

Orion Minerals

Prieska Resources boosted by new exploration licence; application for Mining Right lodged

Prieska Project Mineral Resources Increased to 29.4Mt

Orion Minerals (ORN) has announced the addition of a maiden Mineral Resource of 5.2Mt for the Vardocube Prospecting Right, consisting of 253kt Zn and 67kt Cu. The Vardocube Right was granted to ORN [last week](#) and covers an area adjacent to the company’s existing Repli Right at the Prieska zinc-copper project in South Africa’s Northern Cape Province. The new Vardocube Resources are entirely in the inferred category and are primarily based on data from historic drilling by the mine’s previous owners, AngloVaal, as well as drilling conducted by Orion on the boundary of the Repli Right. The new additions bring Prieska’s total Global Mineral Resource to 29.4Mt, containing 1.126Mt of zinc at a 3.8% grade and 0.365Mt of copper at a 1.2% grade (for a combined ~6.2% Zn equivalent), along with silver and gold by-products.

Mining Right Application lodged

In a separate statement ORN has also announced that its 73%-owned subsidiary, Repli Trading, has lodged an application to convert the Repli Prospecting Right to a Mining Right, covering 723ha at the Prieska Project. This is a key step in ORN’s progress towards re-establishing mining at Prieska, as a full Mining Right would allow ORN to use existing underground infrastructure to reach the Deep Sulphide Target (approximately ~70% of which sits within the Repli license area). The application is supported by comprehensive Environmental Authorisation Application and a provisional Mining Works Programme, which envisages both open pit and underground mining operations, followed by a froth flotation process to produce zinc and copper concentrates. See our [7th March initiation](#) for more details. ORN anticipates the Repli Mining Right should be granted by around July 2019.

Next Steps / Catalysts – more Resource upgrades likely

Further infill and verification drilling is ongoing on both the Repli and Vardocube licences, with aim of boosting a significant portion from the Inferred to the Measured & Indicated category, as well as applying more modern exploration techniques to add to the southern strike extension. We therefore expect further positive resource upgrade announcements ahead of the targeted completion of a Bankable Feasibility study on the project during Q4 2018. We currently assume a 15-year mine life with 17.8Mt of ore mined and processed over the life of mine; including the entire inferred Resource of 29Mt in the LoM model would boost our attributable NPV for Prieska by ~30% to US\$253m and add ~AUD 3 cents per share to our target price.

Valuation

The updated Resource numbers lowers Orion’s EV/Resource by ~15% to US\$21.7/t on a Zinc-equivalent basis. This implies a discount of ~60% to its peers. While the project remains at an early stage, our model suggests an attributable DCF of US\$194m and IRR of 35% for the Prieska project could be achieved. Applying a target multiple of 0.6x we derive a price target of AUD 9.5c/sh, implying a 137% upside to the current share price, as shown in the valuation table on p3 below.

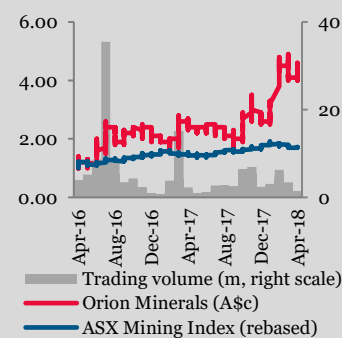
GICS Sector	Materials
Ticker	AU:ORN
Market cap 09-Apr-18 (A\$m)	51.6
Share price 09-Apr-18 (A\$c)	4.0
Target price 31-Dec-18 (A\$c)	9.5

+17%

Approximate increase in contained zinc equivalent Resources

60%

Approximate discount to peer group average EV/M,I&I Resource



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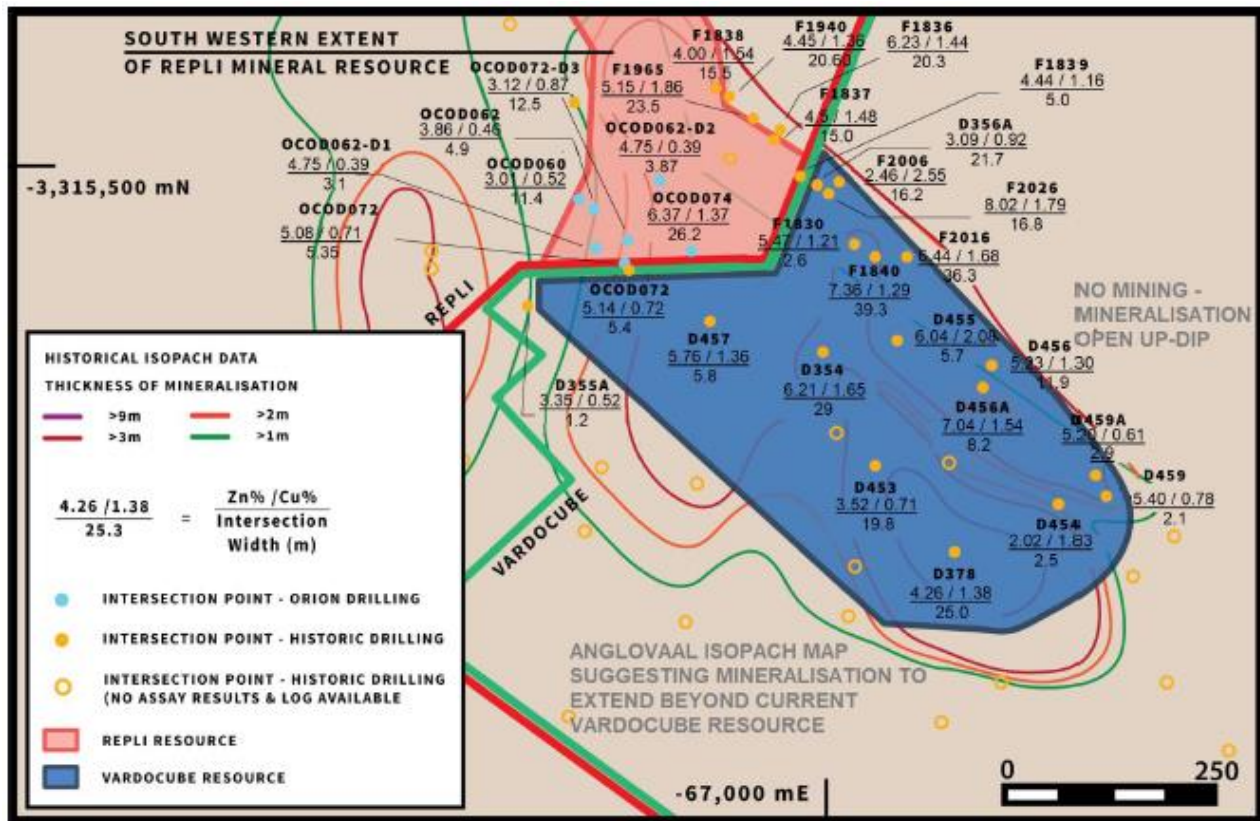
Total Mineral Resource table for the Prieska Zinc-Copper deposit with the addition of Vardocube Inferred Resource

Global Mineral Resource For Prieska Project - Repli Trading No 27 (Pty) Ltd & Vardocube (Pty) Ltd										
Classification	Tonnes	Zn		Cu		Ag		Au		
		Metal Tonnes	Grade (%)	Metal Tonnes	Grade (%)	Metal Ounces	Grade (g/t)	Metal Ounces	Grade (g/t)	
Deep Sulphide Repli *	Inferred	22,600,000	839,000	3.7	266,000	1.2	6,904,000	9.5	153,000	0.2
Deep Sulphide Vardocube	Inferred	5,200,000	253,000	4.9	67,000	1.3	1,627,000	9.7	35,000	0.2
+105 Supergene Repli *	Indicated	1,200,000	32,000	2.6	30,000	2.4	348,000	8.7	9,000	0.2
+ 105 Oxide Repli *	Inferred	300,000	2,000	0.9	2,000	0.6	17,000	1.8	1,000	0.1
Total Global		29,400,000	1,126,000	3.8	365,000	1.2	8,896,000	9.4	198,000	0.2

Note All Resources Stated at Zero Cut-off.
Rounding, as required by reporting guidelines, may result in apparent differences between tonnes, grade and contained metal content

Source: Company press release. *Note: Repli Resources are as per ASX release dated 8th February 2018.

Map showing the additional Vardocube Resources, historic drilling intersections and intersections drilled by ORN on the Repli Prospecting Right



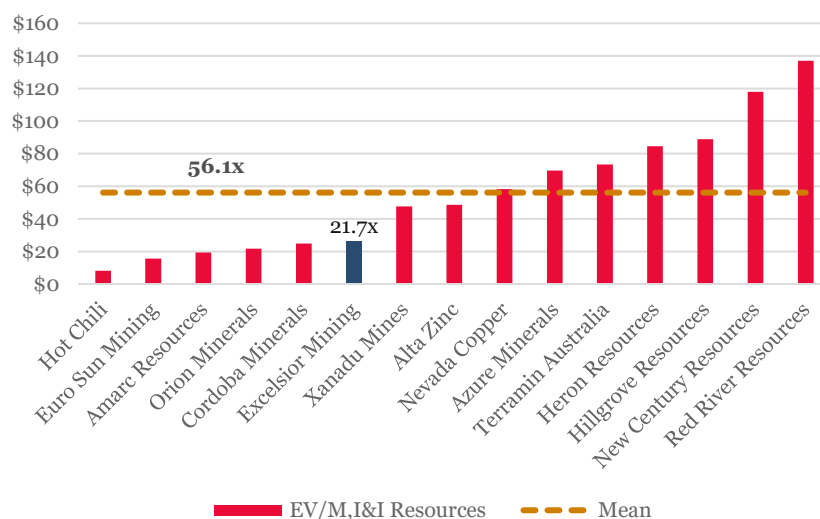
Source: Company press release.

Valuation / Price Target Derivation

		Value	Target multiple	Target Value
Prieska Project*	US\$m	194	0.6	117
Jacomynspan & Other Projects**	US\$m	6	1.0	6
Net cash/(debt), excl convertible notes (Jun'18E)	US\$m	-11	1.0	-11
Total	US\$m	190		112
Shares out, assuming conversion of notes	m	1523		1523
NPV / Target Price per share	US c	12.5		7.4
NPV / Target Price per share	AUD c	16.0		9.5
Current share price	AUD c	4.0		4.0
Prem./Disc. to NPV / Target Price	%	-75%		-58%

Source: H&P estimates. Notes: *Based on DCF. **Based on EV/Cu equivalent Resource of \$20/t

EV/Zinc equivalent* resource vs comparable pre-production base metal peers



Source: SNL, Bloomberg, H&P estimates. Notes: *Zinc equivalent resource is calculated as <metal> content in ore multiplied by <metal> price per tonne divided by zinc price per tonne. M, I&I Resources are quoted inclusive of Reserves.

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