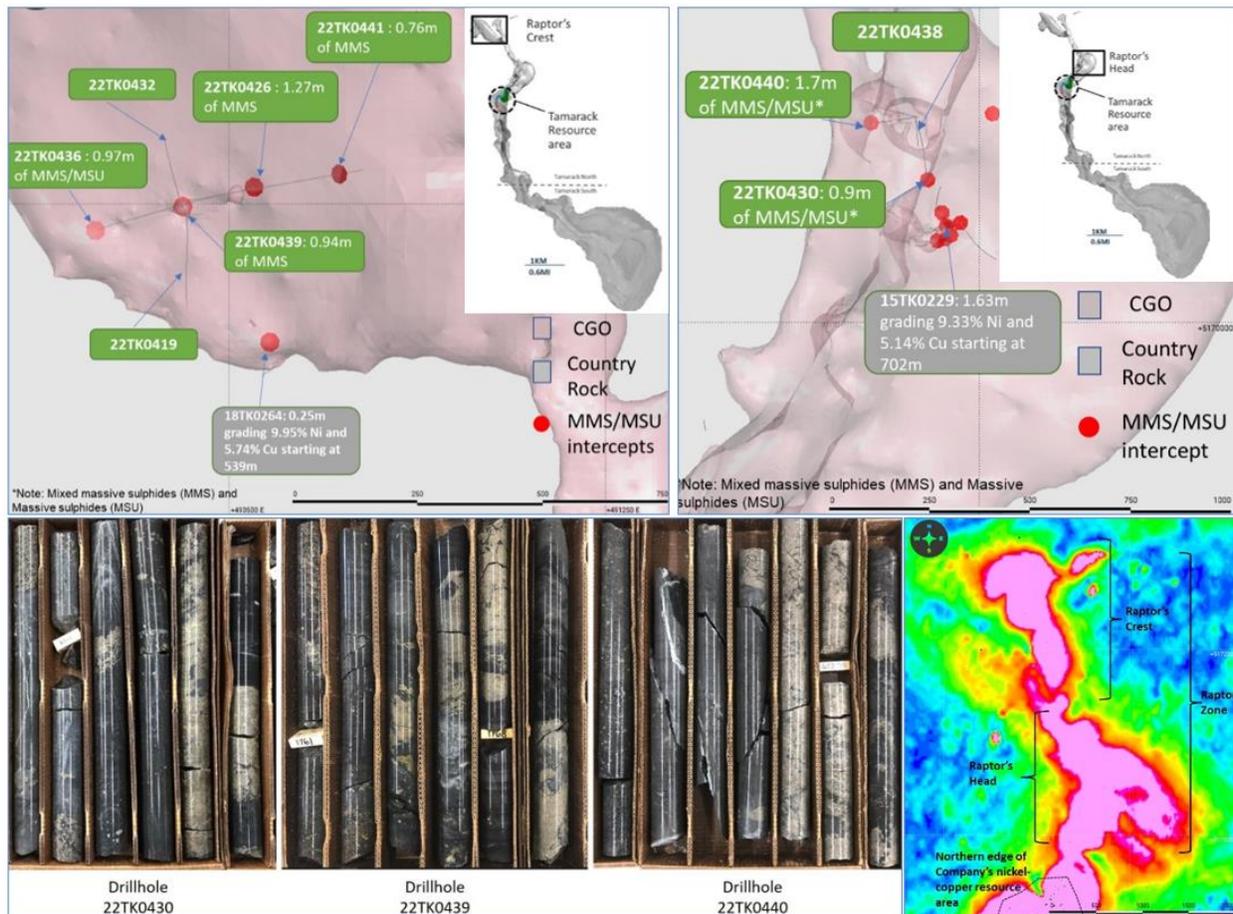


Ticker: TLO CN **Pro forma cash:** C\$37m **Project:** Tamarack
Market cap: C\$434m **Price:** C\$0.51/sh **Country:** USA
REC. (unc): BUY **TARGET (-10c):** C\$1.05/sh **RISK RATING (unc):** HIGH

Today's regional drilling are not twin holes, but quite substantial step-outs on our long-favourite extensional targets that saw historical Rio hits of 1.6m @ 9.3% Ni from 702m and 25cm @ 9.9% Ni from 539m, 1.6km and 3km north of Tamarack, respectively. We note an impressive 67% hit rate with two holes hitting 90cm and 1.7m ~100-250m from the 1.6m hit at 'Raptors Head' (from ~660m), while a third hit 97cm ~250m NNE of 25cm hit at 'Raptors Crest' (from ~625m) all in interpreted massive sulfides with additional 0.8-1.3m mineralization intersected in three separate holes over a reasonably large (250m x 100m) area. Overall, the grade/thickness looks in line with the historic hits, but the lateral extent is now lifting substantially. The downside of the depth is that modern (low frequency) 'silver bullet' EM doesn't really work from surface, but it works well down-hole surveys, with Talon able to improve on that with directional vectoring too. Very interesting, but more speculatively, today's sulphides may be 'rip-ups' (not in-situ), meaning they are fragments of something much bigger somewhere around the area, hence our excitement that drilling could not only find step-change thickness in book-end high grade but another discovery along the ~2km untested corridor – and this is where things start to get interesting. As such, **we maintain our BUY rating and update our PT to C\$1.05/sh** to reflect equity dilution from recent raise, based on 1xNAV7%-950c/lb for Tamarack and adding half again for resource growth, on 60% basis. With recent focus from US to secure critical battery metals, TLO's domestic discovery could not have come at a more opportune time. Looking ahead, it is not just rolling ahead to FS that is key now as regional drilling continues to follow-up on historic high-grade targets that could provide potential step-change additions.

Figure 1. (A/B) plan maps of 'Raptor's Crest/Head' drilling (C) core, and (D) mag of 'Raptor Zone'



Source: Talon Metals

Raptor Zone hits point to new mineralization outside of resource; assays pending

Drilling: Talon reports visuals and lithology from new drilling up to 3.2km north of existing resource in the 'Raptor Zone', intersecting massive sulphide mineralization in three holes. A total of nine drill holes have been completed since 4Q22 with six intersecting mineralization across two main areas, 'Raptor's Crest' 3km north and 'Raptor's Head' 1.6km north of existing resource area. Assays are pending for all holes.

Raise: Separately on November 16, 2022, Talon announced the closing of a bought deal public offering, issuing 75.2m shares @ \$0.49/sh for gross proceeds of \$36.9m to be used to advance exploration and development at Tamarack (incl. working capital expenditures).

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
- Offtake agreement signed with Tesla for 75kt Ni in concentrate
- Three owned rigs allow rolling ~30,000m pa drilling

Catalysts

- 2023: Regional drilling on 264 / 221 / 164 Zones (*historic 0.25m @ 12.1% NiEq, 1.6m @ 11.2% NiEq, and 2.9m @ 6.0% NiEq, respectively*)
- SCPe 1H23: PFS adding CGO E, CGO W, and Main Zone fringe
- SCPe 4Q24: Record of decision
- SCPe 2025: Minnesota Permit to mine (inc. 404 water discharge permit)
- SCP 2026/27: First production

Research

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Ticker: TLO CN	Price / mkt cap: C\$0.51/sh, C\$434m	P/NAV today: 0.24x	Country: USA, Minnesota
Author: B Salier	Rec / PT: BUY, C\$ 1.05/sh	1xNAV7%: C\$1.32/sh	Asset: Tamarack

Commodity price	CY21A	CY22E	CY23E	CY24E
Ni price (US\$/t)	20,944	20,944	20,944	20,944
Ni price (US\$/t, payable)	16,328	16,328	16,328	16,328

Share data (m)	Basic	FD	FF FD
Shares (m)	850.77	961.19	1025.7

SOTP project valuation*	C\$m	o/ship	NAVx	C\$/sh
Tamarack NPV (build start)	989	60%	1.00x	0.62
SCPe Resource Upside	989	60%	0.60x	0.37
Pro forma cash + t-bills @ 4Q22	37	100%	1.0x	0.04
Cash from ITM options/warrants	40	100%	1.0x	0.04
1XNAV C\$ @ 2024	2056			1.07

*Build start, ex fin. cost + G&A, dil. for optns not build P/NAV today: 0.24x

Asset value: 1xNPV project @ build start (C\$m, ungeared)*	CY20A	CY21A	CY22E	CY23E	CY24E
Asset NPV (C\$m)	14,944	17,944	20,944	23,944	26,944
9.0% discount	509	706	903	1,099	1,296
7.0% discount	564	777	989	1,202	1,414
5.0% discount	625	856	1,086	1,316	1,546
Ungeared project IRR:	30%	40%	49%	57%	65%

Asset NPV @ 1.3% (C\$m)	CY20A	CY21A	CY22E	CY23E	CY24E
US\$17,944/t	719	740	777	878	970
US\$20,944/t	915	945	989	1,127	1,254
US\$23,944/t	1,110	1,151	1,202	1,376	1,538

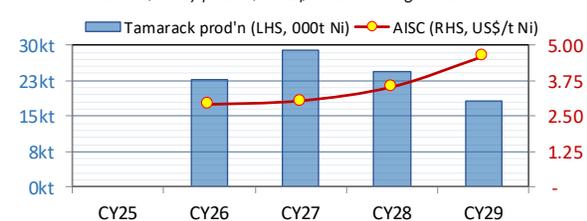
*Project level NPV, excl finance costs and central SGA, discounted to build start

Group valuation over time^	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27
Project NPV (C\$m)	911	974	1,002	1,436	1,254
Centra G&A and finance costs	(70)	(51)	(33)	(10)	17
Net cash prior quarter	37	15	107	(260)	(31)
Cash from ITM options/warra	40.2	40.2	40.2	40.2	40.2
NAV (C\$m)	918	977	1,116	1,206	1,281
FD share count (m)	961	961	1026	1026	1026
1xNAV7%/sh FF FD (C\$/sh)	0.95	1.02	1.09	1.18	1.25

Exit value: 1xNAV/sh company @ 2026 first production (C\$, geared)^	CY20A	CY21A	CY22E	CY23E	CY24E
1xNAV (C\$/sh)	14,944	17,944	20,944	23,944	26,944
9.0% discount	0.65	0.88	1.12	1.35	1.58
7.0% discount	0.68	0.93	1.18	1.42	1.66
5.0% discount	0.72	0.98	1.24	1.50	1.75
1xNAV (C\$/sh)	9.0Mt	10.0Mt	10.8Mt	15.0Mt	20.0Mt
US\$17,944/t	0.86	0.89	0.93	1.06	1.17
US\$20,944/t	1.08	1.12	1.18	1.35	1.51
US\$23,944/t	1.31	1.36	1.42	1.64	1.85

Production	CY25	CY26	CY27	CY28	CY29
Production (000kt NiEq)		22.7	29.0	24.4	18.2
AISC TLO (US\$/lb Ni)*		3.10	3.12	3.36	4.28
AISC SCP (US\$/lb Ni)^		2.92	3.04	3.53	4.61

*deductions as cost, net by-product; ^NiEq, costs to mine gate ex deductions



Source: SCP estimates

Resource/Inventory	Mt	Ni %	Mt	Ni %
			4Q22 MRE	PEA inventory
M&I	8.6	1.73%	10.8	1.34%
Inferred	8.5	0.83%		
Total	17.0	1.28%	Total	10.8 1.34%

Funding: uses		Funding: sources	
Surface capex (C\$m)	323	Cash+pre prod'n ITM op (C\$m)	42.9
UG dev. capex (C\$m)	130	Asset level SCPe debt (C\$m)	294.5
SCPe Working capital (C\$m)	29	Talon equity (C\$m)	39.5
SCPe G&A and fin. cost (C\$m)	39	DOE Grant (C\$m)	156.2
Drilling / eng. to FID (C\$m)	38	Rio equity (C\$m)	26.3
Total uses: group (C\$m)	559	Total sources (C\$m)	559

Ratio analysis	CY20A	CY21A	CY22E	CY23E	CY24E
Shares out (m)	593.9	702.5	850.8	850.8	915.3
EPS (C\$/sh)	-	-	1.3	-	-
CFPS before w/c (C\$/sh)	-	-	-	our	-
EV (C\$m)	287.5	333.2	397.1	419.1	359.5
FCF yield (%)	-	-	-	-	-

Income statement	CY20A	CY21A	CY22E	CY23E	CY24E
Revenue (C\$m)	-	-	-	-	-
COGS (C\$m)	-	-	-	-	-
Gross profit (C\$m)	-	-	-	-	-
G&A (C\$m)	2.2	1.9	2.4	2.3	2.3
Exploration (C\$m)	-	-	-	-	-
Finance costs (C\$m)	0.2	-	0.1	-	14.7
Tax (C\$m)	-	-	-	-	-
Other (C\$m)	0.4	3.7	(14.0)	0.3	(2.0)
Net income (C\$m)	(2.8)	(5.5)	11.5	(2.7)	(15.1)

Cash flow statement	CY20A	CY21A	CY22E	CY23E	CY24E
EBITDA (C\$m)	(2.4)	(5.6)	(3.3)	(3.0)	(3.0)
Add share based (C\$m)	0.1	3.9	1.4	0.7	0.7
Net change wkg cap (C\$m)	0.5	(0.3)	(0.1)	-	-
Cash flow ops (C\$m)	(1.9)	(2.5)	(1.9)	(2.0)	(14.4)
PP&E - build + sust. (C\$m)	-	-	(3.2)	-	(110.0)
PP&E - expl'n (C\$m)	(9.8)	(1.5)	(38.2)	(20.0)	(5.0)
Cash flow inv. (C\$m)	(9.8)	(23.3)	(50.8)	(20.0)	(115.0)
Share issue (C\$m)	20.8	35.5	68.5	-	222.0
Debt draw (repay) (C\$m)	-	-	-	-	294.5
Cash flow fin. (C\$m)	20.8	35.5	68.5	-	516.5
Net change in cash (C\$m)	9.0	9.7	15.8	(22.0)	387.1

Balance sheet	CY20A	CY21A	CY22E	CY23E	CY24E
Cash (C\$m)	15.4	25.1	36.8	14.8	401.8
Acc rec. + invet. (C\$m)	0.2	0.4	0.7	0.7	1.2
PP&E & expl'n (C\$m)	60.8	100.1	181.9	201.9	316.4
Total assets (C\$m)	76.3	125.6	219.4	217.4	719.5
Debt (C\$m)	-	-	-	-	294.5
Accounts payable (C\$m)	0.4	1.8	3.9	3.9	3.9
Others (C\$m)	15.5	25.5	37.5	15.5	403.1
Total liabilities (C\$m)	2.2	3.6	5.0	5.0	299.6
Shareholders' equity (C\$m)	152.9	196.8	270.7	271.4	494.0
Reserves (C\$m)	20.8	28.2	48.3	48.3	48.3
Retained earnings (C\$m)	(99.5)	(103.0)	(104.6)	(107.3)	(122.4)
Liabilities + equity (C\$m)	76.4	125.6	219.4	217.4	719.5

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BUY:	52
HOLD:	1
SELL:	0
UNDER REVIEW:	1
TENDER:	0
NOT RATED:	0
TOTAL	54

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