Osino Resources Corp. (OSI on TSXV Cdn $1.04). Market Cap and EV Approx $130mn (Cdn $165mn)
A Robust and Undervalued Namibian Gold Story
Report by Rossport Investments, April 7, 2023

(All dollar amounts US$ unless indicated)

Key Points

We view Osino Resources Corp. ("Osino") as an undervalued gold developer currently almost ignored by North American investors. While Osino is not a liquid stock and there are risks (see below), we think there is a lot of upside. It is a big position for us. In the next three months, Osino plans to publish the Definitive Feasibility Study ("Definitive Feasibility") on its plus two-million-ounce fully permitted Twin Hills gold Project in Namibia. Without serious M&A interest, which is our base case assumption, we see possible medium term share price stagnation as Osino raises debt and equity financing and starts to build the project. However, if management executes well, we believe Osino's stock could more than double over the next three years as Twin Hills likely comes into production and more exploration is conducted. Conversely, if there is serious M&A interest following the release of the Definitive Feasibility, there may be plus 50% upside to Osino's current Cdn $1.04 share price before year end.

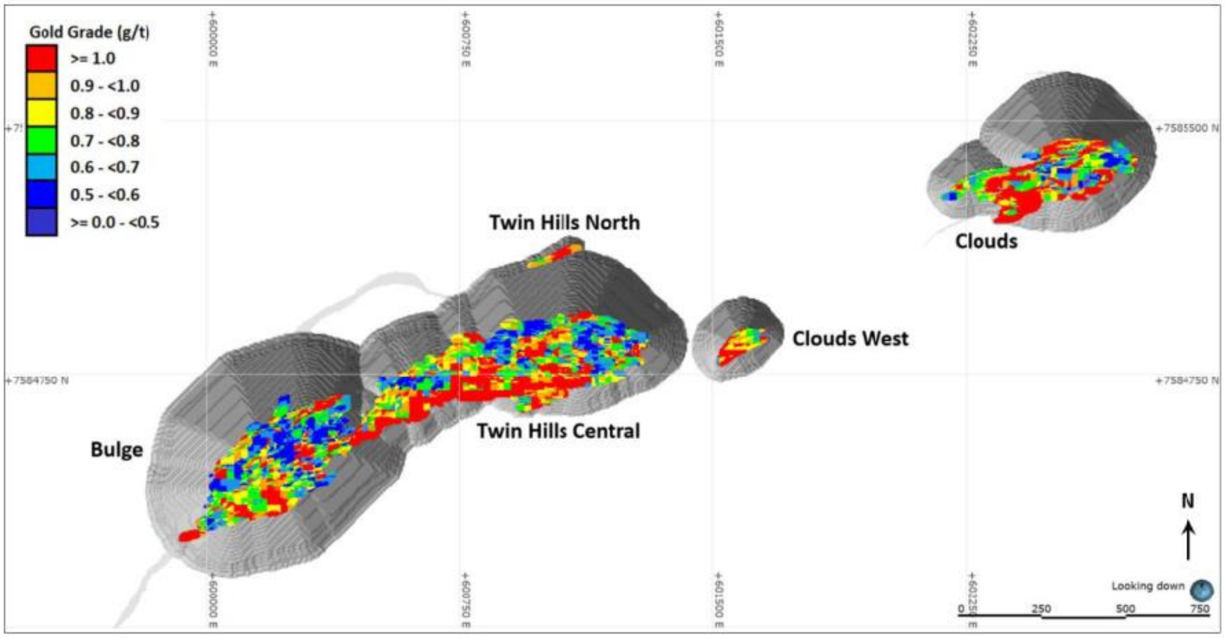
Our NAV (DCF at 5%) for the 100% owned mine is $330mn at $1700 gold which is less than the company's Pre-Feasibility $500mn estimate released in September 2022 (see Figure 4). We have made adjustments to the Pre-Feasibility numbers, increasing mineable reserves by 15%, but also increasing operating and capital expenditure costs (capex) estimates, especially sustaining capital costs (see Figure 5). Our estimated all in sustaining costs ("AISC") per ounce at $1160 per ounce is about $200 higher than the Pre-Feasibility numbers. Our $330mn NAV is still almost three times the company's current less than $130mn market capitalization and enterprise value. We also expect the NAV to grow as Osino's exploration team led by Dave Underwood continues to grow the Twin Hills deposit.

Our confidence in the team is high. Osino's CEO Heye Daun, a native Namibian, has created value for shareholders before including with Auryx which advanced the Otjikoto project in Namibia a decade ago (See Management Team section below). The pace with which his team has explored, advanced, and permitted this project since its 2019 discovery is near unique in recent times.

Gold developer stocks have been hit hard by a near "investor strike" over the last two years (see Figure 3) due largely to margin compression and capex blowouts caused by Covid related supply chain cost increases, parts and skill shortages, and project delays. These factors appear to be abating and margins are improving with recent gold price increases, especially in the currencies of many producing countries.

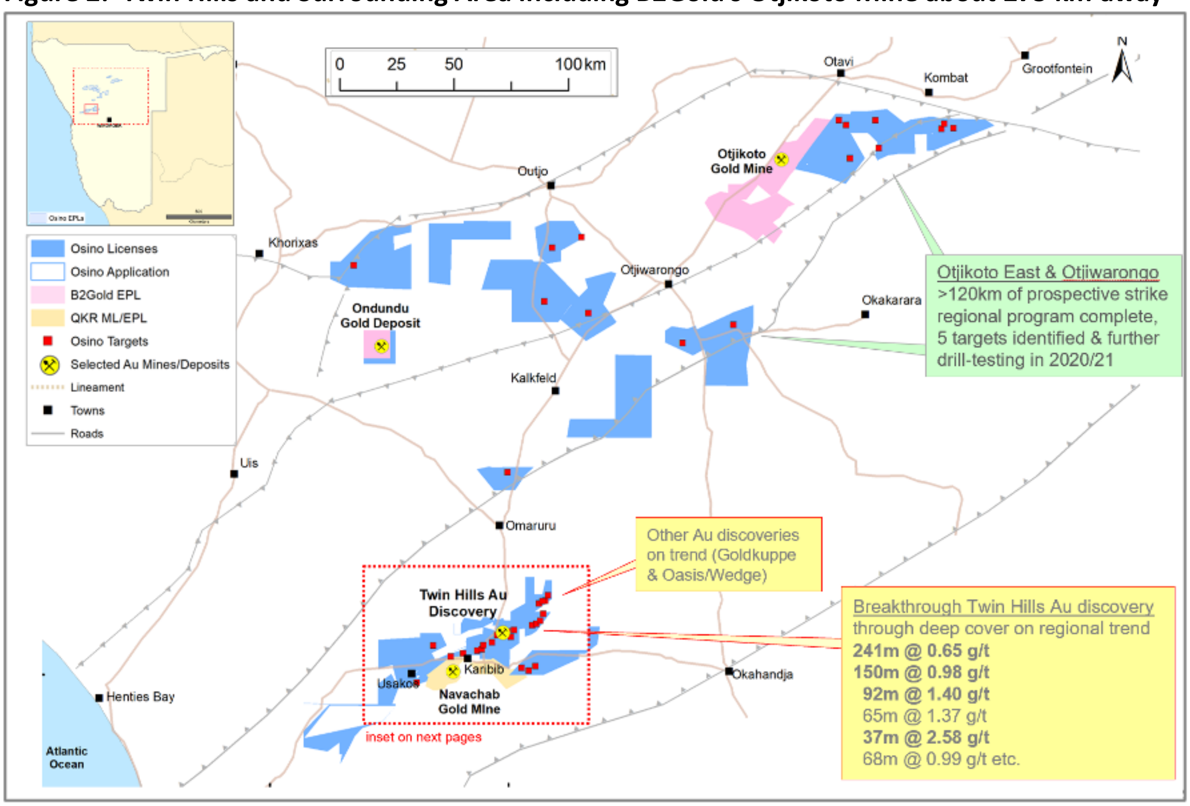
Factors we think the market underappreciates about Osino include: 1) while Twin Hills is only a 1.04 gram per tonne project, it has scale at 5mn tonnes a year of planned processing, is close to good infrastructure including power and skilled labor; 2) the current weakness of South African and Namibian currencies which helps costs; 3) Namibia is an excellent mining jurisdiction; 4) the relative simplicity of the project; 5) how special it is to have a fully permitted ready to go project; and 6) the number of financing and royalty entities that have shown interest in this project giving it a vote of confidence.

Figure 1: Twin Hills Planned Open Pits. Twin Hills is expected to produce close to 200k oz per year in the first 4 years and over 150k oz on average over its plus 12-year Mine Life



Source: Osino Resources Corp.

Figure 2: Twin Hills and Surrounding Area including B2Gold's Otjikoto Mine about 275 km away



Source: Osino Resources Corp. We have not visited the Twin Hills site yet and hope to do so in the next few months. We visited B2Gold's Otjikoto mine in 2017. The roads and infrastructure are very good. Note Osino's large exploration licenses. Among other things, the company has tested and is excited about the prospects in the blue areas just north of the Ondundu deposit.

A Candid Description of Twin Hills

Osino's Twin Hills recently discovered deposit in Namibia contains a 2.8mn ounce measured and indicated ("M&I") gold resource that includes 2.1mn ounce gold reserve grading 1.04 grams per tonne ("gpt"). There is also a small inferred resource. A gold reserve is the economically mineable part of a M&I (well drilled) resource. Twin Hills is not yet a large deposit and it is not in a geological area yet known to host elephant size gold discoveries. The open pit strip ratio (waste tonnes required to be moved for each tonne of ore mined) is 4.4 which may be about average for a lower grade deposit. In terms of headline attractiveness, ignoring the location, we would currently rate the Twin Hills deposit a B- at best. It is not likely on the radar screen of major gold mining companies, and we don't think it would be economic to develop in some remote parts of the world.

However, Twin Hills is economically robust where it is. Our confidence is high it will be a mine within three years. The attractiveness of Twin Hills to us is its: 1) management team; 2) relative simplicity, 3) jurisdiction; 4) access to good infrastructure; and 5) near term mineability. In our view, these factors turn this "B- at best deposit" into something better and worth materially more than the $130mn value reflected in Osino's current market capitalization at gold prices above $1700 per ounce.

Trend of Junior Gold Miners Stocks since January 2021

Gold at around $2000 per ounce is less than 3% from its 2020 peak. In South African Rand (which the Namibian dollar is linked to), Australian dollars, and Canadian dollars gold is again at or near all times highs. Still gold stocks have suffered since gold revisited all-time highs in 1Q21. Since January 1, 2021, gold is up 5%. However, medium sized and junior gold mining company stocks as measured by the VanEck Junior Gold Miners ETF ("GDXJ") are down 30%.

Figure 3: GDXJ, OSI, and Gold both in US$ and in SA Rand Jan 1, 2021 to April 4, 2023 Normalized

Namibia's currency is fixed to the South African Rand. Since the relatively high levels of year end 2020, the junior mining companies included in the GDXJ are down 30%. Osino is down 17% despite management's permitting and de-risking of the Twin Hills Project and the Rand gold price being up over 25% which offsets much of the cost inflation during the period.

A main culprit has been the spiking of operating and capital costs that have compressed margins and decimated some project NPV's. As per our January 2023 Investor letter according to World Gold Council Data "All in Sustaining Costs per Ounce" for gold producers are up about 35% from 4Q2019 due to supply chain shortages related to Covid, skill shortages in many places, and other factors. Capex blowouts have been worse in some instances because of temporary construction halts and delays. Uncertainties in capital build estimates were huge. In this capital-intensive business, margins and IRR's have been decimated. Two cases in point: the capex estimate for IamGold's 65% owned Cote project in Ontario has more than doubled from $1.3bn in late 2018 to $3bn now and the capex estimate for Coeur Mining's new Rochester mine in Nevada has gone up over 60% from $400mn to $650-670mn in a similar time frame. These blowouts have scared investors away from the sector. Tighter financial conditions caused by higher interest rates and the US and Swiss banking crisis have made financings more challenging, although the latter is helping the gold price. Investor flows have left the gold sector and gone to other areas, including battery metals. For gold developers stocks it has almost been an investor strike. As a case in point for Osino, despite its TSXV listing, its recent December 2022 Cdn $11.8mn equity financing was largely sourced from African investors. Some gold developers (Marathon Gold being one of them) who have had to raise major equity since 2021, have had their share prices crushed.

However, with Covid and supply chain issues dissipating, costs and project capex estimates are starting to level off. Confidence in budgets is beginning to return to miners and the profit margin outlook is improving. We think that this may be wind at the back for the gold developer space.

Management Team and its History advancing the Otjikoto Project bought by B2Gold in 2011

Osino's CEO is Heye Daun, a mining engineer and native Namibian. He spent the first decade of his career with Rio Tinto, AngloGold-Ashanti, and Gold Fields, building and operating mines in Africa. He co-founded Auryx Gold Corp. which in 2010 bought the Otjikoto deposit from Vale S.A. for $28mn. He and his team drilled and advanced Otjikoto through drilling and a Preliminary Economic Assessment ("PEA") Technical Report in 2011. Auryx got bought out by mid-size gold producer B2Gold in 2011 for Cdn$160 mn based on the 20-day weighted average share price (20 days prior to the announcement of the deal) of B2Gold of Cdn$3.81 per share. The deal was at a 74% premium over the Auryx closing share price on October 7, 2011 (the date the offer was made) based on the closing price for the B2Gold shares as of that date. Heye went on to work for B2Gold for some time after the closing.

Osino's Chairman Alan Friedman was Auryx's VP Corporate Development. Dave Hodgson, AngloGold's former COO was one of Auryx's five directors and is now a director of Osino.

Comparing the Twin Hills Project to B2Gold's Otjikoto Mine

As per the 2011 PEA, Otjikoto had a measured & indicated ("M&I") mineral resource of about 1.2mn ounces grading 1.44 gpt. No mineable reserves had yet been calculated. Grade wise, this was 40% higher than Twin Hills current measured & indicated resource of 1.08 gpt. However, Twin Hills M&I resource at 2.8mn ounces is over twice as high and the project Twin Hills waste to ore strip ratio of 4.4 is much lower than the 7 envisioned in the 2011 Otjikoto PEA.

Otjikoto got richer and better with the help of the discovery of the Wolfshag zone around the time of the B2Gold acquisition. From the PEA stage it inherited, B2Gold was able to plan, permit, build and put the project into production in 36 months. Through 2022 Otjikoto has cumulatively produced 1.4mn ounces and generated close to $330mn of free cash flow net of all capex. It has about five years of mine life remaining.

No two deposits or mines are alike. However, what Otjikoto and Twin Hills appear to share is similar access to good infrastructure, similar simplicity in mining, excellent gold metallurgy (i.e., high gold recoveries), and similar access to mining skills. While lower grade, we think that Twin Hills has a better opportunity to grow in size.

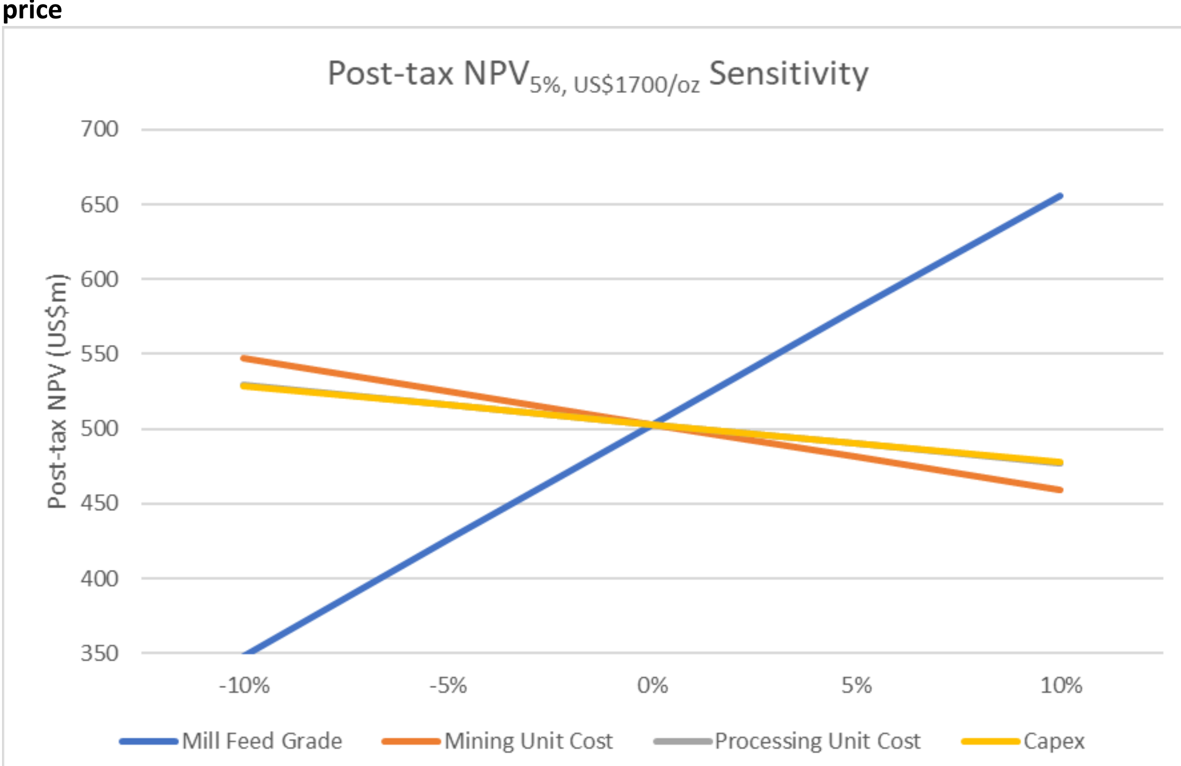
Risks

Before we expand on why we like the Osino story, let's look at the risks. The risks include grade estimation, possible capex and operating costs blowouts, dilution on financing, execution risk and other risks such as water and power sources.

Grade

At 1.04 gpt Osino's Twin Hills ore grade is on the low side. As per the graph below from Osino's September 6, 2022, Pre-Feasibility Study press release, if actual ore grades turn out to be 10% lower than estimated, the study's NPV at $1700 would drop $150mn or 30% from the base case $500mn. This makes Twin Hills more sensitive to overestimation of ore grade than many other gold projects.

Figure 4: Post-Tax Project NPV Sensitivity to Variations in Key Project Parameters at US$1700/oz gold price



Source: Osino Pre-Feasibility Study Results for Twin Hills released Sep 6, 2022. Note that the base NPV of the study (equal to where the lines cross) is $500mn assuming $1700 gold prices. As discussed below our model has a lower NPV of $330mn at $1700 gold as we have padded operating and capex estimates.

Besides the risk of realizing the mining grade, there is also the risk that the plans to process higher grade material (i.e., by sorting lower grade ore in stockpiles) in the early years may fall short should ore sorting be more difficult than planned. This would be a timing difference. While less of a risk in our view, we note (the obvious) that a 10% drop in gold recoveries from plan (say from 91% to 82%) would have the same impact as a 10% drop in grade.

Capex and Operating Costs

Osino's Pre-Feasibility Project capex estimate is $375mn. The Osino management team is working hard to keep within that estimate in the pending Definitive Feasibility. We have used $400mn in our model to give them an extra buffer and increased the estimated sustaining capex (see below). As discussed, investors have been scared off by huge capex blow outs the last three years in the gold mining industry. However, we are not overly worried about a major Project capex blowout for Twin Hills for several reasons. A lot of work has been and is being done. This includes the ongoing obtaining of hard quotes for the pending Definitive Feasibility. This is a relatively straight forward project. There are not the skill shortages in Namibia or neighboring South Africa (which is going through a bad recession) as there are in the rest of the world. Rand weakness over the last year may also help ease cost pressures as a lot of services and likely equipment will be South African sourced.

Dilution on Financing

We are assuming that chances are better than not that Osino will have to build this mine themselves. If that is the case, we estimate the company will need to raise at least $400mn (the cost of the project with some buffer), some of which would be equity financed. In February, Osino announced that it had received eight project financing offers from credible institutions to build the mine. Accordingly, debt financing seems well in hand unless markets collapse. However, if Osino has to raise an equity component of say $100mn to $125mn at current Cdn $1 to 1.10 share prices, it may have to nearly double its shares outstanding. Depending on market conditions and how that is managed, such a big raise could cause temporary share price weakness as we saw with Sabina Gold & Silver Corp. after they announced their financing in March 2022.

Execution Risk

If Osino builds Twin Hills, it will have to beef up its project team and work on hiring an operations team. Heye has experience building and operating gold mines and the Board has experience in both. However, Osino, along with its contractors, will have to staff up and hire senior managers. There is a shortage of good ones globally at present. Any project can have unexpected events such as flood or fire. Execution risk may be amplified by debt covenants that could result in a liquidity crunch in a crisis.

Other risks

Water availability was a concern with Twin Hills. However, the company has worked hard to mitigate this by going to dry stack "pressure filtrated" tailings to conserve water and sourcing some outside sources for back up. While work on power sourcing is well in hand, obtaining the 25 MW of power on time for the plant start-up will require some ancillary sources to supplement grid power in the early years. Although all major permits are in hand, there is always something that could cause a delay. For example, a few indigenous Namibian graves were recently found on the project footprint. Negotiations with ancestors for compensation are ongoing.

Why we like Osino

We like Osino for several reasons including we are impressed with the management team and board, it's a simple project with solid technical work, the project is in Namibia which is one of the best jurisdictions to mine in Africa.

Management Team and Board

Osino has a solid, credible, and trustworthy team which includes people who have progressed and built projects. They know what they're doing and this de-risks the project. We have known Heye for over a decade. A native Namibian, he and his team's command of operating in the country shows through in the way they have been able to advance the Twin Hills project so quickly from discovery in 2019, to the pre-feasibility stage, securing permits, securing land rights and ownership, and planning water supply and power plans. This is not a story about your typical promoter touting project "X" before going on to another project "Y" in a different country. We believe there is an extra element here. This story is about a successful Namibian manager who is once again trying to advance a mine in his native country with government officials, colleagues and peers watching. We think he wants to make Twin Hills a financial and operational success for them and his country, as well as himself. We also like the contractors chosen to date including Lycopodium who we met with in Toronto last month and who is an expert in building process plants in Africa.

Simple Project with Solid Technical Work

This is a simple open pit free milling gold project with projected good recoveries, grid power with a solar supplement, a good climate, and access to excellent infrastructure. It is also close to the nearby town of Karibib that can be the source of a work force. Skills should be less of an issue than in many other parts of the world. In short, Lycopodium describes Twin Hills as a low technical risk project. Osino is going through all the right steps having completed the PEA, Pre-Feasibility, and now working on the Definitive Feasibility, all with respected world class contractors.

Jurisdiction

We believe that Namibia is one of the best and easiest countries to operate a mine in Africa. It has been stable and has excellent infrastructure. The speed at which B2Gold was able to develop Otjikoto and at which Osino has progressed and permitted Twin Hills are a testament to that. However, we need to note that the respondents to the Fraser Institute's most recent 2021 mining "Investment Attractiveness Index" don't seem to agree with us. While the survey puts Namibia in the top 25% of 84 jurisdictions in terms of certainty concerning environmental regulations and political stability, overall, it ranks Namibia 59 of 84 jurisdictions globally in terms of "investment attractiveness". Part of the reason is Namibia's relative lagging geological prospectivity to date. Another part may be that the royalty and income tax regime (4% and 37.5%, respectively), while we think fair, is more taxing than many other jurisdictions. The two negative comments on Namibia in the Fraser Survey don't make sense to us based on B2Gold and Osino's experience in the country.

Valuation Timing and Upside

Osino is currently trading just under Cdn $1.04 with a market cap of just under $130mn with no net debt. Our NAV (= our after tax DCF at 5% and $1700 gold) is $330mn giving Osino a price to NAV ratio of (130/330) or 0.39. As discussed, our NAV is more conservative than the $500mn after tax NAV in Osino's Pre-Feasibility Study. Each $100 change in gold prices changes our DCF by just under $100mn or about Cdn $0.80 per share. So at $1400 our DCF would be only slightly positive. Conversely at $2000 (i.e., current spot) gold prices our NAV would be about $630mn. Gold development stocks are currently trading around .4 X NAV, slightly above where Osino is trading.

Although we model about 15% more reserves than currently exist, we think that there is a lot more exploration upside in the Twin Hills area that could add to our NAV over time. There is also very good exploration potential in Osino's large exploration Namibian land position outside of Twin Hills. Osino also owns the Ondundu gold deposit that it purchased from B2Gold that has roughly a one-million-ounce maiden inferred resource. Management is excited about prospects north of Ondundu as well (see Figure 2). Finally, Osino is in a joint venture with a lithium explorer who is farming into one of Osino's properties. We give no value to these non-Twin Hills assets but they clearly provide upside.

Timing

We see two scenarios in the next six months. The Twin Hills Definitive Feasibility Study is expected to be completed by the end of June. We are optimistic that the project will get financed although we would expect lending terms to be expensive given this is a single asset non-operating company. Shortly after the Definitive Feasibility announcement we expect lending announcements. We also expect a gold royalty company to make an offer for a stream on future production. We expect these offers to cover most of the roughly $400mn needed to build the mine. From that point, there are two main scenarios.

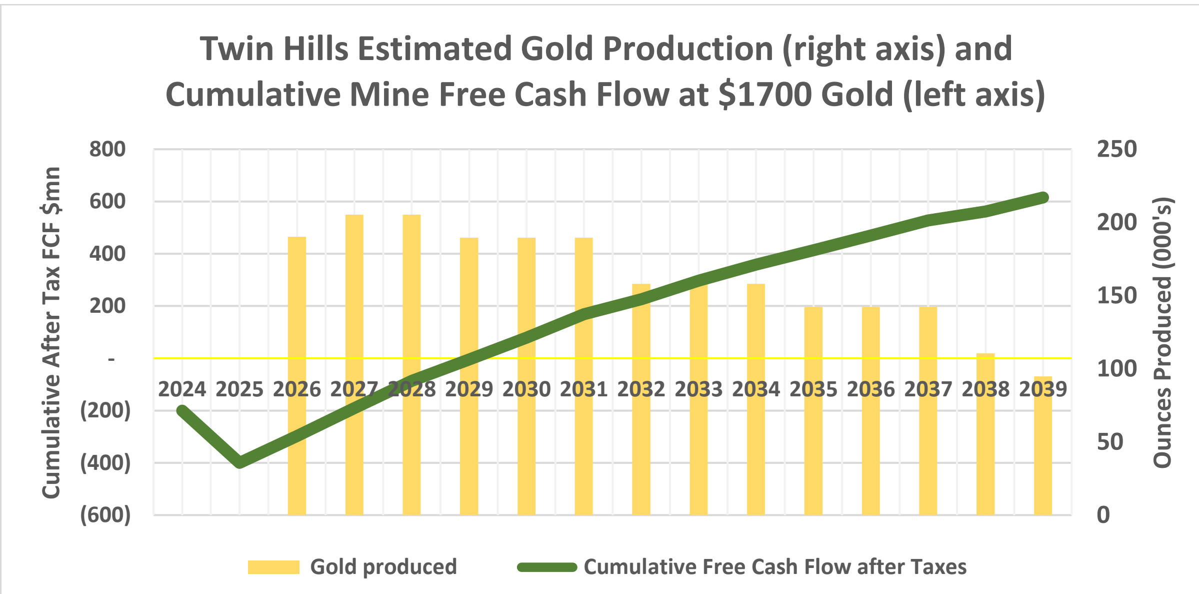
The first and, as discussed, more expected scenario would be that there is no M&A event and that Osino goes on to build the mine by itself. We would expect Osino to agree to two or three of the expected offered financings (including possibly a royalty stream) and issue some equity (as discussed above). In this case we and other investors may have to wait until the mine is built and up and running to realize appreciation. However, assuming gold prices remain at robust above $1700 levels and Osino executes well, we think the share price could more than double from current levels as 1) the increasing of the NAV multiple from the current .39 to something approaching .7; and 2) the NAV grew with exploration success. However, as discussed, in going alone there is the risk that something goes wrong during construction and ramp up that causes a liquidity issue distressing the share price.

The second scenario is that there is attractive corporate M&A interest. If there is, there will likely be motivation by any financially strong acquirer to make a bid before Osino signs any lending or royalty deals viewed by the acquirer as expensive and/or onerous. In an M&A situation, we would be surprised if Osino was not bought out by an amount more than .6 times our $330mn NAV at $1700 gold price or ($330mn X .6 =) $198mn. Per share that would be $198/170 mn(ish) fully diluted shares = $1.16 share /.7425 = Cdn$1.56. That is 50% upside from the current Cdn $1.04 share price. If we raised the NAV gold price assumption $100 to $1800 our NAV would increase Cdn $0.46 per share ((i.e. Cdn $0.80/share (see valuation section above) x .6).

Our Forecasts

The graph below summarizes our gold production and cumulative free cash flow estimates for the Twin Hills Project. We have assumed reserves will grow by about 15%. However, we have bumped up the operating costs to make them, rightly or wrongly, more similar to B2Gold's Otjikoto's per tonne mining and processing costs. Twin Hill's mining costs should be higher than Otjikoto's as the latter's mining is owner operated and thus mining costs exclude an equipment lease portion. Also, according to technical report data Twin Hills' ore is harder. On the other hand, Twin Hills has a larger 5mn tpa process plant versus 3.5mn tpa plant for Otjikoto so there should be some efficiencies of scale. We have increased life of mine sustaining capex estimates relative to what is in the pre-feasibility by $110mn and added a small amount for exploration expense to delineate additional reserves. As discussed, our NAV (DCF at 5% and $1700 gold) is $330mn. We will adjust our model after the Definitive Feasibility is released.

Figure 5: Twin Hills Estimated Gold Production and Cumulative Mine Free Cash Flow



Source: Rossport Investments. Our model assumes a full start in January 2026 after a two-year build. At $1700 gold our model has about a 4-year payback. At current $2000 gold prices the payback is just over 3 years.

Osino has adequate funds to see through the completion of its Definitive Feasibility. It will likely need funding later in the year but that could come in the form of project financing. We hope to visit the site in the next two months and aim to provide a short update after the Definitive Feasibility is released.

Rossport Investments LLC specializes in the metals and mining sector. If you would like more information on our work and views, please contact Daniel McConvey at (212) 837-7791 or by email at daniel.mcconvey@rossport.com.

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