

18 April 2016

Talisman Mining Limited (TLM)

BUY

Share Price: **A\$0.42**

Monty Resource

Target Price: **A\$0.65**

A conservative maiden resource estimate for Monty (of 1Mt at +9% copper), highlights our underlying thesis that this is an exceptional copper discovery proximal to an existing plant. We continue to see upside from further work (i.e. at depth and along strike) and in our view this validates our conceptual mining scenario of circa 30ktpa of copper and 8koz of gold at ~US\$1.10/lb. On a value per ton basis at >US\$500/t of insitu ore Monty is the highest grade Australian copper asset by a margin. Further, at double the current DeGrussa copper head grade an accelerated development makes sense, given its ability to enhance Sandfire's production profile. TLM is well funded with A\$22M of cash on hand and whilst recent management changes were unexpected, it's a favourable market for the Board to attract an experienced CEO. We maintain our BUY rating and A\$0.65/share target price.

Monty Maiden Resource

- A maiden Monty resource estimate comprises 1.05Mt at a grade of 9.4% copper and 1.6g/t gold.
- This compares to our estimate of an ultimate mining inventory of 1.2Mt at 10% copper and 1.4g/t gold.
- Contained copper is 99kt (vs. Petra 120kt) and 54koz of gold (in line). Noting a 1% cut-off for the resource.
- The massive sulphide "core" contains the majority of metal - 0.8Mt at 12.1% copper and 2.1g/t gold.
- Significantly 99% of the resource is in the indicated category due to the 30x40m drill spacing.
- Only 4 drill holes reflect the high grade bornite zone and the resource "limits the extent of this material".

What's next for Monty

- SFR is processing DeGrussa ore at 4.7% copper, therefore fast tracking Monty at +9% makes sense.
- High level studies have commenced which we would expect to lead into a feasibility study by late 2016.
- The deposit hasn't been closed off and ongoing exploration will focus on the nearby potential.

Conceptual mining scenario

- Our conceptual mining scenario detailed in our Jan-16 initiation is validated by the maiden resource.
- We assume Monty could produce +30ktpa of copper and +8kozpa of gold at an AISC of ~US\$1.10/lb.
- 10km from DeGrussa, a ~A\$70M development (TLM A\$21M) could potentially commence by late 2017.
- Following the recent A\$16.7M equity raising TLM is now well placed to meet future commitments.

Company Data

Shares – ordinary	186M
Market cap.	\$78M
12 month low/high (\$)	A\$0.13 / A\$0.79
Average monthly turnover / volume	A\$3M / 7M
GICS Industry	Materials

Financial Summary

Year end June	2015A	2016F	2017F	2018F	2019F
Revenue (\$M)	0	0	0	73	102
Costs (\$M)	-10	-6	-3	-29	-39
EBITDA (\$M)	-10	-6	-3	44	64
NPAT (\$M)	-7	-5	-2	23	36
EPS (¢ps)	-5	-3	-1	12	19
PER (x)	N.M	N.M	N.M	3.3	2.1
Cashflow (\$M)	-1	-1	-1	41	49
CFPS (¢ps)	-1	-1	-1	22	27
PCFPS (x)	N.M	N.M	-55	2	2
Enterprise Value (\$M)	77	54	79	52	13
EV / EBITDA (x)	N.M	N.M	N.M	1.2	0.2
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0

TLM – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. In March 2016, Petra Capital was joint lead manager of 37,139,975 shares at \$0.45/share to raise \$16.7M, for which Petra Capital received a fee.

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Analysis

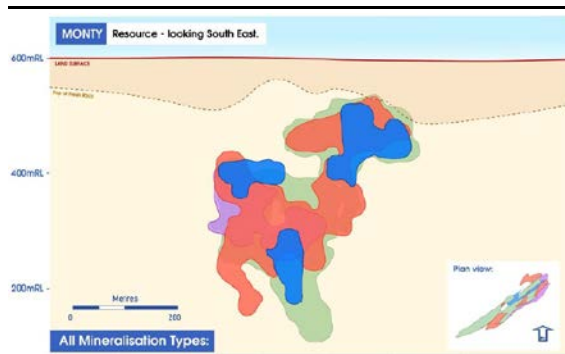
PETRA CAPITAL Talisman Mining (TLM)											
P&L (A\$M)					Analyst: David Radclyffe & David Cotterell						
Revenues	FY15A	FY16F	FY17F	FY18F	FY19F	Rating	BUY	TSR	55%		
Operating Costs	-2	-2	-3	-29	-39	Target Price (A\$)	0.65				
Other	-8	-3	0	0	0	Price (A\$)	0.42	Price (US\$)	0.32		
EBITDA	-10	-6	-3	44	64	NPV (A\$)	0.61	NPV (US\$)	0.47		
D&A	0	0	0	-10	-13	Shares (M)	186				
EBIT	-10	-6	-3	34	51	Mcap (A\$M)	78	Mcap (US\$M)	60		
Net Interest	0	0	0	-1	0	EV (A\$M)	73	EV (US\$M)	56		
Taxes	3	0	1	-10	-15	Year End	June	Discount Rate	10%		
Adjustments	0	0	0	0	0						
Net Profit	-7	-5	-2	23	36						
EPS (¢)	-5	-3	-1	12	19						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)					Assumptions						
Receipts	0	0	0	73	102	Gold (US\$/oz)	1,223	1,152	1,225	1,275	1,300
Payments	-1	-2	-3	-29	-39	Gold (A\$/oz)	1463	1596	1713	1809	1871
Net Interest	0	0	0	-1	0	Silver (US\$/oz)	17	15	17	19	20
Taxes	0	0	1	-2	-15	Copper (US\$/lb)	2.89	2.23	2.50	2.78	2.95
Other	0	0	1	0	0	AUD/USD	0.84	0.72	0.72	0.71	0.70
Operating Cash Flows	-1	-1	-1	41	49	Key Ratios					
Capex	-9	0	-15	-11	-6	PE (x)	N.M	N.M	N.M	3.4	2.2
Disposals	0	0	0	0	0	EV/EBITDA (x)	N.M	N.M	N.M	1.2	0.2
Exploration	-2	-5	-8	-4	-4	EPS Growth (%)	>100	-37.9	-66.9	<-100	54.3
Other	0	0	0	0	0	ROE (%)	-17.6	-8.6	-3.6	25.8	28.2
Investing Cash Flows	-10	-5	-23	-15	-10	Net Debt to Equity (%)	-12.3	-37.3	4.4	-26.9	-50.2
Change in Borrowings	0	0	15	-7	-7	Net Debt to EBITDA (x)	0.5	3.9	-0.9	-0.6	-1.0
Dividends	0	0	0	0	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Equity	0	23	0	0	0	FCF Yield (%)	-20.3	-8.3	-31.2	34.1	50.5
Other	0	0	0	0	0						
Financing Cash Flows	0	23	15	-7	-7						
Balance Sheet (A\$M)					Production & Costs						
Cash	5	22	12	32	64	Monty Production (100%)					
Receivables	0	0	0	4	5	Monty Copper (kt)	0	0	0	27,300	36,400
Inventories	0	0	0	6	8	Monty Gold (koz)	0	0	0	6,077	8,103
Other	0	0	0	0	0	Eqv. Copper Production (kt)	0	0	0	28,552	38,020
Current Assets	5	22	12	42	78	Cash Costs (US\$/lb)					
Receivables	0	0	0	0	0	By Product	0.00	0.00	0.00	0.97	0.96
Investments	0	0	0	0	0	AISC	0.00	0.00	0.00	1.15	1.14
Property, Plant and Equipment	3	3	18	19	12	Resources (Contained Cu, Mt)	0.0				
Intangibles	40	42	49	53	56	Reserves (Contained Cu, Mt)	0.0				
Other	0	0	0	0	0	EBITDA (A\$M)					
Non Current Assets	43	45	67	72	68	Doolgunna JV	0	0	0	46	66
Total Assets	48	67	80	113	146	Sinclair	0	0	0	0	0
Borrowings	0	0	0	0	0	Corporate & Other	-2	-2	-3	-2	-2
Payables	0	0	0	7	10	NPV*					
Provisions	0	0	0	0	0	(A\$M)		Per Share			
Other	0	0	0	0	0	Monty (30%)	79			\$0.42	
Current Liabilities	0	0	0	7	10	Doolgunna JV (30%)	10			\$0.05	
Payables						Sinclair (100%)	8			\$0.04	
Borrowings	0	0	15	8	1	Exploration	1			\$0.00	
Provisions	8	8	8	8	8	Corporate and other	-6			-\$0.04	
Other	0	0	0	0	0	Net Cash*	22			\$0.12	
Non Current Liabilities	8	8	23	16	9	Total	113			\$0.61	
Total Liabilities	9	8	23	24	19	* Includes placement proceeds					
Total Equity	40	59	56	90	126						

Source: Petra Capital

Maiden Resource at Monty

- Maiden resource appears a conservative / high quality estimate, with a 1% copper cut-off (very high) and limited interpreted extent of the high grade bornite zone at this stage.
- Significantly, the deposit remains open and with the majority in an indicated status (40x30m drill spacing) it bodes well for future conversion to reserves.
- We continue to see our estimate of an ultimate mining inventory of circa 1.2Mt at 10% copper and 1.4g/t gold as a reasonable basis for the potential of Monty.
- Broadly, applying dilution factors to the Massive sulphide resource yields a tonnage within ~20%, similar copper grades and better gold grades.

Figure 1: Monty Resource Long Section



Source: TLM/SFR

Figure 2: Monty Resource (TLM 30%)

Monty Mineral Resource – as at 31 March 2016						
Type	Mineral Resource Category	Tonnes	Grade Cu (%)	Contained Cu (t)	Grade Au (g/t)	Contained Gold (oz)
Massive Sulphide	Indicated	754,000	12.0	91,000	2.1	51,000
	Inferred	9,000	20.7	2,000	2.7	1,000
	Total	763,000	12.1	92,000	2.1	52,000
Halo	Indicated	287,000	2.2	6,000	0.3	3,000
	Inferred	-	-	-	-	-
	Total	287,000	2.2	6,000	0.3	3,000
Total	Indicated	1,041,000	9.3	97,000	1.6	54,000
	Inferred	9,000	20.7	2,000	2.7	1,000
	Total	1,050,000	9.4	99,000	1.6	55,000

Source: TLM/SFR

Next steps

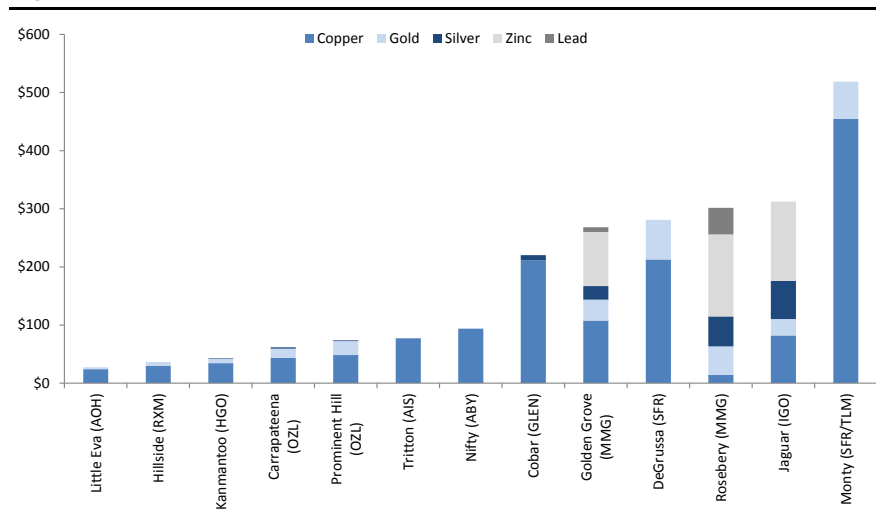
- Current JV concept work, which includes an assessment of using the DeGrussa plant, is expected to move quickly to a feasibility study. The concept work underway includes metallurgy testing, geotechnical drilling, mining and infrastructure studies and regulatory approvals.
- SFR has stated this feasibility work could be completed by late 2016, this implies our conceptual mining scenario with production commencing in Q4 2017 remains plausible (even conservative).
- Further, exploration is also planned around the Monty area (Monty Corridor and Southern Volcanics), deeper drilling at Monty and at Homer.
- In addition a program of DHEM (downhole electromagnetics) testing is planned for diamond/RC drill holes at Monty/Homer.

Figure 3: Talisman key projects



Source: Talisman Mining

Figure 4: Australian copper deposits insitu value per ton (US\$/t)



Source: Petra Capital



Monty conceptual production scenario

We assume a mining inventory is defined of 120kt of contained copper at Monty

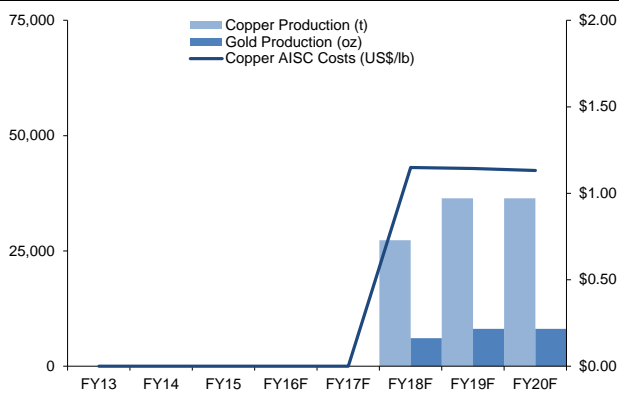
Key premise is for an underground operation with ores toll treated at DeGrussa (a win win for both SFR and TLM)

Capex is estimated at A\$70M (TLM share A\$21M)

The following, is the key assumptions for our conceptual production scenario for Monty (Figure 5 – Figure 8) as highlighted in our January 2016 initiation report.

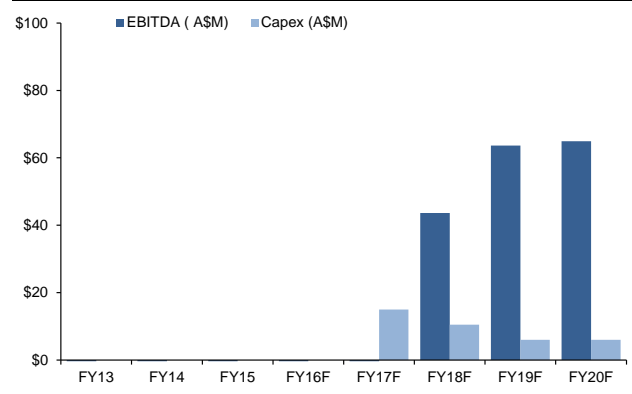
- We assume the JV defines an ultimate mining inventory of circa 1.2Mt at 10% copper and 1.4g/t gold for 120kt of contained copper and 54koz of gold. This allows for similar dilution factors to DeGrussa.
- While there is potential for an open pit (SW portion of deposit is ~100mbs) our key premise is for a modest underground operation operating at ~400ktpa or ~1,100tpd. We assume recoveries and operating costs based on DeGrussa (i.e. ~A\$175/t of ore processed).
- While there is potential for some DSO material (e.g. TLDD0026) and TLM owns the Sinclair concentrator (0.3Mtpa) we assume the most likely scenario is for TLM to come to an agreement (~A\$30/t) with Sandfire to toll treat its share of Monty ore through DeGrussa.
- The JV has already started baseline environmental studies and post resource definition plan on commencing mining studies and the permitting process. Given the proximity to DeGrussa we assume production could potentially commence late calendar 2017.
- Total studies and development capex are estimated at A\$70M. TLM's share of funding requirements plus funds for exploration is assumed to be ~A\$30M. At this stage we have assumed TLM meets this through circa A\$15M of equity and A\$15M of debt financing.

Figure 5: Conceptual production & costs (100%)



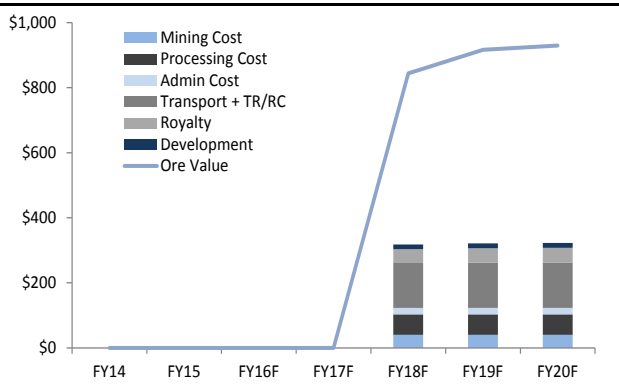
Source: Petra Capital

Figure 6: Monty (TLM's share) EBITDA & capex



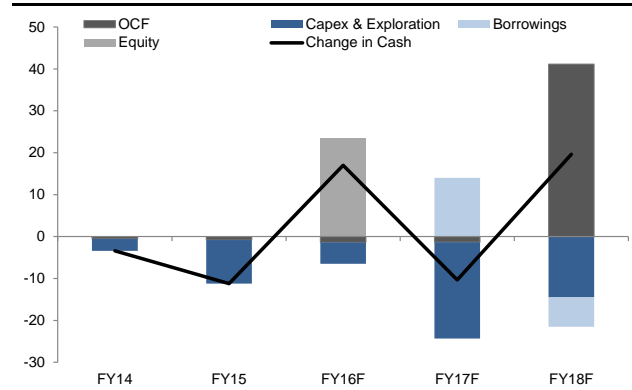
Source: Petra Capital

Figure 7: Monty A\$/t assumptions



Source: Petra Capital

Figure 8: Talisman cash flow profile (A\$M)



Source: Petra Capital



Sandfire – DeGrussa copper mine

DeGrussa is currently producing at ~65ktpa of copper with a mine life to 2021

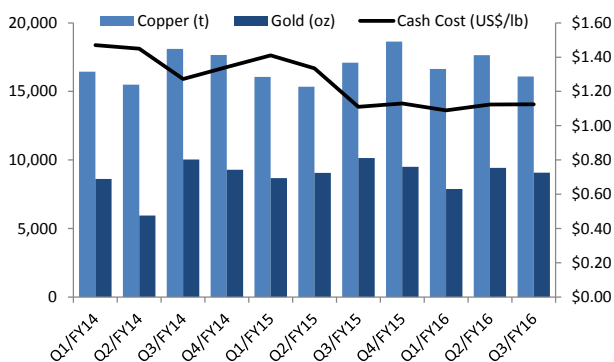
In our view Monty ore could enhance the current profile through a longer mine life or lifting production rates

The key benefit of the Monty discovery to the JV is its proximal location to Sandfires 100% owned DeGrussa underground copper mine and concentrator.

The charts below (Figure 9 – Figure 12) highlight the recent operational performance of the operation. Key points of the project are:

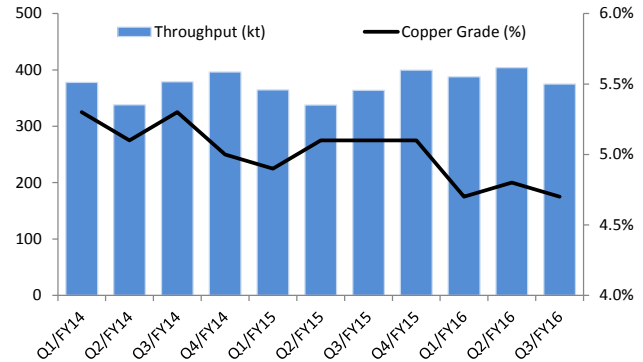
- The project was built in 2012 at a cost of ~circa A\$400M.
- DeGrussa is a high grade VMS system where current deposits range from 88-250kt of contained copper with grades of ~5% copper and ~2g/t gold.
- The main deposits are Conductor 1, 4, and 5 with an underground reserve of 8Mt at 4.4% copper and 1.7g/t gold. The mine plan accounts for 8.1Mt of ore.
- The mine and mill/concentrator are currently operating at a rate of 1.5-1.6Mtpa and the expected mine life is to 2021 (excluding Monty).
- FY2016 production guidance is for 65-68kt of copper and 35-40koz of gold.
- Ore is mined through traditional stoping with paste backfill.
- DeGrussa is a low cost operation with cash costs of US\$0.95-1.05/lb and AISC of ~US\$1.50/lb.
- Cash costs per ton of ore processed are ~A\$175/t.
- Recoveries are averaging 91% for copper and 40% for gold with a copper concentrate grade of around 24%.

Figure 9: DeGrussa production & cost profile



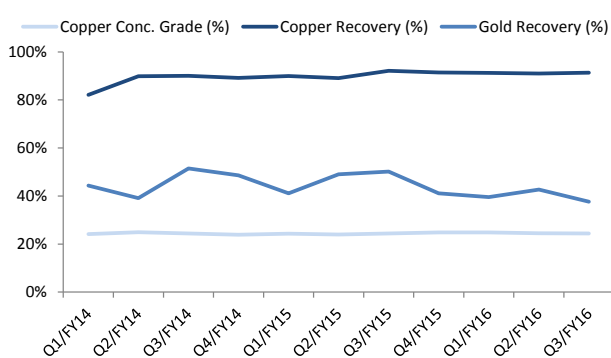
Source: Petra Capital, Sandfire Resources

Figure 10: DeGrussa throughput & copper grade



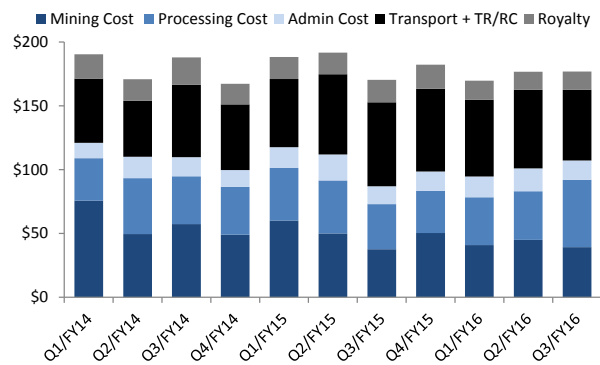
Source: Petra Capital, Sandfire Resources

Figure 11: DeGrussa recoveries & concentrate grade



Source: Petra Capital, Sandfire Resources

Figure 12: DeGrussa A\$ per ton cash costs



Source: Petra Capital, Sandfire Resources



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