BELL POTTER

Speculative

See key risks on page 11. Speculative securities may not be suitable for Retail clients.

18 April 2017

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Talisman Mining Ltd (TLM)

Monty shines despite soft Feasibility Study

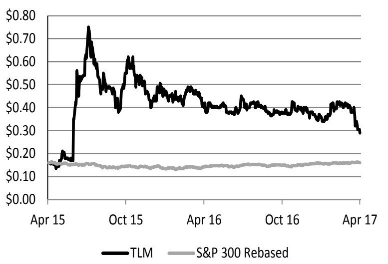
Recommendation
Buy (unchanged)
Price
$0.29
Valuation
$0.67 (previously $0.88)
Risk
Speculative

Expected Return	
Capital growth	131%
Dividend yield	0%
Total expected return	131%
Company Data & Ratios	
Enterprise value	$38m
Market cap	$54m
Issued capital	185.7m
Free float	70%
Avg. daily val. (52wk)	$99,000
12 month price range	$0.29 - $0.465
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.42	0.35	0.41
Absolute (%)	-31.0	-17.1	-29.3
Rel market (%)	-31.8	-18.0	-44.3

Absolute Price



SOURCE: IRESS

Overly cautious Monty development leaves lots of upside

The development proposal for the extremely high grade Monty copper-gold deposit in the Springfield Joint Venture (JV) with Sandfire Resources (SFR, 70% and manager) in the Murchison of WA shows Monty will be a fabulous operation, even if done according to what is an overly cautious development schedule in our view. With an indicated return on investment of around 80% even on the stated conservative development parameters, we are surprized the SFR-managed JV needs a year to produce first ore from the time the portal has been cut using a dedicated decline to access the Lower Zone at Monty, starting at a vertical depth of only about 180m below surface and with seemingly no major geotechnical issues. The decline won't even initially access the shallower, so-called lower grade ore, known as the Upper Zone (that is in the Ore Reserve at around 120kt averaging about 5% copper and 1g/t gold) in another cautious aspect of the planned mine development. Grade control drilling of the Upper Zone is planned after a suitable underground platform is established. We expect the Upper Zone will end up being significantly more extensive and could well end up being mined quite early in the planned underground mine development.

Ore Treatment Fee is much better than market appreciates

While the headline cost of about A$211/t for the Ore Treatment Fee (OTF) payable by TLM to SFR for all processing related expenses for its share of the Monty ore looks expensive, it is equivalent to about US$0.86/lb of payable copper and we believe it is a reasonable fee that has several market related components in it. One of the problems with understanding the reasonableness of the OTF lies with the fact that there are no other directly comparable examples of it in the public domain at present (and rarely ever are). While the market has some understanding of third party processing or toll milling of simple gold ores, it generally has no concept of the complexities and costs of treating base metal ores. The other problem with the headline number is that it looks high because it is quoted on a per tonne of ore basis, which means the extremely rich nature of Monty ore is a very small denominator to spread the total charges over.

Long overdue Monty exploration finally gets underway again

One interpretation of the Feasibility Study outcome and the proposed Monty mine development is that only the Lower Zone Ore Reserve will ever be mined, which we think is extremely unlikely, especially when there is clearly considerable upside to the Ore Reserve that sensible and active near mine and district exploration programs could help to unlock. After almost a year of virtually no serious exploration at Monty despite the previous commitment to it, exploration at Monty has finally resumed with a deep drilling program targeting depth and lateral extensions underway but major drilling and down hole EM surveys are needed on the other prospective VMS corridors.

Investment thesis – Speculative Buy, Valn. $0.67/sh (prev $0.88)

The Feasibility Study confirms Monty, even as currently defined by limited exploration, is an exceptionally high grade deposit that still has very substantial potential to be much bigger and/or be associated with significant additional Monty-style deposits. While nickel prices are soft, TLM's Sinclair has added value from regional optionality. We have reduced our NPV-based valuation of TLM by 24% to $0.67/share after incorporating a much slower and more expensive Monty development than we think is needed but we continue to see major upside for Monty and neighbouring prospective corridors in the Springfield JV. We retain our Speculative Buy recommendation.

Monty Feasibility Study very conservative

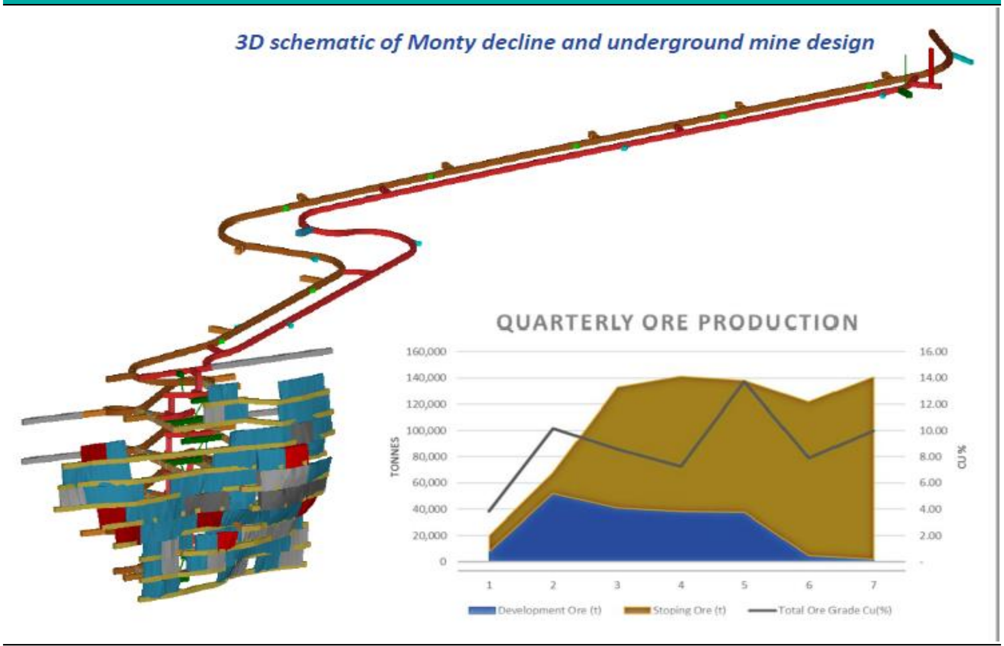
Mine plan takes the cautious route from the Lower Zone first

The Feasibility Study (FS) for the very high grade Monty copper-gold deposit in the Springfield JV (SFR 70% and Manager; TLM 30%) demonstrates that even taking what we regard as a very cautious approach to its development, it is a very attractive development proposition that will generate outstanding returns. TLM estimates the pre-tax NPV_8 of its 30% interest is A$46m and pre-tax IRR is 78%. Our contention that the FS has adopted a cautious approach to Monty's development is based on the fact that the proposed development only involves Lower Zone ore and allows for over 18 months to first ore.

Long time allowed in FS to get dedicated decline down into Upper Zone

We are surprised the FS has allowed a year from the time the portal has been cut to the production of the first ore using a dedicated decline to access the Lower Zone at Monty, which starts at a vertical depth of only about 180m below surface and with seemingly no major geotechnical issues. Based on a standard 1-in-7 design for the decline and using industry standard decline advance rates of around 350m per month, we would have thought the decline could easily be down to the top of the Upper Zone ore within about four months so we would have thought ore production should have been achievable within about half the time the FS allows. The decline to Lower Zone is a dedicated one and won't even initially access the Upper Zone. The FS has indicated, however, that underground grade control drilling will provide considerable clarity and assistance with the determination of the final mining schedule and potential extraction of the Upper Zone will be reassessed post project implementation as part of this process. Besides excluding potential value by excluding the Upper Zone, by adopting the "bottom up" mining method, the development also means there is a much longer delay to first significant cash flows than we had been anticipating, which potentially lowers the project's value. First ore is scheduled for the fourth quarter of 2018 assuming development gets underway around June 2017 and decline development commences in the fourth quarter of 2017. With most of the permitting received, we believe this is an extraordinarily generous development timeframe that is readily capable of being achieved in a considerably shorter time.

Figure 1 – Schematic 3D depiction of proposed mine development for Monty



SOURCE: TALISMAN RESOURCES LTD

Maiden Ore Reserve captures very high percentage of Mineral Resource

A Maiden Ore Reserve has been estimated for Monty as part of the FS, which is 920kt averaging 8.7% copper and 1.4g/t gold (Table 1), representing a very high conversion rate from the Mineral Resource Estimate announced on 13 April 2016 (Table 2).

Table 1 - Monty Ore Reserve Estimate and Mine Plan (100% basis)

Reserve Category	Tonnage (kt)	Average Grades Copper (%)	Gold (g/t)	Contained Metals. Copper (kt)	Gold (koz)
Proved	-	-	-	-	-
Probable	920	8.7	1.4	80	42
Total	**920**	**8.7**	**1.4**	**80**	**42**
Mine Plan	**800**	**9.4**	**1.5**	**74**	**38**

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; DIFFERENCES MAY OCCUR DUE TO ROUNDING

Table 2 - Monty Mineral Resource Estimate (100% basis)

	Tonnage (Mt)	Average Grades Copper (%)	Gold (g/t)	Contained Metals. 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; DIFFERENCES MAY OCCUR DUE TO ROUNDING

The Ore Reserve confirms that Monty is one of the highest grade VMS deposits discovered in the world over about the past 30 years.

Mine Plan excludes shallow Upper Zone ore (5% Cu and 1g/t Au not good enough?)

Of the Ore Reserve, 800kt averaging 9.4% copper and 1.5g/t gold is included in the Mine Plan but the Upper Zone has been excluded. The component of the Ore Reserve which is not in the Mine Plan amounts to 120kt at about 5% copper and 1g/t gold, which largely relates to the so-called lower grade ore in the Upper Zone. While we note the FS describes the Upper Zone as having “marginally positive economics”, the Upper Zone has a higher grade than the grade of ore currently being mined by SFR at DeGrussa. The FS envisages that there will be a 30-month period of production at rates up to about 400ktpa of ore. We strongly expect that with additional ore likely to be found in the Lower Zone, (especially in the area of the extremely high grade bornite mineralisation for which there are very tight limits on its current extent as reflected in the Ore Reserve), along with the likely mining of the Upper Zone and discovery of additional ore at depth and laterally, ore production will extend well beyond 30 months. We expect that the extremely high grade bornite zone will end up being much more extensive than the current very tight limits assumed for it on the basis of the limited amount of drilling used to define it. We understood that the JV was going to carry out significant additional definition drilling of the bornite mineralisation but this does not seem to have occurred as there has not been any revision to the Maiden Mineral Resource estimate since its release on 13 April 2016.

Capital cost also seems to leave scope for development coming in under budget

The estimated pre-production capital cost for Monty is around A$73m, which is quite a lot more than our estimate (of around $55m), despite the much more favourable costs of mining project development currently prevailing. With contract mining operators still offering very competitive terms, especially for a project of the quality of Monty, we would expect the Monty development will come in well under that budget unless the scope of the development is significantly expanded to reflect subsequent exploration success or a change of approach to the Upper Zone. Apart from the need for a haul road from Monty to the DeGrussa treatment plant and with only minimal capital expenditure needed to enable the Monty ore to be processed at the DeGrussa treatment plant, the bulk of the capital expenditure for Monty will be used for decline and mine development.

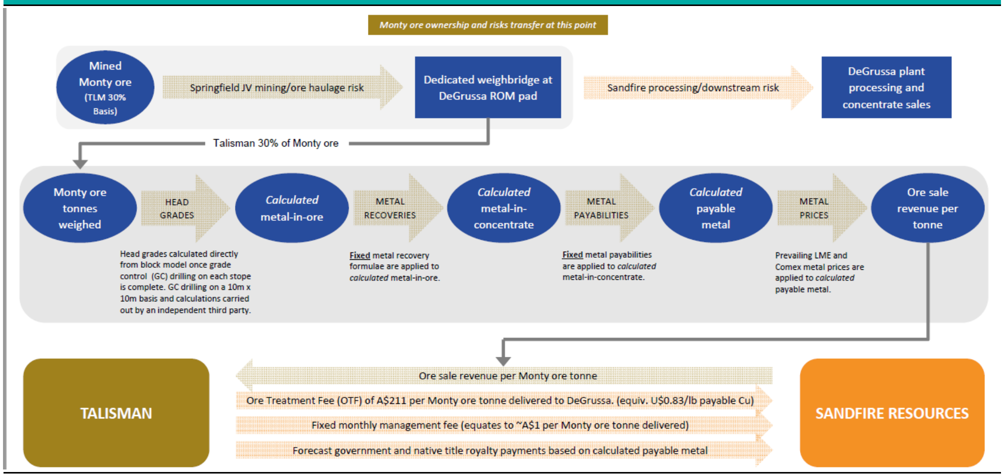
Monty's quality drives strong interest from financiers to debt fund to 100% of capex

Reflecting the very high grade and quality of the Monty ore, TLM is in final discussions with a short list of potential financiers to debt fund up to 100% of its 30% share of the planned capex for Monty. TLM's estimated share of pre-production capex is about $22m. In addition to that capex amount, TLM will need to contribute its share of working capital for the JV to cover concentrate build up and related initial production aspects, which we estimate at a maximum of up to $5m. TLM is continuing to fund its share of expenditure on the residual aspects of the Feasibility Studies and permitting plus exploration incurred by the JV. TLM had cash of $15.5m at 31 December 2016 and we estimate it currently has cash reserves of about $14m.

Ore Purchase and Sale Agreement (OPSA) is key agreement

Up to this stage of the Springfield JV, the activities by SFR and TLM have been governed by a Farm-In Letter Agreement signed on 20 December 2013. That Farm-In Letter Agreement has now been superseded by three newly executed agreements – an Exploration Joint Venture Agreement (EJVA); a Mining Joint Venture Agreement (MJVA); and an Ore Purchase and Sales Agreement (OPSA). While all three new agreements are important, we regard the OPSA as the key one at this time as it covers the sale of TLM's share of the ore mined from Monty and any mineralised extensions to the Monty deposit to SFR for subsequent treatment at SFR's DeGrussa treatment plant. We see the OPSA as the key agreement for TLM in the development of Monty as it allows TLM to proceed with the funding and management of its 30% share of the JV. The planned workings of the OPSA and MJVA arrangements are summarised and depicted schematically in Figure 2.

Figure 2 – Schematic summary of the OPSA and MJVA mechanics



SOURCE: TALISMAN MINING LTD

Ore Treatment Fee (OTF) is critical component of OPSA and is on reasonable basis

TLM is charged an Ore Treatment Fee (OTF) by SFR, which in essence covers the total charges for all steps in the processing and sale of ore from the point it is delivered to SFR's DeGrussa ROM pad through to metal realisation. That means it covers all the costs from the moment the ore is delivered to the ROM pad through to saleable metal. This includes the processing of the ore through the DeGrussa plant at an assumed recovery rate related to extensive metallurgical testwork by SFR and TLM consultants and regardless of what SFR actually achieves; the transport of the resulting concentrates to port; the shipment of the concentrates to the smelter; and the treatment charges (TCs) and refining charges (RCs) related to the smelting and refining of the concentrates to turn them into metal. The OTF includes a charge which recognise the use of SFR's DeGrussa plant and infrastructure (which works out at about A$0.25/lb of contained metal); and a charge for general and administrative costs. Overall the OTF provides for TLM to receive a high copper payability of about 89% of the contained copper in the ore. The OTF is the key component of the OPSA, which governs the purchase of TLM's share of Monty ore at the point it is delivered to the DeGrussa ROM pad. The various cost parameters under the OPSA have been set on a per tonne basis (Table 3), which are adjustable relative to agreed market-related benchmarks.

Table 3 – Forecast operating cost items for TLM's 30% share of Monty (as per Feasibility Study)

Operating item	A$M	A$/t ore
Underground mining	28.8	120.5
Ore transport to DeGrussa	1.4	5.8
Ore Treatment Fee (OTF)	50.4	211.0
Sandfire management fee	0.2	1.0
Royalties	8.1	34.0
Total operating cost	**88.9**	**372.3**

SOURCE: TALISMAN MINING LTD

While the headline cost of about A$211/t for the Ore Treatment Fee (OTF) payable by TLM to SFR for all processing related expenses for its share of the Monty ore looks expensive, it is equivalent to about US$0.86/lb of payable copper and we believe it is a reasonable fee that has several market related components in it. One of the problems with understanding the reasonableness of the OTF lies with the fact that there are no other directly comparable examples of it in the public domain at present (and rarely ever are). While the market has some understanding of third party processing or toll milling of simple gold ores, it generally has no concept of the complexities and costs of treating base metal ores. The other problem with the headline number is that it looks high because it is quoted on a per tonne of ore basis, which means the extremely rich nature of Monty ore is a very small denominator to spread the total charges over. The OTF means that TLM receives the following outcomes:

- About 92.8% recovery of copper into concentrate, (which is based on extensive SFR and independent metallurgical testwork);
- Approximately 95.8% copper payability from concentrate (which reflects the expected clean and high quality nature of the concentrate that has no significant deleterious elements); and
- Overall copper payability of about 89% reflecting current smelting and refinery charges.

We believe that overall the OTF is a reasonable outcome for TLM as it delivers a sensible processing outcome at a comparatively competitive rate compared to what SFR currently achieves at its DeGrussa operation (Table 4).

Table 4 - Comparative ore treatment costs and charges for TLM's share of Monty and DeGrussa

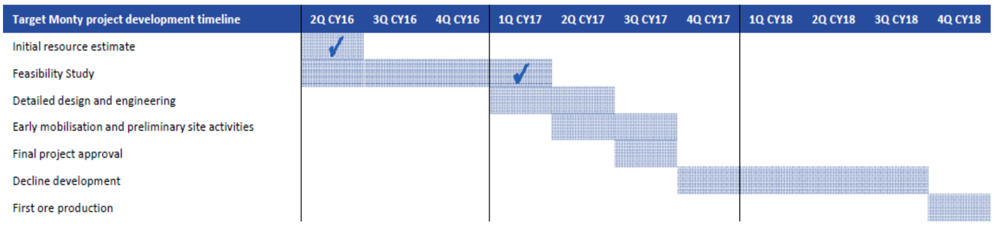
	DeGrussa* (4.70%)	Monty** (9.35%)
Costs	**A$/lb Cu**	**A$/lb Cu**
Mining	0.50	0.65
Haulage	-	0.03
OTF (or equivalent)	1.20	1.16
Production cost (pre by-product credit)	**1.70**	**1.84**
By-product credit (Au, Ag)	(0.45)	(0.28)
Notional C1 Production cost	**1.25**	**1.56**
Royalties	0.16	0.19
Notional Cash Production Cost	**1.41**	**1.75**
Depreciation & amortisation	0.69	0.64
Notional C3 Total Production Cost	**2.10**	**2.39**

SOURCE: TALISMAN MINING LTD NOTES: * DEGRUSSA COSTS AS PER PUBLISHED USD QUARTERLY DATA CONVERTED AT AVERAGE US$/A$ RATE OF 0.744 FOR CY2016
** BASED ON LOM COSTS FOR TLM'S 30% INTEREST IN MONTY AS PER FEASIBILITY STUDY ASSUMPTIONS

Surprisingly long development timeframe should be easy to beat

Given the simple nature of the proposed development of the Monty mine and its proximity to the well-established infrastructure of SFR's DeGrussa operation, the development timeframe (Figure 3) is much longer than we expected and we believe it should be easy to beat. We particularly note that the development timeframe allows 12 months for the decline to access the Monty orebody, which seems to allow a lot of time for construction of the dedicated decline to get to the top of the Lower Zone ore at a vertical depth of about 180m, particularly as there have not been any major geotechnical issues indicated to date.

Figure 3 - Projected time frame for Monty development

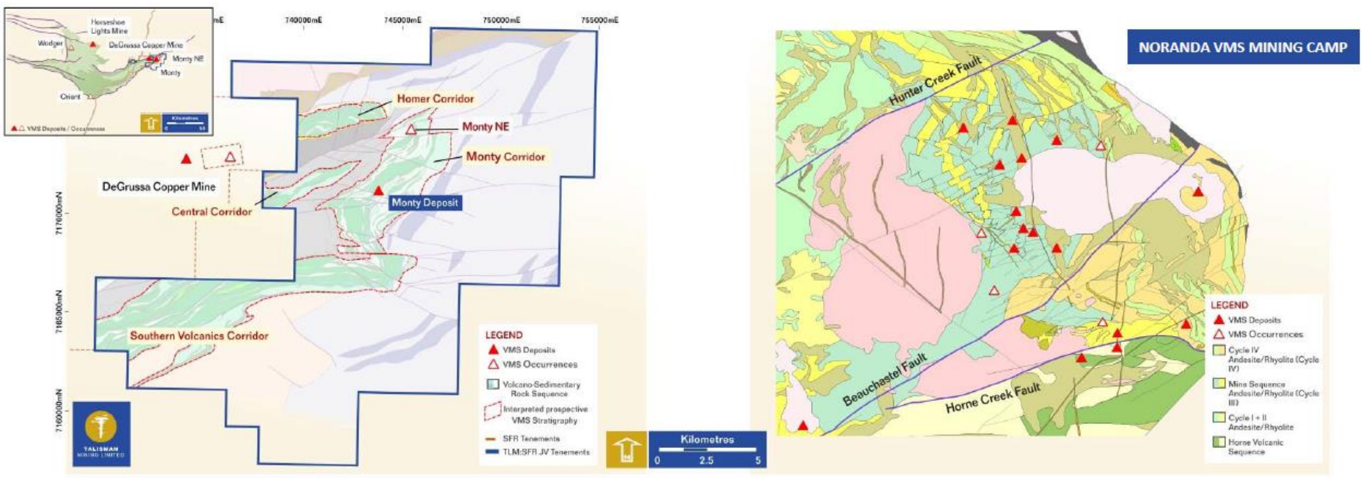


SOURCE: TALISMAN MINING LTD

Exploration being fired up again after long period of inactivity

Since the discovery of the Monty deposit in mid-2015, the JV has focused on defining the immediate extent of the deposit and estimating an initial Mineral Resource. So far 93% of all the diamond holes drilled by the JV have been devoted to that task. As a result, RC and diamond drilling outside the defined mineralisation envelope at Monty has been very limited, with only 5,200m of diamond drilling having been done outside the Monty mineralisation envelope. This relatively low level of exploration activity over the past year or so is a poor reflection of the significantly enhanced prospectivity that has been demonstrated in the Doolgunna district, which now hosts three significant, high grade VMS style deposits (DeGrussa, Monty and the historic Horseshoe Lights). As illustrated in the world class Noranda VMS mining camp in Quebec, Canada, VMS mineralisation occurs at multiple stratigraphic levels within a prospective sequence (Figure 4). Exploration in the Doolgunna area of the Bryah Basin has shown that it contains multiple prospective VMS horizons with the three VMS deposits discovered there so far now being interpreted to be at different stratigraphic levels within the same prospective volcanic and sedimentary rock sequence (Figure 4).

Figure 4 – Geological map showing setting of multiple prospective corridors at Doolgunna in comparison to prolific Noranda camp



SOURCE: TALISMAN MINING

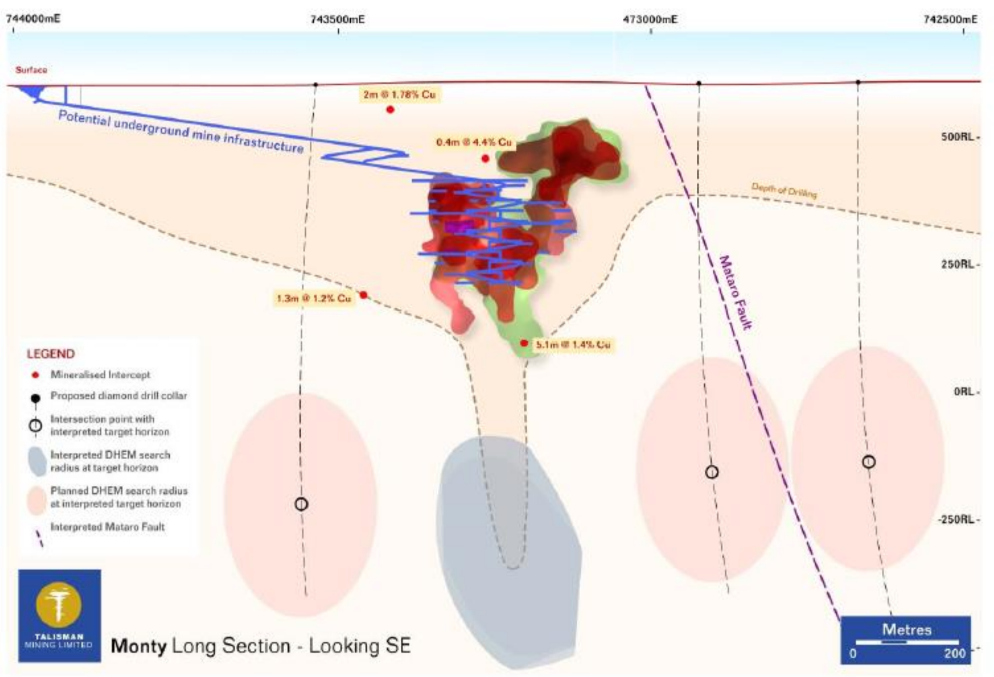
16km long Southern Volcanics Corridor represents high priority target area

The Southern Volcanics Corridor is the longest of the four main VMS Corridors in the Springfield JV at 16km long but it has only been lightly explored up to date. While the Southern Volcanics have had early stage aircore drilling, there have only been five RC drill holes there and no diamond drilling has been done so far. TLM regards the Southern Volcanics Corridor as a priority target area.

Near mine exploration being stepped up at Monty

Near mine exploration is being stepped up at Monty with the first of three planned deep diamond drill holes incorporating DHEM surveys now underway to test for depth and lateral extensions of the Monty mineralisation (Figure 5). RC pre-collars for the first two holes have been completed and the diamond tail for the first of the holes recently commenced. Each of the holes are planned to be drilled to a down hole depth of about 1,400m and the holes will be used to provide additional DHEM platforms to test for mineralised zones that could potentially be accessed from the proposed Monty mine infrastructure.

Figure 5 – Cross section of Monty deposit showing planned location of three deep drill holes



SOURCE: TALISMAN MINING LTD

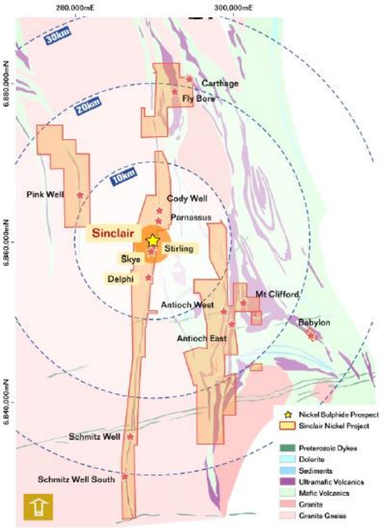
Super high grade bornite zone likely to get attention in due time

The lowermost massive sulphide lens (Lower Zone) contains two zones of spectacular high grade bornite-rich mineralisation, which is not seen at DeGrussa. The bornite mineralisation is referred to as bornite domains. The bornite domains are comprised of bornite, chalcopyrite and pyrite with very minor sphalerite, galena and tennantite and they are characterised by exceptionally high copper grades throughout. Although the JV had previously indicated it would carry out a significant amount of detailed definition drilling of the super high grade bornite mineralisation at Monty, that does not seem to have occurred to any great extent and we now expect that this spectacular mineralisation will be evaluated in more detail in due course, most likely in the course of the underground grade control drilling prior to commencement of mining. Because of its spectacularly high grades, there is potential for direct shipping ore (DSO) to be produced, the financial arrangements for which we understand would be covered under a specific DSO sale agreement in the event that DSO production is deemed appropriate.

Nickel assets have enhanced strategic infrastructure value

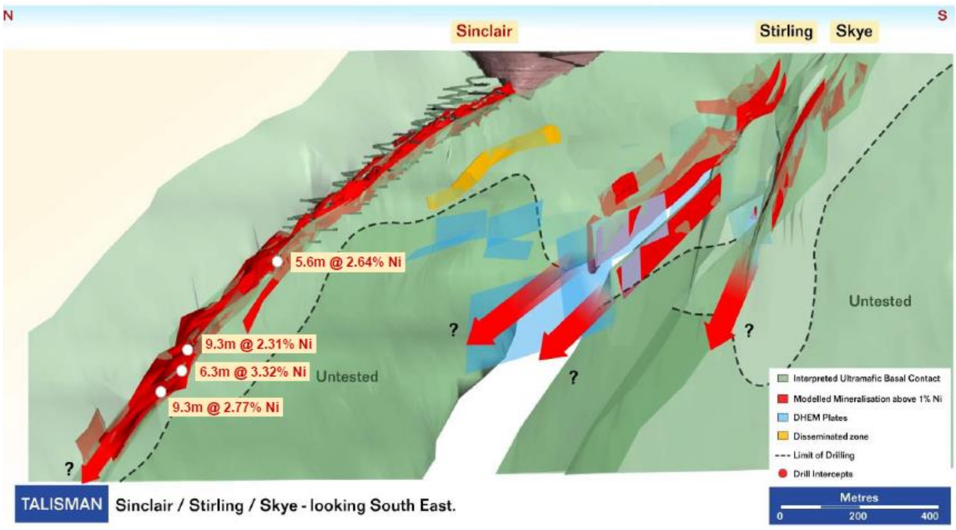
While there has been prolonged weakness in the nickel price, which has detracted from the advances TLM has made in its initial exploration programs at its Delphi Prospect near Sinclair where it has intersected Sinclair style nickel sulphide mineralisation (Figures 6 and 7), we believe this has been offset by the enhanced strategic value of the Sinclair processing infrastructure given recent developments in the surrounding district. These recent developments include discoveries of nickel sulphide mineralisation at Mt Alexander (by the St George Mining – Western Areas JV located about 65km to the southeast of Sinclair) and at the Camelwood/Cannonball/Musket deposits in the Fisher East district (owned by Rox Resources) and potential reactivation of exploration at the Collurabie nickel-copper deposits (located about 70km due east of the Fisher East nickel and gold projects) following the recent change of ownership (involving the acquisition by Rox Resources). There are also several active gold projects in the district around Sinclair that could potentially be interested in using Sinclair's processing infrastructure.

Figure 6 - TLM's Sinclair nickel projects



SOURCE: TALISMAN MINING LTD

Figure 7 - Schematic representation of Sinclair-Stirling-Skye nickel mineralisation



TALISMAN MINING LTD

Valuation down 24%, hurt by time to first ore

We have revised our valuations for TLM after allowing for a considerably longer development timeframe and higher capital expenditure than we were expecting (Table 5).

Our risk weighted valuation for TLM has decreased by 24% to $0.67 per share as a result of these changes. We have retained our valuation of the company's nickel assets on the basis that although there has been prolonged weakness in the nickel price, this has been offset by the enhanced strategic value of the Sinclair processing infrastructure given recent developments in the surrounding district.

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 (on basis of valuation) share options.

Table 5 – Summary of NPV-based valuations of TLM

	$m	$ per share[1]
Exploration Assets – Doolgunna Project (TLM 30%)	83	0.43
- Sinclair Nickel Project	34	0.17
- Other	1	0.00
- Total	117	0.60
Administration	(8)	(0.04)
Net Cash and Options[2]	20	0.10
Total Valuation	**129**	**0.67**

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 has a 30% contributing interest in the Doolgunna Copper-Gold Project in the Murchison district of Western Australia which comprises three individual project areas collectively covering about 350km^2 adjacent to SFR's DeGrussa copper-gold operation. The Springfield Project is the principal area of the Doolgunna Project, which contains the very high grade Monty copper-gold deposit and several advanced exploration areas. TLM and SFR have now collectively spent over $50m on the Doolgunna Project over about the past six years, the vast majority of which has been on the Springfield Project. Drilling in the Springfield Project has discovered the very high grade Monty copper-gold deposit in massive sulphides in a VMS setting. A Feasibility Study that we believe uses quite conservative assumptions for the development of Monty has demonstrated the economic and technical viability of an underground mine planned to deliver first ore to the nearby DeGrussa processing plant of SFR by the fourth quarter of 2018 while exploration drilling in and around Monty for additional ore and in the surrounding area for further VMS deposits is resuming.

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 strategic Sinclair nickel mine and associated treatment plant (currently on care and maintenance) with infrastructure and extensive and highly prospective exploration tenements in the surrounding area. Sinclair has enhanced value following regional nickel and other minerals discoveries. TLM continues targeted exploration including drilling near Sinclair that has discovered nickel sulphide mineralisation at the Delphi Prospect.

Investment Thesis – Speculative Buy, Valuation $0.67/sh (prev. $0.88/sh)

The Feasibility Study confirms Monty, even as currently defined by limited exploration, is an exceptionally high grade deposit that still has very substantial potential to be much bigger and/or be associated with significant additional Monty-style deposits. While nickel prices are soft, TLM's Sinclair has added value from regional optionality. We have reduced our NPV-based valuation of TLM by 24% to $0.67/share after incorporating a much slower and more expensive Monty development than we think is needed but we continue to see major upside for Monty and neighbouring prospective corridors in the Springfield JV.

We retain our Speculative Buy recommendation.

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 assessed valuations for the considerable exploration value in the Doolgunna and Sinclair Projects.

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, 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 Feasibility Study on the Monty copper-gold deposit has involved extensive mining and metallurgical studies that have shown that its ore is readily amendable to conventional mining and metallurgical processing with relatively high recovery and payability rates. The mining and metallurgy of the Sinclair nickel deposit is well understood from previously successful operations and it is expected that additional nickel mineralisation found in the surrounding district will have similar favourable 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. Adverse mining and metallurgical characteristics may result from investigations of new ore discoveries 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.

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Peter Arden owns 30,000 shares in TLM.

Disclosure: Bell Potter Securities acted as Lead Manager for the placement of $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.