BELL POTTER

Speculative
See key risks on page 2. Speculative securities may not be suitable for Retail clients.

11 November 2015

Analyst
Peter Arden 613 9235 1833

Authorisation
TS Lim 612 8224 2810

Talisman Mining Ltd (TLM)

Exceptional drilling results at Monty

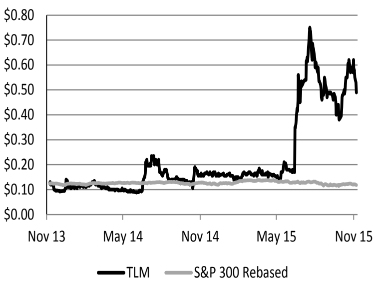
Recommendation
Buy (unchanged)
Price
$0.49
Valuation
$1.23 (previously $0.90)
Risk
Speculative

Expected Return	
Capital growth	**151%**
Dividend yield	**0%**
Total expected return	**151%**
Company Data & Ratios	
Enterprise value	**$62m**
Market cap	**$73m**
Issued capital	**148.6m**
Free float	**86%**
Avg. daily val. (52wk)	**$0.2m**
12 month price range	**$0.13 - $0.785**
GICS sector	**Materials**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.47	0.61	0.16
Absolute (%)	4.3	-19.7	206.3
Rel market (%)	6.0	-9.8	213.5

Absolute Price



SOURCE: IRESS

Latest Monty drilling result better than any at DeGrussa

The latest drilling results at the Monty Prospect in the Springfield Project in the Murchison of WA, where Sandfire Resources (SFR, Buy, TP $8.10/sh) is earning a 70% interest under a farm-in agreement, have included an exceptional intersection of very high grade copper mineralisation. Hole TLDD0026 intersected **21.6m at 34.4% Cu and 0.4g/t Au** from 339.4m down-hole (286mbs) in massive sulphides that were comprised of chalcopyrite and bornite. True thickness of this intersection is estimated to be 15.2m. This is the best ever drilling result returned from primary-style sulphide mineralisation on the DeGrussa or Springfield Projects.

We estimate in-situ value of at least $100m on this hole alone

We have applied what we consider are several conservative assumptions to the calculation of the in-situ value of the copper in ore that will likely be attributed to TLDD0026. We estimate there could be at least 41.4kt of ore grading 34.4% Cu and containing 14.3kt of copper in a close area around that drill hole. At current spot copper prices and exchange rates that equates to around A$103.1m of in-situ value: more than enough to fund the capex of a satellite project.

Update our notional resource estimate and mining scenario

In reviewing the latest results we tightened our notional resource estimate to 1.2Mt-1.4Mt and increased our grade assumption to 12% Cu for 144-168kt contained. Our mining scenario considers mining Monty at 300ktpa and displacement of lower grade feed from the DeGrussa mill. That results in a material increase in grades, production and earnings for SFR. We calculate a revised NPV-based valuation for Monty (100%) of $402m, making it clearly one of the most significant discoveries of recent times. We remain of the view that Monty is likely to be developed as a matter of priority.

Nickel drilling program has early success at Delphi

TLM has had early success in its recently begun drilling program to test seven priority nickel sulphide exploration targets near its Sinclair nickel mine. Massive, matrix and brecciated nickel sulphides were intersected in a deformed sequence of ultramafics and basaltic rocks in several zones in SND001 at the Delphi North target. Best intersection was 2.2m averaging 1.9% nickel from 396.9m down hole. A second hole nearby did not intersect significant mineralisation but shows the area is prospective for nickel.

Investment thesis – Speculative Buy, Val $1.23/sh (prev. $0.90)

The latest results at Monty confirm that it is a special deposit characterised by exceptionally and consistently high copper grades that make it virtually certain to be rapidly developed utilising SFR's nearby DeGrussa operation. Infill drilling of Monty is now getting underway. Given the favourable geology of the 5km long Monty corridor, we continue to expect that other similar deposits will be found in the district, with the highly rated Homer Prospect set to receive further drilling before the end of 2015.

We have increased our 12-month forward NPV-based valuation by 37% to $1.23/share, reflecting the recent outstanding results at Monty. We have retained our valuation for the Sinclair Project based on a potential nickel mining resumption/development scenario. Speculative Buy retained.

Risks of investment

The key risks for resources investments include, but are not limited to:

- **Commodity price and currency volatility:** The relatively liquid nature of metal commodity markets such as for copper, nickel and gold and foreign currency markets such as trading in the value of the Australian dollar, expose them to potentially wide fluctuations in price, particularly during more difficult economic times or major world events. Associated with commodity price and currency volatility are potentially different commodity prices and foreign exchange rate outcomes to our forecasts.
- **Lack of exploration success:** The difficulty of exploring in the Murchison district is related to the fact that the region has variable outcrop and further complexity comes from the geologically disturbed nature of the Archaean bedrock that hosts various types of mineralisation. The rocks have suffered extensive structural dislocation (faulting, shearing and over-thrusting) and variable alteration and weathering and may contain greater than expected geological complexities that may be difficult to resolve without extensive drilling programs and may inhibit the definition of adequate resources and reserves.
- **Lack of funding:** Exploration companies generally don’t have a revenue source and so they require periodic injections of funding to enable adequate exploration and related development activities to continue so they can develop their projects.
- **Mining and metallurgical issues:** The mining and metallurgy of the Sinclair nickel deposit is well understood from previously successful operations and it is expected other nickel mineralisation in the surrounding district will have similar mining and metallurgical properties. Adequate investigations and testwork needs to be done on these other occurrences of nickel to confirm their suitability for mining and processing. Similarly, while visual inspection of the high grade copper-gold mineralisation in massive sulphides discovered at Monty indicates it may be very similar to the ore successfully mined and processed at the nearby DeGrussa mine, detailed testwork is needed to demonstrate its suitability for mining and processing. Adverse mining and metallurgical characteristics may result from such detailed investigations that could lead to a need for more complicated and expensive mining and processing requirements.
- **Regulatory and social licence approvals:** While there are currently no indications that there may be any difficulties with progressing through the necessary regulatory and social licence approvals processes to enable a suitable mining operation to be re-established at Sinclair or established at new areas near Sinclair and at Doolgunna, prolonged delays can result from adverse environmental or other regulatory issues and from the need to progress Native Title negotiations in a very careful and sensitive manner. Various stages of the regulatory approvals process can sometimes suffer unforeseen delays related to changes in personnel involved or from the need to resolve differences in interpretations. There may be some tenements in which the company has an interest or may acquire an interest in future which may contain areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights do exist, the ability of the company to gain access to such tenements (through obtaining the consent of any relevant landowner) or to progress from the exploration phase to the development and mining phases of operations may be affected.
- **Weather impacts:** Cost overruns or operational delays can be caused by severe weather events because site access may be restricted due to the unsealed nature of roads and airstrips in the remote regions in which the company operates.
- **Inappropriate acquisitions:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

Monty shows it's really something special

Drill result of 21.6m at 34.4% Cu better than any at DeGrussa

SFR has released a further update of drilling results at the Monty Prospect, located 10km to the east of their operating DeGrussa copper-gold mine. SFR is earning a 70% interest in Monty, as part of its farm-in agreement with TLM on the Springfield Project and two other nearby Projects (Harlequin and Harlequin West). SFR is earning up to 70% in the three TLM Projects by expenditure of $15m over 5½ years. The latest results include assays from hole TLDD0026 which had intersected 19.9m of massive sulphides, including the high grade copper mineral, bornite.

Expectations were high and the result did not disappoint, returning **21.6m at 34.4% Cu and 0.4g/t Au** from 339.4m down-hole (286mbs). We believe this is probably **the best ever drilling result returned from primary-style copper sulphide mineralisation in an Australian deposit and is better than any at the nearby DeGrussa project.** There have been higher grade results from zones of supergene enrichment, but this is essentially primary mineralisation and continues to demonstrate that Monty is a very special deposit. Massive sulphide mineralisation makes up the vast bulk of the DeGrussa Resource base but while we understand SFR sees strong geological similarities between particular zones in the DeGrussa mineralisation and the Monty mineralisation, SFR have not seen anything as spectacular at DeGrussa as this intersection. In addition to this record-breaking intersection, a second zone of mineralisation of **7.3m at 6.2% Cu and 2.8g/t Au** from 325.6m down hole (275mbs) was also reported, interpreted to be the main Lower Zone.

<u>Why does this hole matter? Because it's got an in-situ value of at least $100m</u>

In our view, the market reaction to this announcement was underwhelming to say the least. Let's just step back to first principles: **how much copper could actually be there?**

Firstly, we have a 21.6m reported down-hole intercept of 34.4% copper. This gets reined in to 15.2m true thickness so we'll go with that for the thickness part of our calculation.

Width and length are trickier to estimate but that's why there are geologists who get to apply their skills to such matters, but we'll make an estimate anyway. There are several ways these dimensions can be determined but by-and-large it pretty much boils down to estimating an area of influence around the hole in question and its relationship to surrounding holes. In the absence of any specific information, that's usually assumed to be about halfway to the next one. Monty is going to be drilled out on an approximately 40m x 40m pattern (implying good continuity between drill holes of that spacing and sufficient, we note, for an Indicated Resource classification to be estimated by SFR) but we are adopting a more conservative assumption. While we interpret the TLDD0026 intersection as having pierced the roughly north-east/south-west striking and north-east plunging mineralisation in a possible "roll-over" or fold position that could have considerable strike extent, in keeping with our conservative approach, we have only assumed the mineralisation around the hole is a cylinder rather than a cube or an elongated slab, adopting a radius for it that is only about the same distance as the thickness. **The volume calculated is ~11,030m^3 of ore.**

SFR applies an average **density or specific gravity (SG) of 3.7gcm^{-3}** to its massive sulphide orebodies for Resource estimates, but SFR also states that the SGs for DeGrussa ore are in the range from 2.8 to 4.9. We have used the SFR average of 3.7 **gcm^{-3}** but note that the SGs of chalcopyrite and bornite are significantly higher than the SG we have used at 4.2 and 5.1 respectively. Applying the very conservative SG of 3.7gcm^{-3} gives us a very handy **41.4kt of ore** grading 34.4% copper and 0.4g/t gold **containing 14.3kt of copper and over 500 ounces of gold.** Using a more realistic SG of 4.5 would lift the calculated tonnage around the drill hole to about 50kt but we will stay with 41.4kt.

At current spot copper prices and exchange rates **this mineralisation has an in-situ value of around A$103.1m**. And what does that get you these days?

- Around $30m in cash after our estimated capex bill of $55m for developing the Monty deposit itself and paying for the mining and treatment of TLDD0026 ore;
- Around 10% of SFR (or around 80% of OZL's 19% stake when they sold it); or
- A 25% premium to the current market cap ($75m) of farm-in partner TLM

We see upside to this estimate on higher SG, greater area of influence and higher copper prices. **Flexing these assumptions increases the in-situ value towards A$200m.**

Direct Shipping Ore (DSO) comes into play

Marketable copper concentrates typically grade upwards of 22% copper. However, if you're mining material grading 34% copper and it contains no deleterious elements, why bother with processing it? Hence, at grades greater than ~18% Cu the cost of processing ore is weighed up against the **significant cost savings and production gains** that become available with DSO. Importantly, SFR has first-hand experience of marketing, smelting and refining its previous DSO production. With significant intersections of this order already reported and the overall high grade tenor of the deposit, we are of the view that a significant proportion of **DSO production is a realistic expectation for Monty**.

SFR sent DSO from the early phase of mining operations at DeGrussa in 5,000t or 10,000t shipments. On our estimate of the +41kt ore contained around hole TLDD26 alone, there is more than enough to justify a DSO shipping program for Monty.

Additional results add high grades, leaves extensions open

Other drilling results reported recently continue to add to the consistently high grade copper-gold tenor and demonstrate good continuity in the Lower Zone mineralisation. Holes TLDD0020, TLDD0021 and TLDD0024 were all drilled around what were previously interpreted to be the edges of the deposit. All have returned good grades over encouraging widths and as a result have extended the known strike and dip extents of the Lower Zone of the Monty deposit, including into the so-called "flexure" zone, where continuity of the deposit was not expected. The assay results for these holes are summarised below:

TLDD0020: 1.5m at 13.8% Cu and 1.1g/t Au from 272.3m down-hole (est. true width 0.9m)

TLDD0021: 3.4m at 17.9% Cu and 3.9g/t Au from 239.0m down-hole (est. true width 1.8m)

TLDD0021: 8.0m at 13.3% Cu and 1.8g/t Au from 286.2m down-hole (est. true width 4.6m)

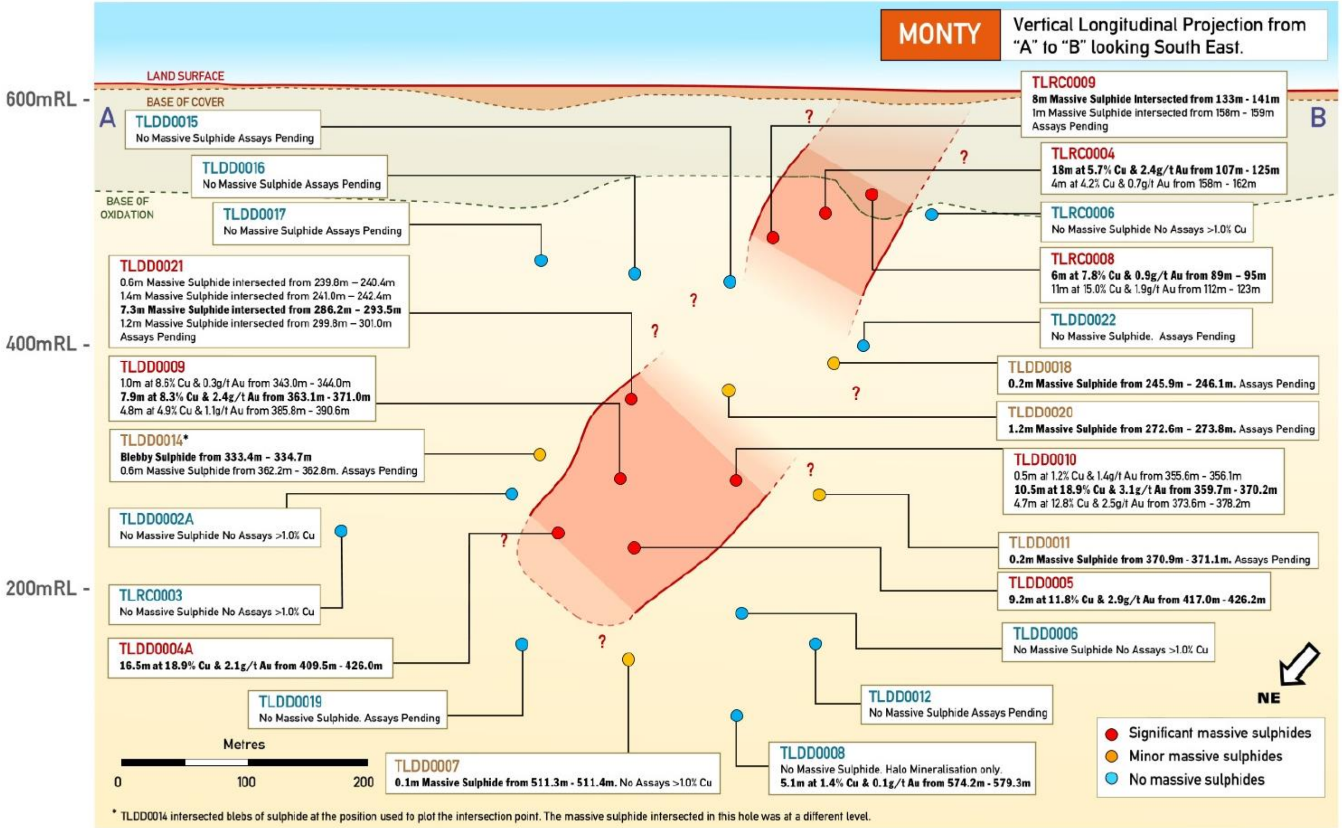
TLDD0024: 2.6m at 14.2% Cu and 1.1g/t Au from 445.6m down-hole (est. true width 1.7m)

Also, for the first time, true width estimates have been included. While they indicate some of the Monty mineralisation has a slightly steeper drilling angle than is ideal, the intersections achieved still demonstrate comfortably mineable widths. If there is a negative to the latest update it is that the true thickness of the deposit may be narrower than anticipated, thus reducing the size of a potential Resource but we believe this is largely offset by the continued high copper grades, and especially by the exceptionally high grades of the mineralisation in TLDD0026.

Review of our notional Resource estimate

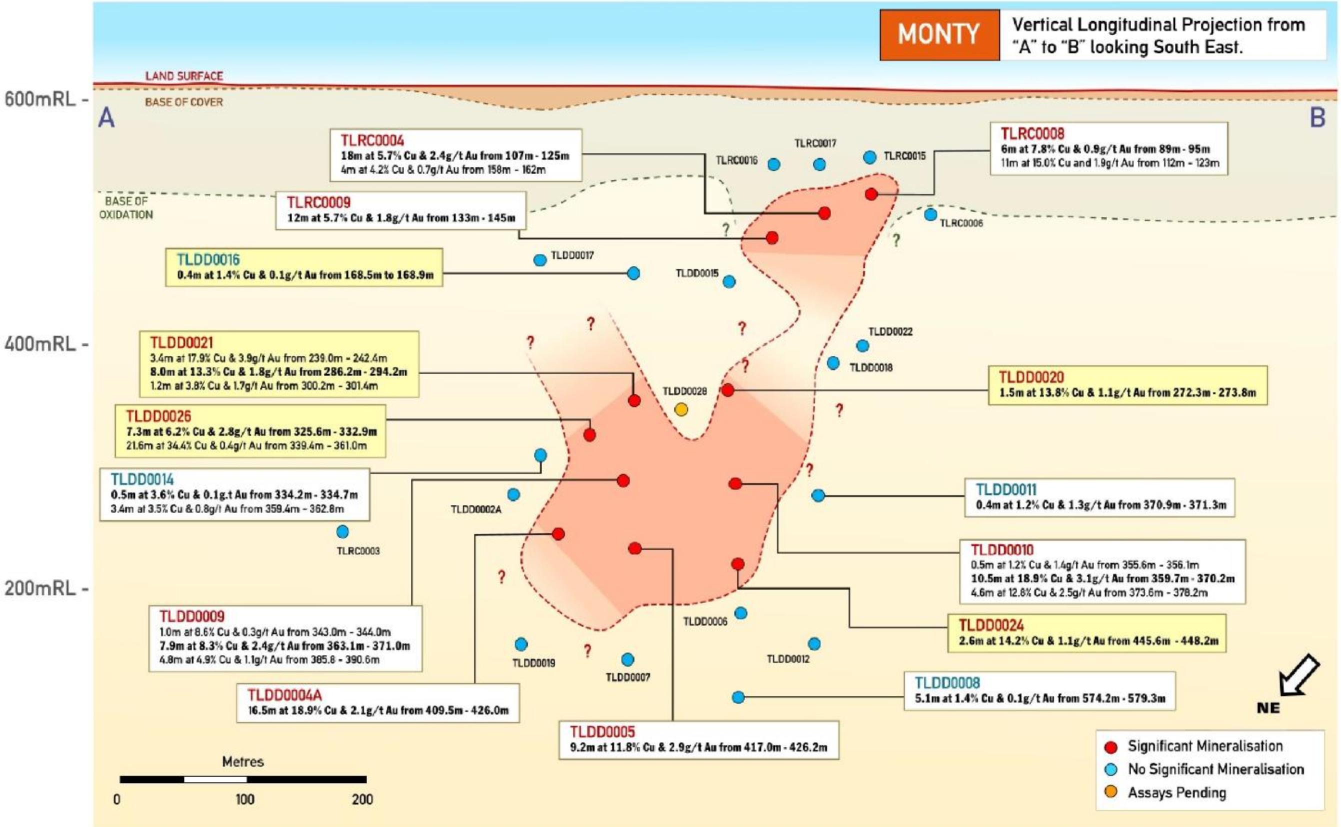
We had previously considered as our base case a possible Resource at Monty ranging in size from 1.0Mt-1.4Mt at 7% Cu to contain 70-100kt copper for the Upper and Lower Zones of the deposit. Further, we saw upside potential towards 1.6Mt. In reviewing the latest drilling and related information from SFR, we have modified our assumptions and **tightened our range to 1.2Mt-1.4Mt**, still seeing upside potential to 1.6Mt, particularly with the deposit still **open in multiple directions.** The strike and dip extensions on the updated long section (Figure 1 over page) are offset to a degree by the narrower true thickness (we had previously assumed 8m, we now assume 6m) to arrive at our updated estimate.

Figure 1 – Vertical longitudinal projection of the Monty Prospect and drill-hole pierce points as at October 2015



SOURCE: TALISAMAN MINING

Figure 2 – Vertical longitudinal projection of the Monty Prospect and drill-hole pierce points as at November 2015



SOURCE: TALISMAN MINING

Weighted average copper grade for main zones at Monty now 17.5%

The big swing factor for us however is copper grade. The high grade intersections at Monty have been remarkably consistent and include several over quite broad true widths. The reporting of true thickness has enabled us to take this into account in calculating our weighted average copper grades, which we now determine to be 17.5% Cu. We make allowances for mining dilution (to get to our mining width of 6m) and now **estimate a diluted grade of 15.2% Cu** could be possible at Monty.

Putting this in context, 15.2% Cu is >9x the grade of the underground copper Reserves at OZ Minerals' Prominent Hill operation (1.65% Cu) and 3.5x the grade of the current underground copper Reserves at DeGrussa (4.37%).

Table 1 – Monty Prospect significant drill intercepts

Hole ID	Down-hole width (m)	Est. true thickness (m)	Grade (%Cu)	Grade (g/t Au)
TLDD0004A	16.5	10.9	18.9%	2.10
TLDD0005	9.2	6.1	11.8%	2.90
TLDD0009	7.9	5.8	8.3%	2.40
TLDD0010	10.5	6.3	18.9%	3.10
TLDD0020	1.5	0.9	13.8%	1.10
TLDD0021	8.0	4.6	13.3%	1.80
TLDD0024	2.6	1.7	14.2%	1.10
TLDD0026	21.6	15.2	34.4%	0.40
TLDD0026	7.3	4.7	6.2%	2.80
TLRC0004	18.0	5.1	5.7%	2.40
TLRC0008	6.0	1.4	7.8%	0.90
TLRC0008	11.0	2.5	15.0%	1.90
TLRC0009	12.0	2.8	5.7%	1.80

SOURCE: COMPANY REPORTS, BELL POTTER ESTIMATES

For the purpose of adjusting our notional mining concept for Monty however, we apply a **top-cut of 20% copper** to our holes. This brings the weighted average grade back to 14.3% and **lowers our diluted grade to 12.4%**. We accept that this is still an exceptionally high grade, however we take the view that the tenor and consistency of the drilling results to date make this a realistic and justifiable assumption. Of particular note is the consistency of the copper grades even at the edges of the mineralisation. Our valuation, if it is to adequately represent both the actual results and our view of the quality of the Monty discovery, should reflect this.

Revised notional mining scenario

We have updated our notional development and production scenario for Monty to reflect our updated view on the possible Resource. We now:

- Assume 1.4Mt @ 12.0% Cu for 168kt copper contained;
- Maintain our estimate of $55m capex;
- Extend our estimate of an additional $12m pa of sustaining capex by 12 months;
- Maintain our production assumption of 300ktpa of underground mining from Monty to displace that amount of DeGrussa ore from the mill feed, with the balance stockpiled;
- Increase unit mining costs to allow for the smaller scale of operations at Monty and haulage to the DeGrussa Concentrator;
- Make no allowance for DSO material – but we now expect it to be a significant component that could contribute additional revenue and cost savings.

We remain of the view that Monty, once defined, is likely to be developed as a matter of priority. The discovery of Monty increasingly shows the potential to produce very high grade ore that could offset the reducing grade profile at DeGrussa, enabling reduced costs and increased cash flow. Further, it has the potential to fill a crucial gap in SFR's development pipeline and take significant pressure off an acquisitive growth strategy.

Work rate increasing, getting ready to mine

The work rate at Monty is beginning to ramp up with additional drilling capacity brought on to undertake infill drilling at Monty, step-out drilling at Monty, additional testing for mineralisation along the 5km Monty Trend and the planned drilling of the Homer Prospect, 4km east of DeGrussa. We understand there to be:

- 1 x diamond drill hole (DDH) rig continuing step-out drilling (single shift);
- 1 x DDH rig commencing infill drilling (double shift);
- 1 x Reverse Circulation (RC) drill rig doing shallow drilling and pre-collars; and
- 1 x Air-Core (AC) drill rig doing shallow soil sampling along the Monty Trend.

A maiden Resource is planned to be completed in the March Quarter of 2016 and we anticipate it may possibly be included in SFR's annual Reserve and Resource update around the end of January. The **clear signals continue that Monty is being readied for development.** The infill drilling program is likely to result in a good portion of the maiden Resource being in the **higher confidence Indicated category**, allowing conversion to Reserves and hence approval for mining. SFR also confirmed in the September quarterly that it has commenced environmental baseline studies and applying for mining approvals.

Formation of JV approaching

We continue to monitor SFR's exploration spend at the Springfield JV, whereby SFR is earning up to a 70% interest by spending $15m on exploration within 5½ years (from December 2013). Key terms include:

- a minimum expenditure commitment of $5m within the first two years before either withdrawing from the agreement with no project equity interest or spending an additional $5m (for a total of $10m) within a further 2-year period to earn a 51% interest in the project (First Interest);
- After Sandfire acquires the First Interest, a Joint Venture will be formed between SFR (51%) and TLM (49%). SFR then has the option to sole fund a further $5m (for a total of $15m) on exploration expenditure within a further 18 month period in order to acquire a further 19% (Second Interest) taking its total interest to 70%;
- TLM will have the right to maintain its 30% interest by contributing to exploration expenditure on a pro rata basis or dilute under industry standard terms; and
- SFR will manage all exploration activities during the farm-in period.

We note that formal acquisition of the 51% First Interest by SFR and the **formation of the JV is yet to be announced**, implying that exploration expenditure is yet to reach $10m. Notwithstanding that, we expect the spend rate to continue increasing over the next two months and we consider it likely that formation of the JV will be announced around the end of 2015.

Changes to our valuation for Monty

We have assessed a notional development and production scenario and resulting revised valuation for the Monty deposit as follows:

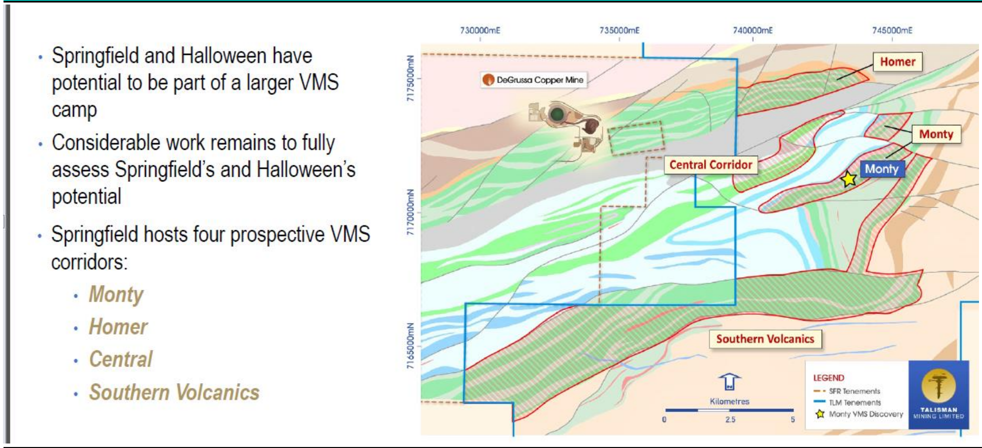
- Assuming pre-production and development studies over the course of 2016;
- Initial development of the Monty deposit in early 2017 via either an initial open pit or decline from the surface that enables production of around 300kt of ore per annum that is trucked to the DeGrussa processing plant for treatment;
- Our NPV-based valuation is increased to $402m (100%) so that TLM's share of this is $120.6m, assuming it maintains a 30% interest after SFR has earned its 70% interest.

Exploration activity in the Springfield Project to include Homer

As manager of the Springfield Project while it is earning its interest, SFR is planning continued exploration at the Monty Prospect and has also been working on generating potential exploration targets along the highly prospective 5km Monty corridor as part of the search for additional lenses of Monty-style VMS mineralisation. In particular, SFR has been actively carrying out aircore drilling to define geochemical targets elsewhere around Monty and at multiple locations along the 5km prospective Monty corridor, which is one of four prospective VMS corridors in the Springfield Project (Figure 3).

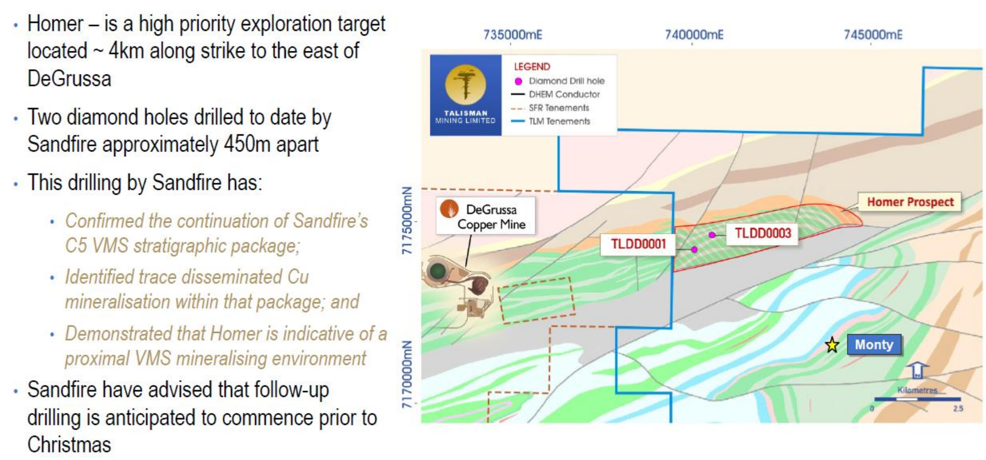
The Homer Prospect is regarded as being a leading target in the Monty corridor, having already had two diamond holes drilled there over the past 18 months or so but still warranting additional drilling. SFR is planning more drilling there before the end of 2015.

Figure 3 - Map showing location of four prospective VMS corridors in the Springfield Project



SOURCE: TALSIMAN MINING

Figure 4 – Map showing the geological setting of the Homer Prospect



SOURCE: TALSIMAN MINING

Nickel sulphides intersected at Delphi

Strong start on priority nickel sulphide targets at 3 prospects

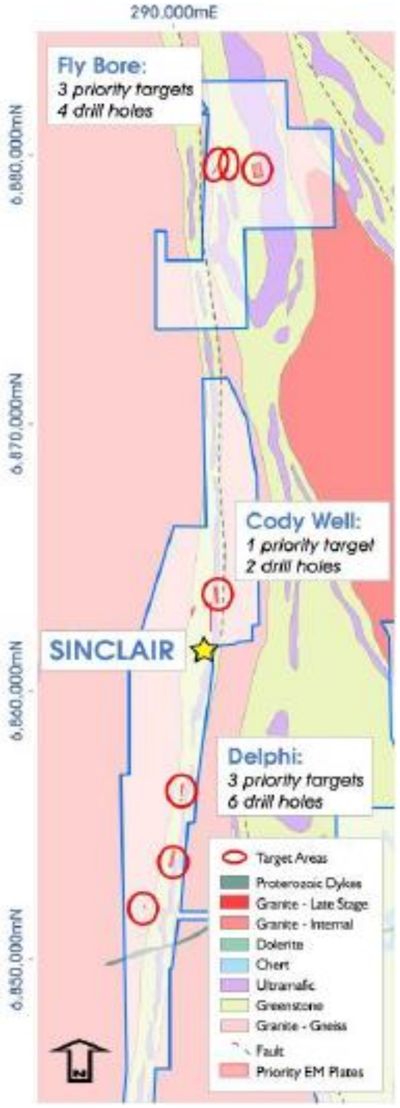
TLM has had early success in its maiden exploration drilling program at the Sinclair Nickel Project near Leonora in the Eastern Goldfields of WA. Drilling at the Delphi North target, located 4km south of the Sinclair Nickel Mine, has intersected several zones of nickel sulphides in a deformed sequence of host ultramafic and basaltic rock units. The 3,900m drilling program to test seven priority nickel sulphide exploration targets (Figure 5) at three prospects follows an extensive review of the Sinclair Nickel Project's historic data sets that included a review and in some cases the reprocessing of historic electromagnetic (EM) geophysical data and the acquisition of new moving loop EM (MLEM) data.

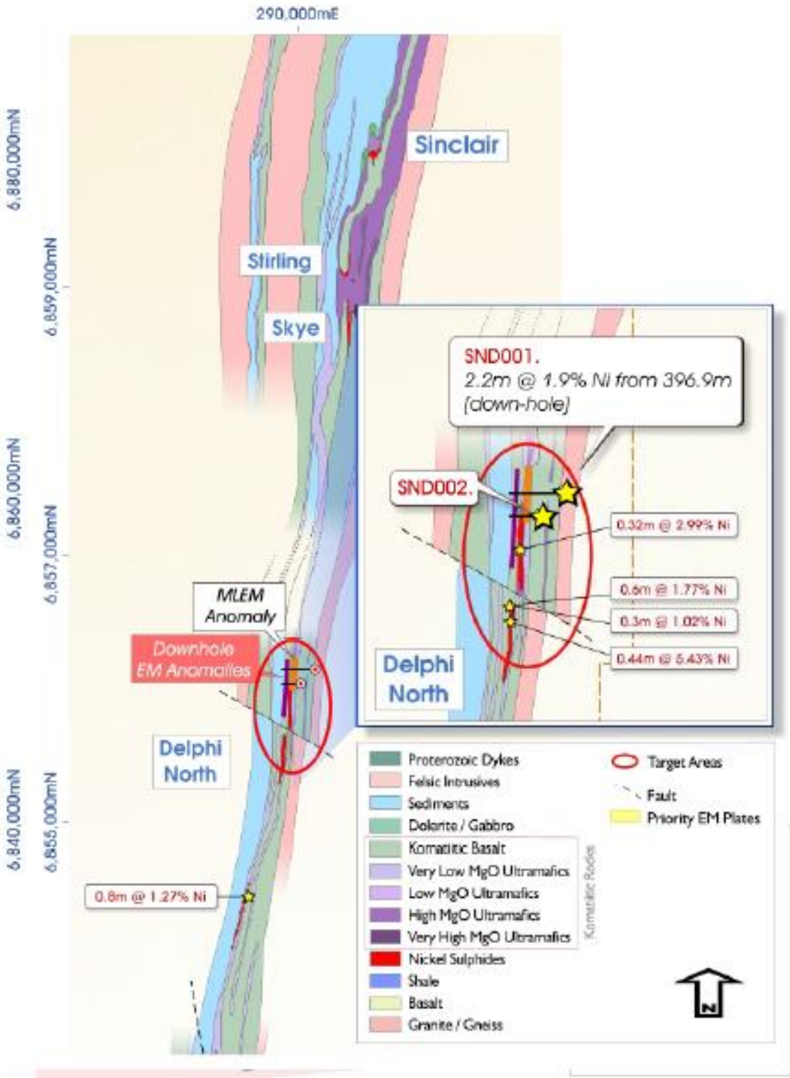
The most significant results at Delphi North (Figure 6) are as follows:

- **2.2m averaging 1.9% nickel** from 396.9m down hole (true thickness not known at this time; top of intersection is approximately 348m below surface) in hole SND001 that included 0.6m averaging 2.19% nickel from 396.9m down hole and 0.5m averaging 2.94% nickel from 398.6m down hole.

Figure 5 - Plan of part of the Sinclair Nickel Project showing priority exploration targets

Figure 6 – Map and detail of the recent drilling at the Delphi Prospect showing setting of Delphi North nickel sulphide intersections





SOURCE: TALISMAN MINING LTD

A second drill hole, SND002, has recently been completed approximately 100m south of SND001 (Figure 6 on previous page). This hole intersected a narrow zone of stringer sulphides within a highly deformed, complex sequence of ultramafic, basaltic and sedimentary rock units. While the stringer sulphides intersected in this hole are not interpreted to host significant mineralisation, the hole demonstrates the continuity of the prospective ultramafic horizon at Delphi North. Nickel sulphide mineralisation has now been identified over a strike length of 600m at Delphi North, providing significant encouragement for further exploration of the prospect. Both drill holes at Delphi North have been cased with PVC piping to facilitate down hole EM surveying, which will be done at the conclusion of the drilling phase.

Exploration focus on highly prospective newer targets

Although previous regional exploration at Sinclair had been successful in discovering significant nickel sulphide mineralisation at the Stirling and Skye Prospects, where two sub-parallel major mineralised ultramafic channels have been interpreted, TLM has opted not to evaluate those discoveries further at this stage or to drill out depth extensions to the Sinclair deposit but rather to target highly prospective earlier stage exploration targets of Delphi, Fly Bore and Cody Well. Given the exploration reluctance of the previous owner (Glencore), despite numerous encouraging nickel discoveries near Sinclair, we see major potential for TLM to add mineralisation to the Sinclair mine inventory, underpinning potential for a very rewarding restart of the Sinclair operations.

Following completion of drilling at the Delphi Prospect, drilling will progress to the Cody Well and Fly Bore Prospects before potentially returning to Delphi Prospect.

Significantly increased valuation for Monty

We have adopted a combination of net present value (NPV) based methodology for estimated resources at Monty and Sinclair along with some exploration prospectivity estimates to assess the more grass roots mineral exploration assets in determining our total valuation for TLM (Table 3). Our TLM valuation is equity diluted (Table 2) to take account of potential additional capital needs over the next few years (even though the company is currently well funded) from the company's two principal assets being attractive ones that are expected to be brought into operation over the next few years.

Adequately funded for next year or so

TLM had cash of $11.3m at 30 September 2015 after having raised $8m to provide support for any potential future requirements to contribute to joint venture funding at its Doolgunna Project; to progress the company's growth strategy at its Sinclair Nickel Project; and for working capital. We believe TLM is now quite adequately funded for all its planned activities for the next year or so. We have assumed that TLM will raise additional equity capital of about $10M in FY17 to coincide with the likelihood of TLM needing to contribute funding for its likely 30% share for the Doolgunna Project JV by then and to potentially begin preparing the Sinclair Nickel Project for a resumption of operations. We have assumed this additional capital (Table 2) will be raised at the current share price even though there could be favourable outcomes from the current exploration and evaluation drilling at Monty and at the Sinclair Nickel Project that may lead to a share price re-rating by the time that capital is actually sought.

Table 2 - Forecast additional equity to be raised by TLM in FY17

Year to June	2017e
Gross amount to be raised[1] ($m)	10.0
Share price assumed ($)	0.49
Number of shares to be issued (m)	20.4
Total number of shares on issue at year end (m)	170.6

SOURCE: BELL POTTER SECURITIES NOTE 1. BEFORE CAPITAL RAISING COSTS

Valuations include higher value for Monty after recent results

Our valuation for TLM (Table 3) has increased by 37% to $1.23/share as a result of significantly upgrading our valuation of the Monty Prospect by incorporating the recent outstanding drilling results that saw us significantly upgrade our assessment of the average grade of the deposit and confirm its ability to be developed rapidly. We have retained our risk weighted valuation for the Sinclair Nickel Project as we still regard it as an important asset. These valuations have been used to determine an equity diluted valuation per share, which is diluted to account for potential additional shares issued in FY17 (Table 2).

Table 3 – Summary of NPV-based valuations of TLM

	$m	$ per share[1,2]
Exploration Assets – Doolgunna Project	125	0.73
- Sinclair Nickel Project	69	0.40
- Other	1	0.00
- Total	195	1.14
Administration	(6)	(0.04)
Net Cash, Additional Equity and Options[3]	21	0.12
Total Valuation	**210**	**1.23**

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD BECAUSE OF ROUNDING AND DILUTION EFFECTS.
2. BASED ON EQUITY DILUTED SHARE CAPITAL OF 170.6M SHARES
3. INCLUDES EXERCISE OF IN-THE-MONEY OPTIONS AND FORECAST OF ADDITIONAL EQUITY IN FY17.

Talisman Mining Ltd (TLM)

Company description

TLM currently owns 100% of the Doolgunna Copper-Gold Project in the Murchison district of Western Australia that comprises three individual projects collectively covering about 350km^2 adjacent to the DeGrussa copper-gold mine of SFR. SFR is currently farming into the Doolgunna Copper-Gold Project, where TLM has previously spent over $20m on exploration over the previous four years. SFR can earn up to 70% of the Project by expenditure of $15m over 5½ years. Drilling in the Springfield Project within the Doolgunna JV by SFR has discovered high grade copper-gold mineralisation in massive sulphides in a VMS setting at the Monty Prospect, where further drilling to evaluate the discovery is ongoing. TLM owns 100% of the Sinclair Nickel Project, which it purchased in early 2015 and which is also in the Murchison of Western Australia. The Sinclair Project contains the recently well mothballed Sinclair nickel mine and associated treatment plant and infrastructure and extensive and highly prospective exploration tenements in the surrounding area, where TLM has recently started its maiden exploration drilling program.

Investment Thesis – Speculative Buy, Valuation $1.23/sh (prev. 0.90/sh)

The latest results at Monty confirm that it is a special deposit characterised by exceptionally and consistently high copper grades that make it virtually certain to be rapidly developed utilising SFR's nearby DeGrussa operation. Infill drilling of Monty is now getting underway. Given the favourable geology of the 5km long Monty corridor, we continue to expect that other similar deposits will be found in the district, with the highly rated Homer Prospect set to receive further drilling before the end of 2015.

We have increased our 12-month forward NPV-based valuation by 37% to $1.23/share, reflecting the recent outstanding results at Monty. We have retained our valuation for the Sinclair Project based on a potential nickel mining resumption/development scenario.

Speculative Buy retained.

Valuation

Our valuation of TLM is based on a risked sum-of-the-parts DCF-based valuation for the Monty and Sinclair projects (using a discount rate of 10%) plus an estimated valuation for TLM's other various exploration prospects.

Risks

The key risks for resources investments include, but are not limited to:

- **Commodity price and currency volatility:** The relatively liquid nature of metal commodity markets such as for copper, nickel and gold and foreign currency markets such as trading in the value of the Australian dollar, exposes them to potentially wide fluctuations in price, particularly during more difficult economic times or major world events. Associated with commodity price and currency volatility are potentially different commodity prices and foreign exchange rate outcomes to our forecasts.
- **Lack of exploration success:** The difficulty of exploring in the Murchison district is related to the fact that the region has variable outcrop and further complexity comes from the geologically disturbed nature of the Archaean bedrock that hosts various types of mineralisation. The rocks have suffered extensive structural dislocation (faulting, shearing and over-thrusting) and variable alteration and weathering and may contain

greater than expected geological complexities that may be difficult to resolve without extensive drilling programs and may inhibit the definition of adequate resources and reserves.

- **Lack of funding:** Exploration companies generally do not have a source of revenue and so they require periodic injections of funding to enable them to carry out adequate exploration and related development activities in order to continue to develop their projects.
- **Mining and metallurgical issues:** The mining and metallurgy of the Sinclair nickel deposit is well understood from previously successful operations and it is expected other nickel mineralisation in the surrounding district will have similar mining and metallurgical properties. Adequate investigations and testwork needs to be done on these other occurrences of nickel to confirm their suitability for mining and processing. Similarly, while visual inspection of the high grade copper-gold mineralisation in massive sulphides discovered at Monty indicates it may be very similar to the ore successfully mined and processed at the nearby DeGrussa mine, detailed testwork is needed to demonstrate its suitability for mining and processing. Adverse mining and metallurgical characteristics may result from such detailed investigations that could lead to a need for more complicated and expensive mining and processing requirements.
- **Regulatory and social licence approvals:** While there are currently no indications that there may be any difficulties with progressing through the necessary regulatory and social licence approvals processes to enable a suitable mining operation to be re-established at Sinclair or established at new areas near Sinclair and at Doolgunna, prolonged delays can result from adverse environmental or other regulatory issues and from the need to progress Native Title negotiations in a very careful and sensitive manner. Various stages of the regulatory approvals process can sometimes suffer unforeseen delays related to changes in personnel involved or from the need to resolve differences in interpretations. There may be some tenements in which the company has an interest or may acquire an interest in future which may contain areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights do exist, the ability of the company to gain access to such tenements (through obtaining the consent of any relevant landowner) or to progress from the exploration phase to the development and mining phases of operations may be affected.
- **Weather impacts:** Cost overruns or operational delays can be caused by severe weather events because site access may be restricted due to the unsealed nature of roads and airstrips in the remote regions in which the company operates.
- **Inappropriate acquisitions:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Sam Haddad	Industrials	612 8224 2819	shaddad
John O'Shea	Industrials	613 9235 1633	joshea
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Sam Byrnes	Industrials	612 8224 2886	sbyrnes
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	lsotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Associates			
Hamish Murray	Associate Analyst	613 9256 8761	hmurray
Tim Piper	Associate Analyst	612 8224 2825	tpiper

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 38, Aurora Place
88 Phillip Street, Sydney 2000
Telephone +61 2 9255 7200
www.bellpotter.com.au

The following may affect your legal rights. Important Disclaimer:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arraignment with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Lead Manager for the $8m placement in July 2015 and received fees for that service.

Exploration Risk Warning:

The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. The fact that the intellectual property base of an exploration company lies in science and is generally only accessible to the layman in a limited summary form adds further to the riskiness with which investments in exploration companies ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock including **Talisman Mining Ltd Limited** (of which a list of specific risks is highlighted within).

ANALYST CERTIFICATION:

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner; (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report; and (3) the Analyst does not hold any interest in the securities of Talisman Mining Limited at the date of this report.