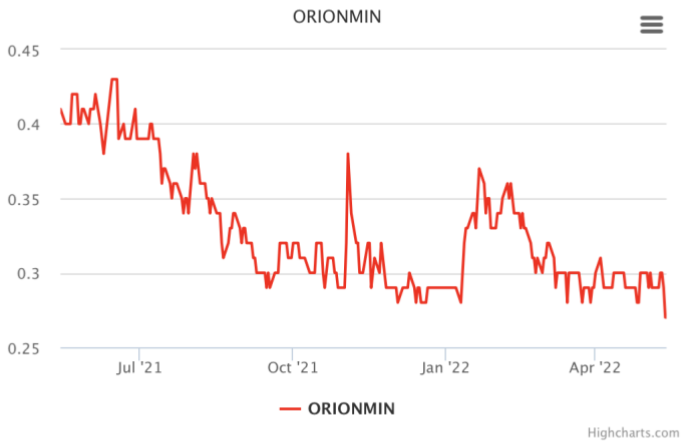
ORION MINERALS

Valuation Analysis of Stream Funding Package

Updated Valuation ZAR 141cps (A$12.5cps)

ASX/JSE : ORN

Share Price	ZAR 27cps	A$ 2.3cps
Market Cap.	ZAR 1,183m	A$ 101m
Shares in Issue	4,382m	



What You Need To Know :-

Stream Funding Package for Orion's flagship Prieska Copper Zinc Mine (PCZM), announced on the 9th of May 2022, preserves project NPV, reduces funding risk and halves our assumed equity raise to the benefit of shareholders.

- Peak Funding requirement reduces from ZAR2.40bn to ZAR2.25bn (excluding contingency).
- NPV of project cashflow attributable to Orion shareholders increases marginally from ZAR6.67bn to ZAR6.72bn.
- Our assumed equity raise from Orion shareholders falls from ZAR655m to ZAR299m implying a reduction in the dilution of shares-in-issue from 55% to 25%.
- Value of PCZM attributable to Orion shareholders increases to ZAR121cps (ZAR99cps).

Valuation Implication

- Total value per Orion share increases to ZAR 141cps (ZAR116cps).

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Introduction

On the 9th of May 2022, Orion Minerals Ltd announced that they had signed non-binding term sheets with Triple Flag Precious Metals, a Canadian streaming and royalty finance company, in respect of a US$87m funding package to advance the development of their flagship Prieska Copper Zinc Mine (PCZM).

In this note, we analyse the valuation impact of the proposed Stream Funding Agreement.

- The inclusion of Stream Funding in the overall funding package for PCZM reduces peak funding, including a 10% contingency, from ZAR2.7bn to ZAR2.5bn on account of reduced interest accruals.
- We calculate that the net impact of the Stream Funding proposal is marginally positive to Project NPV with the benefits of earlier cashflows to Orion shareholders offsetting the costs of future revenue sacrifices.
- The reduction in our assumed equity contribution from Orion shareholders to the overall funding package falls from ZAR655m to ZAR299m. The implied dilution to shares-in-issue reduces from 55% to 25%.
- We estimate that the Precious Metals and Revenue Streams have been priced at ~16% and ~20% respectively (real IRR's) using prevailing commodity prices.
- The change in Project NPV combined with the reduced implied dilution improves our calculated fair value per Orion share by 22%.

Consequently, we are updating our target price for Orion Minerals Ltd from ZAR116cps to ZAR141cps.

Valuation Matrix : Orion Minerals Ltd (ZARcps)

Given the inherent volatility in commodity prices, we present a valuation matrix below to assist the reader with a risk/value assessment per Orion share. Valuations of PCZM are calculated by discounting future cashflows attributable to Orion shareholders at different metal prices.

Comparisons are made using an 8% and a 10% real discount rate. An exchange rate of ZAR/US$ 15.00 is held constant.

Valuation Orion per share @ 8% Discount Rate (Real)

		Copper Price						
		8,000	8,500	9,000	9,500	10,000	10,500	11,000
Zinc Price	2,500	96	106	113	121	129	136	144
	2,750	109	116	123	131	139	147	155
	3,000	118	126	134	141	149	158	166
	3,250	128	136	144	152	160	168	175
	3,500	139	146	154	163	171	178	185
	3,750	149	157	166	174	181	187	194
	4,000	160	168	177	184	190	197	204

Valuation Orion per share @ 10% Discount Rate (Real)

		Copper Price						
		8,000	8,500	9,000	9,500	10,000	10,500	11,000
Zinc Price	2,500	84	93	99	106	112	119	125
	2,750	95	101	108	114	121	128	135
	3,000	103	110	116	123	130	137	144
	3,250	112	119	125	132	139	146	152
	3,500	121	127	134	142	149	154	160
	3,750	130	137	144	151	157	163	168
	4,000	139	146	153	159	165	171	176

Implications for PCZM Funding

In our note, Optimising the Prieska Copper-Zinc Mine (3 Feb 2022), we estimated that Orion would need to arrange funding of approximately ZAR2.7bn, including a 10% contingency above forecast peak funding of ZAR2.4bn.

In terms of the funding package announced by Orion (ASX/JSE 9 May 2022), ZAR1.28bn (US$80m @ ZAR/US$ 16.00) has been secured against 84% of the future precious metals stream arising from PCZM. A further ZAR113m (A$10m @ ZAR/A$ 11.25) has been secured against 0.8% of future gross revenue, also ringfenced to PCZM. This theoretically leaves approximately ZAR1.3bn to be raised.

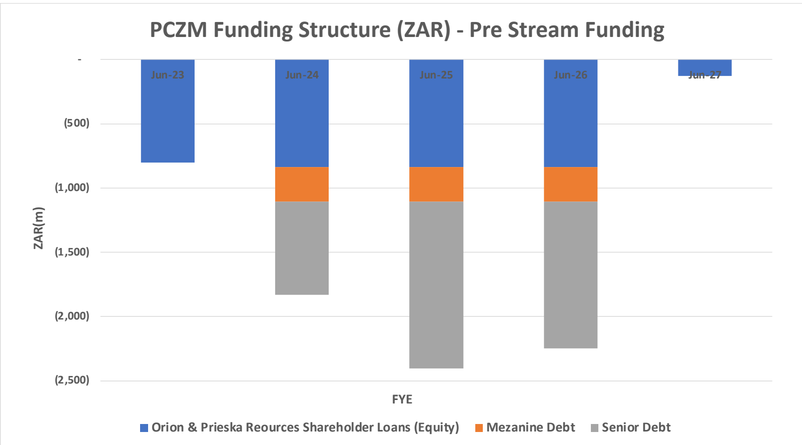
However, because there is no interest accrued on the Stream Funding component, peak funding requirements under this scenario drop from ZAR2.40bn (excl. contingency) to ZAR2.25bn giving a new target funding level of ZAR2.5bn (incl. 10% contingency). Thus, ZAR1.1bn is now required to complete the funding package.

Of the ZAR1.1bn, we have assumed that a third, ZAR370m, will be from equity and two-thirds, ZAR740m, will be bank financed.

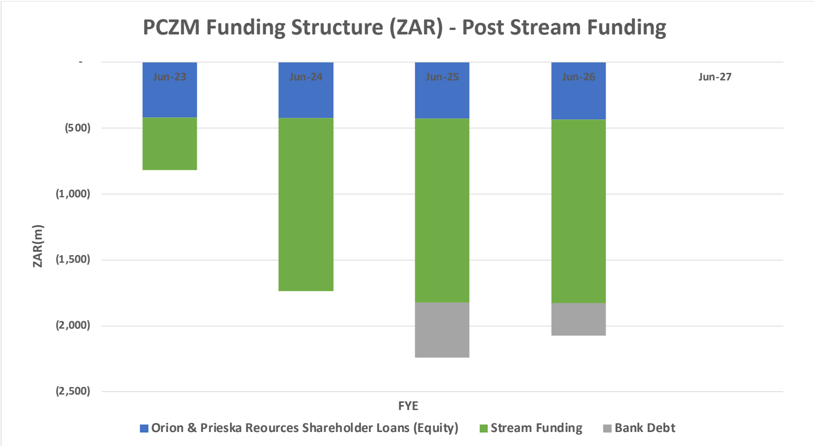
In summary, we estimate that the funding mix will now be;

- ZAR 1,280m – Precious Metals Stream Funding
- ZAR 110m – Revenue Stream Funding
- ZAR 370m – Equity Raise (Net of Fees)
- ZAR 740m – Bank Finance Facility (Including ~ZAR225m contingency)

The implications for Project funding requirements can be illustrated below. Prior to the Stream Funding announcement, we had estimated peak funding of ZAR2.4bn. Of this, ZAR800m was to have been equity financed and the remaining ZAR1.6bn from a portfolio of bank debt.



Now, with the Stream Funding in place, we estimate peak funding to be ZAR2.25bn with ZAR370m equity financed and ZAR400m from bank debt, excluding any contingencies.



In the short term, A$20m (~ZAR225m) needs to be raised with some urgency to secure the early A$10m revenue stream funding that, in combination, will be used to fund the accelerated mining-plan feasibility study and thereafter to commence the dewatering program. This A$20m can be secured by any funding arrangement, including equity, that is acceptable to Triple Flag Precious Metals.

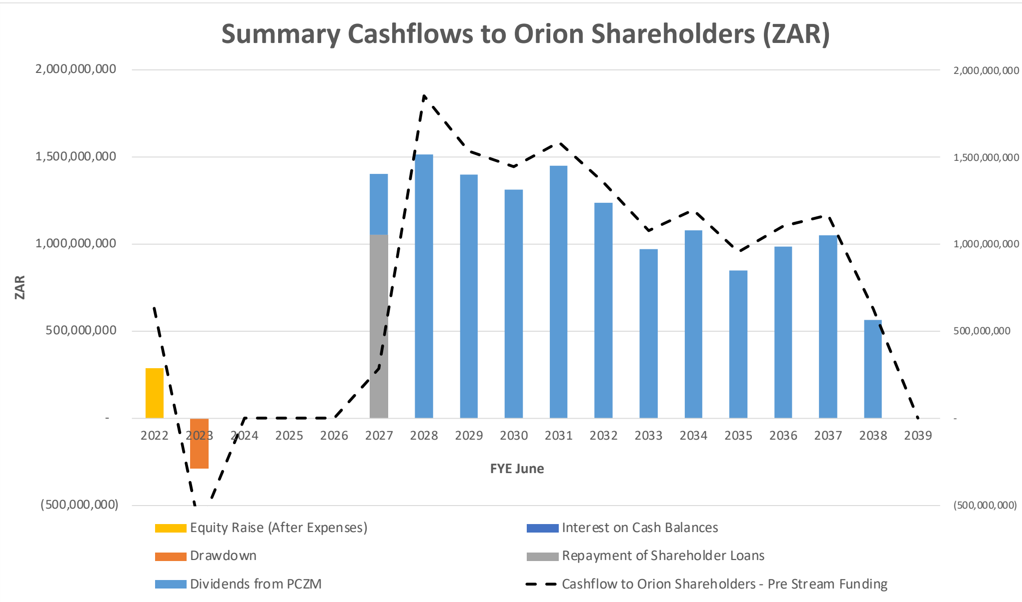
The Impact of Stream Funding on PCZM NPV

In our financial model for PCZM, we have used a discount rate of 8% (real) on the after-tax cashflows attributable to Orion shareholders. There are three significant impacts to our valuation model that arise from the new funding arrangements.

1. The negative impact of reducing precious metals revenue by an effective 74%
2. The negative impact of reducing base metals revenue by 0.8%
3. The positive impact of the new funding profile.

The effects of these are illustrated in the cashflow graph below. One can see that there is a reduction in the drawdown in equity funding as less is required. Then, there is a significantly higher cashflow in FY2027 due to a marked reduction in debt repayment requirements. Both these adjustments have a positive impact on the after-tax NPV attributable to Orion shareholders.

Thereafter, the reduction in after-tax cashflow over the life-of-mine due to the revenue sacrifice (precious and base metals) to the Stream Funding is evident when comparing the pre-Stream Funding cashflows (dotted line) to what is now expected.



(Source : S2R Estimates)

The NPV effects to Orion shareholders of each component maybe summarised as follows.

NPV Changes Summary

	ZAR (m)
NPV Pre Stream Funding [1]	6,670
Less Precious Metals Stream (74% Effective)	(632)
Less Revenue Stream (0.8%)	(121)
Effect of New Funding Profile	806
NPV (Post Stream Funding)	6,723

[1] Optimising the Prieska Copper-Zinc Project (Published 3 Feb 2022)

(Source : S2R Estimates)

In summary, there is a marginal positive impact on the calculated NPV attributable to Orion shareholders due to the proposed funding package.

Impact of Reducing the Assumed Equity Raise

The Stream Funding reduces our assumed Equity Raise (incl. costs) in our financial model from ZAR835m to ZAR380m. Of this new ZAR380m, 22.2% (ZAR84m) is the responsibility of Prieska Resources, the empowerment partnership at the project level. This leaves Orion shareholders with ZAR299m to raise instead of ZAR655m.

At the assumed share price of ZAR30c, applying a 10% discount, 1,106m shares instead of 2,426m shares would need to be placed. When compared to the current shares in issue, 4,431m (fully diluted), this represents a 25% dilution instead of a 55% dilution. The valuation impact of this on shareholders is significant as illustrated by out NAV calculation below.

Orion Minerals : Valuation Analysis Summary

Base Case Valuation		**Pre Stream Funding**	**Post Stream Funding**	
NPV of Project Cashflows to Orion Shareholders		6,670,269,244	6,723,379,460	ZAR
Current Share Price		30.0	30.0	ZARcps
Current SISS (Fully Diluted incl Options at AU$ 3cps and less)		4,431,000,000	4,431,000,000	
Current Mkt Cap	18%	1,329,300,000	1,329,300,000	
Orion's Equity Raise	(=77.8% of Equity)	655,200,000	298,750,227	ZAR
Number of Shares Required	10% Discount/Spot	2,426,666,667	1,106,482,323	
New SISS		6,857,666,667	5,537,482,323	
				ZAR cps
Value In Project (Cashflow to Orion Shareholders)		6,670,269,244	6,723,379,460	121
Value In Australia & NC Excluding O'Kiep		260,700,000	260,700,000	5
Valuation of Okiep (Cashflow to Orion Shareholders)		773,467,650	773,467,650	14
Cash on the Balance Sheet	31-Mar-22	67,117,500	67,117,500	1
		7,771,554,393	7,824,664,610	
Implied Share Price		**116**	**141**	ZAR cps
Upside (Downside)		Valuation Uplift	22%	

(Source : S2R Estimates)

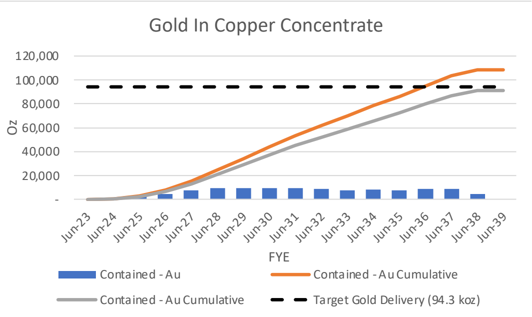
The valuation uplift per Orion share due to the reduction in dilution is over 22%. The calculated value per share is now 141cps.

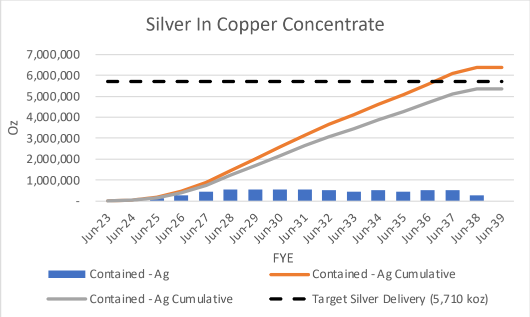
Estimating the Cost of the Precious Metals Stream Funding

In the updated Feasibility Study (ASX/JSE Release 26 May 2020, P70), the Net Smelter Return (NSR) estimates for the underground orebody assumed a silver (Ag) recovery of 144 to 176 g/t in final concentrate and a gold (Au) recovery of 2 to 3g/t in final concentrate. Further, the final concentrate from underground production was expected to grade 20% Cu from underground sources.

Using the average grade for each and converting to oz/t Cu contained in concentrate we derive 0.4 oz/t Au and 20.6 oz/t Ag. This compares well to the Payable Gold of 0.359 oz/t and Payable Silver of 21.736 oz/t of Cu in concentrate used in the Stream Agreement.

Using the published numbers of 0.359 oz/t for gold and 21.736 oz/t for silver and applying our updated production profile for the accelerated early open-pit mining plan we estimate the following precious metals production profiles.





(Source : S2R Estimates)

In terms of delivery into the Stream Agreement, 84% of Payable Gold and Silver is to be delivered until 94.3koz of gold and 5,710koz of silver are delivered respectively. The above graphs illustrate that the stream agreement covers the precious metals production that we expect over the initial life of mine, including the open pit and pillar mining but excluding any orebody extensions at depth.

The precious metals Stream Funding of US$80m is for an effective 74% of future gold and silver by-product production as 10% is delivered at spot prices at the time of delivery.

To assess the IRR of the precious metals' stream we have applied the gold forward curve as published by the World Gold Council for the next 5 years and thereafter inflated the gold price by 1.5% pa aligned with long term US CPI expectations and the Fed's 2% target. For silver prices we have used the silver futures curve for the next 4 years and then similarly inflated the price by 1.5% pa.

FYE	Jun'23	Jun'24	Jun'25	Jun'26	Jun'27	Jun'28
Gold Price (US$/oz)	1,968	2,014	2,057	2,076	2,096	2,127
Silver Price (US$/oz)	23.00	23.55	24.00	24.36	24.73	25.10

(Source : World Gold Council & www.barchart.com)

Using these assumptions, we estimate that the precious metals revenue stream has been discounted by approximately 16% (real) to give a present value of US$80m Stream Funding as indicated.

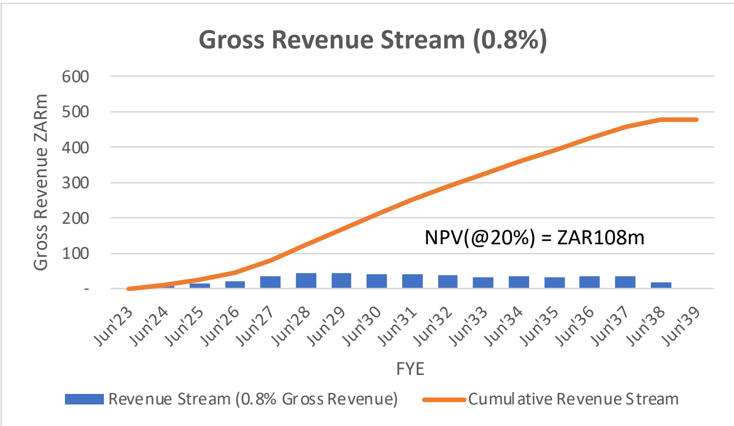
	Discount Rate	NPV (US$)
Gold Revenue Stream	16%	47,719,400
Silver Revenue Stream	16%	33,083,341
		80,802,740

(Source : S2R Estimates)

Estimating the Cost of the Revenue Stream Funding

Using the financial model updated for current metal price expectations (Orion – 1 Year On : 5 Nov 2021) and the accelerated mining plan (Optimising the Prieska Copper-Zinc Project - 3 Feb 2022), we are able to estimate the cost of the Revenue Stream Funding.

The A$10m at ~ ZAR/A$11.25 advanced against 0.8% of future revenue in our model implies a discount rate of approximately 20% (real). To arrive at a similar discount rate as implied by the precious metals stream, 16%, input metal prices for copper and zinc need to be lowered from US$9,500/t to US$8,000/t and US$3,000/t to US$2,500/t respectively.



(Source : S2R Estimates)

Impact of the Sale of Precious Metals on Net Smelter Return (NSR)

The NSR's used in our financial model prior to the announcement of the funding package were 98% for the underground orebody and 93% for the open pit orebody. If we reduce our assumed precious metals by-product credits by 74%, we get NSR's of 91% and 92% respectively reflecting the higher precious metals content and recovery from the underground orebody.

The change in the copper concentrate NSR derived from the underground orebody is illustrated below.

Net Smelter Return - Cu Concentrate (U/G)

(Before and After Stream Funding (SF))

Parameter		**Before SF**	**After SF**
Metal Price - Copper	US$/tonne	9,500	9,500
Concentrate Grade	%	19.8%	19.8%
Value of Metal In Concentrate	US$	1,881	1,881
Payability (Metal Recovered)	%	95.0%	95.0%
Payability Deduction	US$/t Conc	(94)	(94)
Treatment & Refining Charges	US$/t Conc	(90)	(90)
By-Product Credits (Au & Ag)	US$/t Conc	173	45
Total Penalty Deductions	US$/t Conc	(26)	(26)
Net Smelter Return (NSR)	US$/t Conc	1,844	1,716
Net Smelter Return (NSR)	**%**	**98.0%**	**91.2%**

(Source : ASX/JSE Release 26 May 2020 – Updated Feasibility Study & S2R Estimates)

It must be noted that the NSR by-product credits for the precious metals were calculated at prices significantly lower than current spot. For the NSR estimate, the gold price used was US$1,350/oz and the silver price was US$16.50/oz. Thus, the contribution of precious metals to project NPV has been historically understated in our calculations. It follows that the impact of the exclusion of the 74% to the new NPV is not as high as it might have been if market related prices had been used.

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Analyst Certification

I, Simon Hudson Peacock, hereby certify that the views expressed in this research accurately reflect my personal views about Orion Minerals Ltd. and no part of my compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Mining Engineer turned Mining & Resources Analyst and Portfolio Manager with over two decades experience in company and commodities research across both buy and sell financial institutions.

Simon graduated in Mining Engineering (with commendation) from the Camborne School of Mines (UK) and was a Junior Mining Engineer with Impala Platinum for four years before enrolling at the UCT Graduate School of Business MBA program. In the following years he has worked as a mining analyst and portfolio manager in some of the top investment teams in South Africa including Investec, Prudential, African Harvest and Cadiz. During this time, he became a CFA Charterholder. At both African Harvest and Cadiz, he was the head of the equity research team. For the last two years, Simon has worked as an independent investment analyst specialising in mining companies.

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