



**Breakaway
Research**

February 2015

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Company Information

ASX Code	TLM
Share Price	A\$0.16
Ord Shares	131.5m
Unlisted Options	6.2m
Market Cap A\$	19.0m
Cash A\$	6.8m
Total Debt (Dec 14) A\$	0m
Enterprise Value A\$	4.2m

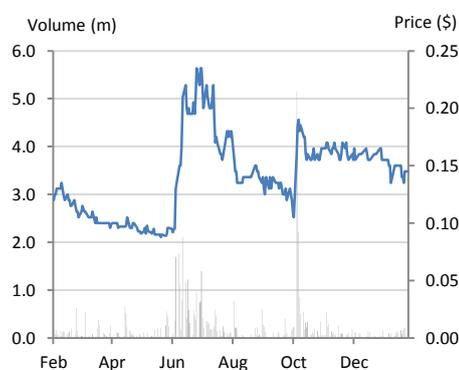
Directors

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

Company Details

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1 Year Price Chart



Talisman Mining (TLM)

Transformational acquisition provides significant growth opportunity

Recommendation: Speculative BUY

Key Points

- **Talisman acquires the Sinclair Nickel Project for A\$8M, plus A\$2M on first nickel production**
- **Acquisition includes a modern 300ktpa processing plant and associated infrastructure**
- **Depth extensions to the historical Sinclair deposit likely**
- **Several highly prospective near mine targets identified**
- **Sandfire Resources farms into Talisman's Doolgunna copper-gold projects along strike from the DeGrussa deposit**
- **Sandfire may spend A\$15 million on exploration to earn 70% interest**

The recently acquired Sinclair Nickel Project provides Talisman with a unique combination of advanced and highly prospective exploration targets which, with exploration success, can be quickly brought into production through the fully permitted, modern 300ktpa processing plant. The Sandfire farm-in agreement encompassing the Doolgunna project provides Talisman with significant risk-free exploration exposure.

Company Overview

Talisman Mining (ASX: TLM) has a quality portfolio of Australian based exploration projects prospective for nickel and copper-gold mineralisation.

Recently the Company completed the acquisition of the Sinclair Nickel Project from Glencore for total consideration of \$A8 million, plus a further A\$2 million contingent upon first nickel production. The acquisition includes a modern 300ktpa processing plant, significant surface infrastructure, the existing open pit and underground workings and numerous exploration targets. Significant widths of ore grade nickel mineralisation have been identified down plunge for at least another 1km beyond the end of the existing underground development. The potential for extensions to the Sinclair deposit are augmented by elevated EM values, known to have a high correlation to nickel mineralisation in the area.

Two nearby and largely untested nickel prospects named Skye and Stirling offer further near term exploration potential. Both prospects display similar characteristics to that of the Sinclair deposit.

Talisman also has exposure to quality copper-gold exploration projects, the most advanced being the Springfield project, located adjacent to and along strike of Sandfire's high grade copper-gold DeGrussa deposit. Talisman has entered into a farm-in agreement whereby Sandfire can earn up to a 70% interest in the project by spending A\$15 million over 5½ years.



Investment Thesis

Talisman Mining acquires Sinclair Nickel Project

Talisman Mining recently acquired 100% of the Sinclair Nickel Project from Xstrata Nickel Australasia Operations Pty Ltd (a subsidiary of Glencore). The key terms of the acquisition are:

Talisman agrees terms to acquire Sinclair Nickel Project

- A cash payment of A\$8 million.
- A further A\$2 million triggered by production recommencing within 6 years of the transaction. The payment will be due 6 months after first product sale.
- Talisman will assume all environmental liabilities.
- Glencore has the right to make an offer for the first 20,000 tonnes of nickel concentrate produced. If a 3rd party offer is higher than Glencore's offer, Glencore then has the right to match that offer.

Drilling has confirmed strike extensions

The acquisition includes a modern 300ktpa processing plant and associated infrastructure as well as significant near mine exploration potential. Of particular interest to Breakaway is the likely extension of the Sinclair nickel deposit down plunge beyond the end of the existing underground mining development. Drilling campaigns confirm mineralisation extends for a further 1km; however, the wide spaced drilling (100m – 200m intervals) is insufficient for a JORC resource estimate at this stage.

DHEM surveys support the potential for further nickel mineralisation

There is often a strong correlation between downhole electro-magnetic (DHEM) responses and nickel sulphide mineralisation. DHEM surveys carried out from the wide spaced drill holes indicate elevated EM responses along the entire 1km, supporting the potential for delineation of meaningful tonnages of nickel ore.

Skye and Stirling display similar characteristics to Sinclair deposit

Breakaway is also highly encouraged by the near mine exploration potential at the Skye and Stirling prospects, both of which are located within the existing Mining Licence and in close proximity to the processing plant. Both prospects have been drill tested to relatively shallow depths (identifying multiple +2.5% Ni intersections) however, both remain largely untested at depth. Of particular importance, both the Skye and Stirling prospects occur within similar ultramafic channels to that of the Sinclair deposit, although the Skye and Stirling channels are significantly larger.

Option to fast track into production

The Sinclair Extension, Skye and Stirling prospects are likely to become Talisman's focus in the near term, all of which can be fast-tracked into production upon exploration success. Significant earlier stage exploration opportunities also exist within the broader 300km² tenement package, providing a quality project pipeline for the longer term.

The acquisition of Sinclair is testament to first class effort by management and it is fitting that control of the project, originally discovered by Jubilee Mines in 2005, is returned to ex-Jubilee Mines Executives.

Outlook for Nickel

Indonesia's ban on ore exports set to stay

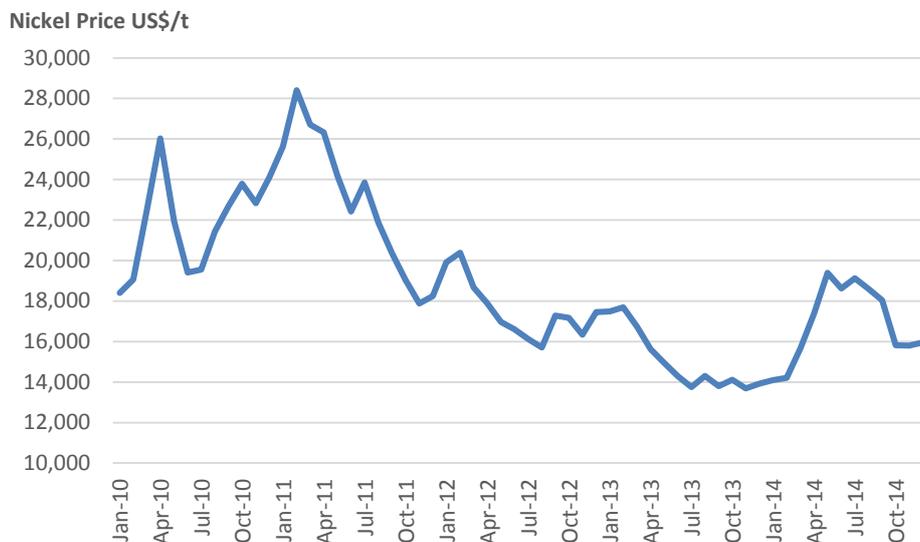
Despite recent price weakness, the long term outlook for nickel prices is likely to be supported by Indonesia's ongoing ban on raw material exports (including nickel ore). Most recently, this was reaffirmed after presidential elections held in June 2014. The ban is a stimulus measure for Indonesia, designed to encourage local investment and job creation within the country, potentially spurring as much as US\$18 billion in investment in processing plants according to the Energy and Mineral Resource Ministry



Indonesia produces around ~13% of total world nickel production (GeoScience Australia) and a curb on ore exports has had a significant effect on nickel ore prices.

5 year nickel price US\$/t

Nickel is one of the best performing commodities in 2014



Source: Indxmundi

Breakaway has a bullish view on nickel price

Nickel was a solid performer amongst major commodities in 2014. Despite a significant recent correction from its highs, nickel prices still ended 2014 higher than levels at the start of the year. As a result, the cost to produce Nickel Pig Iron (NPI) in China has also increased. As the full effect of the lack of Indonesian raw material fully hits the refined market, Breakaway expects prices will strengthen to meet demand. Consensus forecasts suggest +US\$23,000/t nickel pricing is likely within the next 3 years.

Doolgunna copper-gold projects provide exceptional risk free exploration potential

Doolgunna project along strike from DeGrussa project

The Springfield project is strategically located along strike from DeGrussa, a high grade copper-gold deposit (14.3Mt @ 4.6% Cu and 1.6g/t Au) discovered by Sandfire Resources (ASX: SFX). Talisman has already spent ~A\$20million advancing exploration at the highly prospective project, identifying numerous targets and forming a valuable geo-scientific data set.

Farm-in agreement with Sandfire

Talisman signed a farm in agreement with Sandfire in December 2013, whereby Sandfire can earn up to a 70% interest in the Doolgunna project by spending A\$15million on exploration within 5½ years.

Risk-free exploration

Breakaway is encouraged by the formation of this agreement as it provides Talisman with material exposure to any medium term exploration success, with no financial exposure to the Company. In the event economic deposits are discovered within the project area, Sandfire is the ideal partner as it has established infrastructure already in place. Sandfire also brings a significant data set of its own and a strong understanding of the local geology, increasing the probability of exploration success.



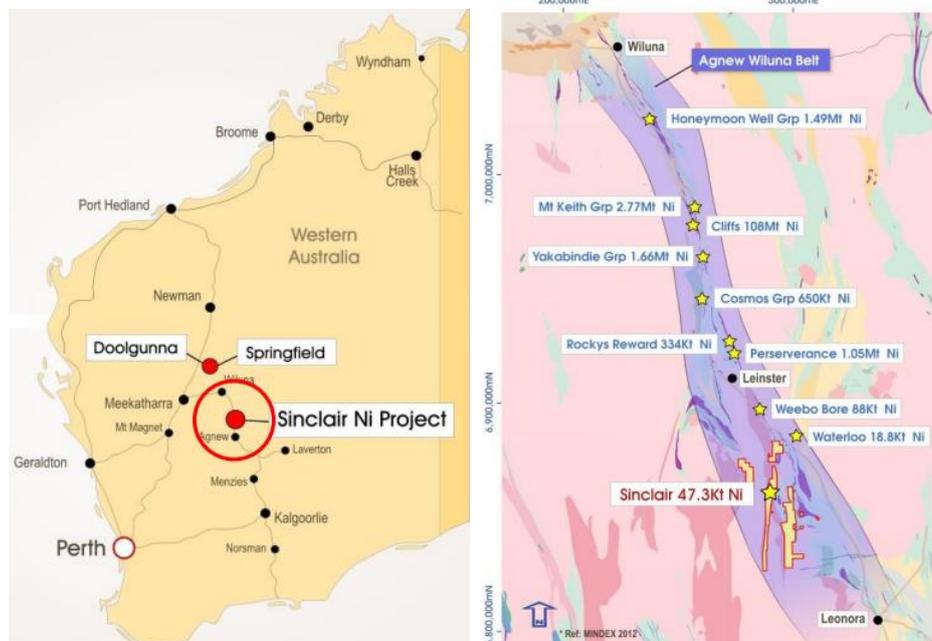
Project Review

Sinclair Nickel Project

The Sinclair Nickel Project is located ~81km north west of Leonora within the Agnew-Wiluna Greenstone belt of WA, a well-known nickel sulphide province with over 9 million tonnes of reported nickel production to date.

Sinclair Project Location with regional geology and nickel production centers

Located within a well-known nickel province



Source: Talisman Mining

Historical production of 38.5kt @ 2.5% Ni head grade

The Sinclair nickel deposit was discovered by Jubilee Mines in 2005. In 2007, Xstrata acquired Jubilee Mines for A\$3.1 billion, giving Xstrata control of the nearby Cosmos mine and various other assets, one of which was the Sinclair deposit. Xstrata developed and commissioned the Sinclair deposit in 2008, producing a total of 38,500 tonnes of nickel at an average head grade of 2.5% Ni from open pit and underground operations. In August 2013, Xstrata placed the mine on care and maintenance following the depletion of reserves which coincided with a cyclical low point in nickel pricing.

The Sinclair Mine Infrastructure

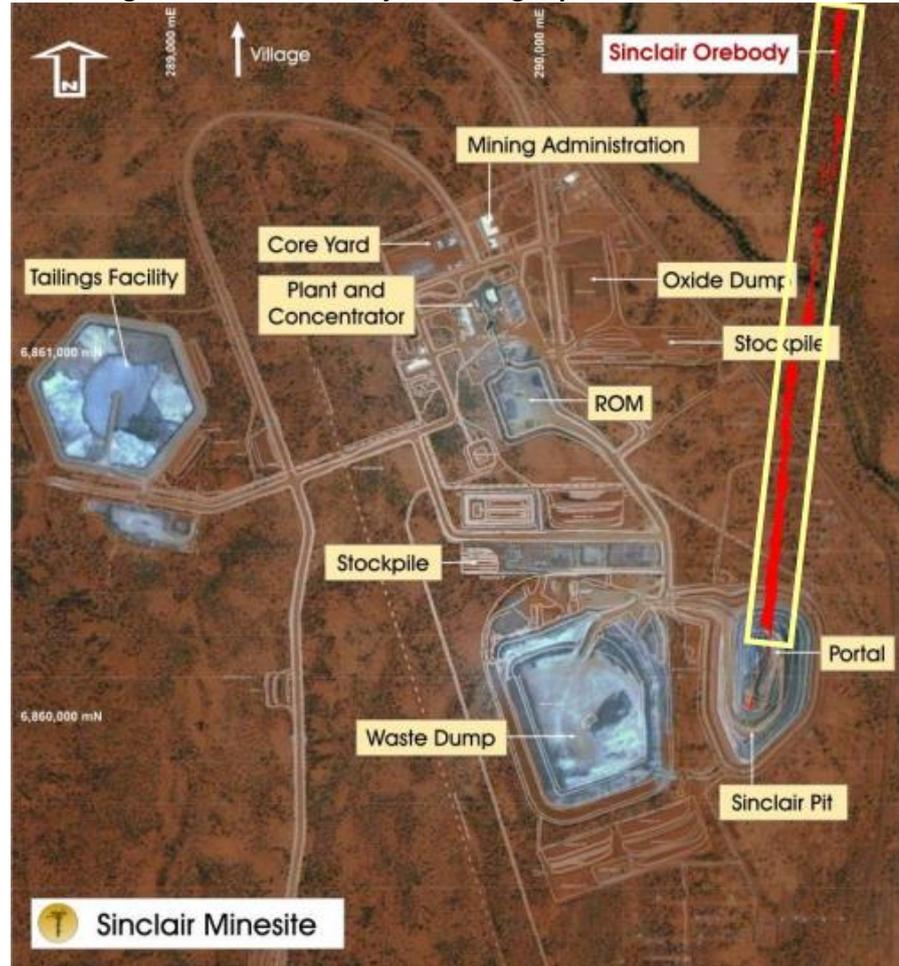
The acquisition of the Sinclair Nickel Project includes extensive infrastructure including:

Near-new processing plant on care and maintenance

- Open pit, decline and underground mine
- Processing, crushing and screening plant
- 300ktpa concentrate plant (has operated up to ~450ktpa)
- 200-person accommodation village
- ROM pad and waste dump
- Tailings storage facility
- Administration buildings and stores
- Exploration office and core yard
- Borefield and pipelines
- Mining contractor facilities
- A 2km bitumen airstrip



Aerial image of Sinclair Nickel Project showing key infrastructure



Likely extensions to the Sinclair ore body

Source: Talisman Mining

The availability of this extensive high quality infrastructure is of significant strategic value to Talisman, providing the Company with the option to fast track development following any exploration success and/or strength in the nickel price.

Option to fast track development following exploration success

As indicated in the images below, the infrastructure is being maintained at a high standard.

Open pit



300ktpa processing plant



Infrastructure in excellent condition

Core yard



Sealed airstrip



Source: Talisman Mining



Exploration Potential

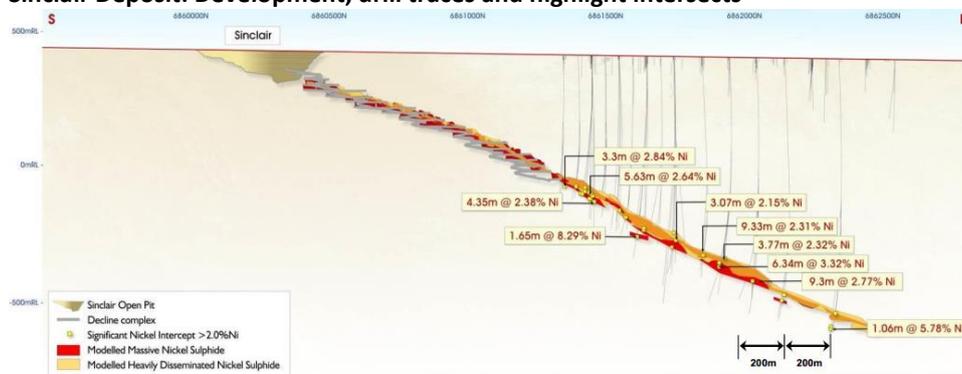
The aerial image of the Sinclair Nickel Project (on the previous page) shows an overlay of the interpreted trend of the Sinclair deposit, which comprises of an elongated body of massive to disseminated sulphide mineralisation. The ore body strikes to the north-east and has a shallow plunge of ~20 degrees.

Sinclair mined from open pit and underground operations

Xstrata initially mined the deposit from an open pit and then moved to underground operations via a decline from the base of the open pit, reaching a total vertical depth of ~445m. **1.58Mt @ 2.44% Ni (for 38,500t of contained Ni)** was mined over ~5 years.

Wide spaced drilling indicates mineralisation continues down plunge for at least another 1km from the end of the current mine development. The Company reports that while the first 350m may be drilled at sufficient density to enable an inferred resource estimate, the remaining 800m meters have been drilled on a 100m-200m spacing pattern, which is insufficient for a resource estimate.

Sinclair Deposit: Development, drill traces and highlight intersects



Source: Talisman Mining

Wide spaced drilling indicates extensions to the Sinclair orebody

Breakaway is encouraged by many of the intersections encountered beyond the mine development which include:

'Ore grade' intercepts

- 14.95m @ 1.64% Ni (including 5.63m @2.64% Ni)
- 18.44m @ 1.74% Ni (including 9.33m @ 2.31% Ni)
- 6.34m @ 3.32% Ni
- 9.30m @ 2.77% Ni

Down Hole Electro-Magnetic (DHEM) responses show a high correlation to nickel sulphide mineralisation at Sinclair. Surveying down plunge of the existing development indicate anomalous EM zones, supporting the continuity of mineralisation.

Anomalous EM Zones down plunge



Source: Talisman Mining

Anomalous EM zones support an extension of the Sinclair orebody

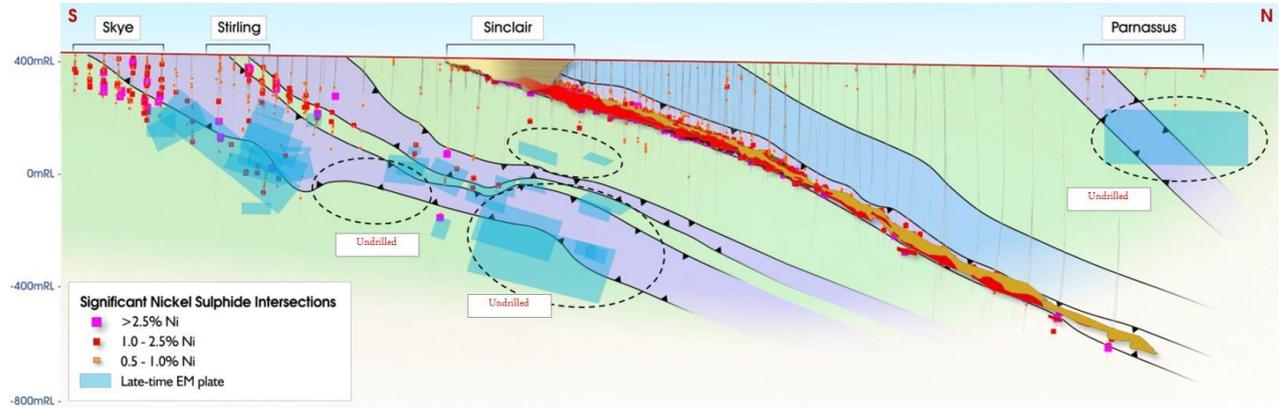


Near Mine Potential

Two additional highly prospective targets

The Sinclair project also hosts two high quality prospects called Skye and Stirling, located to the south of the open pit and within the existing Mining Licence. Both of these prospects trend underneath and parallel to the Sinclair deposit and of particular importance, both occur within an ultramafic rock type similar in style to the Sinclair ultramafic, but in greater volumes.

Skye and Stirling and Parnassus ultramafic channels with nickel intercepts and EM anomalous zones



Source: Talisman Mining

Large EM anomalies present enticing exploration targets

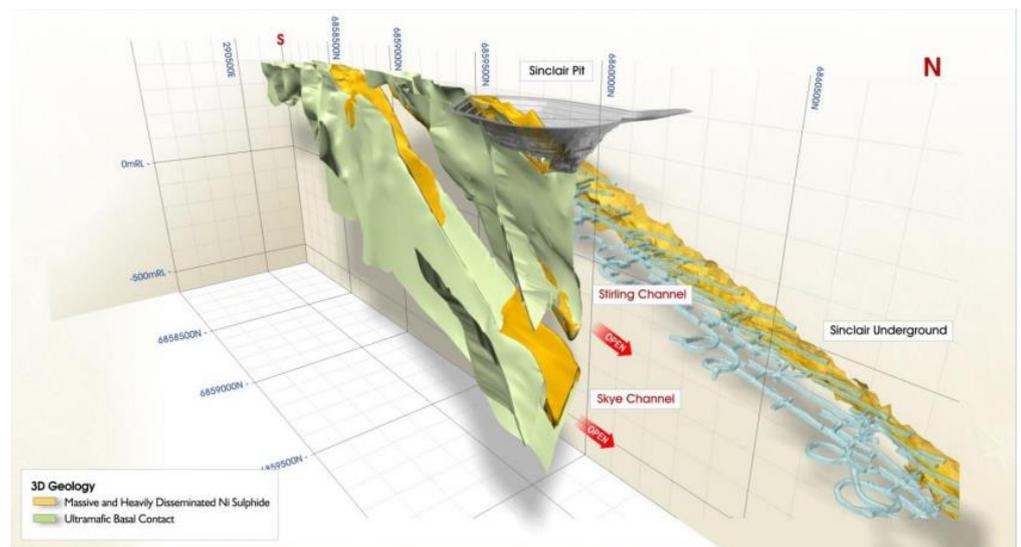
Drilling at Skye and Stirling has intersected numerous +2.5% Ni sections (as indicated by the pink squares in the above image) within the 0-200m depth range, however, the two prospects are largely untested at depth. DHEM surveying has also identified numerous conductive zones down plunge within the ultramafic channel. If these EM conductors are as extensive as their size and conductivity indicate, they could represent new nickel sulphide mineralisation. Given that positions up-plunge and to the south of these EM conductors are known to carry massive nickel sulphide mineralisation, these EM anomalies present as highly prospective exploration targets.

3D Geological Modelling

Talisman has engaged geological consultants SRK to assist in developing 3D models of the Skye and Stirling prospects using the available drilling, geophysical and geological data.

3D Model of Skye and Stirling geology

3D models greatly assists future exploration



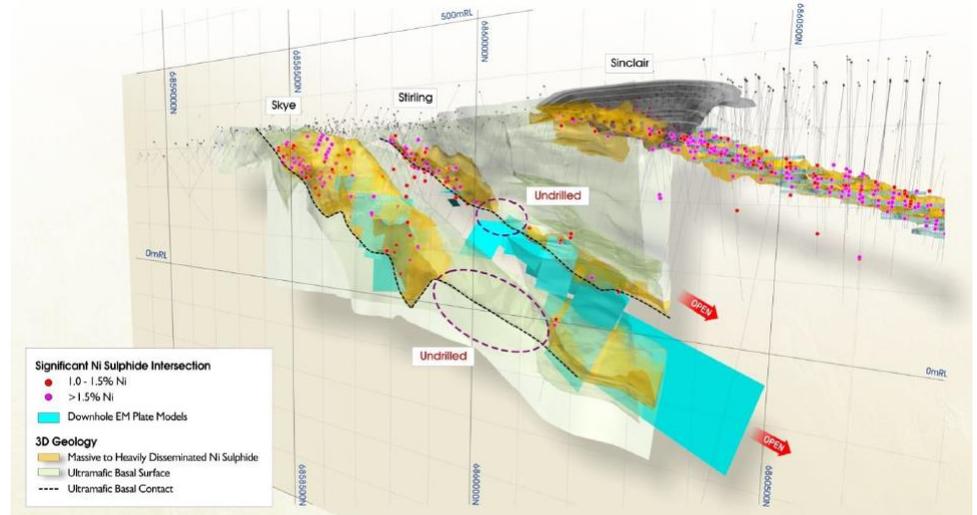
Source: Talisman Mining



The 3D models will be used to better define the nickel sulphide mineralisation trends, as well as provide robust constraints on possible ore bearing positions and mineralisation-controlling geological structures. Importantly, these models will also greatly assist in facilitating accurate drill programs over the coming months.

Highly encouraging geophysics highlight prospectivity of Skye and Stirling

3D Model of Skye and Stirling showing DHEM anomalous zone overlay



Source: Talisman Mining

The 3D image above illustrates the strong down plunge continuity of the DHEM responses at Skye and Stirling. Breakaway is further encouraged by work recently undertaken by Newexco (consulting nickel geophysics specialists) which identified numerous additional strong EM conductors located down plunge at the Skye prospect which have not yet been tested.

Exploration success could be support a fast track into production

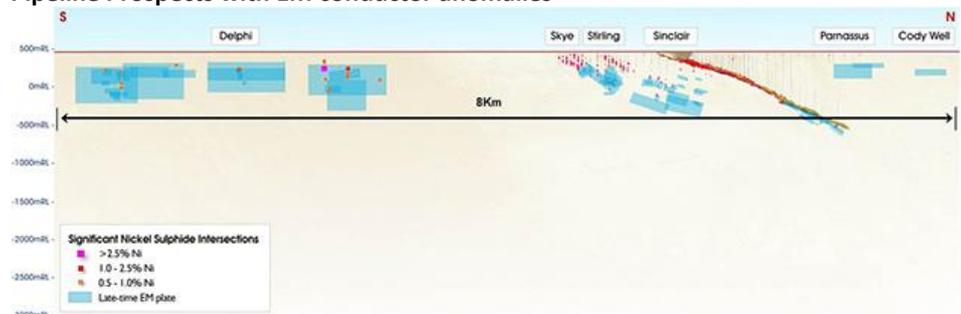
Breakaway places a high probability on a nickel resource being delineated at the Skye and Stirling prospects. This outcome would be a game changer for Talisman as any potential deposit could be fast tracked into production with the fully operational processing plant and the majority of regulatory approvals already in place.

The Sinclair Trend

Within the project area, several earlier stage exploration opportunities have been identified. These prospects include Delphi, Parnassus and Cody Well which are along strike of the Sinclair deposit and within the interpreted Sinclair Trend. Importantly, these prospects combine substantial volumes of near surface high-MgO ultramafic rock, coincident EM anomalous zones and existing nickel sulphide intersections.

Numerous earlier stage exploration targets in close proximity

Pipeline Prospects with EM conductor anomalies



Source: Talisman Mining



Doolgunna Copper Gold Projects

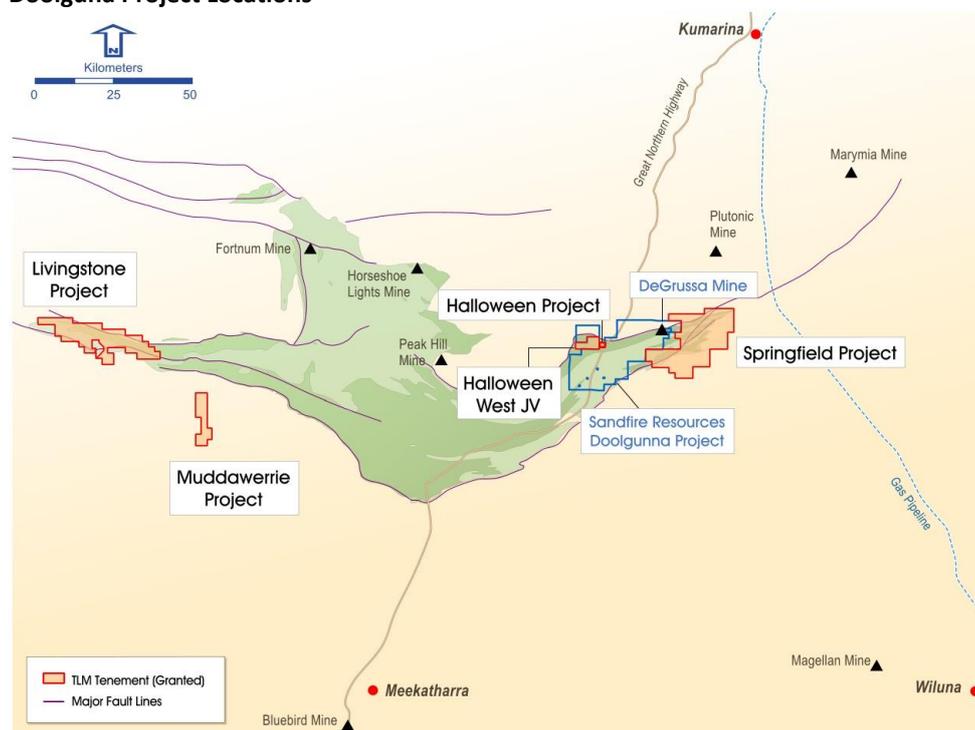
Talisman has an extensive portfolio of VMS copper-gold exploration projects located in the Byrah Basin of WA. The most advanced are the Doolgunna projects which comprise of the Springfield, Halloween and Halloween West projects, all of which are subject to a farm-in agreement with Sandfire Resources (ASX: SFR).

Sandfire can earn 70% by spending A\$15M

Under the terms agreed (in December 2013), Sandfire has the right to earn up to a 70% interest in the Doolgunna projects by spending a total A\$15 million on exploration within 5½ years with a minimum expenditure of A\$5million within the first 2 years. After the first 2 years, Sandfire can either withdraw or spend a further A\$5million (earning it a 51% interest in the Doolgunna Project) and a further A\$5 million over the following 18 months to increase its interest to 70%.

Doolgunna Project Locations

Located adjacent to and along strike from the high grade DeGrussa deposit



Source: Talisman Mining

Springfield Project

A\$20M already spent on exploration – forming a valuable data set

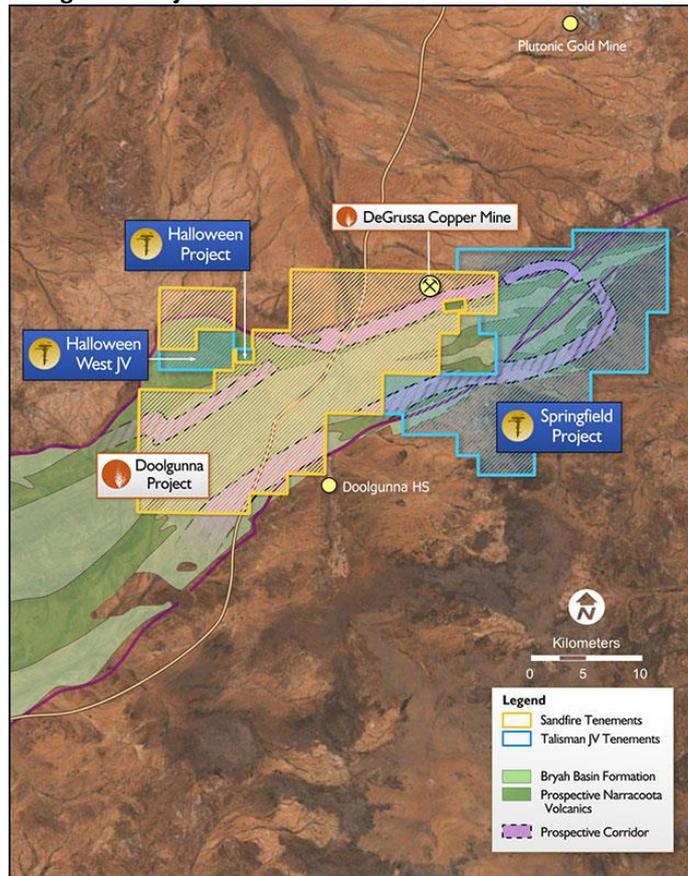
Prior to the farm-in agreement, Talisman had already spent more than A\$20 million exploring the Doolgunna projects, assembling a comprehensive data base which has supported the identification of multiple high quality targets. The most prospective of these are located within the Springfield Project area, strategically located along strike and within an interpreted Volcanogenic Massive Sulphide (VMS) corridor, which currently hosts the DeGrussa Resource (14.3Mt @ 4.6% Cu and 1.6g/t Au) from four nearby deposits.

While Springfield is prospective for VMS style deposits, opportunity also exists for structurally controlled sediment hosted copper mineralisation, similar to that of the nearby Thaduna and Dragon deposits.



Doolgunna Projects: Farm-in with Sandfire Resources

Most prospective targets identified within the Springfield Project

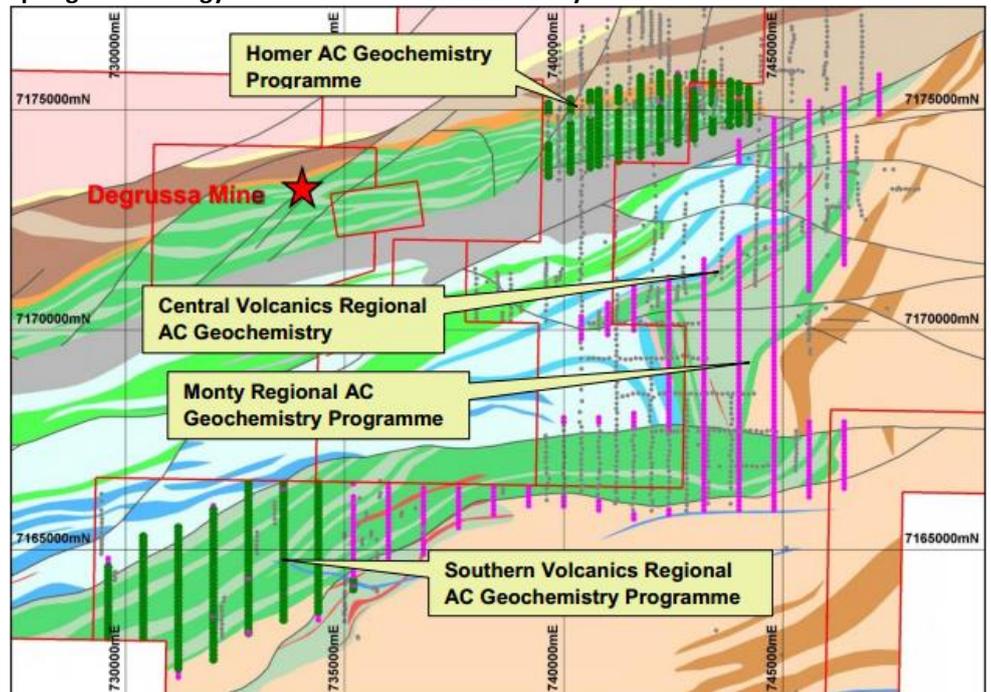


Source: Talisman Mining

Sandfire has demonstrated the effectiveness of using high powered electromagnetic surveys to identify 'blind' deposits, having successfully identified the C4 and C5 mineralised lenses at DeGrussa by these methods. Sandfire has again employed these methods along the 'Homer Corridor' (an area along strike from the DeGrussa deposits) with early interpretation already indicating numerous anomalies for follow up field work.

EM survey along Homer Corridor identifies numerous anomalies for follow up field work

Springfield Geology: Homer Corridor and EM survey area



Source: Talisman Mining



Thick alteration zones indicate hydrothermal activity

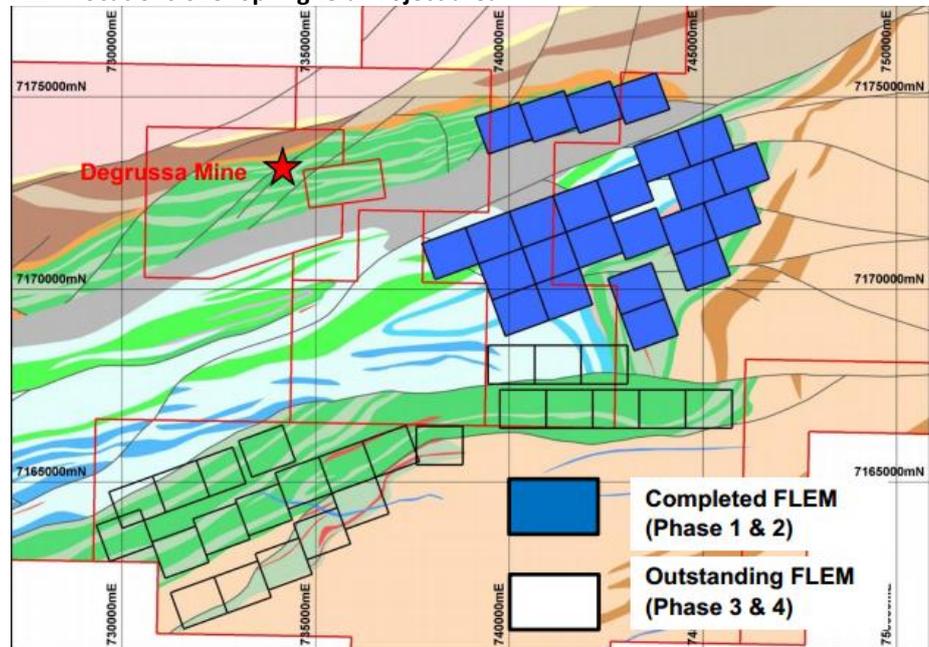
Sandfire is conducting an extensive aircore drill program within the Homer Corridor, having already completed 278 holes (for 21,099m) in late 2014. Drilling recommenced in January 2015, with plans to continue drilling through the March quarter. Assays for the aircore program are still pending; however, geological units encountered indicate the Homer sequence hosts the interpreted extension of the DeGrussa mine stratigraphy, re-affirming the prospectivity along strike.

VMS deposits such as the C1 and C4 lenses at DeGrussa typically have very small strike lengths and subtle geophysical and geochemical signatures. To help vector in on any potential nearby deposits within the Homer Corridor, Sandfire has conducted Down Hole Electromagnetic (DHEM) analysis at TLD0001 (a diamond hole drilled to 1,099m within the Homer sequence) and within a further 20 RC holes completed in the area. This data will be integrated into the broader geological interpretation of the area.

Fixed-loop electromagnetic (FLEM) surveying is also being used to great effect in the area. A total of 24 blocks (1,200m x 1,000m) have been surveyed with plans to conduct FLEM on a further 25 blocks over the coming weeks.

Fixed-loop EM surveying being used to gain better insight into the local geology

FLEM locations over Springfield Project area



Source: Talisman Mining

Upcoming Exploration at Springfield

Following early signs of encouragement, Sandfire will continue to focus exploration efforts on the Springfield Project. Upcoming programs include;

Significant exploration activity planned in the months

- Complete regional aircore drill programs
- Complete FLEM survey
- Integrate new data into existing geological interpretation
- Conduct higher resolution (in-fill) FLEM surveys over anomalous areas
- Undertake diamond drill programs on any identified targets



Additional Projects

Extensive pipeline of projects

Talisman has an interest in various earlier stage exploration projects within the area - namely; Halloween, Halloween West, Livingston and Muddawerrie.

Halloween Cu-Au Project (100% Talisman Mining – subject to Sandfire farm-in)

The project is located ~16.5km west of Springfield and ~11.5km west of the DeGrussa mine. It covers an area over the Narracoota Volcanic Formation, the same formation which hosts DeGrussa.

Halloween located along strike to the west of DeGrussa

Sandfire is currently integrating data gathered by Talisman into the geological model which will be assessed for possible drill targets.

Halloween West Cu-Au (63% Talisman Mining, 37% Chrysalis Resources)

Talisman Mining's 63% interest is subject to the farm-in agreement with Sandfire

Halloween West is an early stage exploration project prospective for copper and gold. Prior to the SFR farm-in, 800 soil samples were collected along 100m and 200m traverses designed to test for surface expressions of mineralisation. Two anomalous areas named Wizard and Malachite were encountered. Sandfire will integrate the soil sample data which may lead to follow up field work in due course.

Two early stage prospects identified

Livingstone Project (80% Talisman Mining)

Livingston is located ~130km north west of Meekatharra and consists of three exploration licences covering a total area of ~208km². An EM survey has been flown over the project highlighting multiple areas of interest, with the most advanced prospects being Kerbra and Homestead which are considered prospective for intrusive related magmatic nickel-copper PGE sulphide mineralisation.

Prospective for nickel-copper PGE sulphide mineralisation

Geochemical sampling and a limited drilling campaign (at Kerba) provide some early encouragement; however, this project is still at a relatively early stage.

Muddawerrie Gold Project (80% Talisman Mining)

The Muddawerrie gold project is located ~100km north of Meekatharra. The 52km² licence encompasses the entire 16km strike length of an Archaean greenstone belt considered highly prospective for banded iron formation and mafic hosted shear zone gold deposits. Historical drilling highlights include 10m @ 2.02g/t Au (including 4m @ 3.82g/t Au). More recent soil sampling programs have identified at least six anomalous areas which require follow up drill testing in due course.

Greenstone belt prospective for gold mineralisation



Directors

Non-Executive Chairman

Alan Senior

Alan Senior is an engineer with over 35 years' experience in design and project development. He has extensive experience at all stages of projects, from pre-feasibility through to commissioning and operation, for plants handling iron ore, gold, copper, bauxite, uranium, and coal. Throughout his career Alan has worked for the iron ore industry. In the 1970's and early 80's he worked as a designer on major expansion projects for Mt Newman Mining (now BHPB) and Hamersley Iron (now CRA).

Alan was formally a non-executive Director of Jubilee Mines NL up until its purchase by Xstrata. 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 is a Fellow of the Institution of Engineers Australia, a Fellow of the Australian Institute of Mining and Metallurgy, and a Chartered Professional Engineer.

Managing Director

Gary Lethridge

Gary Lethridge has significant experience in all phases of resources projects; from exploration, discovery, feasibility, development and through to operations. Prior to joining Talisman in 2009 Gary held the position of Executive General Manager-Corporate and Chief Financial Officer at Jubilee Mines NL, where he was part of the senior executive management team from 2003 until the Company's acquisition by Xstrata Nickel in 2008. Gary has also held senior executive positions with LionOre Mining International Limited in Australia (now Norilsk Nickel) and has also previously acted as a Non-Executive Director of two Australian listed exploration companies.

Gary is an Associate Member of the Australian Institute of Chartered Accountants, a Fellow of the Australian Chartered Institute of Company Secretaries and a Member of the Australian Institute of Company Directors.

Non-Executive Director

Brian Dawes

Brian Dawes has extensive experience in project development and operational roles within the mining industry across Australia and overseas, including Africa and the Middle East. Prior to his role as Executive General Manager - Operations and Projects at Jubilee Mines NL, he was General Manager Operations with ASX-listed nickel producer Western Areas NL, where he was responsible for the establishment of the Forrestania Nickel Project and Flying Fox Nickel Mine development. Prior to that he was the Group Mining Engineer with LionOre Australia, part of the LionOre Mining International group.

Non-Executive Director

Karen Gadsby

Karen Gadsby has 26 years' experience in Finance and is a qualified Chartered Accountant. She has worked for North Ltd throughout Australia for 13 years in various executive roles including 6 years with Robe River Iron Associates in Perth. Karen also has held the positions of General Manager Finance, CFO and Company Secretary.

She now resides in WA, has been involved with boards for over 13 years and now predominately works as a non-executive director. She is currently a director of Landgate, Community First International Ltd and Strategen Environmental Consultants Pty Ltd. She also consults and advises in the areas of business and finance strategy, change management and executive mentoring. Karen is a Fellow of the Institute of Chartered Accountants and is a Member of the Australian Institute of Company Directors.

**CV's abridged from company website*



Analyst Verification

We, Grant Craighhead and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Talisman Mining and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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