

## CASHFLOW APPROACHING; UPSIDE FROM NEAR MINE EXPLORATION

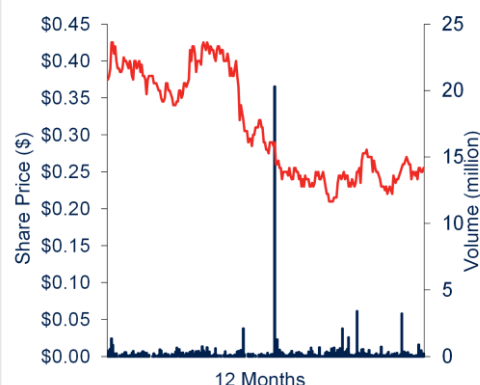
### Investment Highlights

- **We are initiating coverage of Talisman Mining Limited (TLM) with a Speculative Buy rating and \$0.50/sh price target.** TLM is focussed on its Springfield JV (TLM 30%) where Sandfire Resources (SFR) is currently developing the Monty mine which is expected to deliver first cash flow within the next 12 months. Importantly, SFR and TLM have agreed to an Ore Sales Agreement (OSA) whereby TLM is paid for its share once Monty ore is delivered to a purpose built weigh bridge at the Degruessa mine located 10km away. The agreement is structured in such a way that the Ore Treatment Fee (OTF) is transparent and commercial. We see significant upside through further near mine discoveries at Monty with numerous untested targets identified for follow-up. Importantly, TLM has a well - respected exploration team who work in partnership with SFR. Therefore, TLM is well placed to benefit from any future discoveries on the JV ground.
- **Monty: First Cashflow within 12 months:** The development of the Monty mine has commenced and is expected to deliver first production within the next 12-months. The Monty feasibility looked at a 30-month mine life producing 74kt Cu and 38.3koz of Au (100%). We note the copper grades at Monty are amongst the highest in the world (c.9%). Importantly, TLM has essentially secured the use of the Degruessa processing plant without the need to build a standalone plant which would likely be at a significantly higher cost. TLM has secured a US\$20m Project Finance Facility from Taurus Mining Finance Fund which should cover its \$22m upfront commitment.
- **Strong Free-cashflow Generation:** Based on our assumptions we estimate free cash flow (pre-tax) of \$84.5m over the 30-month life (TLM's share). Importantly, TLM has \$44m in tax losses which means that it is unlikely to pay tax over the current life at Monty. We note copper prices are currently 12% higher than those used in the feasibility albeit the exchange rate is currently 5% higher having a slight negative impact.
- **Near Mine Exploration upside key to expanding Monty:** With numerous untested targets near Monty and within the Springfield JV this provides significant upside. For example, we calculate that another year of production from Monty would add \$0.24/sh to our target price. During the December Q, the JV plans to test Monty North-East, Monty East and selected geochemical anomalies in the Southern Volcanics and Homer prospects.

Year End June 30	2017A	2018F	2019F	2020F
Reported NPAT (\$m)	(8.7)	(7.8)	14.6	31.5
Recurrent NPAT (\$m)	(8.7)	(7.8)	14.6	31.5
Recurrent EPS (cents)	(4.7)	(4.2)	7.9	17.0
EPS Growth (%)	na	na	na	115.4
PER (x)	(5.3)	(5.8)	3.1	1.4
EBITDA (\$m)	(8.8)	(7.4)	23.2	44.0
EV/EBITDA (x)	(3.9)	(8.2)	1.9	0.1
Capex (\$m)	1.5	20.0	3.7	2.3
Free Cashflow	(8.6)	(30.9)	16.4	41.7
FCFPS (cents)	(4.7)	(16.7)	8.8	22.4
PFCF (x)	(5.3)	(1.5)	2.8	1.1
DPS (cents)	0.0	0.0	0.0	2.0
Yield (%)	0.0	0.0	0.0	8.2
Franking (%)	100.0	100.0	100.0	100.0

8 November 2017		
12mth Rating	SPECULATIVE BUY	
Price	A\$	0.245
Target Price	A\$	0.50
12mth Total Return	%	102.9
RIC: TLM.AX		BBG: TLM AU
Shares o/s	m	185.7
Free Float	%	88.5
Market Cap.	A\$m	45.5
Net Debt (Cash)	A\$m	-7.3
Net Debt/Equity	%	na
3mth Av. D. T'over	A\$m	0.08
52wk High/Low	A\$	0.43/0.21
2yr adj. beta		0.86
<b>Valuation:</b>		
Methodology		DCF
Value per share	A\$	0.50
<b>Analyst:</b>		Simon Tonkin
<b>Phone:</b>		(+61 8) 9225 2816
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### 12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	4.2	2.0	-32.4
Rel. S&P/ASX 300	-0.7	-6.5	-44.3

## SUMMARY

We are initiating coverage of Talisman Mining Limited (TLM) with a Speculative Buy rating and price target of \$0.50/sh. The Company is exposed to copper through its 30% interest in the Monty mine which is expected to reach cashflow within the next 12 months. TLM has signed a competitive Ore Sales Agreement (OSA) and secured the necessary debt funding to finance its portion of upfront capital. We see the potential for significant near mine exploration upside with an additional 12 months of production at Monty worth \$0.24/sh. In addition, there are a number of regional targets that will be tested this quarter which may yield a discovery. Furthermore, the Degruessa's mine life is around 4 years at current production rates and SFR is acutely aware of the need for a new discovery. Therefore, it is in SFR's best interest to search TLM's highly prospective ground for further VMS discoveries. In addition, TLM owns 100% of the Sinclair nickel project which it paid \$8m in 2014 and recently acquired some tenements (100%) near Cobar in NSW.

## VALUATION

We have determined a Net Asset Value (NAV) of \$0.50/sh for TLM. We have based our Monty valuation of \$43m or \$0.28/sh (post-tax) in accordance with the Monty Feasibility Results released on 6 April 2017 using our pricing estimates. The feasibility presented a 30-month mine plan producing 74kt of copper, 38.3koz of gold and associated silver credits. We have assumed preproduction capital (100%) of \$72.5m with \$18.4m in sustaining capital and \$3.2m in closure costs. Notional C1 cash costs (pre-royalties) were estimated at a Life-of-Mine (LOM) average \$1.56/lb with AISC of \$1.90/lb. We have assumed the terms of the Ore Sales Agreement with payment given (based on 10x10 resource drilling) at the purpose built weighbridge at Degruessa. The Ore Treatment Fee is approximately \$211/t with fixed recoveries and payability. Based on TLM's work the suggested implied usage charge for using the Degruessa processing plant is c.\$11m. We believe this is reasonable given that the plant had to be adjusted to treat the Monty ore due to its elevated copper grades (9%). We have assumed that TLM's share of upfront capital (\$22m) is funded via debt in accordance with the terms of the Taurus Finance Facility. Key terms are: 1) Interest rate of 6.75%pa payable quarterly in arrears 2) Principal outstanding is repayable in quarterly instalments commencing 30 June 2019 and ending 30 September 2020. 3) A royalty of 2.25% of Talisman A Pty Ltd's gross payable copper and gold metal-in-ore sales receipts from Monty. 4) The obligation to pay the royalty ceases once the Company has received revenue from Monty sales containing 29,700t of copper and 16,500oz of gold. 5) No mandatory copper or gold hedging requirements.

We have assumed a value of \$12m for TLM's Sinclair Nickel project considering that the Company paid \$8m in 2014. The project has extensive infrastructure and includes a substantial 290km<sup>2</sup> tenement package covering more than 80km strike of prospective ultramafic contact within a 35km radius of an existing processing plant and infrastructure. The project has several targets with solid nickel intercepts including: Delphi North and Schmitz Well South.

TLM has \$44m in tax losses which suggests that it should not pay tax based on the current mine life. We value the benefit of those tax losses based on the current mine schedule at \$20m or \$0.13/sh.

Exploration is valued at \$5m. Based on our calculations an additional year (12 months) of mine life at Monty is worth c. \$45m or \$0.24/sh to TLM.

Figure 1: TLM Valuation

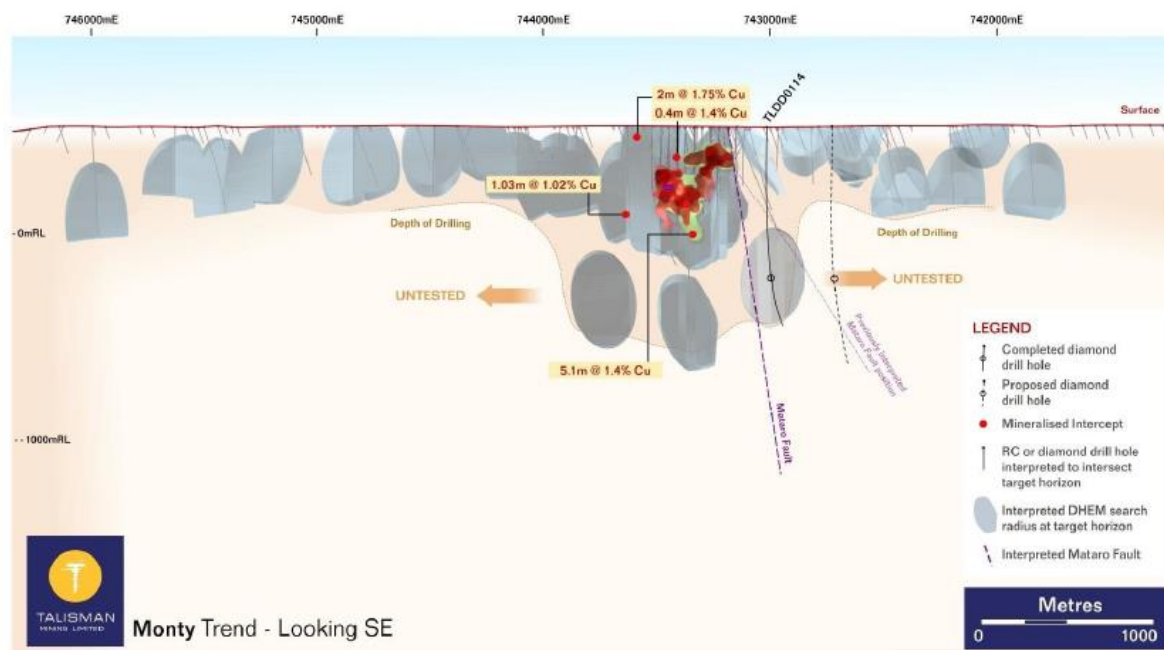
Valuation	A\$m	A\$/sh
Monty (post tax)	43	0.28
Sinclair	12	0.08
Exploration	5	0.03
Forward Sales	0	0.00
Equity Investment	0	0.00
Corporate	(10)	(0.06)
Unpaid Capital	0	0.00
Tax Losses	20	0.13
Debt	0	0.00
Cash	7	0.05
<b>NAV @ 8% Discount Rate</b>	<b>77</b>	<b>0.50</b>
<b>Price Target</b>	<b>77</b>	<b>0.50</b>

Source: Patersons Securities Limited

## Exploration Upside the Key

Our analysis confirms that near-mine exploration has significant upside for TLM. Therefore, we highlight in Figure 2, the key areas which the JV plans to test including: 1) Lower Zone growth potential with grade control drilling 2) potential for excluded upper zone to enter the mine plan with grade control drilling 3) further exploration at depth. Figure 4, shows the untested areas within the 8km trend at Monty.

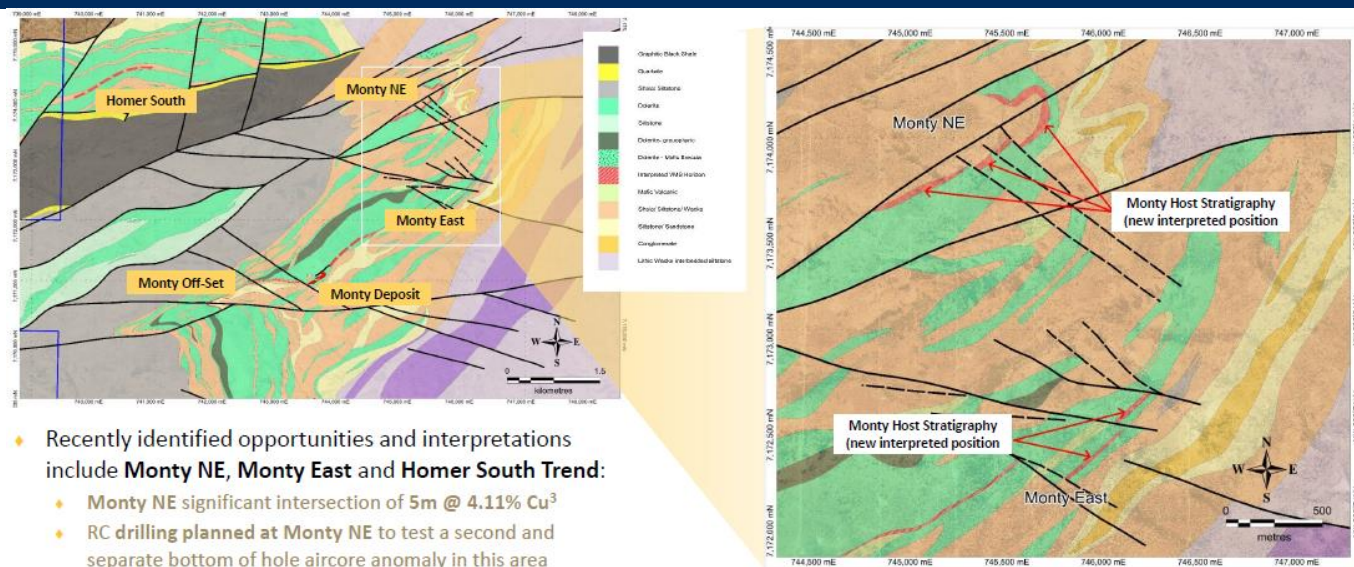
Figure 2: Monty Trend – 8km trend within Monty Corridor



Source: Talisman Mining Limited

We note that the Springfield JV exploration budget has been approved for the December Q 2017. The JV plans to test the following targets (Figure 3): 1) Reverse circulation (RC) drilling to further test Monty North East (Monty NE) air-core anomaly of 5.0m at 4.11% Cu (including test of recently identified IP anomaly); 2) RC drilling to test Monty East interpreted host position; 3) RC drilling of selected geochemical anomalies in the Southern Volcanics; and 4) Air-core drilling to test the Homer South host position.

Figure 3: Prospects to be Tested in the December Q



Source: Talisman Mining Limited

## COMPANY BACKGROUND

In 2010, TLM sold its Wonmunna and Uaroo iron ore projects in Western Australia in a deal that realised \$34.25m in cash for the Company. This enabled the Company to spend more than \$20m on its Springfield project during 2011-13 searching for Degruessa-style VMS ore bodies. Whilst the Company yielded some interesting gold and copper results it decided in December 2013 to enter into a farm-out arrangement on the project whereby nearby copper producer Sandfire Resources (SFR) would spend \$15m to earn 70%. The thesis was that SFR could apply its knowledge and understanding from its discovery of the Degruessa Copper-Gold mine to the Springfield project. In June 2015, SFR announced the Monty discovery hole which returned 16.5m at 18.9% Cu and 2.1g/t Au from 409m. Over the next 6-8 months drilling continued resulting in the delineation of a maiden (JORC 2012) Indicated and Inferred Mineral Resource of 1.05Mt at 9.4% Cu and 1.6g/t Au for 99,000t of contained copper and 55,000oz of contained gold at Monty in April 2016. Furthermore, a feasibility study was completed in April 2017, resulting in a Probable Ore Reserve of 0.92Mt at 8.7% Cu and 1.4g/t Au, and expected financial returns (TLM's 30% share) of A\$64M pre-tax cash flow, pre-tax NPV of A\$46M and 78% pre-tax IRR. In the September Q 2017, the Monty decline and portal commenced with first production expected in the December Q 2018. Given the outstanding copper grades at Monty this is expected to yield c.\$30m per annum for TLM. In addition, there remains a number of follow-up targets surrounding Monty which the Springfield JV plans to test in the December Q. Further exploration success here would benefit both companies with SFR looking to add mine life at Degruessa.

In 2015, TLM acquired the Sinclair Nickel Project from Glencore (Xstrata) by the payment of \$8m in cash. The project has extensive infrastructure including an existing open-cut and underground mine, an on-site 300ktpa concentrator, sealed airstrip and +200 person accommodation village. The Sinclair nickel deposit was discovered by the former highly successful nickel miner and explorer, Jubilee Mines NL, in October 2005. It was developed and commissioned in 2008 by Xstrata and operated successfully before being placed on care and maintenance in August 2013, having produced approximately 38,500t of nickel at an average life-of-mine head grade of 2.44% Ni.

In 2017, TLM acquired 100% owned tenure over highly prospective and relatively under-explored base and precious metals areas in the Cobar Basin region of New South Wales (Figure 4). Two areas of vacant ground were pegged for new mineral exploration licenses, with the first tenement covering approximately 750km<sup>2</sup> being granted in late June 2017. The areas are interpreted to be prospective for orogenic and VMS style copper-gold and poly-metallic base metal mineralisation, with numerous recorded mineral occurrences at surface and coincident base metal soil and RAB anomalies in open-file data.

Figure 4: Project Locations



Source: Talisman Mining Limited



## CORPORATE

The Company has 185.7m shares on issue with 9.7m unlisted options with strike prices ranging from \$0.40-0.70/sh with various expiry dates (Figure 5).

The Company had a cash balance of \$7.3m at the end of September and an expected expenditure of \$7.2m in the December Q. Importantly, \$5.1m of this expenditure is estimated to relate to the development of Monty which is covered by a Project Finance Facility (PFF) of up to US\$20m provided by Taurus Mining Finance Fund. The facility enables TLM to fully fund its share of pre-production capital costs for the development of the Monty Copper-Gold Project. A funding notice for the first drawdown payment of approximately A\$8m under the PFF has been submitted to Taurus with receipt of funding subject to satisfaction of conditions precedent under the Facility Agreement.

Key terms of the PFF are contained in Talisman's ASX release of 30 October 2017 and include:

- Facility amount of US\$20m.
- Interest rate of 6.75%pa payable quarterly in arrears.
- Facility repayable by 30 September 2020.
- A royalty of 2.25% of TLM's gross payable copper and gold metal-in-ore sales receipts from Monty. The obligation to pay the royalty ceases once TLM has received revenue from Monty sales containing 29,700 tonnes of copper and 16,500 ounces of gold.
- No mandatory copper or gold hedging requirements.

Whilst the PFF does not require any forecast production volumes to be hedged by TLM, the Company will continue to regularly assess the appropriateness of undertaking commodity price hedging over select forecast production volumes.

Additionally, as the PFF is in United States dollars, and we understand the Company is currently giving consideration to the appropriateness of undertaking currency hedging for selected portions of forecast Monty pre-production cash calls and subsequent interest and principal repayments under the Facility Agreement.

TLM's major shareholder is Kerry Harmanis (18.07%) and as at the 2017 Annual Report, Neon Capital owned 3.4%, 3<sup>rd</sup> Wave Investors (3.23%) and Grosvenor Pirie Management (3.02%). Kerry Harmanis has been a substantial holder since 2009. He is renowned for selling Jubilee Mines (as CEO) to Xstrata for \$3.1b at the height of the mining boom for nickel (2007). Mr Harmanis was a significant beneficiary of the sale and has enabled him to make various investments including in TLM.

Corporate administration/staff costs are estimated at \$2mpa with an additional \$0.7m for care and maintenance of the Sinclair processing plant and infrastructure. These costs appear reasonable given that the Company is moving to cashflow in late 2018. However, that said, the Company may look to raise additional capital over the next 12 months.

Figure 5: Unlisted Options (Strike Price and Expiry Date)

Expiry Date	Number	Strike Price (\$/sh)
31/10/2018	1,755,000	0.48
31/10/2019	1,550,000	0.52
31/10/2019	1,540,000	0.56
31/10/2021	1,540,000	0.62
31/10/2021	1,540,000	0.66
1/03/2018	125,000	0.40
1/03/2018	125,000	0.50
1/03/2018	125,000	0.60
1/03/2018	125,000	0.70
<b>Total/WAVP</b>	<b>8,425,000</b>	<b>0.56</b>

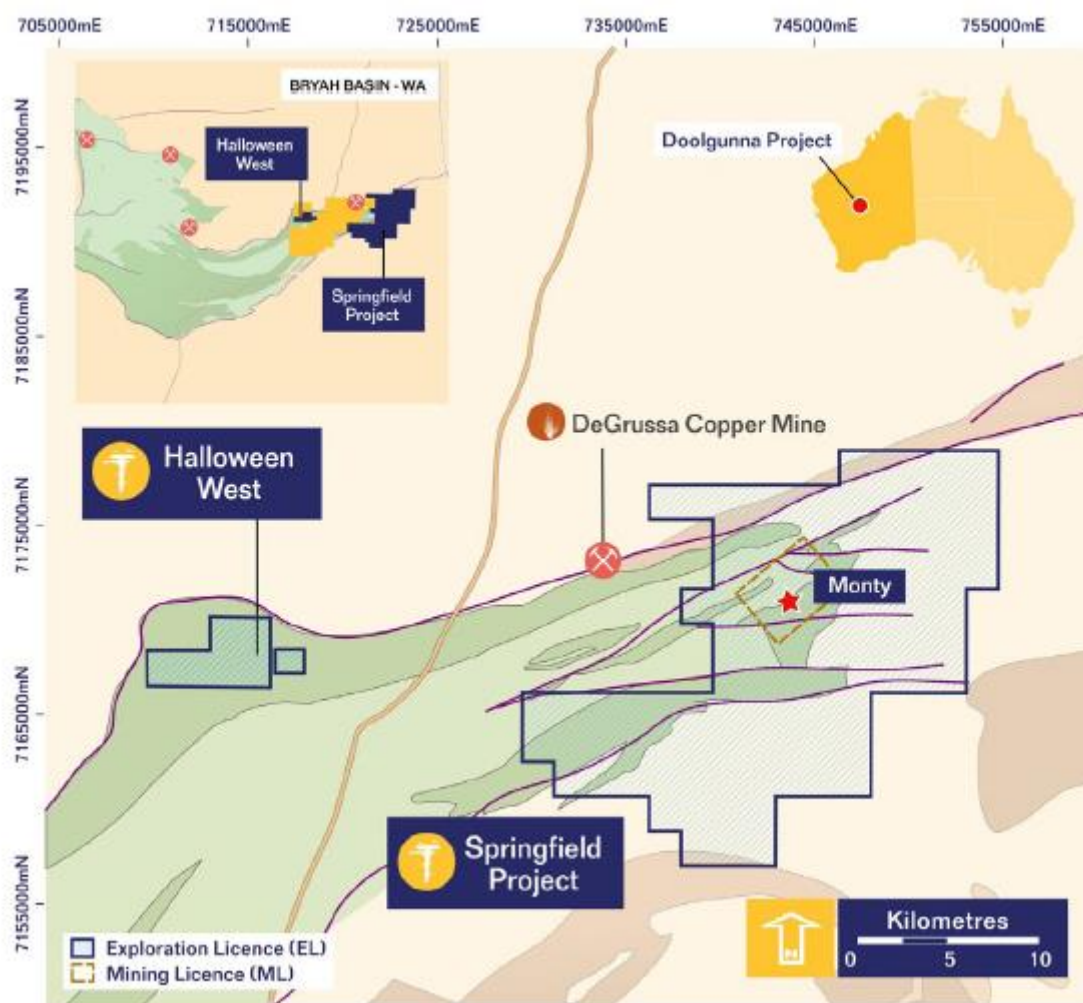
Source: Talisman Mining Limited

## ASSETS

### Doolgunna Projects

TLM's Doolgunna Projects Joint Venture encompasses the Springfield JV (TLM 30% SFR 70%) and the Halloween West Project (TLM 19% SFR 81%) with SFR as manager. These are high quality VMS copper-gold exploration projects in the emerging Bryah Basin region of Western Australia (Figure 6). Following the discovery of the exceptionally high grade copper-gold Monty deposit in 2015, the Joint Venture delivered a maiden high grade Mineral Resource estimate in 2016 and has subsequently completed a positive feasibility study and have commenced mining. The discovery of Monty has confirmed the significant exploration potential of the Joint Venture tenements.

Figure 6: Doolgunna Project Joint Venture – Springfield and Halloween West Project Locations

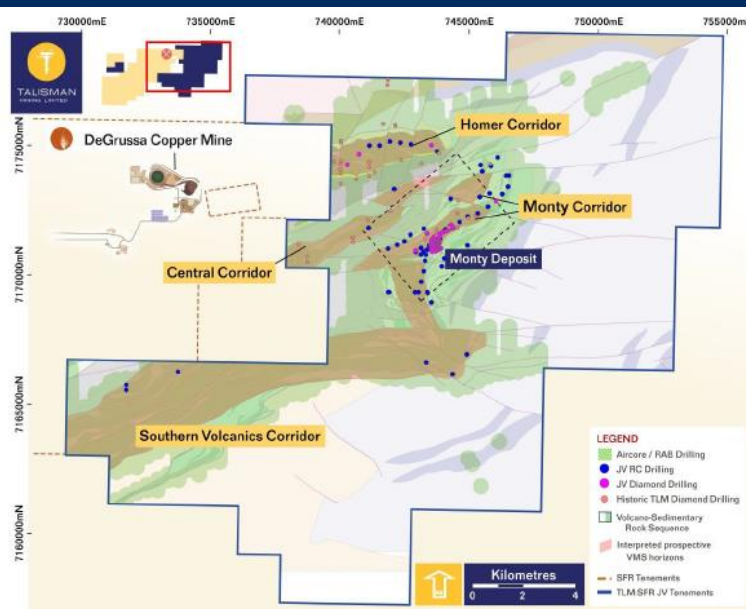


Source: Talisman Mining Limited

## Springfield JV (TLM 30%; SFR 70%)

The Springfield Project comprises of a 303km<sup>2</sup> ground package located approximately 150km north-east of Meekatharra in the northern Murchison Goldfields region of Western Australia. The Springfield Project area is 4km directly along strike to the east of SFR's DeGrussa operation and hosts the high-grade Monty deposit, within one of a number of corridors that are prospective for VMS style mineralisation. These VMS corridors are Monty, Homer, Central and Southern Volcanics (Figure 7).

Figure 7: Springfield Project VMS Corridors



Source: Talisman Mining Limited

## Monty Ore Reserve/Mineral Resources

Monty was discovered in mid-2015 and an initial Mineral Resource estimate for the deposit was reported in April 2016. The maiden Ore Reserve was released as part of the feasibility study released in April 2017. TLM's 30% share of the currently defined Probable Ore Reserve estimate is 24kt copper and 13koz gold, being 0.28Mt at 8.7% copper and 1.4g/t gold. This is one of the highest copper grade deposits in Australia.

Figure 8: Monty Mineral Resource 100% (as at 31 December 2016)

Mineral Resource estimate on 100% Basis<sup>12</sup>

Mineralisation Style	Classification	Mineral Resources June 2017					Mineral Resources June 2016				
		Tonnes (t) <sup>12</sup>	Grade		Ctd Metal	Tonnes (t) <sup>12</sup>	Grade		Ctd Metal		
			Cu (%)	Au (g/t)			Cu (t) <sup>12</sup>	Au (oz) <sup>12</sup>		Cu (%)	Au (g/t)
Massive Sulphides	Indicated	754,000	12	2.1	91,000	51,000	754,000	12	2.1	91,000	51,000
	Inferred	9,000	20.7	2.7	2,000	1,000	9,000	20.7	2.7	2,000	1,000
	Total	763,000	12.1	2.1	92,000	52,000	763,000	12.1	2.1	92,000	52,000
Halo	Indicated	287,000	2.2	0.3	6,000	3,000	287,000	2.2	0.3	6,000	3,000
	Inferred	-	-	-	-	-	-	-	-	-	-
	Total	287,000	2.2	0.3	6,000	3,000	287,000	2.2	0.3	6,000	3,000
Total	Indicated	1,041,000	9.3	1.6	97,000	54,000	1,041,000	9.3	1.6	97,000	54,000
	Inferred	9,000	20.7	2.7	2,000	1,000	9,000	20.7	2.7	2,000	1,000
	Total	1,050,000	9.4	1.6	99,000	55,000	1,050,000	9.4	1.6	99,000	55,000

Table 3: Mineral Resource estimate for the Monty deposit (100% basis)

There has been no change to the Company's reported Mineral Resources from June 2016 to June 2017, with no additional resource definition drilling completed nor changes to the understanding of geological controls.

The maiden Ore Reserve estimate for Monty, as at 31 March 2017, contains 920kt at 8.7% copper and 1.4g/t gold. It is based on the Indicated Mineral Resource estimate and includes both the defined Upper and Lower Zones of mineralisation at Monty. All of the current Ore Reserve estimate is contained in the Probable Ore Reserve category.

Source: Talisman Mining Limited

Figure 9: Monty Ore Reserve 100% (as at 31 March 2017)

**Ore Reserve estimate and Mine Plan on 100% Basis as at 31 March 2017**

Reserve Category	Tonnes (t) <sup>12</sup>	Copper (%)	Gold (g/t)	Contained Copper (t) <sup>12</sup>	Contained Gold (oz) <sup>12</sup>
Proved	-	-	-	-	-
Probable	920,000	8.7	1.4	80,000	42,000
<b>Total</b>	<b>920,000</b>	<b>8.7</b>	<b>1.4</b>	<b>80,000</b>	<b>42,000</b>
<b>Mine Plan</b>	<b>800,000</b>	<b>9.4</b>	<b>1.5</b>	<b>74,000</b>	<b>38,000</b>

Table 4: Ore Reserve estimate and Mine Plan for the Monty deposit (100% basis)

Source: Talisman Mining Limited

**Monty Geology**

Monty copper and gold mineralisation is hosted in a sequence of sediments (siltstone, sandstones and conglomerates) and basaltic rocks. The mineralisation occurs in a series of almost vertical massive sulphide lenses that are interpreted to have been deposited at different stratigraphic levels within the sedimentary package. The modelled mineralisation at Monty is contained within seven stacked lenses of massive sulphide that encapsulate the massive sulphide mineralisation. Over 87% of the contained metal is within two main lenses. Adjacent to these massive sulphide lenses, the host sequence shows moderate to strong chlorite alteration with disseminated and/or blebby sulphides throughout. This zone of altered, sulphidic host rock is known as 'halo mineralisation' which has been modelled both internal to the main massive sulphide lenses and as an external skin that sits directly adjacent to the high-grade massive sulphides.

Two separate lenses of high-grade bornite mineralisation have been modelled by SFR within the two main massive sulphide lenses. Mineralisation in these bornite-containing zones is of significantly higher tenor (30%) than that in the normal (i.e. non-bornite containing) massive sulphide zones. Based on drill hole geometry and core observations, the bornite zones are interpreted by SFR to be approximately orthogonal to lithological layering.

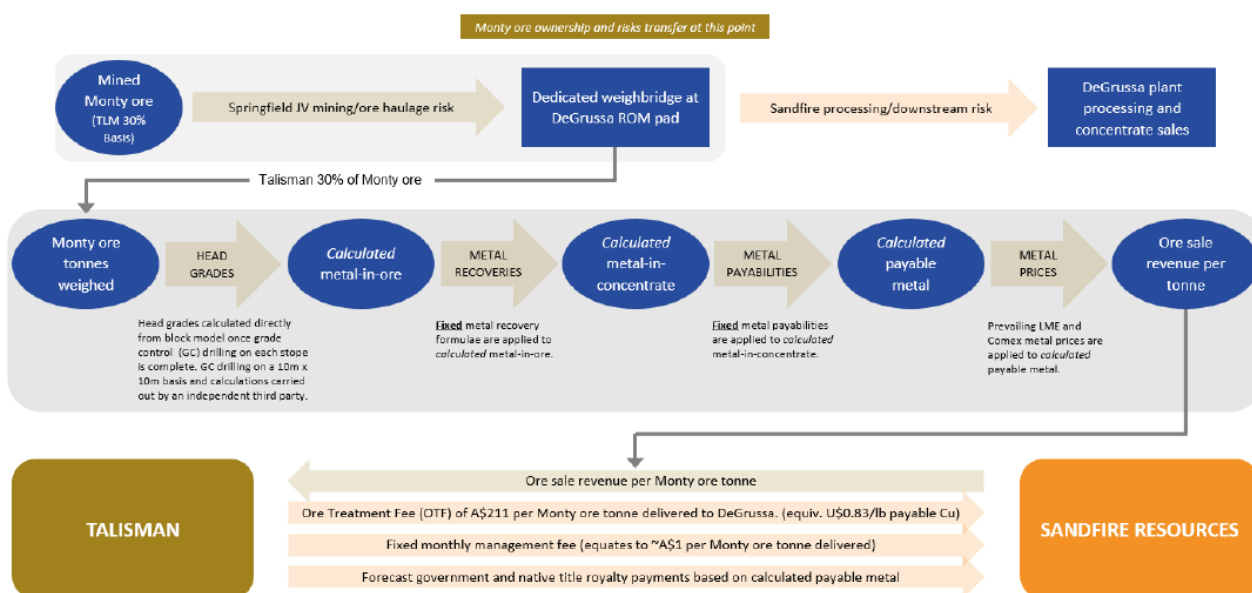


## Ore Sales Agreement

Overall, the Ore Sale Agreement (OSA) between TLM and SFR appears to be a commercial agreement that is fair and equitable. TLM's share of the ore mined from Monty and any mineralised extensions will be sold to SFR for treatment at its nearby DeGrussa processing plant. The OSA allows TLM to benefit from the established infrastructure already in the area. In addition, we see the potential for further discoveries in the broader Joint Venture area which would be subject to a new OSA at the discretion of the Joint Venture parties and negotiated at the time.

A Mining Joint Venture Agreement (MJVA) and an Exploration Joint Venture Agreement (EJVA) have been executed between TLM and SFR for the Joint Venture (collectively Joint Venture Agreements). Under the OSA, TLM will receive payment for ore delivered to a purpose-built Monty weighbridge at the DeGrussa processing plant based on payable metal content at monthly average commodity prices. Payable metal is calculated on an independently assessed ore mined grade (based on 10x10m grade drilling – which is yet to be completed) and delivered tonnage to which fixed recovery formulae (derived from detailed feasibility study metallurgical test work) and fixed percentage payability (set at industry determined benchmarks) are applied. An Ore Treatment Fee (OTF) and applicable royalties are then deducted from the calculated revenue. The OTF recognises all costs of processing the ore including downstream logistical and marketing costs associated with the production and sale of copper concentrate which are converted to a per tonne of ore basis. The OTF also includes a capital charge for use of the DeGrussa processing plant and associated infrastructure. The cost components of the OTF are closely aligned with actual DeGrussa capital, processing, administration and downstream costs. Based on the feasibility study results, the OTF would equate to \$11.1m or approximately c.A\$46/t mined (equivalent to US\$0.24/lb copper). TLM will also contribute its 30% share of costs associated with pre-production capital and the mining and hauling of Monty ore under the terms of the Mining Joint Venture Agreement. TLM recently secured a project debt facility of US\$20m with Taurus Mining Finance Fund. A flowsheet of the OSA and MJVA is illustrated in Figure 10.

Figure 10: TLM-SFR Ore Sales Agreement



Source: Talisman Mining Limited

## Other Targets to be Drilled in the December Q

The Springfield Joint Venture exploration budget has been approved the December Q 2017. Budgeted exploration to include: 1) Reverse circulation (RC) drilling to further test Monty North East (Monty NE) air-core anomaly of 5.0m at 4.11% Cu (including test of recently identified IP anomaly); 2) RC drilling to test Monty East interpreted host position; 3) RC drilling of selected geochemical anomalies in the Southern Volcanics; and 4) Air-core drilling to test Homer South host position. Further success here has the potential to add material extensions to Monty.

## Halloween West JV (TLM 19%; SFR 81%).

The Halloween West JV Project is located approximately 20km west south-west of SFR's DeGrussa operation (Figure 6).

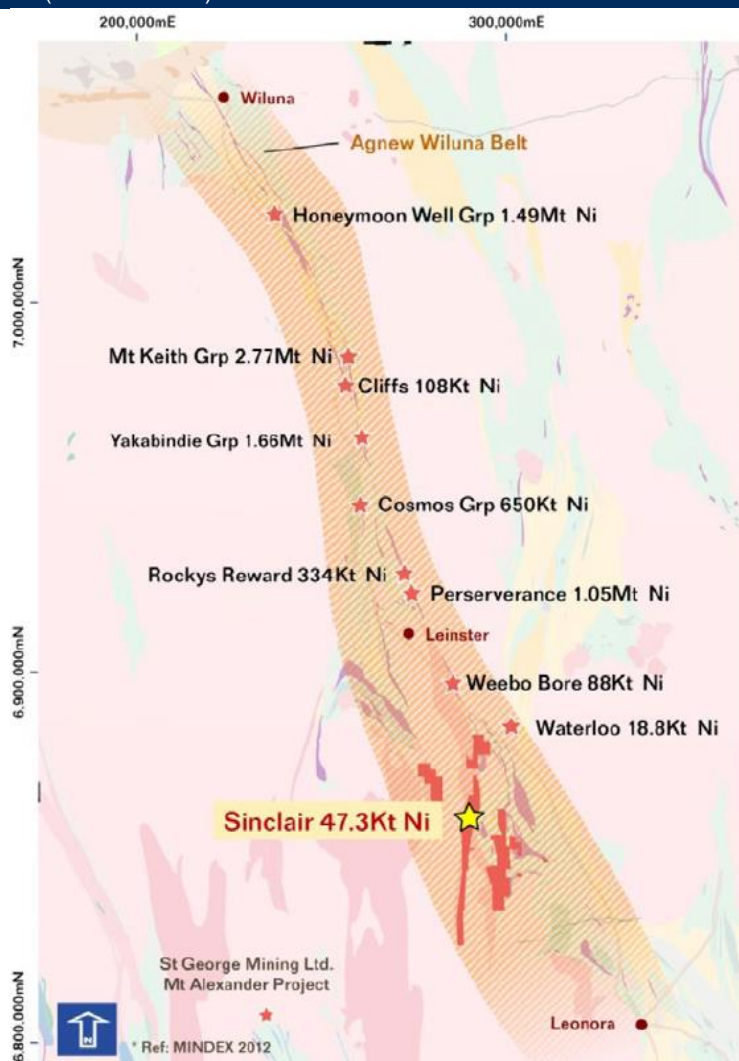
The Halloween West JV was formed in 2012 when TLM reached agreement with Chrysalis Resources Limited (CYS) to farm into the Halloween West Copper-Gold Project. However, in October 2014, SFR acquired the interest held by CYS and subsequently the Joint Venture is now between TLM and SFR. Exploration work by the JV Manager during the year has been limited to desktop studies and a review of historical work.

TLM has a minimum spend on the project of <\$10kpa.

## Sinclair Nickel Project (TLM 100%)

In November 2014, TLM acquired the Sinclair Nickel project from Xstrata for \$8m in cash. The project has extensive infrastructure and includes a substantial 290km<sup>2</sup> tenement package covering more than 80km strike of prospective ultramafic contact within a 35km radius of an existing processing plant and infrastructure. The plant has been on care and maintenance since August 2013 and produced c.38,500 tonnes of nickel at an average life-of-mine head grade of 2.44% Ni since the project was commissioned in 2008. The project is located in the world-class Agnew-Wiluna Greenstone Belt in WA's north-eastern Goldfields which has a significant nickel endowment (Figure 11).

Figure 11: The Sinclair Nickel Project showing regional geology nickel production centres and reported contained nickel\* of the Agnew-Wiluna Belt (\*MINDEX 2012)

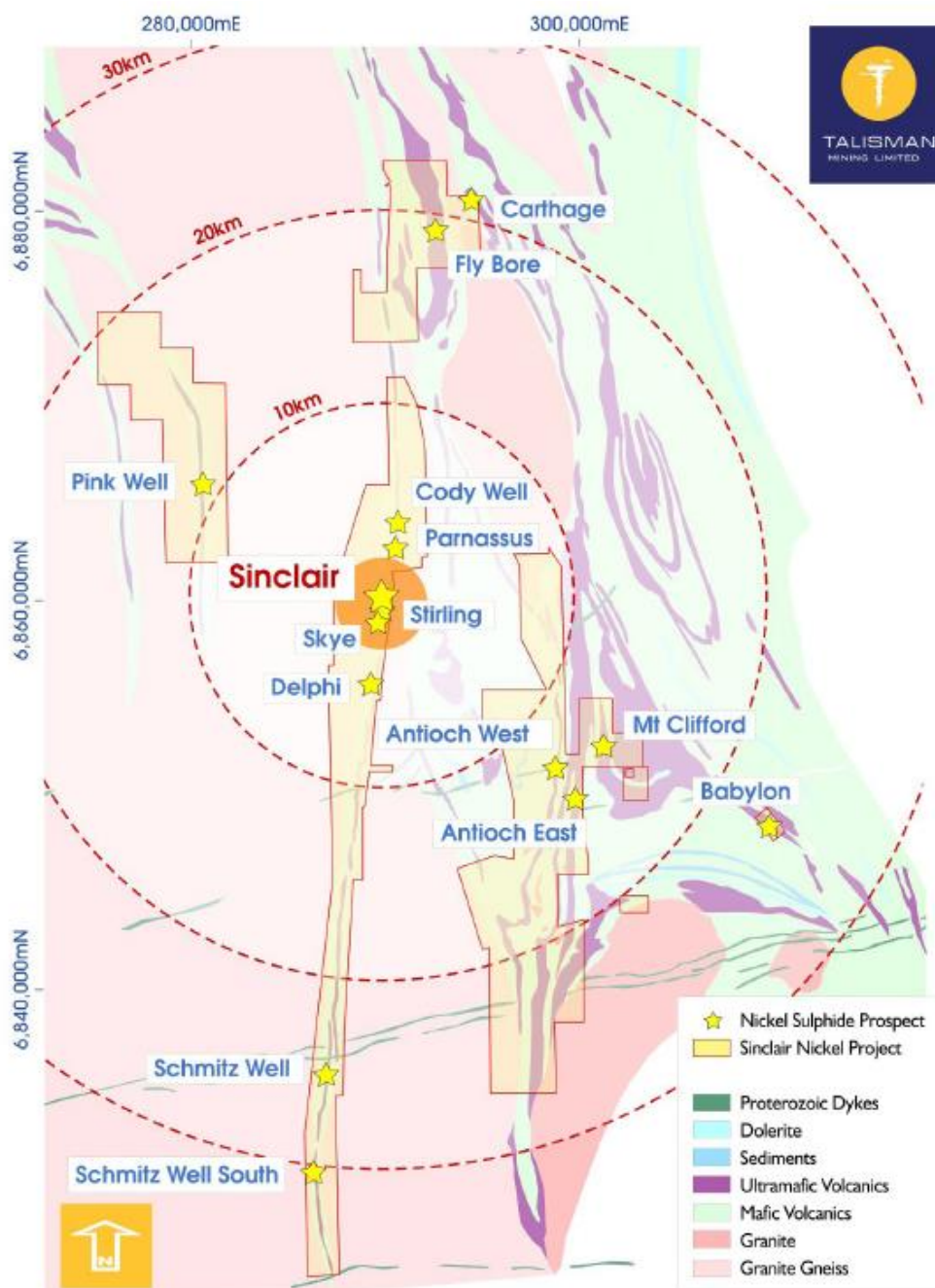


Source: Talisman Mining Limited

## Prospects

During 2017, TLM continued advanced the Sinclair Nickel Project through cost efficient, staged exploration focused on priority exploration targets across the project tenements. TLM completed air-core, RC and diamond drilling at Delphi, Sinclair, Stirling, Parnassus and Schmitz Well South.

Figure 12: Sinclair Prospect Locations



Source: Talisman Mining Limited

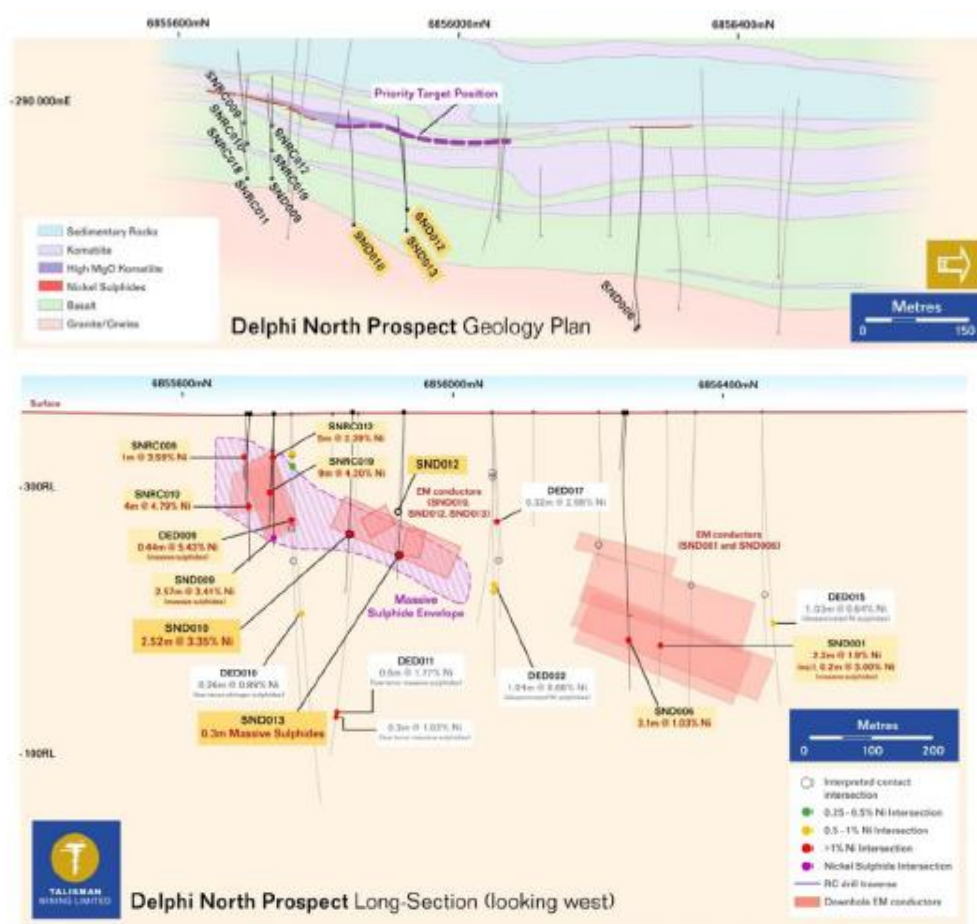
## Delphi North

Delphi North is a target that has many similarities with the Sinclair mine geological environment. It has confirmed historic nickel sulphide mineralisation over a strike length of 700m and is interpreted to represent a fertile mineralised environment with potential to host significant mineralisation.

A series of RC and diamond drill holes were completed at Delphi during late 2016 to test the potential to host significant nickel sulphide mineralisation (Figure 9 and Figure 10). Results from this drilling confirmed near surface high-tenor nickel sulphide mineralisation in multiple zones of massive and stringer nickel sulphide mineralisation with significant intersections including:

- SNRC010: 4m at 4.79% Ni from 154m down-hole;
- SNRC012: 5m at 2.39% Ni from 73m down-hole, and
- SNRC019: 9m at 4.20% Ni from 131m down-hole.
- SND010: 2.52m at 3.35% Ni from 206.66m down-hole including 1.55m at 4.85% Ni from 206.66m; and 3.06m at 1.60% Ni from 224.08m down-hole.

Figure 13: Delphi North Geology Plan (top); Delphi North Long Section (bottom).





## Schmitz Well South Prospect

A fence of RC drill holes at Schmitz intersected broad zones of prospective high-MgO ultramafic rocks, containing multiple zones of trace to disseminated (cloud) sulphides throughout. Assay results returned anomalous nickel grades with the highest grade received to date being 1m at 0.97% Ni from 193m down-hole in SNRC015. The presence of fertile, high-MgO ultramafic units at Schmitz Well South validated the Company's original interpretation that Schmitz Well South represents a continuation of the fertile Schmitz Well and Sinclair ultramafic trend. Detailed interpretation of the results from this drilling informed TLM's interpretation and guided further exploration activities in the area which were undertaken in August 2017, the results of which have led to further planned work in the first quarter of the financial year ending 30 June 2018.

## Regional Aircore Drilling

A program of air-core drilling totalling 117 drill holes for 7,071m across four early stage exploration targets at Delphi, Mt Clifford, Schmitz Well South and Sturt Meadows was completed during July and early August. Drilling was aimed at provided geological and geochemical information in areas with little to no historic exploration.

## Current/Future Activities

Subsequent to the end of the September Q, TLM completed an RC drill program at the Schmitz Well South and Delphi prospect areas to follow up the encouraging results from previous drilling programs.

A series of four RC holes for 880m were drilled beneath, and along strike from encouraging results in air-core drilling at Schmitz Well South including SNAC0096: 4m at 1.3% Ni. The drill holes intersected a thick sequence of high-magnesian ultramafic rocks including localised visible disseminated sulphide mineralisation that TLM interprets to represent a fertile sequence with the potential to host nickel sulphide mineralisation. Assay results from this drilling are pending. Geophysical DHEM surveys have been completed in three of the RC holes drilled at Schmitz Well South with detailed interpretation in progress and reports pending.

On-ground exploration represents the continuation of an efficient, staged and ongoing exploration focus at Sinclair. As a result of exploration drilling and ongoing review, multiple targets have been identified that remain to be tested. These targets will be subject to further review and prioritisation as on-ground exploration activities at Sinclair progress. Subsequent work within the Sinclair Trend will be focused on following up successful drilling completed to date at Delphi North and Schmitz Well South, as well as further defining potential additional targets for proposed future on-ground exploration testing, with work to potentially include:

- Geological mapping;
- Ongoing data review, interpretation and targeting; and
- RC/diamond and air-core drilling campaigns.

## Risks

Below we have identified a number of risks which may impact TLM. These are by no means a complete list of risks and there may be others beyond those identified:

**Technical Risk:** There are a number of risks that remain at Monty such as the potential to encounter difficult ground conditions and ore haulage risk. Importantly, SFR has taken the processing/downstream risk as TLM is paid immediately on the weighbridge at the grade of the 10x10m grade control drilling.

**Resource Risk:** Whilst Monty has an established Ore Reserve and mine plan the JV still has to drill Monty to a 10x10m basis. This could result in a higher or lower grade than estimated in the mine plan. The current Ore Reserve is drilled to a nominal 30x40m spacing.

**Finance Risk:** We note that the loan provided to TLM is in a US\$ denomination whereas the majority of the Company's 30% share of costs will likely be in Australian dollars. Any weakness in the US\$ could mean that the loan is worth less in A\$. TLM has identified this risk and it is looking potentially at currency hedging.

**Commodity Price Risk:** The economics of the Monty mine is subject to fluctuations in the copper, gold and silver price. We have conducted a sensitivity analysis which suggests a 10% move in copper price results in a 20% move in our TLM valuation.

**Currency Risk:** TLM has an Australian based copper project and it is subject to fluctuations in currency against the US dollar.

## DIRECTORS AND MANAGEMENT

### Jeremy Kirkwood Bcom ANU

#### Non-Executive Chairman (Appointed 1 April 2016)

Jeremy Kirkwood joined Talisman in April 2016 and has extensive experience in corporate strategy, investment banking and global capital markets and provides invaluable strategic input and guidance to the Company's board and management team.

Jeremy is a principal of Pilot Advisory Group and was previously a Managing Director at Credit Suisse, Morgan Stanley and Austock. He has primarily worked in public markets, undertaking merger and acquisitions and capital raisings for companies principally in the metals and mining, energy and infrastructure sectors.

In the 3 years immediately before the end of the financial year, Jeremy also served as a Director of ASX listed Zenitas Ltd (formerly BGD Corporation). He is also the Chair of Geelong Grammar School and a Director of Independent Schools Victoria.

Jeremy serves on the Company's Audit, Nomination and Remuneration Committees. With extensive industry experience, Jeremy is considered qualified to hold these responsibilities.

### Dan Madden BComAcc, ACA, Governance Institute Australia

#### Managing Director (Appointed 1 July 2016)

Dan Madden was appointed as Managing Director on 1 July 2016 and has been with Talisman since 2009 in his previous roles as acting CEO and Chief Financial Officer and Company Secretary. Dan has more than 16 years' experience in the resource sector, including Xstrata Nickel Australasia, Jubilee Mines NL and Perilya Ltd.

He graduated from the University of Birmingham with a degree in Commerce and Accounting before joining Deloitte in the UK and Australia. He is an Associate Member of the Institute of Chartered Accountants of England and Wales and a member of the Governance Institute of Australia.

### Alan Senior Asscshp Mech Eng, FIEAUST, FAusIMM

#### Non-Executive Director (Appointed November 2007 as Non-Exec. Chairman)

Alan graduated from the West Australian Institute of Technology (Curtin University) with an Associateship in Mechanical Engineering in 1968. He is an engineer with extensive experience in design and project development, mainly associated with the mining and mineral processing industry in Australia.

Prior to joining Talisman, Alan operated as an independent consultant servicing the mineral processing industry. Before joining the Board of Jubilee in 2003, he led the team which completed the feasibility study for the Cosmos Nickel Project and its successful implementation, followed three years later by the transition from open cut to underground mining. Alan was a non-executive Director of Jubilee Mines NL up until its purchase by Xstrata.

In the 3 years immediately before the end of the financial year, Alan also served as a Director at Amex Resources Ltd; he resigned in May 2015.

Alan was the Chairman of Talisman for over eight years. He serves on the Company's Audit, Nomination and Remuneration Committees. With extensive industry experience and being financially literate, Alan is considered qualified to hold these responsibilities.

### Brian Dawes B.Sc. Mining, MAusIMM

#### Non-Executive Director (Appointed 17 June 2009)

Brian is a mining engineer with extensive international mining industry experience. He holds a BSc in Mining from the University of Leeds UK, and is Member of the Australasian Institute of Mining and Metallurgy.

He has worked in the UK, Africa, the Middle East and across Australia and holds several First Class Mine Managers' Certificates of Competency. Brian's diverse expertise covers all key industry aspects from exploration through the discovery, feasibility, funding, approvals, project construction, commissioning, operations, optimisation, logistics, marketing, and closure phases. This includes site management and corporate responsibilities in a diversity of challenging and successful underground and open pit operations across many commodities and geographies; mainly in copper, nickel, gold, zinc and lead, with iron ore,

graphite, and coal. Prior to joining Talisman, Brian held senior positions with Jubilee Mines NL, Western Areas, LionOre Australia, WMC, Normandy Mining, and Aberfoyle.

In the 3 years immediately before the end of the financial year, Brian did not hold any other directorships. Brian serves on the Company's Audit, Nomination and Remuneration Committees. With extensive industry experience and being financially literate, Brian is considered qualified to hold these responsibilities.

### **Karen Gadsby B.Comm, FCA, MAICD**

#### **Non-Executive Director (Appointed 3 April 2008)**

Karen is a professional Non-Executive Director with over 30 years' finance and commercial experience across several sectors.

She worked as an Executive for North Ltd throughout Australia for 13 years including at Robe River Iron Associates and Energy Resources of Australia Ltd.

In the 3 years immediately before the end of the financial year, Karen also served as Chair of Strategen Environmental Consulting Pty Ltd and Community First International Ltd, and as a director of Landgate.

Karen is the Chair of the Audit Committee and a member of the Nomination and Remuneration Committees. With her extensive experience in finance and having chaired a number of Audit Committees, Karen is considered qualified to hold these responsibilities.

### **Shaun Vokes BBus CPA**

#### **Co-Company Secretary (Appointed May 2016)**

Shaun joined Talisman in February 2016. He is a finance professional with over 25 years' experience in the metalliferous resources industry gained predominantly in senior operational and management roles within Australia and Africa.

Prior to joining Talisman, Shaun spent five years as Manager, Business Services/CFO for Kabanga Nickel Company Ltd in Tanzania. Shaun's experience includes project evaluation and financing, business development, contract negotiation, metals marketing, risk management and corporate and financial governance for both private and ASX-listed entities across a range of base and precious metals. Shaun is a graduate of Curtin University and holds a Bachelor of Business degree and is a member of the Australian Society of Certified Practising Accountants.

### **Alex Neuling BSc, FCA (ICAEW) ACIS**

#### **Co-Company Secretary (Appointed May 2016)**

Alex Neuling is a Chartered Accountant and Chartered Secretary with extensive corporate and financial experience including as Director, Chief Financial Officer and / or Company Secretary of various ASX-listed companies in the mining, mineral exploration, oil & gas and other sectors.

Prior to those roles, Alex worked at Deloitte in London and Perth. Alex also holds an honours degree in chemistry from the University of Leeds in the United Kingdom and is principal of Erasmus Consulting which provides company secretarial and financial management consultancy services to a variety of ASX-listed and other companies.

### **Tony Greenaway**

#### **General Manager - Geology**

Mr Greenaway has over 25 years' experience in the resource industry, having conducted and managed exploration from grass roots evaluation and project generation through to advanced feasibility studies for copper, gold, platinum group metals and iron ore across a broad range of geographical settings and mineralisation styles.

Prior to joining TLM, he held senior management positions with small and mid-tier ASX listed and private exploration and mining companies, exploring throughout the West Australia goldfields and Pilbara regions, South East Asia, South and West Africa and South America.

Tony is a current member of the Australasian Institute of Mining and Metallurgy (AUSIMM), having a BSc (Geology) from Curtin University and Grad DipEd from the University of Western Australia.



## **Graham Leaver**

### **Exploration Manager**

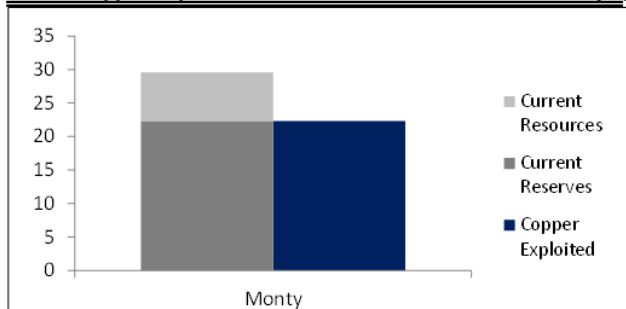
Mr Leaver has 20 years' experience in the Western Australian nickel industry during which time he has worked in all aspects of resource projects covering exploration and targeting, discovery, development and production.

Prior to joining TLM Graham spent ten years with Jubilee Mines and later Xstrata Nickel, most recently as Exploration Manager. He was a senior geologist with the team that discovered and developed the Sinclair Nickel Project and Geology Manager during open pit operations. Positions with WMC at Mt Keith and Black Swan Nickel provide experience across Western Australia's prolific Norseman – Wiluna greenstone belt.

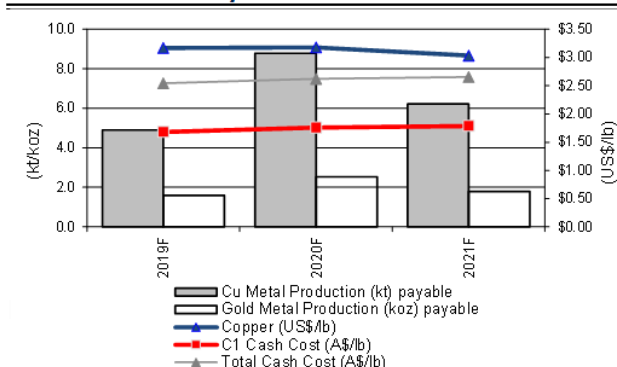
Mr Leaver is a graduate of the Western Australian School of Mines and a member of the Australian Institute of Geoscientists.

Talisman Mining Limited			\$0.245	
Valuation	A\$m	A\$/sh		
Monty (post tax)	43	0.28		
Sinclair	12	0.08		
Exploration	5	0.03		
Forward Sales	0	0.00		
Equity Investment	0	0.00		
Corporate	(10)	(0.06)		
Unpaid Capital	0	0.00		
Tax Losses	20	0.13		
Debt	0	0.00		
Cash	7	0.05		
<b>NAV @ 8% Discount Rate</b>	<b>77</b>	<b>0.50</b>		
<b>Price Target</b>	<b>77</b>	<b>0.50</b>		
<b>(1x NAV)</b>				

#### Attrib. Copper Exploited as a subset of reserves/resources (kt)



#### Production Summary



#### Reserves & Resources

Reserves	(Mt)	(%, g/t)	(kt,koz)	Attrib.
<b>Monty (as at March 2017)</b>				
Copper	0.9	8.70	80	24
Gold	0.9	1.40	42	13
<b>Monty Mine Plan</b>				
Copper	0.8	9.40	74	22
Gold	0.8	1.50	38	11
<b>Resources</b>				
<b>Monty (as at June 2017)</b>				
Copper	1.05	9.40	99	30
Gold	1.05	1.6	55	17

#### Directors

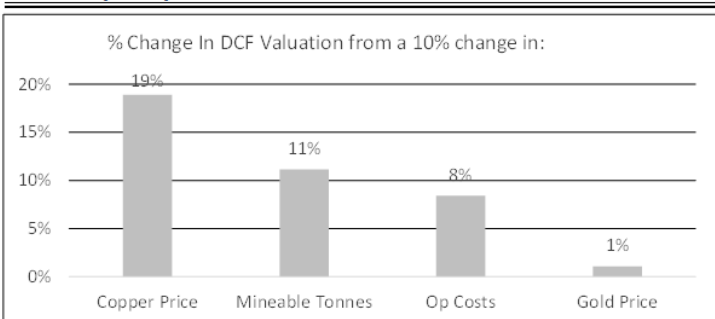
Name	Position
Jeremy Kirkwood	Chairman
Dan Madden	Managing Director
Alan Senior	Non Executive Director
Brian Dawes	Non Executive Director
Karen Gadsby	Non Executive Director

#### Substantial Shareholders

	Shares (m)	%
Kerry Harmanis	33.6	18.1

Commodity Assumptions	2017A	2018F	2019F	2020F	2021F
<b>A\$:US\$</b>	<b>\$0.75</b>	<b>\$0.76</b>	<b>\$0.73</b>	<b>\$0.72</b>	<b>\$0.72</b>
<b>Copper (US\$/lb)</b>	<b>\$2.45</b>	<b>\$3.08</b>	<b>\$3.17</b>	<b>\$3.18</b>	<b>\$3.03</b>
Lead (US\$/lb)	\$0.96	\$1.11	\$1.13	\$1.14	\$1.10
Zinc (US\$/lb)	\$1.15	\$1.44	\$1.43	\$1.38	\$1.32
Silver (US\$/oz)	\$17.86	\$17.16	\$17.60	\$18.00	\$18.32
Gold (US\$/oz)	\$1,258	\$1,283	\$1,307	\$1,335	\$1,359

#### Sensitivity Analysis



#### Production Summary

Monty (attributable)	2017A	2018F	2019F	2020F	2021F
Cu Metal Contained (kt)	0.0	0.0	5.1	9.2	6.5
Cu Metal Production (kt) payable	0.0	0.0	4.9	8.8	6.2
Gold Metal Contained (koz)	0.0	0.0	1.7	2.8	1.9
Gold Metal Production (koz) paya	0.0	0.0	1.6	2.5	1.8

<b>C1 Cash Cost (A\$/lb)</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$1.68</b>	<b>\$1.76</b>	<b>\$1.79</b>
<b>Total Cash Cost (A\$/lb)</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$2.55</b>	<b>\$2.62</b>	<b>\$2.65</b>

#### Profit & Loss (A\$m)

	2017A	2018F	2019F	2020F	2021F
<b>Sales Revenue</b>	<b>0.0</b>	<b>0.0</b>	<b>50.2</b>	<b>89.9</b>	<b>62.4</b>
Other Income	0.0	0.0	0.0	0.0	0.0
Operating Costs	(0.6)	0.0	(22.9)	(41.7)	(29.9)
Exploration Exp.	(5.1)	(5.1)	(2.1)	(2.1)	(2.1)
Corporate/Admin	(3.0)	(2.3)	(2.1)	(2.1)	(2.1)
<b>EBITDA</b>	<b>(8.8)</b>	<b>(7.4)</b>	<b>23.2</b>	<b>44.0</b>	<b>28.2</b>
Depn & Amort	(0.3)	0.0	(6.9)	(12.5)	(8.8)
<b>EBIT</b>	<b>(9.1)</b>	<b>(7.4)</b>	<b>16.2</b>	<b>31.6</b>	<b>19.4</b>
Net Interest	0.4	(0.5)	(1.4)	(0.1)	1.1
<b>Operating Profit</b>	<b>(8.7)</b>	<b>(7.8)</b>	<b>14.8</b>	<b>31.5</b>	<b>20.5</b>
Tax expense	0.0	0.0	(0.2)	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Abnormals	0.0	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>(8.7)</b>	<b>(7.8)</b>	<b>14.6</b>	<b>31.5</b>	<b>20.5</b>

<b>Normalised NPAT</b>	<b>(8.7)</b>	<b>(7.8)</b>	<b>14.6</b>	<b>31.5</b>	<b>20.5</b>
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#### Cash Flow (A\$m)

	2017A	2018F	2019F	2020F	2021F
Receipts from Customers	0.0	0.0	50.2	89.9	62.4
Payments to Suppliers	2.7	2.3	24.9	43.8	32.0
Net Interest	5.0	(0.5)	(1.4)	(0.1)	1.1
Payment for Exploration	0.5	8.2	3.6	2.1	2.1
Tax	0.0	0.0	0.2	0.0	0.0
-Working Capital Increase/(Decrease)	0.0	0.0	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>(7.2)</b>	<b>(10.9)</b>	<b>20.0</b>	<b>44.0</b>	<b>29.3</b>
- Capex (+asset sales)	1.5	20.0	3.7	2.3	2.8
- Other investing cashflow	0.0	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>(8.6)</b>	<b>(30.9)</b>	<b>16.4</b>	<b>41.7</b>	<b>26.5</b>
- Dividends (ords & pref)	0.0	0.0	0.0	1.9	5.6
+ Equity raised	0.0	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	20.0	0.8	(16.7)	(4.2)
<b>Net Change in Cash</b>	<b>(8.6)</b>	<b>(10.9)</b>	<b>17.2</b>	<b>23.1</b>	<b>16.8</b>
Cash at End Period	11.6	4.9	22.1	45.3	62.0
Net Cash/(Debt)	11.6	(15.1)	1.3	41.1	62.0

#### Balance Sheet (A\$m)

	2017A	2018F	2019F	2020F	2021F
Cash/Bullion	11.6	4.9	22.1	45.3	62.0
Total Assets	31.0	43.1	61.6	75.8	86.3
Total Debt	0.0	20.0	20.8	4.2	0.0
Total Liabilities	9.4	29.4	33.3	19.7	13.4
Shareholders Funds	21.6	13.8	28.4	56.2	72.9

#### Ratios

Net Debt/Equity (%)	na	109.5	na	na	na
Interest Cover (x)	22.8	na	11.4	460.9	na
Return on Equity (%)	na	na	51.5	56.1	28.1

Recommendation History



**Stock recommendations:** Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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