

Sunday 7<sup>th</sup> May, 2017

### Monty Debt Funding Secured - Portfolio Stock (coverage initiated @ \$0.49 in Sep 2015)

Talisman Mining (ASX: TLM, Share Price: \$0.29, Market Cap: \$54m) has been one of our most dedicated exploration plays. Its flagship Springfield copper exploration project in WA involves a joint venture with Sandfire Resources (ASX: SFR) under which Sandfire has spent \$15m to earn a 70% stake. The focus now is bringing the Monty deposit into production via utilization of the existing DeGrussa plant.

*Talisman has advised that it has mandated Taurus Mining Finance Fund to provide debt finance facilities of approximately \$23 million to fully cover Talisman's share of forecast pre-production costs for the development of its Monty deposit, removing one of the last remaining hurdles to project development.*



### Market Significance

Talisman's share price has eased as the market has reacted somewhat irrationally and overly negatively to the recent release of the Monty Feasibility Study, which revealed robust projected returns. Perhaps the only negative was the delayed production start in Q4 2018. Otherwise, there was little that should have surprised the market in relation to the results of the Study. Likewise, the provision of debt funding is a major achievement in the current market environment, but has been met with little market fanfare in share price terms. Talisman estimates the pre-tax NPV<sub>8</sub> of its 30% interest is \$46m and pre-tax IRR is 78%.

**Announcement Detail – Monty Debt Financing**

Talisman Mining has advised having mandated Taurus Mining Finance Fund to provide debt finance facilities of \$23 million to fully cover Talisman's share of forecast pre-production costs for the development of the Monty copper-gold project.

The mandate was awarded following a competitive process culminating in final discussions with a shortlist of potential financiers, including major Australian banks and other typical resource project lenders, following the recent release of the Monty Feasibility Study.

The selection of Taurus as preferred debt provider was driven by a combination of factors including a highly competitive overall cost of debt, finance facilities covering the full forecast pre-production cost, no mandatory commodity price hedging requirement and flexibility in relation to early repayment and other key terms. A risked cost of capital analysis also indicated that the Taurus package was competitive in comparison to the range of available alternative funding structures.

Execution of final finance facility agreements remains conditional upon satisfactory completion of due diligence and payment of associated facility costs and fees. Subject to satisfaction of these remaining conditions, Talisman expects final agreements to be executed by the end of Q2 2017.

**Technical Significance**

Completion of debt financing removes one of the final hurdles to facilitate Monty's development. The final significant outstanding item is regulatory approvals, which are expected during mid-2017. First production from Monty is forecast to take place during Q4 2018.

**Other Recent Activity****Monty Feasibility Study Results**

Talisman recently announced the completion of the Monty Feasibility Study and the release of a maiden Ore Reserve for the Monty Copper-Gold deposit. As a reminder, Monty forms part of Talisman's Springfield Project Joint Venture with Sandfire Resources in which Sandfire holds a 70% interest and is Joint Venture manager. Talisman holds a 30% interest in the Joint Venture.

Monty is one of the highest-grade copper-gold discoveries globally in recent decades, which has been a key driver of the highly attractive forecast financial returns outlined in the Feasibility Study. The proximity of the deposit to Sandfire's DeGrussa plant provides an expedited and low risk pathway to production, with an extremely low development capital intensity compared to other global 'greenfield' copper discoveries.

The Feasibility Study details forecast total production of 74.4kt of contained copper (plus 38.4koz contained gold and 413.4koz contained silver) over an initial ore production life of 30 months. This production profile is a function of Monty being scheduled to be mined and processed through the

DeGrussa plant at a maximum throughput rate of approximately 0.4Mtpa, with a 4.5% Cu cut-off grade providing the best economic outcome.

<b>Operating parameters (Talisman 30% basis)</b>	<b>Units</b>	<b>FS (Mar 2017)</b>
<i>Total mined ore</i>	kt	239
<i>Ore production mine life</i>	months	30
<i>Copper head grade (LOM avg)</i>	% Cu	9.35
<i>Gold head grade (LOM avg)</i>	g/t Au	1.50
<i>Silver head grade (LOM avg)</i>	g/t Ag	16.2
<i>Total copper-in-ore mined</i>	kt	22.3
<i>Total gold-in-ore mined</i>	koz	11.5
<i>Total silver-in-ore mined</i>	koz	124
<i>Total payable copper metal</i>	kt	19.9
<i>Total payable gold metal</i>	koz	5.7
<i>Total payable silver metal</i>	koz	56.2

**Table 1:** Summary of key Monty Feasibility Study Operational Results (Talisman 30% attributable basis)

Talisman’s share of total estimated pre-production capital cost for the development of Monty is \$22M. This delivers an outstanding and globally attractive pre-production capital intensity of approximately \$2,500 (approx. US\$2,000) per tonne of annual copper (in concentrate) production capacity.

The key pre-production capital items comprise (on a 100% basis):

- Surface infrastructure including haul/access roads and drainage, box-cut and owner’s team costs (\$33M).
- Underground mine development including portal and decline establishment (\$32M).
- Underground mine infrastructure including ventilation shaft and fan (\$8M).

Talisman’s share of forecast life-of-mine sustaining capital is \$5.5M.

The estimated notional C1 Operating cash cost (excl. royalties) of production for Monty is an impressive A\$1.56/lb (US\$1.13/lb) payable copper. The notional All-in Sustaining Cost (AISC) is A\$1.90/lb (US\$1.37/lb) of payable copper.

With these strong expected margins, Monty is forecast to yield more than \$64M in forecast ungeared pre-tax free cash flow to Talisman, inclusive of all capital expenditure. This delivers a pre-tax Net Present Value (NPV) of \$46M at a real 8% discount rate. The forecast pre-tax internal rate of return (IRR) is 78%.

Financial parameters (Talisman 30% basis)	Units	FS (Mar 2017)
Forecast copper price (LOM avg)	US\$/t	6,118
Forecast gold price (LOM avg)	US\$/oz	1,369
Forecast A\$/US\$ (LOM avg)	USc	0.723
Total gross revenue	A\$M	181
Total cash operating costs (incl. Ore Treatment Fee & royalties)	A\$M	89
Pre-tax operating cashflow	A\$M	92
Pre-production capital cost	A\$M	22
LOM sustaining capital cost	A\$M	5
Ungeared, pre-tax free cashflow	A\$M	64
Notional C1 Operating cash cost (excl. royalties <sup>3</sup> )	A\$/lb pay Cu	1.56
Notional All-in-sustaining-cost (AISC <sup>3</sup> )	A\$/lb pay Cu	1.90
Pre-tax NPV (8% discount rate, real)	A\$M	46
Pre-tax IRR	%	78
Payback period (from first production)	months	17
Mine life - to - payback period	x	1.8
NPV / pre-production capex	x	2.1

**Table 2:** Summary of key Monty Feasibility Study Financial Return Outcomes (Talisman 30% attributable basis)

## Technical Significance

The Monty Feasibility Study reveals that the joint venture is taking a somewhat cautious approach to Monty's development. As explained to me by Talisman MD Dan Madden in a phone hook-up, the proposed Mine Plan has underground mining starting at the bottom of the mine, due to the fact that this is where the bulk of the high-grade mineralisation is currently located. This is in preference to mining of the shallower Upper Zone mineralisation on the way down to the Lower Zone.

A Maiden Ore Reserve has been estimated for Monty as part of the Feasibility Study, which is 920kt averaging 8.7% copper and 1.4g/t gold. Of this 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 lower grade Upper Zone – which is described as having “marginally positive economics.”

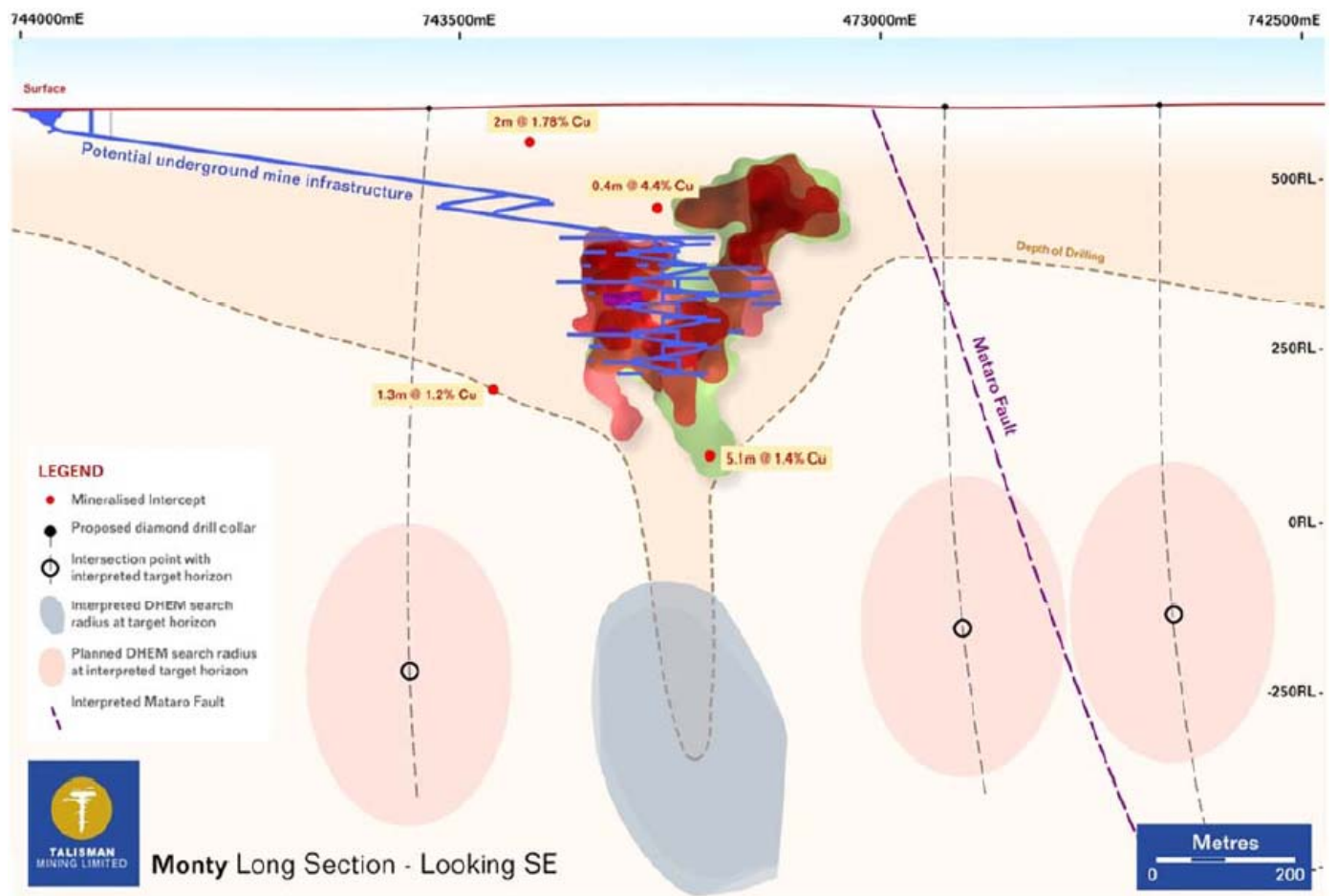
Underground grade control drilling however will provide considerable clarity with respect to the determination of the final mining schedule, with potential extraction of the Upper Zone to be reassessed post project implementation.

The bottom-line is that in addition to excluding potential value by not exploiting the Upper Zone, the “bottom up” mining method means that there is a much longer delay to first significant cash flows than the market had probably been anticipating, potentially lowering the project's value.

Under an Ore Sale and Purchase Agreement (OSPA) between Sandfire and Talisman, Talisman will be paid for its ore on an equivalent metals-in-concentrate basis after allowing for deductions for a treatment fee (Ore Treatment Fee) and other associated charges. The Ore treatment Fee equates to about A\$211/t of delivered Monty ore (equivalent to US\$0.83/lb or A\$1.15/lb of payable copper metal. This Ore Treatment Fee reflects DeGrussa capital, operating and general downstream costs, but is probably higher than what the market was expecting – and will likely impact on Monty’s value to the company.

## Monty Exploration Activity

RC pre-collars are in place for two of three deep diamond holes (1,400 metres each) around Monty, which will test the immediate vicinity of the known Monty deposit at depth.



**Figure 1:** Monty Deposit Long Section with locations of proposed deep diamond DHEM platform holes

The discovery of Monty, when combined with Sandfire’s DeGrussa complex of deposits, provides genuine proof of concept for the potential of the region to host multiple clusters or “camps” of high-grade, high-value Volcanogenic Massive Sulphide (VMS) mineralisation. With an estimated resource grade of 9.4% copper combined with spectacular bornite mineralisation not seen at DeGrussa, Monty represents a separate mineralising event within the Doolgunna region and the Bryah Basin. This further demonstrates the diversity of the ore forming systems in these exceptionally high value and prospective mining districts.

## **Technical Significance**

Critically, RC and diamond drilling outside of the currently defined mineralisation envelope at Monty is limited and Talisman believes that significant untested potential remains to discover additional mineralisation around Monty both laterally and at depth. These diamond holes will also provide additional Down-Hole Electromagnetic (DHEM) platforms to test within zones that could potentially be accessed from the proposed Monty mine infrastructure.

At a wider regional level, only the 8km Monty Trend and a similar limited trend along the Homer Corridor have been the subject of targeted RC/diamond drilling and DHEM by the joint venture. It is interpreted that there are multiple prospective VMS host horizons within the Bryah Basin stratigraphy. The Monty Trend represents only one limited stratigraphic horizon within the wider interpreted prospective VMS corridors.

The vast majority of the remaining prospective corridors have only been subject to air-core drill coverage and limited, isolated RC drill-holes. The Southern Volcanic Corridor is one such area. It has been subject to first pass air-core drilling but only limited RC drilling (only five holes to date) by the joint venture. Talisman believes this 16km corridor represents a high priority for the next phase of systematic exploration by the joint venture. Execution of the formal EJVA will now drive further systematic testing of this highly prospective region.

## **Summary**

**We initiated coverage of Talisman Mining at a price around \$0.49 during September 2015.**

**Despite the recent share price weakness, the Monty Feasibility Study is a sound basis for development of a mining operation on what is one of the highest-grade copper deposits discovered in recent decades. Monty's development will provide strong cash flows to Talisman and transform it into a producer, whilst there is a strong likelihood of further discoveries around Monty and within the Springfield joint venture area.**

**Talisman Mining will remain firmly held within our Portfolio.**

**Disclaimer:** Gavin Wendt, who is a director of Mine Life Pty Ltd ACN 140 028 799, compiled this document. It does not constitute investment advice. I wrote this article myself, it expresses my own opinions and I am not receiving compensation for it. In preparing this article, no account was taken of the investment objectives, financial situation and particular needs of any particular person. Investors need to consider, with or without the assistance of a securities adviser, whether the information is appropriate in light of the particular investment needs, objectives and financial circumstances of the investor. Although the information contained in this publication has been obtained from sources considered and believed to be both reliable and accurate, no responsibility is accepted for any opinion expressed or for any error or omission in that information. I have no positions in the stock mentioned and no plans to initiate any positions within the next 72 hours.