

Ticker: TLO CN

Q2 Cash: ~C\$37m

Project: Tamarack

Market cap: C\$396m

Price: C\$0.58/sh

Country: USA

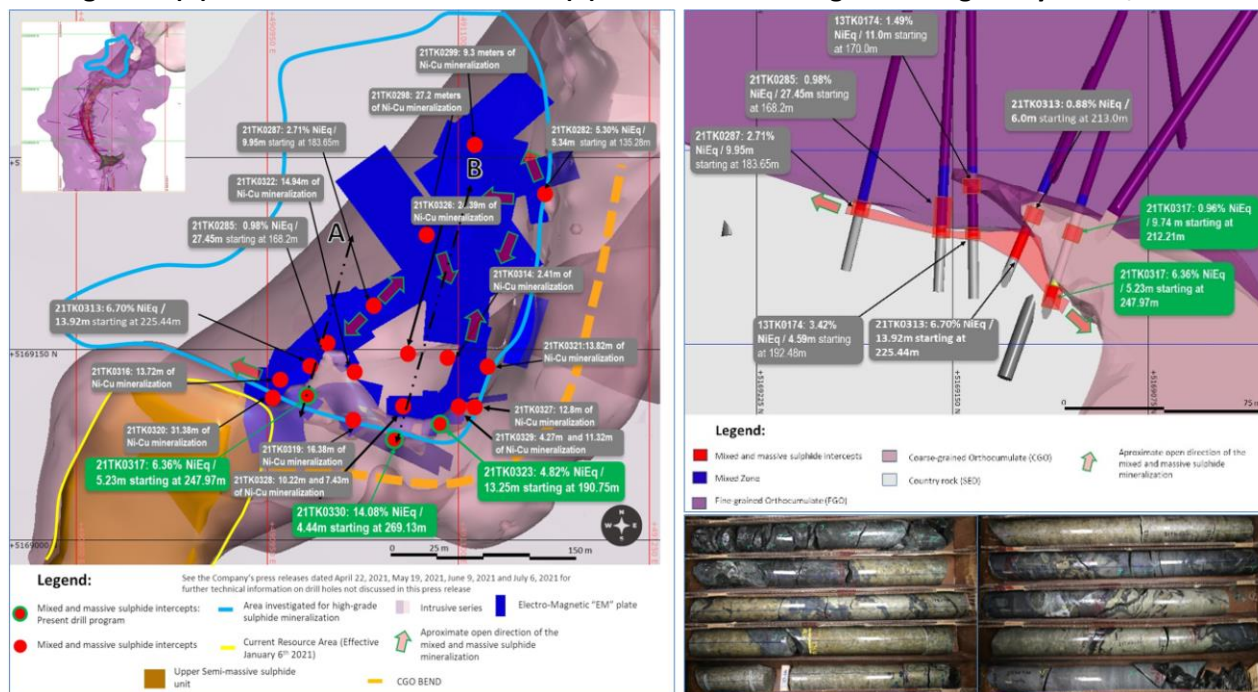
RECOMMENDATION (unc): BUY

PRICE TARGET (unc): C\$1.05/sh

RISK RATING: HIGH

Today's hit of **4.4m @ 14.1% NiEq** from CGO West, ~100m NE of the existing resource, talks to the grade of potential additions here. At this grade, a side benefit is impact on concentrate-grade, which should help payability, plus the area remains shallow / near-development for ease of including in the 1Q22 revised PEA. The existing PEA covers 11Mt @ 1.34% Ni and 0.76% Cu. CGO West goes from 5m @ 5.3% NiEq in the north (plus 9-27m hits awaiting assay), to 13m @ 4.8% in the south (released today); we estimate 1-1.5Mt of additions here, but at well over the MRE **at higher grades than we had hoped, exemplified by today's drilling**. CGO East extends from 10m @ 2.5% NiEq in the north (+8-27m pending assay) to 10m @ 2.7% NiEq in the south (+ up to 50m pending assay), from which we see good potential for 2-3Mt of additions. Adding fringe drilling around the existing MRE, we expect the existing resource to grow from 11.1Mt toward 15Mt, supporting a lift in mine-plan from 10.8Mt to ~13-14Mt, ie a 20-30% lift in inventory. With a published NPV of US\$520m at US\$17,637/t Ni, this should show investors some very pleasing improvements in economics. As such, **we maintain our BUY rating and C\$1.05/sh PT**. Interestingly CGO E drilling still hasn't hit the limits (+200m to the north still planned), so rigs will likely move onto regional targets once this is complete around year end or thereafter. With 18km intrusion to test vs ~800m over which the existing mine plan lies, and beyond the ~7km with proven high-grade, we would look for continued drill-bit momentum next year, along with de-risking as the asset moves to PFS-mode.

Figure 1. (A) Plan view of CGO West area (B) drill section looking E showing today's hits / core



Why we like Talon Metals

- High-grade nickel developer in top jurisdiction
- Potential EV metals complex in the making with Norilsk sized layered intrusion
- Demonstrated exploration success and discovery upside

Catalysts

- 2H21: Continued drilling on CGO E/W beyond Oct PEA cut-off
- 1Q22: Revised PEA adding CGO E, CGO W, and Main Zone fringe
- CY22: Regional drilling, starting at far north Zone 264
- CY22: PFS commences

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Ticker: TLO CN		Price / mkt cap: C\$0.58/sh / C\$396m				P/NAV today: 0.27x				Country: USA, Minnesota				
Author: B Salier / B Gaspar		Rec / PT: BUY, C\$1.05c/sh				1xNAV7%: C\$1.33c/sh				Asset: Tamarack				
Commodity price		CY20A	CY21E	CY22E	CY23E	CY24E	Resource/Inventory		Mt	Ni %	Mt	Ni %		
Ni price (US\$/t)		17,632	17,632	17,632	17,632	17,632			1Q21 MRE		SCP inventory			
Ni price (US\$/t, payable)		13,746	13,746	13,746	13,746	13,746			M&I	3.9	1.91%	10.8	1.34%	
SOTP project valuation*		C\$m	o/ship		NAVx	C\$/sh			Inferred	7.2	1.11%			
Tamarack NPV (build start)		828	60%		1.00x	0.62			Total	11.1	1.39%	Total	10.8	1.3%
SCPe Resource Upside		828	60%		0.50x	0.31								
Cash at 2Q21		37.4	100%		1.0x	0.05								
Cash from ITM options/warrants		45.6	100%		1.0x	0.06								
1xNAV C\$ @ 2Q24		C\$1739m				1.03								
*Build start, ex fin. cost + G&A, dil. for optns not build P/NAV today: 0.27x														
Asset value: 1xNPV project @ build start (C\$m, ungeared)*														
Asset NPV (C\$m)		11,632	14,632	17,632	20,632	23,632								
9.0% discount		359	547	735	922	1,110								
7.0% discount		416	619	821	1,024	1,226								
5.0% discount		480	699	919	1,138	1,358								
Ungeared project IRR:		31%	40%	49%	58%	66%								
Asset NPV @ 1.3% (C\$m)		9.0Mt	10.0Mt	10.8Mt	15.0Mt	20.0Mt								
US\$14,632/t		551	585	619	741	854								
US\$17,632/t		737	780	821	979	1,125								
US\$20,632/t		924	976	1,024	1,217	1,395								
*Project level NPV, excl finance costs and central SGA, discounted to build start														
Group valuation over t		2Q21	2Q22	2Q23	2Q24	2Q25								
Project NPV (C\$m)		679	726	777	835	1,085								
Centra G&A and finance cost		(92)	(96)	(99)	(102)	(85)								
Net cash prior quarter		44.1	41.7	38.3	201.4	10								
Cash from ITM options/war		45.6	45.6	45.6	45.6	45.6								
NAV (C\$m)		676	717	762	980	1,055								
FD share count (m)		807	807	980	980	980								
1xNAV7%/sh FF FD (C\$/sh)		0.84	0.89	0.78	1.00	1.08								
Exit value: 1xNAV/sh company @ 2026 first production (C\$, geared)^														
1xNAV (C\$/sh)		11,632	14,632	17,632	20,632	23,632								
9.0% discount		0.58	0.79	1.00	1.21	1.42								
7.0% discount		0.63	0.85	1.07	1.29	1.51								
5.0% discount		0.68	0.91	1.15	1.38	1.62								
1xNAV (C\$/sh)		9.0Mt	10.0Mt	10.8Mt	15.0Mt	20.0Mt								
US\$14,632/t		0.78	0.81	0.85	0.98	1.09								
US\$17,632/t		0.98	1.03	1.07	1.24	1.39								
US\$20,632/t		1.19	1.24	1.29	1.50	1.68								
Production (Y1 from 3C)		CY25	CY26	CY27	CY28	CY29								
Production (000kt NiEq)			23.6	30.3	25.7	19.2								
AISC TLO (US\$/lb Ni)*			2.01	1.92	1.95	2.44								
AISC SCP (US\$/lb Ni)^			1.95	1.96	2.24	2.86								
*deductions as cost, net by-product; ^NiEq, costs to mine gate ex. deductions														
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TENDER: The analyst recommends tendering shares to a formal tender offering

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NOT RATED ((N/R): The stock is not currently rated

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BUY:	46
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	46

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