

ORION MINERALS GROUP LIMITED
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NZX Limited
WELLINGTON

Pre-Break Announcement for a proposed change of the essential nature of the business of Orion Minerals Group Limited

This announcement is a “Pre-Break Announcement” made in accordance with NZAX Listing Rule 10.2.

Orion Minerals Group Limited (“OMG”) is currently an investment company whose principal asset is approximately USD\$8.1 million of cash reserves.

OMG has been investigating a number of potential business acquisition opportunities to invest in.

The Board of Directors of OMG has undertaken due diligence investigations in respect of the prospective development of a scrap metal operation in Geelong, Australia. Subject to the conditions contained in this announcement, OMG proposes to commence the operation of a scrap metal business in the immediate future (“Proposed Initiative”). The initial costs of the Proposed Initiative to OMG are anticipated to be approximately USD\$3.5 million.

Why is this Pre-Break Announcement being made?

The NZAX Listing Rules (NZAX Listing Rule 9.1.1) provide that an NZAX Issuer shall not enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of assets of that issuer, or assets to be held by that issuer:

- which would change the essential nature of the business of that issuer; or
- in respect of which the gross value is in excess of 50% of the average market capitalisation of OMG,

except with (i) the prior approval of an ordinary resolution of shareholders, or (ii) following a “pre-break announcement” and the satisfaction of the other requirements of NZAX Listing Rule 10.2.

Given OMG is currently a non-trading investment company, the undertaking of the Proposed Initiative would constitute a change in the essential nature of the business of OMG. In addition, the value of the combined transactions proposed to be undertaken in respect of the Proposed Initiative are expected to exceed 50% of the average market capitalisation of OMG during the course of the implementation of the Proposed Initiative. It is not anticipated however that any single transaction associated with the Proposed Initiative, nor the total value of capital deployed at any one time will exceed an amount greater than 50% of the value of the total assets of OMG.

Accordingly, before the Board can proceed to implement the Proposed Initiative, the provisions of NZAX Listing Rule 9.1.1 must be complied with.

The Board has elected to comply with Listing Rule 9.1.1 by following the “pre-break announcement” procedure, rather than by calling a special meeting of shareholders and obtaining the approval of the shareholders to the Proposed Initiative at that meeting. In terms of the “pre-break announcement” procedure, provided that no shareholders’ meeting is called by shareholders holding more than 5% of the shares in OMG within 10 business days of the date of this announcement, then OMG shall be entitled to implement the Proposed Initiative.

Principal commercial components of the Proposed Initiative

The key components of the Proposed Initiative are as follows:

- OMG will set up an Australian incorporated company to undertake the business operations in Australia (“OMG SubCo”). OMG SubCo will be a wholly owned subsidiary of OMG;
- OMG SubCo will enter into a lease arrangement (“Lease”) to lease a 4.5 hectare industrial site located in Geelong, Melbourne to operate the Proposed Initiative from. The leased premises are located approximately 9 km from the Geelong Port, Victoria's second largest port and premier regional gateway to shipping, import and export clients;
- It is anticipated that the annual rental for the Lease will be AUD\$195,000 per annum, plus operating expenses. The Lease will have an initial term of two years, with a further right of renewal of two years. The rental will be reviewed annually in accordance with the increase in the CPI index during the relevant period. OMG will be granted an option to acquire the leased premise at a market value during the renewed term of the Lease should OMG renew the Lease;
- Geelong Port is the largest regional port in Victoria and continues to experience stable trade growth. Clients are able to take advantage of a broad range of port, ship and wharf-side services, with multiple stevedoring businesses operating within Geelong Port;
- OMG SubCo will acquire the following specialised plant and equipment (“Plant and Equipment”) required to process, weigh and transport the scrap metal:
 - two Hydraulic material handlers;
 - two multi-time grabbers with side cutters;
 - two electromagnetic chucks;
 - two briquetting machines;
 - one forklift;
 - one weighbridge;
 - one cutting machine.
- It is anticipated that the capital costs of acquiring the Plant and Equipment will be approximately USD\$746,000;
- OMG SubCo will employ several key staff to operate the scrap metal facility. It is anticipated that two drivers, one administrator and one purchasing manager will be hired at the outset

of the Proposed Initiative. The annual aggregate salary costs for those new employees is budgeted as being approximately AUD\$410,000;

- OMG SubCo will aggregate scrap metal at its premises, sort the scrap into the various categories of scrap, and then ultimately market the scrap into the international scrap metal markets;
- It is anticipated that scrap metal will be sourced from Geelong scrap metal market and some of the surrounding Melbourne city scrap metal markets;
- Of critical importance to the success of the business is for the business to develop strong working relationships with scrap metal providers in the region;
- OMG SubCo will market and sell the scrap metal to the international markets, with a particular focus on the Chinese market, where the scrap metal market is particularly buoyant;
- The current intention is that the business operation will primarily be an aggregation business, rather than a processing business. It is anticipated that the scrap metal would ultimately be processed by the international buyers in their own jurisdiction;
- Geelong is a port city located on Corio Bay and the Barwon River, in the state of Victoria, Australia, 75 kilometres (47 mi) south-west of the state capital, Melbourne. It is the second most populated city in Victoria and the fifth most populated non-capital city in Australia. The urban area runs from the plains of Lara in the north to the rolling hills of Waurn Ponds to the south, with the bay to the east and hills to the west, an area with an estimated population of 160,891 people. It is the administrative centre for the City of Greater Geelong municipality which covers the urban and surrounding areas and is home to over 181,000 people.

Financial implications of the Proposed Initiative

The Board anticipates that the funds to be deployed in implementing the Proposed Initiative will be approximately USD\$3.5 million.

In the first six months of trading, OMG would aim to:

- acquire 30,000 tonnes of scrap metal from the local Melbourne/Geelong market. OMG has forecast an aggregate purchase price of AUD\$242 per tonne during this period. The actual cost price to OMG during this period is subject to variations in the prevailing price for scrap metal in the market at the time of acquisition;
- sell 28,000 tonnes of scrap metal internationally at a forecast sale price of AUD\$380 per tonne during this period. The actual sale price that OMG will achieve during this period is subject to variations in the prevailing price for scrap metal in the market at the time of the disposal;
- achieve a gross sales margin of approximately 30% on the sale of the scrap metal, before the deduction of the costs of sale and tax.

The Board considers that the above objectives are reasonably achievable, subject to the successful implementation of the Proposed Initiative, and the non-occurrence of the risk factors that are

delineated elsewhere in this pre-break announcement. The above financial information is not a guarantee that the Proposed Initiative will attain the above financial performance. Instead the information is provided to provide an indicative illustration as to how the financial model for the Proposed Initiative may work having regard to the current market for scrap metal. Any material adverse changes in the acquisition cost, sale price and operating expenses of the Proposed Initiative will have a negative impact upon the gross sales margin referred to above.

The Board considers that given OMG has yet to implement the Proposed Initiative, it is too early to provide any additional financial information, including the expected impact of the Proposed Initiative on OMG's financial statements.

Conditions Precedent to commencement of the Proposed Initiative

The principal commercial conditions that are required to be satisfied before OMG will commence the Proposed Initiative are as follows:

- OMG entering into a deed of lease for the proposed business premises on terms satisfactory to OMG;
- OMG obtaining all town planning consents required to operate the business operation from the leased premises. The primary consent required to be obtained is the planning permit for the permitted use to be issued by the City of Greater Geelong.

The Proposed Initiative is also subject to the expiry of the 10 business day Pre-Break Announcement period described in NZAX Listing Rule 10.2.1, and no special meeting of the shareholders of OMG being called pursuant to section 121 of the Companies Act 1993 ("Act"), within that 10 business day period.

Rationale for the Proposed Initiative

The Board of OMG has been seeking to identify a low capital cost initiative to invest in so as to maximise returns to OMG shareholders on OMG's capital resources.

The Board of OMG believe that this Proposed Initiative represents a very positive opportunity for OMG for the following reasons:

- The Proposed Initiative provides an opportunity for OMG to invest in, and develop a new business from the "ground up" without any requirement to deploy capital on acquiring goodwill, as would be the case if OMG were to acquire an existing business;
- OMG is not generating any significant income off its current capital other than via interest accruing on that capital, and any material positive changes in foreign currency exchange rates (when OMG has its funds held in US dollars);
- OMG is not currently utilising its capital efficiently, and believes that the Proposed Initiative will generate positive returns on its capital for shareholders – please refer to the section headed "Financial implications of the Proposed Initiative" above for information regarding the potential returns of the Proposed Initiative. The OMG Board believes that it is as yet too early to provide any guidance to shareholders and the market regarding the possible financial returns that may be generated from the Proposed Initiative in dollar terms given the early stage in the implementation of the Proposed Initiative;

- In the Board’s opinion, the scrap metal sector is a well performing sector internationally. The demand for scrap metal in Asia, and in particular China is well documented. The cost for scrap metal in Australia is moderately priced, and is sufficient, in the Board’s opinion, to afford OMG with a meaningful sales margin having regard to the current purchase and sale prices for scrap metal – please refer to the section headed “Financial implications of the Proposed Initiative” above for information regarding the potential sales margin that may be generated from the Proposed Initiative;
- In the Board’s view, Chinese steel mills will gradually increase the use of scrap steel to produce steel, as opposed to the processing of iron ore to satisfy the demands being placed on steel manufacturers as a consequence of adverse environmental issues and requirements. The basis for the Board’s opinion is as follows:
 - Steel scrap is a genuine substitute for iron ore, especially when iron ore is trading at expensive rates;
 - The State Council of China has developed a strategic plan to reduce the emission of pollution from steel mills in China. The time frame for the implementation of this plan is 5-10 years. The plan involves reducing the quantum of emissions from steel mills operating in China. Those steel mills that do not attain the reduced emissions levels set at a regional level will risk being shut down or levied with financial sanctions from the Chinese Government;
 - Given the processing of scrap metal involves the production of less pollution than the processing of iron ore, it is anticipated that many steel mills will move towards the processing of scrap metal as a core component of their production so as to reduce their pollution emissions, and therefore reduce the financial costs imposed on their businesses;
 - The Chinese Government is also working on a scheme to reduce the tariff applicable to scrap steel processing companies to make the processing of scrap metal more competitive with the processing of iron ore;
- In many developed countries, the ratio of scrap metal processed in those countries steel mills ranges anywhere from between 50-70% of steel processed through those mills. In China however, the ratio is only 10-15%. This low rate of scrap metal processing relates to the fact that scrap metal is in short supply in China, and this fact provides OMG with an opportunity to aggregate and sell scrap metal into the Chinese market;
- The Board believes that the business can also leverage off the scrap metal industry expertise that cornerstone shareholder Fengli Group has in China and throughout the Asia/Pacific region;
- The Board believes that OMG can develop the Proposed Initiative into a potentially cash flow positive and profitable business within a relatively short time frame – please refer to the section headed “Financial implications of the Proposed Initiative” above for information regarding the potential returns of the Proposed Initiative. Please also refer to the section below headed “Material Risks” which delineate the material risks associated with the Proposed Initiative which could have a material adverse effect on the financial performance on the Proposed Initiative;

- Having regard to the financial resources of OMG, the relatively low entry cost to develop the Proposed Initiative which are delineated above in the section headed “Principal commercial components of the Proposed Initiative”, and the business opportunity afforded to OMG with the Proposed Initiative, the Board believes that the Proposed Initiative represents a responsible development prospect in a solid well performing business sector, and presents a very positive opportunity for OMG and its shareholders

The Board of OMG have unanimously endorsed and approved this business development strategy. In addition, the Board has had discussions with two of OMG’s major shareholders, Fengli and Marvel Fantasy, who have both expressed their unqualified support for this initiative.

Due Diligence Investigations

The OMG Board has undertaken and completed its due diligence investigations in respect of the Proposed Initiative. Those due diligence investigations included:

- A member of the Board and representatives of OMG spending two weeks in Australia undertaking commercial due diligence investigations of the Proposed Initiative;
- Visiting a number of potential locations for the Proposed Initiative to be based;
- Assessing shipping costs from various locations in the greater Melbourne area to the port;
- Assessing the logistics of shipping scrap metal to and from various locations in Melbourne to international locations;
- An analysis of the supply chain logistics;
- An assessment of the Melbourne scrap metal market and the opportunities available;
- Retaining Australian lawyers and advisers to assist with these investigations.
- The preparation of a feasibility analysis of the costs of acquiring the scrap metal, processing the scrap metal, and the prospective sale price that could be achieved for the product;
- Developing a financial feasibility model for the Proposed Initiative.

Material risks

The future operational and financial performance of the Proposed Initiative may be affected by a number of risk factors which are set out below.

Availability of Materials – The ability for the Proposed Initiative succeed will in large depend upon the ability of OMG to secure the supply of scrap metal from the local Melbourne market. In the event that OMG is unable to secure sufficient volumes of scrap metal to process and re-sell in the international markets, this will have an adverse material effect on the business operations.

Competition in the market – The scrap metal market in Australia is a competitive sector. There are several large industry participants with whom OMG will be competing with to acquire scrap metal. The ability to secure scrap metal from the market will often depend upon the competitiveness of the

price that an acquirer is prepared to pay. Competition in the market may drive up the cost price of scrap metal to OMG. If this occurs it is possible that this will have a negative effect on the margin that OMG may generate on the sale of the scrap metal acquired if it is not able to pass on the increased cost price to its customers.

Fluctuations in scrap metal price – in general terms if OMG acquires scrap metal and sells that product in the same market, the risk of losing margin/profit is minimised. However, given that OMG plans to aggregate the acquisition of scrap metal over a period of time, say 2-3 months, before selling that scrap metal, there is a risk that the sale price that OMG can realise for the scrap metal may depreciate from the original price paid by OMG to acquire that scrap metal during that aggregation period. If this were to occur there is a risk that OMG's profit margin on the sale of that product may be reduced or lost.

Debtor Risk - OMG will sell the scrap metal to a number of international customers, sometimes against deferred payment. There is always a risk that one or more of OMG's customers may default on the payment of the purchase price and be unable to pay the purchase price to OMG. In the event that a significant payment of the purchase price for products supplied was unable to be recovered by OMG, this event may have a material adverse effect on OMG. OMG will seek to mitigate this risk by shipping product against irrevocable letter of credit letters issued by the purchaser's bank.

Economic Downturn – OMG will be exposed to the risk of a down turn in the economic markets generally. A downturn in the international economic markets may affect OMG's potential customers' ability or willingness to purchase scrap metal from OMG.

Reliance on certain suppliers of Scrap Metal – it is likely that OMG will seek to secure mid to long term relationships with key suppliers of scrap metal in Melbourne. There is a risk that OMG could become reliant on the continued supply of scrap metal from those counterparties. In the event that those supplier counterparties elected to sell their product to OMG's competitors, or ceased carrying out business, this could have a material adverse effect on the financial performance of the business.

Exchange Rates – It is anticipated that the majority, if not all, of OMG's scrap metal will be sold outside of Australia. Consequently, if the Australian dollar appreciates against the currency in which the scrap metal is sold in then that may impact upon the profit margin ultimately derived by OMG.

Currently, the functional currency of OMG is United States dollars. If the USD appreciates against the Australian dollar that may impact adversely on the United States dollar profitability that OMG accounts for in its financial statements.

Unsuccessful marketing of product - It is possible that OMG's initiatives to market its scrap metal in international markets could fail or not produce the volumes of sales anticipated. This would have an adverse impact on the financial position and performance of OMG.

Logistics – OMG will be reliant on third parties to deliver its scrap metal to its customers around the world. Industrial relations at seaports and airports are traditionally volatile. There is a risk that delivery of its products may be delayed by reason of industrial dispute or other factors affecting the transport arrangements. This may affect OMG's ability to deliver scrap metal to customers which may adversely affect business and earnings.

Lease – The leased premises for the business are of strategic importance for OMG, given their proximity to the city and the port. In the event that the lease is terminated or expires this would prevent OMG from operating its business from these premises. The lease has an initial term of two years, with a right of renewal for a further two years. In addition, OMG has the right to acquire the leased premises which mitigates in part this risk.

Directors Certificate

No directors of OMG are interested in the Proposed Initiative.

Each of the directors of OMG certify that the terms of the Proposed Initiative are fair and reasonable to the shareholders of OMG and in the best interests of the shareholders of OMG.

Effect of the Proposed Initiative

In the event that commercial conditions and the pre-break announcement conditions are satisfied, then the Board will proceed to implement the Proposed Initiative as outlined above.

Once the Proposed Initiative has been implemented, then OMG will via OMG SubCo undertake the operating of a scrap metal aggregation, sales and marketing business. This development will represent a material change in the essential nature of the business of OMG. OMG is currently a non-trading entity with cash reserves whose principal income derives from the interest accrued on those funds, and any foreign currency gains or losses relating to those funds, depending upon which currency those funds are denominated in. As a consequence of the proposed change in OMG's business model, OMG's risk profile will change also. Going forward:

- OMG will, via OMG SubCo, have an exposure to the international scrap metal market. Material changes in that market may have a corresponding material impact upon the performance of the scrap metal operations owned by OMG, and may impact upon the financial returns which OMG will ultimately derive from those operations;
- At this stage, OMG has no plans to deploy the balance of its cash reserves, and these funds will continue to be held in an interest bearing bank account;
- OMG will continue to assess any other business opportunities that arise post the completion of the implementation of the Proposed Initiative.

Ability of Shareholders to Requisition a Shareholders Meeting

Pursuant to the Pre-Break Disclosure regime comprised within NZAX Listing Rule 10.2, and section 121(b) of the Companies Act 1993, a special meeting of shareholders must be called by the Board on the written request of shareholders holding shares carrying together not less than 5% of the voting rights entitled to be exercised on the issue.

The contact details for OMG for the acceptance of a "written request" under section 121(b) of the Companies Act 1993 is:

The Board of Directors
PO Box 105 745
Auckland 1143

Yours sincerely
ORION MINERALS GROUP LIMITED



Roger Gower
Chairman of Directors



Richard Shi
Director



Ping Li
Director



Sean Joyce
Director



Yanyi Shi
Director