

Analyst

Peter Arden 613 9235 1833

Authorisation

David Coates 612 8224 2887

Talisman Mining Ltd (TLM)

Monty resource confirmed as very rich

Recommendation
Buy (unchanged)
Price
\$0.41
Valuation
\$0.88 (previously \$1.00)
Risk
Speculative

Expected Return

Capital growth	115%
Dividend yield	0%
Total expected return	115%

Company Data & Ratios

Enterprise value	\$53m
Market cap	\$76m
Issued capital	185.7m
Free float	77%
Avg. daily val. (52wk)	\$0.2m
12 month price range	\$0.13 - \$0.785
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.49	0.49	0.16
Absolute (%)	-16.3	-16.3	156.3
Rel market (%)	-14.2	-17.7	171.2

Absolute Price



SOURCE: IRESS

Monty Resource - very high grade but smaller than expected

The Maiden Mineral Resource Estimate for the Monty Prospect in the Springfield Project in the Murchison of WA, which is a joint venture (JV) with Sandfire Resources (SFR, 70%), has been released. The total Resource is **1.1Mt at 9.4% copper and 1.6g/t gold for contained copper of 99kt and 55koz of gold that includes a massive sulphide component of 0.8Mt at 12.1% copper and 2.1g/t gold for contained copper of 92kt and 52koz of gold.** While the Resource is smaller than we were expecting, we believe it has been done quite conservatively (especially regarding treatment of the super high grade bornite mineralisation). The fact that 99% of the Resource is in the Indicated category confirms it has been done to a high standard, which makes it available for conversion to Ore Reserves.

With only four holes intersecting two interpreted separate lenses of high grade bornite mineralisation, SFR has been very careful to limit the extent of this material and we believe more detailed drilling (including a targeted structural drilling program) of this mineralisation may significantly increase the amount of this material and will assist in determining if there is a strategic opportunity to mine direct shipping ore (DSO).

High grade resource makes Monty very attractive development

SFR has commenced high level studies to aid in the identification of the main value drivers for the Monty deposit and determine the optimum development pathway for it. The results of those studies will be used to define the additional technical work and the scope of a Feasibility Study. Work programs currently underway include metallurgical testwork to define ore characteristics and determine the suitability of processing Monty ore through the DeGrussa concentrator; geotechnical and geo-hydrological drilling; mining studies; regulatory approvals; and infrastructure studies. Given the nature and proximity of Monty to DeGrussa, we think Monty could be in production by early FY18.

Regional exploration focus to be stepped up now

With the Maiden Resource Estimate now completed, the JV is focussing on exploration as a priority both within the Monty area and elsewhere in the Springfield JV. Current or planned exploration activities in the Monty area include aircore drilling of the interpreted VMS horizon; RC drilling with diamond tails along strike from Monty to test the host stratigraphy; diamond drilling to test areas down dip and down plunge of the Monty deposit; and DHEM of all RC and diamond holes. Regional exploration including RC and aircore drilling will target the Homer Corridor and the Southern Volcanics.

Investment thesis – Speculative Buy, Valn. \$0.88/sh (prev \$1.00)

The Maiden Resource at Monty confirms it is an exceptionally high grade copper-gold deposit. While smaller than we expected, the extremely high grade tenor of the resource makes Monty an extremely attractive deposit that warrants development being fast-tracked. The development studies underway indicate the JV is doing that while the exploration focus now moves to finding additional Monty-style deposits.

We have reduced our NPV-based valuation of TLM by 12% to \$0.88/share after adjusting our Monty valuation to reflect the Resource estimate. We see upside to the Monty Resource as it is further drilled out and in particular the nature and extent of the super high grade bornite mineralisation is better understood. 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 Mineral Resource estimate

Resource estimate confirms Monty is one of best VMS deposits

The Maiden Mineral Resource Estimate for the Monty Prospect in the Springfield Project in the Murchison of WA, which is a joint venture (JV) with Sandfire Resources (SFR, 70%), has been released. The total Resource is **1.1Mt at 9.4% copper and 1.6g/t gold for contained copper of 99kt and 55koz of gold that includes a massive sulphide component of 0.8Mt at 12.1% copper and 2.1g/t gold for contained copper of 92kt and 52koz of gold (Table 1)**. While the Resource is smaller than we were expecting, we believe it has been done quite conservatively (especially regarding treatment of the super high grade bornite mineralisation) and even so it confirms that Monty is one of the highest grade VMS deposits discovered in the last 30 years.

Table 1 - Monty Mineral Resource Estimate

	Ore (Mt)	Average Grades		Contained Metals.	
		Copper (%)	Gold (g/t)	Copper (kt)	Gold (koz)
Massive Sulphide – Indicated	0.754	12.0	2.1	91	51
- Inferred	0.009	20.7	2.7	2	1
- Total	0.763	12.1	2.1	92	52
Halo Mineralisation - Indicated	0.287	2.2	0.3	6	3
- Inferred	-	-	-	-	-
- Total	0.287	2.2	0.3	6	3
Total Resource - Indicated	1.041	9.3	1.6	97	54
- Inferred	0.009	20.7	2.7	2	1
- Total	1.050	9.4	1.6	99	55

SOURCE: TALISMAN MINING LTD

NOTE: CALCULATIONS ROUNDED TO NEAREST 1,000T, 0.1% COPPER GRADE 1,000T OF COPPER METAL, 0.1G/T GOLD GRADE, 1,000 OZ OF CONTAINED GOLD, AND DIFFERENCES MAY OCCUR DUE TO ROUNDING

The Monty Resource estimate has been completed by SFR's in-house geological team using Ordinary Kriging based on results from 82 diamond drill holes on a nominal 30m by 40m spacing. The drill spacing has provided sufficient confidence in the resource model to enable 99% of the mineralisation to be classified in the Indicated category that will enable the project to progress towards a maiden Ore Reserve estimate after completion of appropriate studies. The Monty mineralisation occurs in multiple sulphide lenses with two major and five subordinate massive sulphide lenses modelled for the Resource estimate that includes lower grade footwall mineralisation that is called Halo (Table 1 and Figure 1).

Super high grade bornite mineralisation treated conservatively

With only four holes intersecting the two interpreted separate lenses of high grade bornite mineralisation, SFR has been very careful to limit the extent of this material and we believe more detailed drilling (including a targeted structural drilling program) of this mineralisation may significantly increase the amount of this material and will assist in determining if there is a strategic opportunity to mine direct shipping ore (DSO).

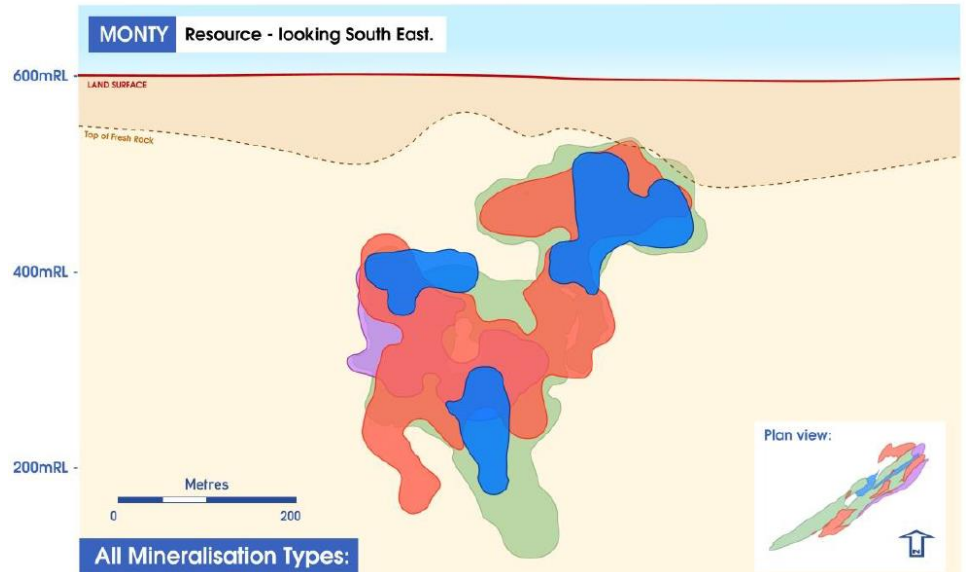
High grade resource makes Monty very attractive development

SFR has commenced high level studies to aid in the identification of the main value drivers for the Monty deposit and to determine the optimum development pathway for it. The results of those studies will be used to define the additional technical work and the scope of a Feasibility Study. Work programs currently underway include:

- Metallurgical testwork to define ore characteristics including an assessment of the suitability of processing Monty ore with ore from the existing DeGrussa deposits through the existing 1.6Mtpa DeGrussa concentrator;
- Geotechnical and geo-hydrological drilling;
- Mining studies;
- Regulatory approvals; and
- Infrastructure studies.

Given the seemingly very similar nature of the main massive sulphide mineralisation at Monty to the existing DeGrussa ore and the proximity of Monty to DeGrussa, we still think Monty's development can be fast-tracked and could be in production by early FY18.

Figure 1 – Long section of Monty showing massive sulphide lenses modelled for Resource

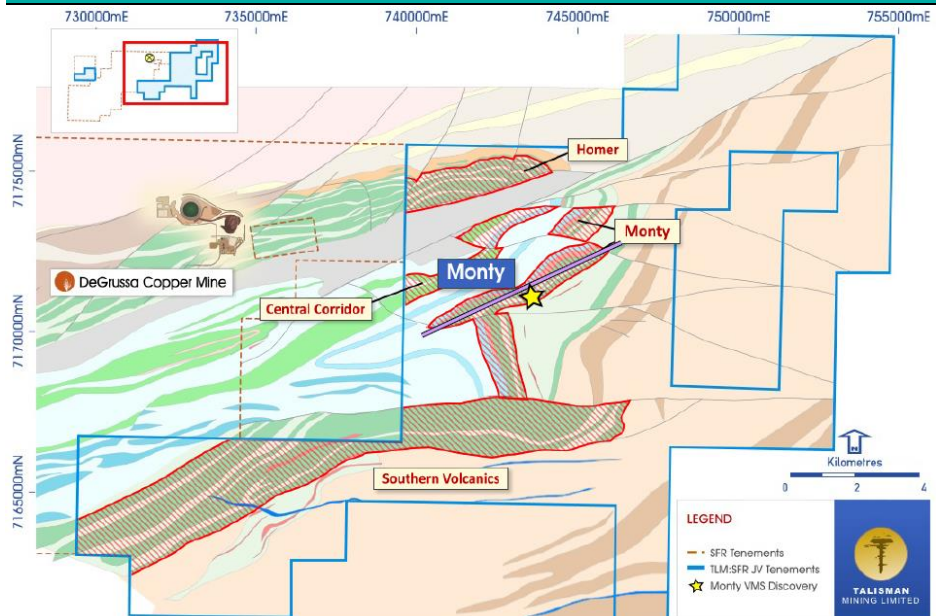


SOURCE: TALISMAN MINING NOTE: COLOURED SHAPES REPRESENT THE SEVEN MASSIVE SULPHIDE LENSES MODELLED FOR THE RESOURCE

Regional exploration focus to be stepped up now

With the Maiden Resource estimate now completed, the JV is focussing on exploration as a priority both within the Monty area and elsewhere in the Springfield JV. Current or planned exploration activities in the Monty area include aircore drilling of the interpreted Monty VMS horizon; RC drilling with diamond tails along strike from Monty to test the host stratigraphy; diamond drilling to test areas down dip and down plunge of the Monty deposit; and DHEM of all RC and diamond holes. Regional exploration including RC and aircore drilling will target the Homer Corridor and the Southern Volcanics (Figure 2).

Figure 2 - Map showing the geological setting of the multiple prospective corridors



SOURCE: TALISMAN MINING

12% reduction in TLM valuation

We have revised our valuations for TLM (Table 2). These revisions have incorporated the actual Mineral Resource estimate for Monty that is the basis for a revised (smaller scale, higher grade) potential mining operation for Monty.

Valuation reduced from incorporation of actual Monty Resource

Our risk weighted valuation for TLM (Table 2) has decreased by 12% to \$0.88 per share as a result of the reduction to our Doolgunna valuation. The revised Doolgunna valuation incorporates the impact of incorporating the actual Resource estimate for Monty into a revised potential Monty mining operation (which is based on a smaller but higher grade mining inventory related only to the massive sulphide mineralisation with a shorter mine life than previously assumed). We are now assuming the processing of Monty ore at a rate of around 200ktpa at a grade of around 12% copper yielding around 23ktpa of copper and around 10koz of gold in concentrate over about a four year mine life. With what we believe is understandably a very conservative stance taken on the estimate of the bornite mineralisation at Monty, we see considerable scope for the Monty Resource to be upgraded as the nature and extent of that bornite mineralisation is better defined and understood. This and ongoing drilling at Monty (such as the proposed structural drilling program) is likely to see the Monty Resource and therefore the mining inventory increased, allowing for an expanded rate and/or extended of mining at Monty.

As we believe TLM is now fully funded to see the Monty deposit in production, these valuations have not been further diluted by any additional equity other than the potential conversion of in-the-money share options (Table 2).

Table 2 – Summary of NPV-based valuations of TLM

	\$m	\$ per share¹
Exploration Assets – Doolgunna Project (TLM 30%)	114	0.61
- Sinclair Nickel Project	34	0.18
- Other	1	0.00
- Total	<u>148</u>	<u>0.80</u>
Administration	(8)	(0.04)
Net Cash and Options ²	<u>23</u>	<u>0.12</u>
Total Valuation	163	0.88

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD BECAUSE OF ROUNDING AND DILUTION EFFECTS.
2. INCLUDES EXERCISE OF IN-THE-MONEY OPTIONS.

Talisman Mining Ltd (TLM)

Company description

TLM will now have a 30% contributing interest in its Doolgunna Copper-Gold Project after the recent expenditure by its JV partner, SFR, has reached a level where it has now earned a 70% interest in the Project. The Project is in the Murchison district of Western Australia and comprises three individual projects collectively covering about 350km² adjacent to SFR's DeGrussa copper-gold mine. TLM and SFR have now collectively spent over \$43m on TLM's Doolgunna Copper-Gold Project over about the past five years. Drilling in the Springfield Project within the Doolgunna JV by SFR has discovered a high grade copper-gold deposit in massive sulphides in a VMS setting at the Monty Prospect, where studies into its development are underway and further drilling around it and in the surrounding area is continuing.

TLM also owns 100% of the Sinclair Nickel Project, which is also in the Murchison of Western Australia and which it purchased in early 2015. The Sinclair Project contains the recently well mothballed Sinclair nickel mine and associated treatment plant with infrastructure and extensive and highly prospective exploration tenements in the surrounding area. TLM recently carried out an initial exploration drilling program at Sinclair that discovered nickel sulphide mineralisation at the Delphi Prospect.

Investment Thesis – Speculative Buy, Valuation \$0.88/sh (prev. \$1.00/sh)

The Maiden Resource at Monty confirms it is an exceptionally high grade copper-gold deposit. While smaller than we expected, the extremely high grade tenor of the resource makes Monty an extremely attractive deposit that warrants development being fast-tracked. The development studies underway indicate the JV is doing that while the exploration focus now moves to finding additional Monty-style deposits.

We have reduced our NPV-based valuation of TLM by 12% to \$0.88/share after adjusting our Monty valuation to reflect the Resource estimate. We see upside to the Monty Resource as it is further drilled out and in particular as the nature and extent of the super high grade bornite mineralisation is better understood. Speculative Buy retained.

Valuation

Our valuation of TLM is based on risked sum-of-the-parts DCF-based valuations for TLM's interests in 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	Isotiriou
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 placements of \$8m in July 2015 and \$16.7m in March 2016 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 hold an interest (30,000 shares) in the securities of Talisman Mining Limited at the date of this report.