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Please refer to our full report before making any investment decisions.

Talisman Mining Limited

The Full Monty

January 2016

Recommendation: BUY

- **Exceptional copper discovery in proximity to an existing plant**
- **Through-the-cycle project: high grade / low capex**
- **Early days for exploration in a regional VMS field**

ASX: TLM

Share Price: \$0.45

Target Price: \$0.65

M/Cap.: \$67M

Valuation: \$0.59/share

Valuation: \$102M

Shares: 149M

Monthly T/over: \$1M



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Petra Capital Pty Ltd

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Talisman Mining Limited (TLM)

BUY
Share Price: A\$0.45

The Full Monty

Target Price: A\$0.65

Since the success of the Monty high grade copper discovery in June 2015, the Springfield Joint Venture (Sandfire 70% / Talisman 30%) has now outlined an economic VMS deposit in our view. Monty is an attractive asset for it's: 1. high copper grades, 2. proximity to the DeGrussa concentrator and 3. it's ability to enhance Sandfire's production profile. While still early days, we see enough potential to model a conceptual underground mine, with ore toll treated through DeGrussa. This scenario implies TLM could be producing ~10ktpa of copper at ~US\$1.10/lb within two years (assuming financing and permits). In addition, ongoing regional exploration at Springfield and a nickel sleeper project (Sinclair) add further upside. We initiate coverage of TLM a higher risk / reward opportunity with a BUY rating and A\$0.65/share target price.

Pending copper resource at Monty

- A 40x40m resource definition campaign is underway at Monty with a maiden resource due in Q1 2016.
- We assume an ultimate mining inventory could be defined of circa 1.2Mt @ 10% copper, and 1.4g/t gold.
- This would make Monty the highest grade / value per ton undeveloped deposit in Australia.

Potential accelerated pathway to production

- Significantly, Monty is both higher grade than the DeGrussa reserve, and only 10 km from the mill.
- In our view the JV is therefore incentivised to fast track the deposit into production (potentially by late 2017).
- We assume a scenario where 400ktpa of Monty ore is toll processed through DeGrussa.
- Monty studies and development estimated at A\$70M (TLM share A\$21M).
- We assume Monty could produce +30ktpa of copper and +8kozpa of gold at an AISC of ~US\$1.10/lb.

Regional upside to exploration

- In 2016 the JV will step up regional exploration to test exhalative horizons at both Monty Corridor & Homer.
- Activity at Sinclair has slowed in line with nickel prices but this remains a prospective sleeper project.

Diluted valuation of A\$0.59/share with upside

- TLM is valued at A\$0.59/share, assuming a A\$10M equity raising and A\$20M of debt financing for Monty.
- NPV assumes A\$10M for regional copper exploration and A\$8M value for the Sinclair nickel project.
- On this basis TLM is trading at 0.8x P/NPV with further upside from prospective drilling in 2016.

Company Data

Shares – ordinary	148.6M
Options – various exercise prices	6.4M
Total (fully diluted)	155.0M
Market capitalisation	\$67M
12 month low/high	\$0.13 / \$0.79
Average monthly volume/turnover	2.7M / \$1.1M
GICS Industry	Metals & Mining

Financial Summary

Year end June	2015A	2016F	2017F	2018F	2019F
Revenue (\$M)	0	0	0	76	107
Costs (\$M)	-10	-2	-3	-30	-39
EBITDA (\$M)	-10	-2	-3	46	68
NPAT (\$M)	-7	-1	-2	25	38
EPS (¢ps)	-5	-1	-1	14	22
PER (x)	N.M	N.M	N.M	3.2	2.0
Op. Cashflow (\$M)	-1	0	-2	43	52
CFPS (¢ps)	-1	0	-1	25	30
PCFPS (x)	N.M	N.M	-47	2	2
Enterprise Value (\$M)	68	52	77	67	67
EV / EBITDA (x)	N.M	N.M	N.M	1.0	0.1
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0

Directors	Position	Executive
Alan Senior	Chairman	Non-Executive
Gary Lethridge	Managing Director	Executive
Brian Dawes	Director	Non-Executive
Karen Gadsby	Director	Non-Executive

Substantial Shareholders	Shares (M)	(%)
Kerry Harmanis	18.6	12.5%

TLM – performance over one year



Executive Summary

Momentum to build in 2016 at Monty

Exciting Australian copper discovery building momentum with ex-Jubilee management

On the back of the Monty high grade copper discovery in June 2015, TLM was the best performing copper stock on the ASX in 2015. Over 2016 we expect the project to build critical mass with the definition of a maiden resource in the next few months leading into studies that should highlight a robust project that could be fast tracked into production. Further, with drilling of exploration targets along trend of Monty and at Homer, there is potential for additional discoveries to be made. TLM management is ex-Jubilee Mines and has the backing of major shareholder Kerry Harmanis.

Through-the-cycle project: high grade / low capex

Backing of 70% JV partner SFR (Mcap \$0.8B), where Monty could enhance their core asset

The rapid expenditure of A\$15M by Sandfire to earn its 70% interest in the Springfield JV late in 2015 highlights the value of Monty to DeGrussa in our view. Monty is both close to the concentrator and is expected to be a higher grade source of ore (~10% vs ~5% copper) enhancing production/mine life if developed. Therefore to us it make sense for a tolling agreement to be struck with TLM allowing a fast track to production assuming studies/permits are supportive as we expect. Further, there is also a potential corporate angle with respect to SFR especially if the JV made a further economic discovery.

Modest but high grade – TLM could be a 10ktpa copper producer midterm

We see potential for a mining inventory of ~1.2Mt at 10% copper

We assume the JV defines an ultimate mining inventory at Monty of 1.2Mt at 10% copper and 1.4g/t gold for 120kt of contained copper and 54koz of gold. While a modest size deposit, high grades suggest this could have one of the highest insitu values of an Australian copper asset (Figures 1 – 2). On this basis our production scenario implies TLM could be producing ~10ktpa of copper at ~US\$1.10/lb within two years (assuming financing and permits).

Higher risk / reward – base case valuation of A\$0.59/share

Higher risk / reward opportunity, rated BUY with \$0.65 target

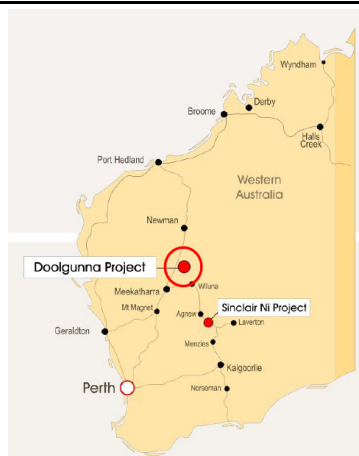
It remains early days for Monty and the JV however, given the high grade nature of the discovery we believe our conceptual mining scenario is a valid approach to valuing the company. This values the discovery at ~A\$300M or A\$82M for TLM's share. Regional exploration and Sinclair represent an additional A\$18M. Our NPV is diluted for an assumed A\$10M equity raising.

Monty funding requirement estimated at A\$30M

High value asset with potential low capex

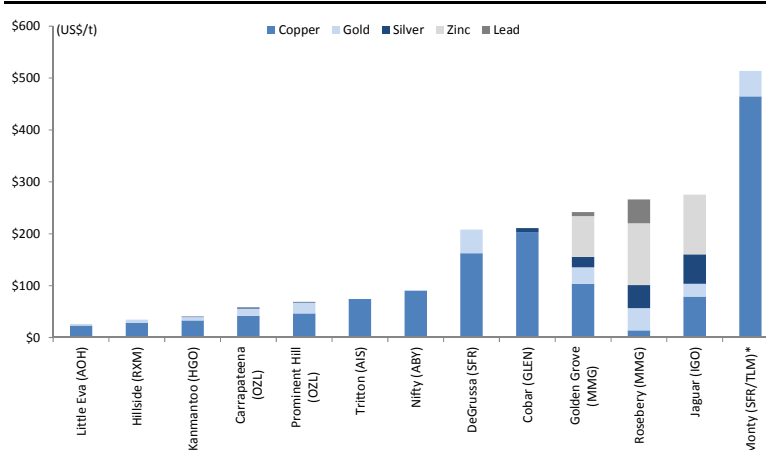
At the end of September 2015 TLM had \$11.3M of cash on hand and no debt. TLM is now contributing to Springfield expenditures which have been budgeted at A\$7.5M for the next three months (~A\$2.3M TLM's share). Based on our early stage conceptual assumptions of A\$70M capex for studies and Monty capex, plus ongoing exploration, we estimate TLM's funding requirements are in the order of A\$30M which we have assumed is met by A\$10M of equity and A\$20M of debt financing.

Figure 1: Talisman key projects




Source: Talisman

Figure 2: Australian copper deposits insitu value per ton



Source: Petra; * Monty value assumes 10% copper and 1.4g/t gold

Analysis

PETRA CAPITAL  Talisman Mining (TLM)											
P&L (A\$M)						Analyst: David Radclyffe, David Cotterell					
Revenues	0	0	0	76	107	Rating	BUY	TSR	44%	Target Price (A\$)	0.65
Operating Costs	-2	-2	-3	-30	-39						
Other	-8	0	0	0	0	Price (A\$)	0.45	Price (US\$)	0.32		
EBITDA	-10	-2	-3	46	68	NPV (A\$)	0.59	NPV (US\$)	0.41		
D&A	0	0	0	-10	-13	Shares (M)	174	Mcap (US\$M)	47		
EBIT	-10	-2	-3	37	55	Mcap (A\$M)	67				
Net Interest	0	0	0	-1	0	EV (A\$M)	62	EV (US\$M)	44		
Taxes	3	1	1	-11	-16	Year End	June	Discount Rate	10%		
Adjustments	0	0	0	0	0						
Net Profit	-7	-1	-2	25	38						
EPS (¢)	-5	-1	-1	14	22						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)						Assumptions					
Receipts	0	0	0	76	107	Gold (US\$/oz)	1,223	1,107	1,150	1,250	1,300
Payments	-1	-2	-3	-30	-39	Gold (A\$/oz)	1463	1545	1667	1852	1955
Net Interest	0	0	0	-1	0	Silver (US\$/oz)	17	14	16	19	20
Taxes	0	1	1	-2	-16	Copper (US\$/lb)	2.89	2.25	2.50	2.78	2.95
Other	0	0	1	0	0	AUD/USD	0.84	0.72	0.69	0.68	0.67
Operating Cash Flows	-1	0	-2	43	52	Key Ratios					
Capex	-9	0	-15	-11	-6	PE (x)	N.M	N.M	N.M	3.2	2.0
Disposals	0	0	0	0	0	EV/EBITDA (x)	N.M	N.M	N.M	1.0	0.1
Exploration	-2	-5	-8	-4	-4	EPS Growth (%)	>100	-82.5	38.7	<-100	54.9
Other	0	-2	0	0	0	ROE (%)	-17.6	-2.8	-4.4	28.7	30.4
Investing Cash Flows	-10	-7	-23	-15	-10	Net Debt to Equity (%)	-12.3	-27.4	20.1	-21.7	-48.3
Change in Borrowings	0	0	20	-10	-10	Net Debt to EBITDA (x)	0.5	6.4	-3.6	-0.4	-0.9
Dividends	0	0	0	0	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Equity	0	17	0	0	0	FCF Yield (%)	-19.0	-6.7	-31.6	36.8	53.8
Other	0	0	0	0	0						
Financing Cash Flows	0	17	20	-10	-10						
Balance Sheet (A\$M)						Production & Costs					
Cash	5	14	10	29	61	Monty Production (100%)					
Receivables	0	0	0	4	5	Monty Copper (kt)	0	0	0	27,300	36,400
Inventories	0	0	0	6	9	Monty Gold (koz)	0	0	0	6,077	8,103
Other	0	0	0	0	0	Equiv. Copper Production (kt)	0	0	0	28,534	38,020
Current Assets	5	14	10	39	75	Cash Costs (US\$/lb)					
Receivables	0	0	0	0	0	By Product	0.00	0.00	0.00	0.94	0.94
Investments	0	0	0	0	0	AISC	0.00	0.00	0.00	1.12	1.11
Property, Plant and Equipment	3	3	18	19	12	Resources (Contained Cu, Mt)	0.0				
Intangibles	40	44	51	54	58	Reserves (Contained Cu, Mt)	0.0				
Other	0	0	0	0	0						
Non Current Assets	43	47	69	73	70	EBITDA (A\$M)					
Total Assets	48	61	79	112	144	FY15A	FY16F	FY17F	FY18F	FY19F	
Borrowings	0	0	0	0	0	Doolgunna JV	0	0	0	49	70
Payables	0	0	0	8	11	Sinclair	0	0	0	0	0
Provisions	0	0	0	0	0	Corporate & Other	-2	-2	-3	-2	-2
Other	0	0	0	0	0	NPV* (A\$M) Per Share					
Current Liabilities	0	0	0	8	11	Monty (30%)	82	\$0.47			
Payables						Doolgunna JV (30%)	10	\$0.06			
Borrowings	0	0	20	10	0	Sinclair (100%)	8	\$0.05			
Provisions	8	8	8	8	8	Exploration	0	\$0.00			
Other	0	0	0	0	0	Corporate and other	-7	-\$0.04			
Non Current Liabilities	8	8	28	18	8	Net Cash	9	\$0.05			
Total Liabilities	9	8	28	26	19	Total	102	\$0.59			
Total Equity	40	53	50	86	125	* Assumes a A\$10M equity raising @ 40¢ to fund Monty					

Source: Petra Capital

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