

Recommendation: Buy
Target Price: C\$22.50

Osisko Gold Royalties Ltd. (OR-TSX)

A Bold Move To Join The Big League

Current Price	C\$16.35	Shares Outstanding (MM)	
52 Wk High	C\$18.64	Basic**	156.4
52 Wk Low	C\$11.90	Diluted**	170.6
Cash (MM)**	C\$100.0	Mgmt. & Dir.	1.9
LT Debt (MM)**	C\$200.0	Market Cap.	C\$2,556.4
NAV*	C\$12.25	EV	C\$2,656.4
P/NAV*	1.33x		
NAV (spot)*	C\$12.70	Dividend Yield	0.98%
P/NAV (spot)*	1.29x	Target Return	37.6%

Fiscal YE Dec. 31		2016A	2017E	2018E
Gold Sales** (000 oz)	Q1	9.5	10.4 A	21.7
	Q2	9.6	14.1	21.7
	Q3	10.0	20.4	22.1
	Q4	9.0	20.4	22.4
	FY	38.1	65.4	87.9
EPS, adj.**	Q1	C\$0.09	C\$0.06 A	C\$0.10
	Q2	C\$0.02	C\$0.06	C\$0.10
	Q3	C\$0.07	C\$0.08	C\$0.10
	Q4	C\$0.07	C\$0.08	C\$0.10
	FY	C\$0.25	C\$0.29	C\$0.39
CFPS, adj.**	Q1	C\$0.14	C\$0.12 A	C\$0.14
	Q2	C\$0.12	C\$0.12	C\$0.14
	Q3	C\$0.15	C\$0.15	C\$0.15
	Q4	C\$0.11	C\$0.15	C\$0.15
	FY	C\$0.52	C\$0.54	C\$0.59
EV/CF		32.8x	31.5x	28.9x

* Cormark deck is \$1,250/oz; spot gold is \$1,280/oz

** Estimates are shown proforma of Orion transaction

Company Description:

Osisko Gold Royalties is a gold royalty company that owns a 5% NSR on the Canadian Malartic mine in Quebec and a 2.0-3.5% NSR on the Éléonore mine in Quebec. Longer-term upside could come from the large and growing portfolio of royalties and investments on various projects in Canada.

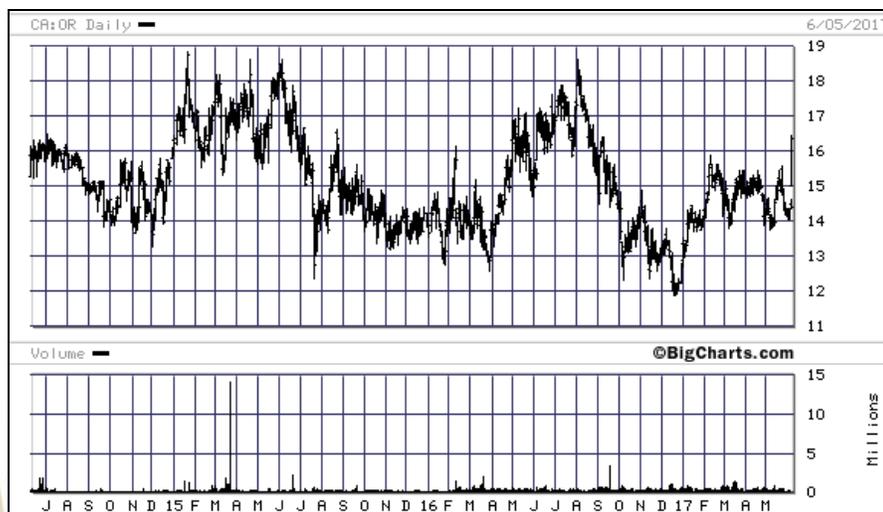
Unless otherwise denoted, all figures shown in US\$

Investment Thesis:

Osisko Gold Royalties is a gold focused royalty company that has a 5% NSR on the Canadian Malartic mine and a 2.0-3.5% NSR on the Éléonore mine, both in Quebec, as well as a growing portfolio of smaller producing and exploration stage royalties.

Highlights:

- Orion Portfolio Acquisition A Bold Move**
 We view the C\$1.125 BB purchase of the Orion portfolio as a bold acquisition by the Osisko Management team to use its strong balance sheet to vault the company into the upper tier of precious metals royalty companies. The transaction lifts the company to a market capitalization that can compete for the capital pools currently flowing to the larger royalty and streaming companies in the gold sector.
- Larger Platform Should Drive A Rerate; Upgrade To Buy Rating**
 While the transaction is accretive to cash flow and slightly negative to NAV, we believe the increased size and scale of Osisko's platform should result in a rerate on the multiples ascribed to Osisko. We are increasing our target price to C\$22.50 (from C\$17.50) on the back of our updated estimates and an increase in our target multiples to 2.5x NAV and 25x EV/CF (from 2.0x and 20x previously), bringing Osisko closer to the multiples ascribed to its senior royalty/streaming peers. We are upgrading Osisko to Buy (from Market Perform) and believe it should be a core holding for investors looking for high quality, safe exposure to the gold sector.



Source: BigCharts.com, June 5, 2017 (Chart C\$)

Bold, Transformational Deal By Osisko: We view this as a bold acquisition by the Osisko Management team to use its strong balance sheet to vault Osisko Gold Royalties into the upper tier of precious metals royalty companies. At first pass the transaction appears accretive on cash flow and slightly negative on NAV, but just as importantly, lifts the company to a market capitalization that can compete for the capital pools currently flowing to Franco Nevada (FNV-TSX; not rated), Wheaton Precious Metals (WPM-TSX; not rated) and Royal Gold (RGLD-NASDAQ; not rated). We expect this transaction should result in a rerate on Osisko's multiples that currently stand at 1.33x NAV and 28.9x EV/CF.

Details Of The Transaction: The purchase of the Orion portfolio is for total consideration of C\$1.125 BB and consists of the following:

- C\$675 MM in cash that includes C\$250 MM from existing cash reserves (was C\$424 MM at the end of Q1/17), C\$150 MM from credit facility and a C\$275 MM private placement (at C\$14.56 per share) from CDPQ (C\$200 MM) and FTQ (C\$75 MM).
- Approximately 30.9 MM shares of Osisko to be issued to Orion at a price of C\$14.56 per share (aggregate value of C\$450 MM).
- Following the Transaction, Orion, CDPQ and FTQ will hold respectively 19.7%, 12.7%, and 5.5% of Osisko.
- Any sale of the Orion Shares will be subject to certain restrictions, including a 12-month hold period and a broad distribution requirement.
- The transaction effective date is June 1, 2017, and closing expected by the end of July 2017.
- The issuance of the shares to Orion for the private placement is subject to approval by a simple majority of Osisko's shareholders at a special meeting to be held in July 2017.
- Osisko's pro forma balance sheet will remain strong with approximately C\$100 MM in cash, over C\$450 MM in investments and C\$200 MM in debt.

Highlights Of The Orion Portfolio: Osisko is acquiring 74 assets, including 61 royalties, 7 offtakes and 6 streams (see Figure 1). The three cornerstone assets included in the transaction are the 9.6% stream from Stornoway Diamond's (SWY-TSX; not rated) Renard diamond mine, a 100% silver stream from the Mantos Blancos copper mine (private) and a 4% gold/silver stream on ♦Pretium Resources' (PVG-TSX; Buy rating, C\$21.00 target) Brucejack mine (subject to buyback; details below). These cornerstone assets join the 5% NSR royalty at the Canadian Malartic mine and the 2.0-3.5% NSR royalty on the Éléonore gold mine to form a world-class portfolio of assets for the pro forma Osisko Gold Royalties.

- **Renard Stream:** Renard is a rare, new producing diamond mine located in Québec, Canada, operated by Stornoway Diamond Corp. The mine is currently ramping up and is expected to produce on average 1.6 MM carats/year over a 14-year mine life, with potential upside from the recovery of large diamonds. Under the Renard stream, Osisko will receive 9.6% of diamond production and will pay an ongoing transfer price of \$50/carats. La Caisse currently owns a separate 4% diamond stream on the Renard mine.
- **Mantos Blancos Silver Stream:** Mantos Blancos is a large, producing copper mine located in Antofagasta, Chile, operated by Mantos Copper S.A. (a private mining company). The mine has a long history of operations (most recently developed and operated by Anglo American) and is expected to produce an average of 600,000 oz/yr of silver over 2017-20 and an average of 1.0 MMoz/yr silver over the remainder of its estimated 13-year mine life. Under the stream agreement, Osisko will receive 100% of payable silver from Mantos Blancos until 19.3 MMoz of silver have been produced at the mine, after which the stream percentage will be 30% of payable silver.

♦ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for Pretium Resources Inc

Osisko will pay an ongoing transfer payment of 25% of the prevailing spot price of silver. The project is currently undergoing a \$70M expansion as the mine transitions from oxides to the deeper, higher-grade sulphides. There is a 50% buydown option exercisable in 2020, 2021, or 2022 for \$70M.

- Brucejack Gold & Silver Stream:** Brucejack is the high-grade gold mine located in BC operated by Pretium that is currently in the commissioning phase and is expected to achieve commercial production in H2/17. Under the stream agreement, Osisko will receive 4% of gold and silver production until 7.067 MMoz gold and 26.297 MMoz silver have been produced from the mine, subject to a \$400/oz and \$4.00/oz ongoing transfer payment for gold and silver, respectively. However, the Brucejack stream agreement is subject to certain buyback rights held by Pretium, the most likely being a full buyback at December 2018 for proceeds to Osisko of \$119 MM. This is the scenario we assume in our Pretium estimates and the scenario Osisko has assumed in its projections as well (equates to a return of 14% on the purchase price). Osisko will also receive a 50% offtake of gold and silver from Brucejack that represents an effective 0.9% NSR. It is also worth noting that in the event of a change of control at Pretium or the sale of Brucejack prior to the earlier of Pretium's repurchase of the stream or January 1, 2020, Pretium can repurchase the stream and Osisko can sell the stream to Pretium for consideration equal to the greater of 13.6% of the consideration received by Pretium or an amount of cash that generates a 15% rate of return on the \$150M stream payment (\$75M attributable)

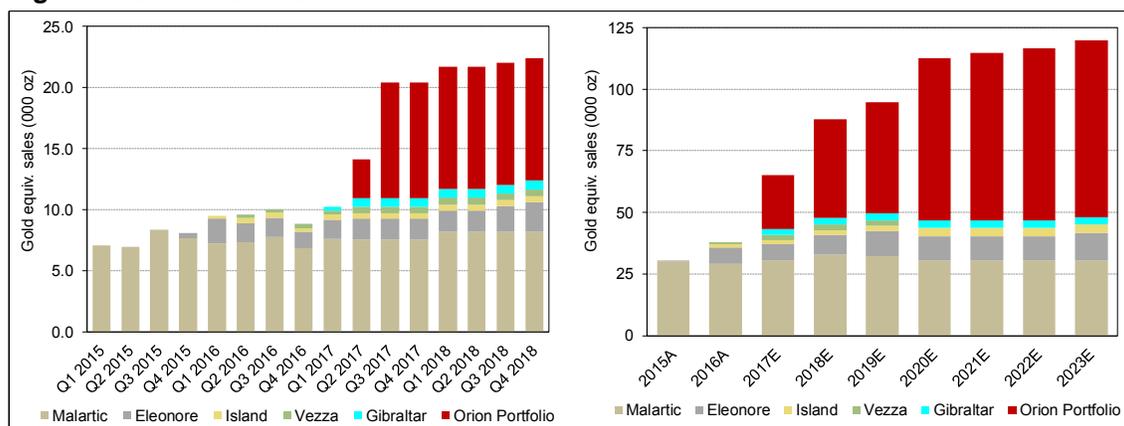
Figure 1: Orion Royalty/Stream/Offtake Portfolio

Streams	Company			
Renard	Stornoway	9.6% Diamond Stream	Production	Canada
Mantos	Mantos Copper (priv)	100% Ag Stream	Production	Chile
Brucejack	Pretium	4% Au, 4% Ag Streams	Commissioning	Canada
Amulsar	Lydian	4.22% Au, 62.5% Ag Stream	Construction	Armenia
SASA	Lynx Resources (priv)	100% Ag Stream	Production	Macedonia
Back Forty	Aquila Resources	75% Ag Stream	Development	USA
Royalties				
Seabee	Silver Standard	3% Au NSR	Production	Canada
Bald Mountain	Kinross	1-4% Au GSR	Production	USA
Kwale	Base Resources	1.5% Titanium GRR	Production	Kenya
Brauna	Lipari Mineracao	1% Diamond GRR	Production	Brazil
Casino	Western Copper & Gold	2.75% Au-Cu-Mo NSR	Development	Canada
Ollachea	Minera IRL	1% Au NSR	Development	Peru
Spring Valley	Waterton (Private)	0.5% Au NSR	Development	USA
Offtakes				
Brucejack	Pretium	50% Au Offtake	Commissioning	Canada
Amulsar	Lydian	81.9% Au Offtake	Construction	Armenia
Nimbus	MacPhersons Resources	100% Au-Ag Offtake	Development	Australia
Parral	GoGold Resources	100% Au-Ag Offtake	Production	Mexico
San Ramon	Red Eagle Mining	51% Au Offtake	Production	Colombia
Matilda	Blackham Resources	55% Au Offtake	Production	Australia
Yenipazar	Aldridge Minerals	50% Au Offtake	Development	Turkey

Source: Company reports

Impact Of Acquisition On Gold Sales: The addition of these assets will increase our forecast gold sales attributable to Osisko to 88,000 oz AuEq in 2018 and 120,000 oz AuEq by 2023 (see Figure 2). This compares well with the 100,000 oz AuEq in 2018 and the 140,000 oz AuEq in 2023 that were projected by Osisko. Our assumptions are based on our existing models for Seabee and Bald Mountain and a combination of forecasts in the public domain and Osisko's projections for all other producing streams and royalties. As previously mentioned, we assume Pretium buys back the stream at Brucejack in 2018, so we do not include the Brucejack stream in our estimates.

Figure 2: Osisko Gold Sales Forecast



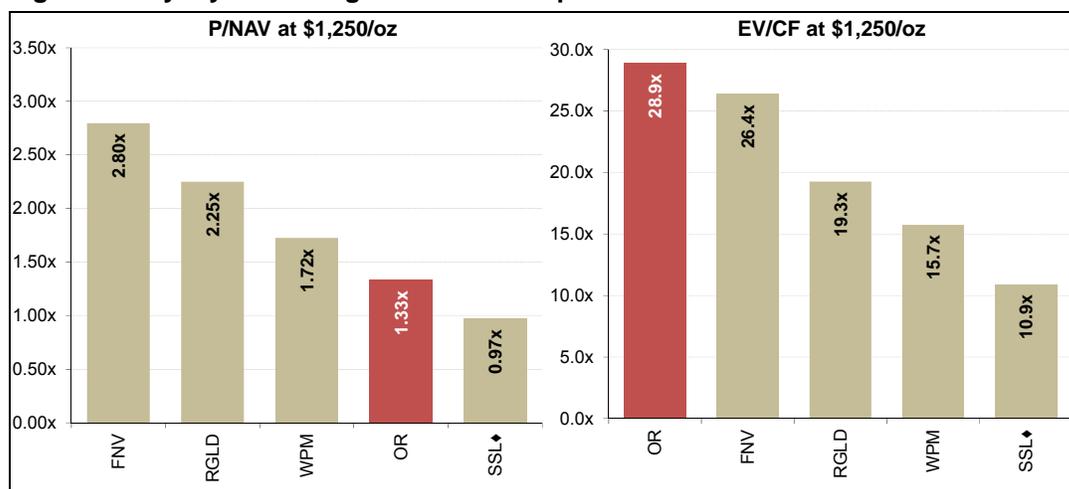
Source: Company reports, Cormark Securities Inc.

Accretive To Cash Flow: We expect the transaction will be immediately accretive to cash flow as it increases our 2017 CFPS by 15% (to C\$0.54 from C\$0.47), our 2018 CFPS by 23% (to C\$0.59 from C\$0.48) and our 2020 CFPS by 61% (to C\$0.74 from C\$0.46). This is consistent with Osisko's claim that the transaction "increases shares outstanding by less than 50% but doubles immediate cash flow".

Slightly Negative To NAV: We have compiled an abbreviated mine model for the Orion portfolio and arrive at an NAV of C\$930 MM using a gold price of \$1,250/oz. Based on this estimate, Osisko paid approximately 1.21x NAV for the assets. Incorporating the Orion portfolio into our Osisko model, as well as the shares issued to Orion and as part of the private placement, yields a pro forma NAV of C12.25 per share, a 3% decrease over our previous NAV.

Larger Platform Should Drive A Rerate; Upgrade To Buy Rating: While the transaction is accretive to cash flow and slightly negative to NAV, we believe the increased size and scale of Osisko's platform should enhance its competitive positioning and access to capital. This should result in a rerate on the multiples ascribed to Osisko. We are increasing our target price to C\$22.50 (from C\$17.50) on the back of our updated estimates and an increase in our target multiples to 2.5x NAV and 25x EV/CF (from 2.0x and 20x previously), bringing Osisko closer to the multiples ascribed to its senior royalty/streaming peers (see Figure 3). We are upgrading Osisko to Buy (from Market Perform) and believe it should be a core holding for investors looking for high quality, safe exposure to the gold sector.

Figure 3: Royalty/Streaming Valuation Multiples



FNV, WPM and RGLD NAV and CF based on consensus estimates

Source: Cormark Securities Inc., Bloomberg

We, Richard Gray and Andrew Khov, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company(ies) and its (their) securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for Sandstorm Gold Ltd

Our disclosure statements are located on the second last page of this report

Osisko Gold Royalties Ltd.

Updated June 05, 2017

Price Chart and Disclosure Statement

*Information updated monthly on or about the 5th of each month.



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<i>Market Perform</i>	16%	<i>Market Perform</i>	24%
<i>Reduce</i>	1%	<i>Reduce</i>	33%
<i>Not Rated</i>	19%		

Recommendation / Target Chg	Date	C\$
08-May-17	17.50 (MP)	
19-Apr-17	19.00 (MP)	
17-Mar-17	17.50 (MP)	
13-Jan-17	16.50 (MP)	
11-Nov-16	17.50 (MP)	
14-Jul-16	18.25 (MP)	
06-May-16	17.00 (MP)	
11-Apr-16	14.75 (MP)	
06-Nov-15	16.50 (MP)	
07-Aug-15	16.00 (MP)	
19-May-15	19.00 (MP)	
20-Feb-15	17.75 (MP)	
09-Jan-15	17.00 (MP)	
07-Nov-14	17.25 (B)	
08-Sep-14	17.25 (MP)	
26-Jun-14	16.00 (MP)	

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2) What type of security is it?

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Pretium Resources Inc.

Updated June 05, 2017

Price Chart and Disclosure Statement

*Information updated monthly on or about the 5th of each month.



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	13-Jan-17	20.00 (B)
	16-Dec-16	22.00 (B)
	14-Jul-16	20.00 (B)
	11-Apr-16	15.00 (B)
	11-Jan-16	14.00 (B)
	12-Nov-15	15.00 (B)
	17-Sep-15	12.50 (B)
	09-Jan-15	13.25 (B)
	08-Sep-14	14.00 (B)
	23-Jun-14	13.00 (B)

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If YES

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