of US\$41 million under the Amended Credit Facility. Then to further shore up the Company's capital situation a [marketed public offering](#) was announced in November to raise C\$75 million. This was subsequently [upsized](#) and ultimately closed in late November for aggregate gross proceeds of approximately C\$125.4 million. One would think that all was good again and surely this would be enough funding to take the development and ramp-up of the Underground Mine at the Pumpkin Hollow project to completion, especially given the 66% increase in the size of the offering.

Alas, it appears this was not the case as the Company dropped another bombshell [on June 6th](#). First off, mine development progress was proving to be somewhat challenging as the Underground Mine encountered operational and geotechnical challenges that are expected to delay mining in the East South mining area and result in reduced concentrate production for the second quarter of 2022. Access has been delayed due to an unidentified weak rock structure being encountered in the main ramp to the East South Zone that requires additional drilling and geotechnical mitigation work to reinforce the area prior to proceeding. These challenges have caused an expected delay of most of the ore production until August.

Unfortunately, the news only got worse as Nevada Copper also

announced they were in discussions to obtain additional required financing, including this ominous quote: "There can be no assurance that the full amount of the funding contemplated by the promissory note will be made available or that an agreement will be reached on additional financing or on the amount, terms and sufficiency of any such additional financing. ...[T]he Company may not be able to continue to carry on business in the ordinary course." Not surprisingly, June 7th saw another 17.5% drop in Nevada Copper's share price.

Since then, Nevada Copper has provided two further updates that haven't exactly put shareholders at ease. On July 1 it was confirmed that they were in [ongoing discussions](#) with third parties and the Company's financing partners, about additional funding and other financial accommodations. While these discussions are ongoing, the Company is taking measures to significantly reduce Underground Mine site and other operational expenditures, including the suspension of most mining activities. They have not made payments due to certain creditors and vendors, including its mining contractor and working capital provider. Then on July 4th there was a hint of optimism as they had [agreed to non-binding terms](#) with its senior lender, and its largest shareholder, for a loan of up to US\$70 million. Nevertheless, the stock saw another 11% haircut.

It would be a shame if the team at Nevada Copper was unable to get this project to the finish line. Although, even if they can get it into production, it's hard to say what shareholders will be left with. The good news is, the largest shareholder and second-largest lender, Pala Investments, holds 37.6% of the outstanding shares and appears to be very active in keeping things moving forward. The question then becomes, with US\$165 million in long-term debt, another US\$100 million in current liabilities, and seemingly no cash at present, is this company

worth its C\$94 million market cap?