



Research Update

February 8, 2018

Rating: BUY ↑ (from SPEC BUY)
Price Target: \$6.70 (unchanged)
Last Price: \$3.13
Ticker: OSK-T

Market Data

Target return (incl. dist.):	114.1%
Distribution/yield:	\$0 / 0%
Units outstanding (M):	207.8
Market capitalization (\$M):	651
Net Asset Value (NAV) (\$/sh):	6.66
52-week range (\$):	3.14 - 5.65
Last fiscal year ended:	Dec. 31, 2016
Average weekly volume:	3,271,739
Currency (unless otherwise indicated):	CAD
Net Debt (Cash) (\$M)	(76)

Forecasts	F17E	F18E	F19E
EPS (\$)	(0.07)	(0.05)	(0.04)
<i>Previous</i>	n/c	n/c	n/c
CFPS (\$)	(0.07)	(0.05)	(0.04)
<i>Previous</i>	n/c	n/c	n/c

Key trading multiples	F17E	F18E	F19E
\$/oz (Windfall Project)	\$249	\$168	\$134
% of Insitu Au Value	14%	9%	7%



Company Profile

Osisko Mining Inc. is a Canadian mining exploration and development company with assets located in Ontario and Quebec. Its flagship asset is the Windfall project located between Chibougamau and Level-sur-Quevillon in the Abitibi region of Quebec.

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Upgrade to Buy on Rapid Progress and Recent Stock Weakness Event

This morning, Osisko Mining released an exploration update for their projects in Quebec. Additionally, the Company has released 6 batches of drill results (from Windfall, Lynx, and Garrison) in the last month. Full results are available [online](#).

Highlights

- Exploration Outlook:** To date, Osisko has drilled 518,000m (out of 800,000m planned) on the Windfall property in Quebec. The Company has set a budget of \$100M for 2018, including drilling, ramp development, bulk sampling, resource estimation, metallurgical work, and PEA/Feasibility Studies. Due to a backlog of assays, the updated resource for Windfall (we estimate ~2.5Moz) has been pushed back to May 2018, with a PEA to follow in June 2018. The PEA will not include the entirety of the drill defined resource from Windfall and Lynx (due to assay delays), but the Feasibility Study, planned for Q1/19, will include increased resources brought in by the additional infill drilling.
- Ramp Development in Progress:** The exploration ramp has been rehabilitated and is advancing towards the main zone at ~150m/month. Bulk sampling is set to start in Q2/18 in Zone 27, Q3/18 on Caribou, and Q4/19 on Underdog. Permits to advance the ramp to Lynx (1,200m extension) are expected in Q2/18, with bulk sampling scheduled for Q1/19.
- Drilling Continues To Infill and Expand Resource:** To date, drilling results at Windfall average 21.2g/t over 2.9m at depth of 470m in Lynx, 12.4g/t over 3.5m at depth of 434m in Caribou, 11.9g/t over 3.5m at depth of 929m in Underdog, and 9.1g/t over 3.6m in Zone 27. The January 25 release included the discovery of a new zone, Bobcat (see Exhibit 1), with average grades of 10.6g/t over 2.9m at depth of 126. This mineralisation occurs above Caribou between Windfall main and Lynx, very close to surface.

Valuation

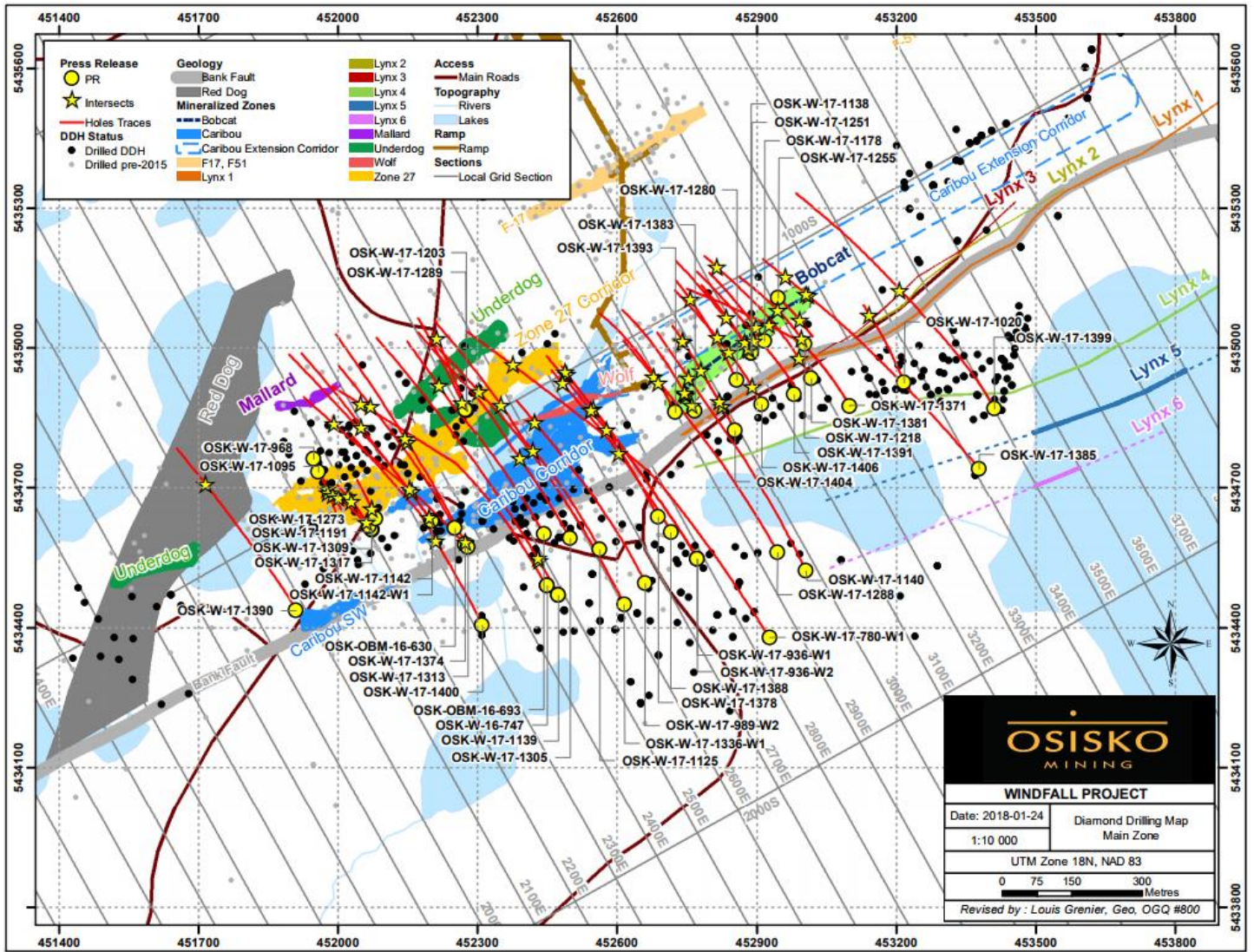
Overall, our Windfall NPV_{7%} is \$1.6B, or \$7.16 FD/sh. Adding a value of \$131M and \$65M for the Marban and Garrison deposits, respectively, and netting out corporate costs, we derive our target price of \$6.70, using our long-term gold price of US\$1,600/oz.

Bottom Line

While there remains some continuity-of-mineralization risk element until management releases a resource estimate in May, the deposits are now well drilled with few “dead spots”. Osisko continues to rapidly move towards production in 2020/21 with the development plan discussed above.

At current prices, a project of this potential scale is significantly undervalued, and any resource risk is ameliorated by the increased drilling and lower valuation, such that we are comfortable in upgrading our recommendation to Buy from Spec Buy. We maintain our \$6.70 target price.

Exhibit 1: Windfall Drilling



Source: Osisko Mining Inc.

Investment Recommendation Rating System

- Strong Buy:** Expected to provide a substantial return over the next 12 months, with a lower level of risk than comparable investments.
- Buy:** Expected to provide a reasonably positive return over the next 12 months.
- Speculative Buy:** Expected to provide a positive return over the next 12 months, but with a high level of risk, or based on a future uncertain event.
- Hold:** Expected to remain in a trading range near the current share price for the next 12 months.
- Sell:** Expected to deliver a negative return over the next 12 months.
- Under Review:** Currently available information is inadequate to provide an investment rating.
- Tender:** Investors should tender their shares to the current offer.

Company related disclosures:

Issuer Company	Ticker	Applicable Disclosures
Osisko Mining Inc.	OSK-T	1, 7, 9

See legend of Disclosures on next page.

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February 8, 2018

OSISKO REPORTS WINDFALL PROGRESS – Delays Resource Update and Announces 2018 Work Plan

Osisko Mining (OSK – TSX, \$3.33 | Rating: U/R | 12-Month Target: U/R)
Market Capitalization: \$692M

Impact: Slightly Negative

Top Line: Osisko provided an update on their Quebec assets largely focussing on expected deliverables at Windfall, in addition to 2018 work plans leading into the key 2019 production decision.

The Company announced a delay in the long-awaited resource update at Windfall, pushing the delivery date out to May 2018.

OSK also provided details on underground development and bulk sampling, which is planned for 2018 and 2019. Much of the required re-hab work is complete and development toward the Main Zone is progressing at a rate of approximately 150 m per month.

Highlights:

2018 Exploration Budget: C\$100 million (current cash: approximately \$C160-170 million plus marketable securities)

Drilling: Completed approximately 518,000 m of planned 800,000 m drill program at Windfall; combined with 180,000 m drilled by previous operators, pre-production drilling at windfall could surpass 1 million meters.

Resource Update: The resource update originally scheduled for late 2017, then Q1/18, has now been pushed to early May 2018 as the Company has indicated that it is experiencing long turnaround times on assay results.

PEA announcement (FS Study): On the back of the planned resource update, the Company will release a Preliminary Economic Assessment (PEA) in June 2108 but noted that it would continue significant exploration drilling as it works toward a Q1/19 Feasibility Study.

Underground Development and Bulk Sampling: Underground development is now progressing towards the Main Zone and the Company will commence bulk sampling, on a zone by zone basis, as development progress allows. Key "potential resource areas" such as Lynx and Underdog will not be accessed until 2019; the first sample material will come from the previously defined Zone 27 and Caribou (Q3/18).

Surface Infrastructure: The Company has acquired land in Lebel Sur Quévillon related to the construction of a potential processing facility as outlined in a 2017 environmental description document prepared by consulting engineers WSP.

Bottom Line: Delays with respect to the Windfall resource will continue to impact market expectations related to the "magnitude" of this resource estimate; however, we choose to focus on potential technical parameters as the character of the Au mineralization at Windfall (e.g., narrow, high-grade and high CoV) will make this resource estimate extremely sensitive to inputs based on geostatistical data analyses. We have compiled several thousand assay data points (i.e. individual assays) from the Company's press releases and determined that the top-cut variability from raw data to 1 m composites is significant (e.g., >50% reduction at 99th percentile) and the impact on average grade will be significant. Furthermore, the search-geometry will be constrained by the predominantly narrow vein (structure) geometry and this will impact mineralized volumes. The short version, is that with appropriate technical metrics it will be a challenge to build tonnes **and** grade in line with market expectations vis a vis implied contained ounces from enterprise value. Furthermore, the choice of a remote processing site (~100 km) has a material impact on project economics and can be directly linked to resource (reserve) grades. The cost impact can be on the order of 2-3 g/t and with current resources grading 8.42 g/t in the Indicated category (7.6 g/t Inferred) based on 2014 SRK resource estimate, we believe that the focus will now be on preserving grade at the expense of tonnes (ounces).

The initial PEA on the Windfall project which was completed by the previous owner in 2015 was based on a 1,200 tpd underground operation producing a LOM 828,000 oz of Au over 7.8 years at an average grade of 8.26 g/t Au. Pre-production capital of C\$240M was related to site mining and processing. OSK has conducted preliminary studies on a 2,400-3,200 tpd underground mining operation with a remote 1,900 tpd processing facility located at Lebel Sur Quévillon.

We would note that while OSK trades at a significant premium on an EV/oz basis, this is derived from a consolidated corporate resource base but we believe that OSK is largely valued on the resource size and growth potential of a single asset, namely Windfall. Using EV/oz, a delay of six weeks is immaterial; however, market sentiment is negative trending, biased by the lack of resource growth / progress versus drill metres and spend. We would point out that while OSK has an unprecedented scale drill program, the nature of the mineralization and sampling protocol does not necessarily produce a concordant number of discrete samples and OSK maintains its own prep faculty with a largely dedicated commercial lab facility for analytical processing.

Relative Valuation: OSK continues to trade at a premium to its peers on an EV/oz basis with an approximate valuation of C\$110 to \$115 per contained gold ounces (total resource), compared with the median value of \$30 to \$35 for North American explorers/developers or an average value of approximately \$60 EV/oz for the same group.

Disclosure Code: none

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