

World Copper Ltd.
(TSXV: WCU)

BUY

Current Price: C\$0.84

Fair Value: C\$2.28

Risk: 5

Stronger Than Expected PEA Likely to Attract Financiers

Sector / Industry: Junior Mining/Resource

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Highlights

- A Preliminary Economic Assessment (PEA) on the Escalones porphyry-skarn copper-gold project returned an **AT-NPV8% of US\$1.5B, and a high AT-IRR of 46%**, using US\$3.60/lb copper.
- The PEA was stronger than expected as CAPEX/OPEX estimates are lower, and mine-life is higher than our estimates.
- As the resource is in oxides, the project's **OPEX/CAPEX are lower** than typical porphyry (sulphide) projects.
- WCU has **closed the previously announced acquisition** of the Zonia copper-oxide porphyry project in Arizona. A 2018 PEA had returned an AT-NPV8% of US\$447M, at US\$4/lb Cu.
- WCU is **trading at just 5% of the combined AT-NPV8%** of Escalones and Zonia, at US\$3/lb copper. We estimate that juniors are currently trading between 20%-40% of AT-NPV.
- Healthy balance sheet, with over \$2.5M in cash, plus **in-the-money options and warrants totaling \$19M**.
- We believe low inventory levels, inflation, global supply chain disruptions, and rising sales of electric vehicles will support copper prices in H1-2022.
- **Upcoming catalysts** include resource expansion drilling at Escalones, definition drilling and an updated PEA on Zonia.
- We believe the PEA puts WCU in a strong position to attract JV/financing partners.

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Head of Research

Price Performance (1-year)



	YTD	12M
Ret.	18%	100%
TSXV	-10%	-21%

Company Data

52 Week Range	\$0.29 - \$1.05
Shares O/S	90M
Market Cap.	C\$76M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	6x

Key Financial Data (FYE - Dec 31)

(C\$)	2021 (9M)
Cash	\$543,447
Working Capital	-\$736,227
Mineral Assets	\$6,657,077
Total Assets	\$7,581,385
Net Income (Loss)	-\$4,608,409
EPS	-\$0.11

* Raised \$6M subsequent to the end of Q3.

*See last page for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

Stronger Than Expected PEA

The PEA was based on a longer mine-life, and a higher resource vs our estimates

OPEX and CAPEX estimates are lower than expected

As a result, the PEA returned stronger than expected results; note that our discount rate assumption and long-term copper price forecasts are lower than the assumptions used in the PEA

20-year mine life/open-pit operations/50,000 tpd

AT-NPV8% of US\$1.5B, and AT-IRR of 46%, using US\$3.60/lb copper

AT-NPV8% increases to US\$1.8B at US\$4/lb copper

Cash-cost is relatively low as the deposit is shallow (ideal for open-pit mining), and as resources are constrained in oxidized supergene mineralization, which is amenable to low-cost oxide heap leaching

The PEA used 86% of inferred resources

DCF Valuation - Escalones	FRC Estimate (Jan 21, 2022 Initiating Report)	PEA
Operating Life (years)	15	20
Tonnage (Mt)	274	366
Throughput (tpd)	50,000	50,000
Recovery Rate	70.0%	72.5%
Total Recovered Copper (Blbs)	1.55	2.25
Average Price of Cu (US\$/lb)	\$3.00	\$3.60
Operating Cost (LOM) in US\$/lb	\$1.50	\$1.19
Initial Capital Cost (US\$M)	\$500	\$438
After-Tax Net Asset Value (US\$)	\$181M	\$1.5B

Source: FRC / Company

PEA Economic Model Results and Assumptions	
Copper Price Assumed	\$3.60/lb Cu
Pre-Tax NPV ₈ & IRR	\$2.28 billion / 63.9%
Post-Tax NPV₈ & IRR¹	\$1.50 billion / 46.2%
Undiscounted Post-Tax Cashflow (LOM)	\$3.13 billion
Payback Period (from first production)	2.18 years
Initial Capital	\$438.4 million
LOM Sustaining Capital	\$192.5 million
LOM CI Cash Costs	\$1.19 / lb Cu
LOM All-In Sustaining Cash Costs (AISC)	\$1.42 / lb Cu
Average Annual Copper Production	52,000 kt
LOM	~20 years
Estimated Process Recovery LOM	72.5%

Copper Price \$US/lb	Post-Tax NPV ₈	Base Case	Post-Tax NPV ₈	Post-Tax NPV ₈	Post-Tax NPV ₈
	Base Case \$US Millions	IRR (%)	CAPEX (±10%) \$US Millions	OPEX (±10%) \$US Millions	Grade (±10%) \$US Millions
3.00	1,009	34.7%	971 / 1,046	898 / 1,119	1,252 / 761
3.60	1,500	46.2%	1,463 / 1,535	1,392 / 1,605	1,781 / 1,210
4.00	1,822	53.6%	1,786 / 1,857	1,717 / 1,927	2,130 / 1,507

2021 Resource Estimate

Class	Density	Tonnes	Grade	Metal Content
	Tonne/m ³	(x1000)	Total Cu%	x1000 lb Cu
Inferred	2.69	426,198	0.367	3,446,982

Source: Company

The project is 35 km east of El Teniente, the world's largest underground copper mine

The PEA assumed that power can be sourced from a hydroelectric plant located 53 km from the project; cost of transmission lines is included in the CAPEX estimate

Water can be sourced from the Rio Pangal Valley near El Teniente; cost to construct an 85 km long pipeline is included in the CAPEX estimate

Healthy balance sheet

Raised \$5.85M subsequent to the end of Q3

Can raise up to \$19M from in-the-money options and warrants

Project Map



Source: Company

Financials

(C\$)	2021 (9M)
Cash	\$543,447
Working Capital	-\$736,227
Current Ratio	0.56
Monthly Burn Rate (G&A)	-\$197,373
Cash from Financing Activities	\$3,367,917
Cash Spent on Properties	-\$1,250,070

Source: FRC / Company

Stock Options and Warrants: 8.99M options (weighted average exercise price of \$0.67), and 28.23M warrants (weighted average exercise price of \$0.59) are outstanding. 4.40M options and all of the warrants are in-the-money, implying a potential to raise up to \$19M.

Valuation

WCU continues to trade at a premium as its projects are relatively low OPEX/CAPEX

We are continuing to apply a 50% premium to the sector average of \$0.032/lb (unchanged since our previous report) to value WCU

Our comparables valuation remains unchanged at \$1.12

After incorporating the PEA's OPEX/CAPEX/mine-life estimates, our AT-NPV estimate on Escalones increased from \$226M to \$552M

For valuation purposes, we are starting to apply a 50% discount to our NPV estimate for conservatism, as project development is highly contingent on financing; note that funding large projects can be challenging

Our DCF valuation increased from \$2.91 to \$3.44 per share

Copper Juniors	Country	EV/ Resource (\$/lb)
Nevada Copper Corp (TSX:NCU)	USA (Nevada)	\$0.089
Rambler Metals and Mining PLC (TSXV:RAB)	Canada	\$0.087
Northwest Copper Corp. (TSXV:SIR)	Canada	\$0.045
SolGold Plc (LSE:SOLG)	Ecuador	\$0.037
World Copper (TSXV: WCU)	Chile and Arizona	\$0.035
Trilogy (TSX: TMQ)	USA (Alaska)	\$0.034
Hot Chili (ASX: HCH)	Chile	\$0.028
Los Andes (TSXV: LA)	Chile	\$0.027
Excelsior Mining (TSX:MIN)	USA (Arizona)	\$0.020
Western Copper and Gold (TSX:WRN)	Canada	\$0.014
Copperbank Resources (CSE: CBK)	USA (Arizona+Nevada)	\$0.011
Cornerstone Capital Resources Inc. (TSXV:CGP)	Ecuador	\$0.009
Panoro Minerals (TSXV: PML)	Peru	\$0.009
Average (excl outliers)		\$0.032

Source: FRC / S&P Capital IQ

DCF Valuation - Escalones	
Operating Life (years)	20
Tonnage (Mt)	365
Throughput (tpd)	50,000
Recovery Rate	72.5%
Total Recovered Copper (Blbs)	2.14
Average Price of Cu (US\$/lb)	\$3.00
Operating Cost (LOM) in US\$/lb	\$1.19
Exchange rate (US\$:C\$)	1.28
Initial Capital Cost (US\$M)	\$438
Discount Rate	11.6%
After-Tax Net Asset Value (C\$)	\$552,438,582
Discounted AT-NAV (50%)	\$276,219,291
Fair Value per Share (C\$)	\$2.72

DCF Valuation - Zonia	
Operating Life (years)	9
Tonnage (Mt)	90
Throughput (tpd)	30,000
Recovery Rate	70%
Total Recovered Copper (Blbs)	0.45
Average Price of Cu (US\$/lb)	\$3.00
Operating Cost (LOM) in US\$/lb	\$1.60
Exchange rate (US\$:C\$)	1.28
Initial Capital Cost (US\$M)	\$220
Discount Rate	11.6%
After-Tax Net Asset Value (C\$)	\$69,564,076
Fair Value per Share (C\$)	\$0.69

Valuation Summary	Value	Value per Share
Escalones	\$552,438,582	\$2.72
Zonia	\$69,564,076	\$0.69
Cristal	-	-
Working Capital	\$2,745,292	\$0.03
Fair Value	\$624,747,950	\$3.44

Source: FRC

Our estimate is highly sensitive to copper prices

Fair Value (C\$)		Copper Price (US\$/lb)				
C\$:US\$ - 1.28		\$2.60	\$2.85	\$3.00	\$3.50	\$4.00
Discount Rate	7.5%	\$3.71	\$5.27	\$6.20	\$9.32	\$12.43
	10.0%	\$2.38	\$3.61	\$4.35	\$6.80	\$9.25
	11.6%	\$1.74	\$2.80	\$3.44	\$5.55	\$7.67
	15.0%	\$0.81	\$1.60	\$2.08	\$3.67	\$5.26
	17.5%	\$0.35	\$1.00	\$1.39	\$2.70	\$4.01

Source: FRC

We are reiterating our BUY rating, and raising our fair value estimate from \$2.02 to \$2.28 per share (the average of our DCF and comparables valuations). We believe the PEA puts the company in a strong position to attract JV/financing partners. Drilling results and/or M&A could be catalysts for WCU this year.

Risks

Maintaining our risk rating of 5 (Highly Speculative)

- The value of the company is dependent on copper prices.
- Financing and equity dilution risks.
- **Permitting and development risks.**
- **Geopolitical and foreign exchange risks**

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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