

TALGA RESOURCES (ASX:TLG): A TRANSFORMATIONAL YEAR LIES AHEAD

Talga Resources (TLG) is a multi-dimensional Company looking to develop a suite of high grade graphite assets in Sweden. By virtue of its unique orebody, test work has confirmed the ability for the dual liberation of graphene and graphite through a one-step process directly from raw ore. TLG is now aiming to prove commercial scale graphene and graphite production and has committed to build a demonstration plant in Germany. If successful, the Company could purge current price and supply bottlenecks, thereby enabling the commercialisation of graphene into major volume markets.

Demonstration plant set to prove commerciality: On the back of a processing breakthrough and favourable Scoping Study in CY14, TLG recently announced its intention to build a demonstration plant in Germany. The plant is intended to be built and run in collaboration with German industry and strategic end users. The common aim is to accelerate commercial applications through the provision of bulk graphene samples. TLG aims to initially produce 100-200t of graphene plus associated graphite by-products.

Well funded: Subject to finalisation of a recent \$5.5m placement, we estimate the Company will have a cash balance of ~\$7m. Current in-the-money November CY15 options (7.7m exp. \$0.35) could provide further timely funding and see TLG comfortably financed through the construction and operating phase of the proposed demonstration plant.

Graphene market: Although early in its life cycle, a significant body of work has demonstrated the far-reaching potential for graphene across a range of industries and products. The main driver in the near-term commoditisation of graphene is through the additive market. Its applications to everyday materials can exponentially increase flexibility and strength, as well as electrical and thermal conductivity.

Canaccord Genuity Australia's focus is in mid-cap equities, for which we won three categories at the most recent East Coles equity market awards. This included 'Best Equities Research' in the independent category. Canaccord Colt research provides an 'incubator' for a limited number of small-cap equities which our research team has strong conviction on. Colt will cover our three focus sectors of Industrials, Life Sciences, and Resources. There will be up to twenty Colt stocks, with at least four reports published annually on each.

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RESEARCH OVERVIEW

Company Code	ASX:TLG
Analyst	TIM MCCORMACK
Date of research	25/03/15
Company website	CLICK HERE
GICS industry	MATERIALS

COMPANY STATISTICS

Closing price (24/03/15)	\$0.465
12 month Lo-Hi	\$0.14 - \$0.50
Market Cap (A\$m)	\$52.9m
Issued shares (mil)	124.6m
Options: listed, unlisted	7.7m, 10.9m
Cash as of 24/03/15 (A\$m)	\$7.0m (est, post-raise)

MAJOR SHAREHOLDERS

Lateral Minerals: Mark Thompson	11.4 %
Gregorach Pty Ltd	8.3 %
HSBC Custody Nominees	5.4 %

Canaccord Genuity (Australia) Limited was the joint lead manager to the placement at an issue price of \$0.40 to raise a total of \$5.5 million in March 2015.

SHARE PRICE PERFORMANCE (12MTH)



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Background

TLG's focus swung to graphite in early CY12 when it acquired a suite of assets in Sweden from a subsidiary of Teck Cominco. The Company's portfolio includes high grade graphite resources, iron ore resources and prospective cobalt-copper-gold exploration projects. Since acquisition, work has focused on its 100% owned graphite and graphene projects, namely the flagship Nunasvaara deposit (7.6Mt at 24.4% Cg), part of the Vittangi project.

TLG originally focused on a conventional graphite development strategy, however, in February CY14, work carried out by the Adelaide University demonstrated that graphene could be directly liberated from the ore of TLG's Vittangi graphite project. TLG then completed a Scoping Study which sparked good industry interest and underpinned the decision to build a demonstration plant this CY.

On completion of a \$5.5m placement we see no funding hurdles for the Company out to late CY16. In-the-money options (exp. November CY15) could inject a further \$2.7m and we highlight the potential for meaningful revenue to be generated during the demonstration phase in CY16.

Figure 1 outlines the expected milestones on the way to full scale production. Key aims of the demonstration plant will be the production of graphene on a commercial scale, which can be delivered to end users in large volumes on a consistent basis. We envisage TLG working closely with potential customers, principally in

the additive related markets, to develop ideal graphene quality specifications, and thereby establish itself as a key player in the supply chain for bulk graphene supply.

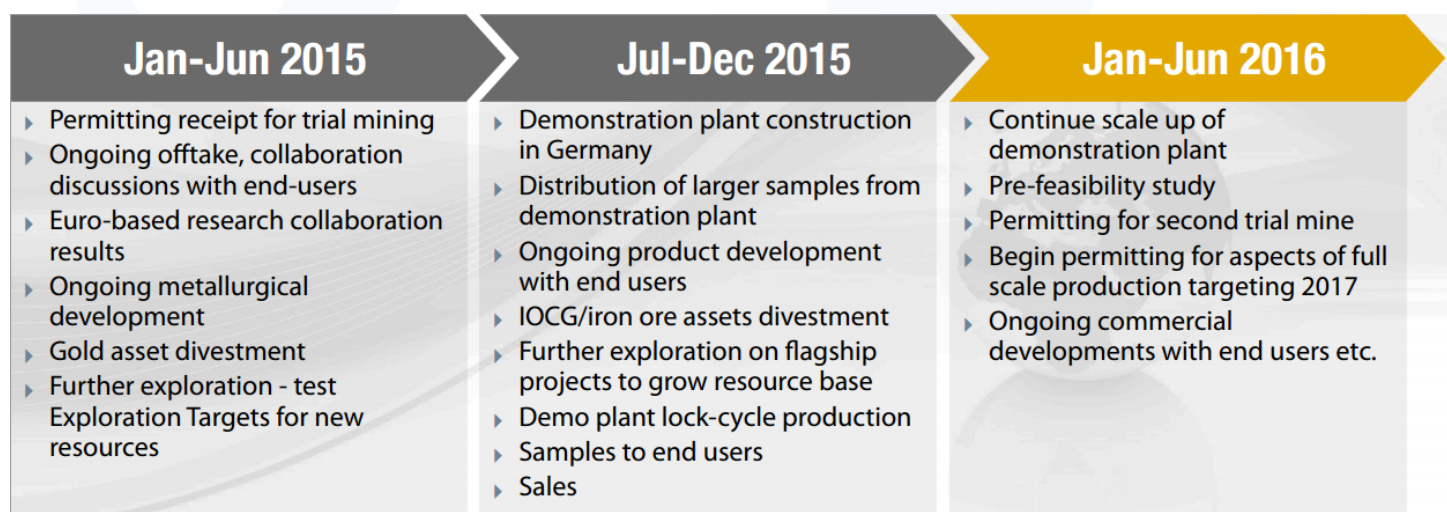
Graphene – in a nutshell

Graphene and its potential applications has been a widely publicised breakthrough in nano-science technology. In 2004, Andre Geim and Konstantin Novoselov of the University of Manchester won a Nobel Prize in Physics for isolating 1-carbon atom thick graphene sheets using the 'Scotch Tape' mechanical exfoliation method, and thus begun an explosion in research and development. Some of the key attributes of graphene include: unparalleled strength and stretch capabilities, transparent optical properties, complete impermeability, as well as thermal and electronic conductivity.

Essentially, graphite is made up of graphene sheets with about 3 million layers of graphene in 1mm of graphite. In theory this makes graphene comparatively abundant but the challenge has always been separating the graphite to atom-size thickness at an economic cost and scale.

Graphene can come from graphite or can be synthesised from carbon atoms. The mineral graphite consists of parallel sheets of carbon atoms in a hexagonal lattice, when split and isolated, these form graphene. Both micro-chemical exfoliation and chemical treatments have demonstrated lab scale success in producing graphene. Similarly the use of synthetic precursors has also proven effective, however, all methods appear cost prohibitive for expansion into commercial supply. The five conventional processing routes are outlined overleaf on Figure 2.

Figure 1: Key milestones over the next 18 months (Source: Talga Resources)



In TLG's case, lab-scale test work has demonstrated that graphene can be directly liberated from natural microcrystalline graphite ore. This requires no requirement for crushing, grinding or other processes that add cost. The processes looks to be scalable to large volumes and graphite is also recovered as a saleable by-product.

While TLG's processing route is yet to be fully disclosed, and may ultimately become proprietary, we believe it to be a wet physiochemical process partly derived from conventional mineral processing techniques. The uniqueness of the process is owed to the Vittangi ore, given its specific and individual mineralogical composition.

Graphene exists in many forms, generally determined by the method of production, source of precursor and the method used to stabilise the product. These are some of the common forms:

Single layer graphene is the purest and typically the most expensive form. Desirable to hi-tech end-users

and product markets, the graphene exists in a single atom-thick sheet, bonded carbon atoms adhered to a substrate or freely suspended.

Few-layer graphene (FLG), and multi-layer graphene (MLG) typically range from two to ten layers thick either free standing or substrate bound. It is typically used in composite materials and reinforcements.

Graphene oxide is chemically modified graphene prepared by oxidation and exfoliation. Graphene oxide is a monolayer material with a high oxygen content. Major uses are for thin membranes that allow water to pass through but block off harmful gases.

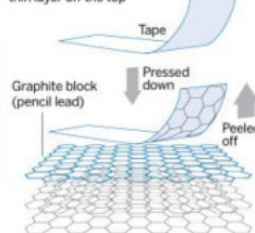
Graphite nano-platelets, graphite nano-sheets, graphite nano-flakes, and 2D graphite materials with a thickness and/or lateral dimension of less than 100 nanometres. The use of nanoscale terminology here can be used to help distinguish these new ultrathin forms from conventional finely milled graphite powders, whose thickness is typically more than 100 nanometres. Excellent for electrically conductive composites.

Figure 2: Conventional routes for producing graphene (Source: Talga Resources)

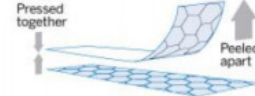
Five recipes for graphene

Mechanical exfoliation

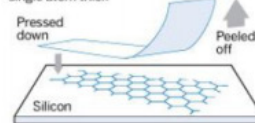
- 1 A sticky 'tape' is placed on to a block of graphite and then peeled back, stripping a thin layer off the top



- 2 This layer of carbon is thinned further by pressing it on to other layers of tape



- 3 The tape is finally pressed on to a very smooth substrate such as silicon then peeled off, leaving a graphene layer a single atom thick

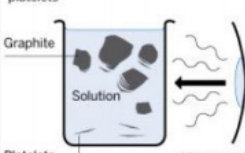


Sample size
Greater than 1mm

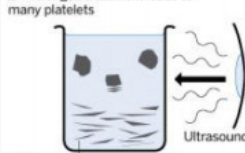
Applications
Research

Chemical exfoliation

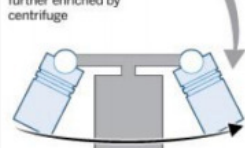
- 1 Graphite is exposed to a solvent which with the aid of ultrasound causes it to split into individual mono-layer flakes or platelets



- 2 Prolonged treatment leads to many platelets



- 3 These mono-layers of graphene can be further enriched by centrifuge

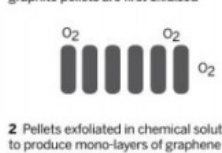


Sample size
Infinite as a layer of overlapping flakes

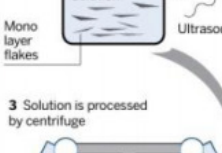
Applications
Coating, paint, ink, composites, transparent conductive layer energy storage and bioapplications

Chemical exfoliation via graphene oxide

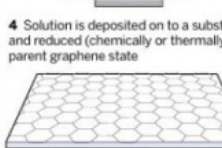
- 1 Related to chemical exfoliation but graphite pellets are first oxidised



- 2 Pellets exfoliated in chemical solution to produce mono-layers of graphene



- 3 Solution is processed by centrifuge

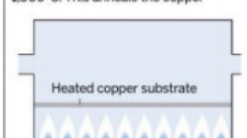


Sample size
Infinite but with larger flake size than simple chemical exfoliation

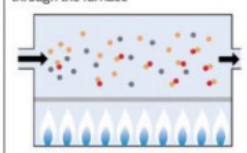
Applications
The same as chemical exfoliation

Chemical vapour deposition

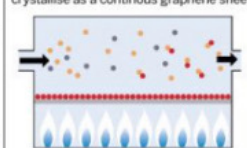
- 1 A substrate (usually copper) is heated in a furnace at low pressure to about 1,000°C. This anneals the copper



- 2 Methane and hydrogen gases flow through the furnace



- 3 Carbon atoms from the methane are deposited on to the copper. They crystallise as a continuous graphene sheet

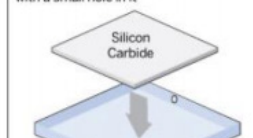


Sample size
About 1m

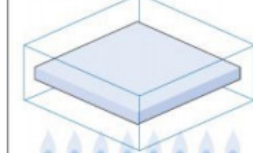
Applications
Photonics, nanoelectronics, transparent conductive layer sensors and bioapplications

Silicon carbide

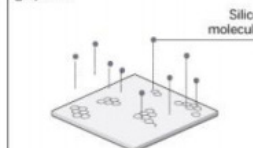
- 1 A small amount of silicon carbide (about 10mm x 10mm) is placed in a box with a small hole in it



- 2 The box is sealed in a vacuum or argon and heated to about 1,500°C



- 3 Silicon molecules 'evaporate' from the surface, leaving a high quality layer of graphene



Sample size
About 100mm

Applications
Transistors and other electrical devices

Sources: Benjamin Pollant, Department of Physics, Pomona College; Nature, Review Research; Electronics Weekly

Much of the hype around graphene has been in its use in hi-tech applications, however the most likely near term market for significant commercialisation is in its use as an additive. Graphene can be added to common bulk materials (0.05-2% volume) to exponentially increase the strength. Additions to paint and steel coating can also impart anti-corrosive properties or conductive properties. There is also a considerable market emerging in conductive 3-D printing inks. It's this additive market which TLG will be targeting due to the near term commercial potential and higher quantity requirements.

Given the infantile stage of the market, the ultimate pricing dynamics for graphene are difficult to quantify. Its scarce quantities and strong appetite over recent years has seen graphene prices trade at extraordinarily high levels and typically only transact in gram and kilogram quantities. In our view, the extent to which TLG's production of graphene will impact the price will be governed by how dynamically end users move to utilise additional supply.

Graphite assets

TLG owns five graphite projects (100%) located in Norrbotten County, north Sweden. The Vittangi and Jalkunen projects have mineralogy favourable for direct liberation of graphene and graphite, and have consequently been the focus for development and exploitation.

Sweden is rated the best mining jurisdiction globally by the Fraser Institute survey, offering government and economic stability, and an affluent workforce with favourable tax and royalty regimes. The main projects are located in a well advanced mining province with close proximity to road and rail links.

The Company's flagship Nunasvaara deposit, part of the Vittangi project, is the highest grade JORC compliant graphite resource in the world, at 7.6Mt at 24.4% graphite. Geologically, the Nunasvaara orebody is hosted in 1.9 billion year age greenstone volcanics. This is unique compared to other sheared or contact metamorphosed deposits around the world. The deposit formed through low intensity metamorphism, has consistent microcrystalline morphology over considerable widths and has a traced strike length

of 30kms. Based on the Scoping Study the current resource offers a mine life of ~20 years from just 1.2km portion of strike.

High grades provide an obvious competitive advantage in a world where 50% of mine production comes from grades of less than 6% graphite. However, it's the mineralogy, morphology and structure of the graphite deposit, being highly conductive and homogeneously crystalline, which allows the production of graphite and graphene products without the need to crush and grind the ore, significantly reducing capital and operating costs.

Mineralisation at the Jalkunen project (50km SE) has also demonstrated favourable grades from surface sampling akin to those at Vittangi over a strike length of up to 28kms. Testing of a 5kg sample has shown Jalkunen ore to have a chemical signature amenable to single stage processing.

Steps have been taken to secure considerable landholdings around the Vittangi and Jalkunen projects. While we expect to see other deposits emerge in time, TLG's first mover advantage has positioned it well to be the key beneficiary should the demonstration plant prove economically scalable. TLG has recently stated a JORC exploration target of 150-275Mt to a vertical depth of only 100m which, in the context of the current graphene market would make TLG the dominant player in the space.

Figure 3: Project locations (Source: Talga Resources)



Demonstration plant

TLG is set to begin construction of its demonstration plant in central Germany in ~4 months. Since completing the Scoping Study, the Vittangi project's potential has received good interest from graphene technologists and end users requiring large sample sizes. We expect the demonstration plant to cost ~\$1m with first meaningful output expected towards the end of CY15. The plant is targeting 100-200tpa of graphene production plus graphite by-products.

The German plant site will be proximal to major end users and world class R&D centres. Pending the Swedish trial mining approval next Q, graphite ore will be cut in 1m³ blocks before being transported by road and rail to the demonstration plant late in Sept Q.

The demonstration plant will be the first in the world to commercially demonstrate true direct ore to graphene process technology, capable of delivering industry volumes for customer samples and potential sales. Positive outcomes will be a catalyst for removing volume and cost constraints that have held back the commercial adoption of graphene-based products in a bulk sense.

The location in Germany is favourable and affords TLG the opportunity to create a presence in a renowned technology hub that is strongly supported by government district agencies. TLG has also appointed a

highly credentialed German Technical manager to oversee the finalisation of the demonstration plant designs and construction/commissioning of the plant. Pending the final design, the German plant has the potential to be one of the largest graphene production facilities in Europe. Key end users in local industry include: BMW, Bosch, General Motors, Sumitomo, Siemens, IBM and Rolls Royce just to name a few.

Scoping Study outcomes

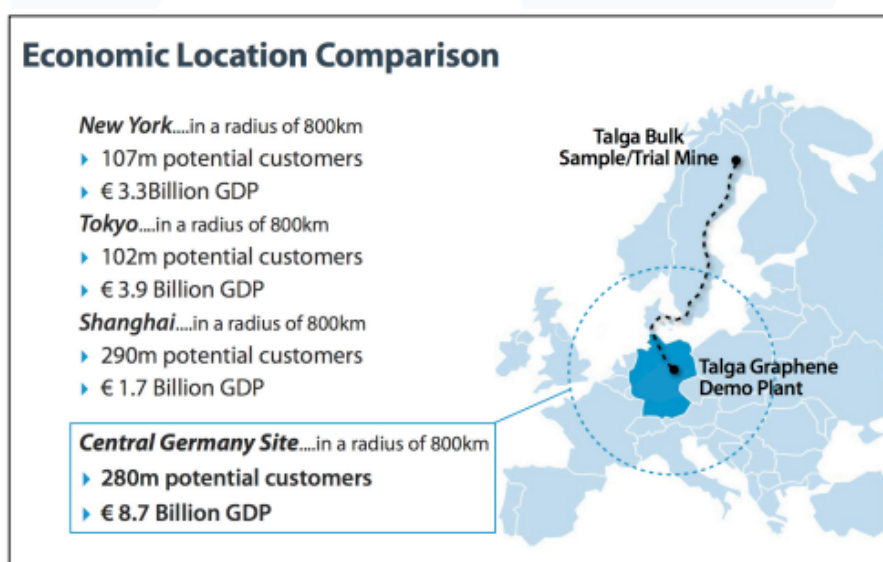
The Company's October CY14 Scoping Study on the Vittangi graphite and graphene asset demonstrated the potential for development of a low capital and operating cost project producing graphite and graphene (Fig 5).

In our view, the ultimate design of a commercial scale production plant will hinge heavily on the successes of the demonstration plant, however, at a desktop-level the economics appear attractive.

The study assumed dual production of graphite and graphene, categorised into three saleable product streams from Vittangi: Standard Ultrafine Graphite concentrate (SUG), Very Few Layer graphene (vFLG) and Micronised high purity graphite (Figure 6, overleaf).

The Study contemplates sales of ~40,000tpa of SUG, ~1,000tpa of vFLG and ~6,000tpa of Micronised (unsold vFLG). We highlight the price differential for vFLG which is assumed at \$55,000/t, a significant premium to the SUG

Figure 4. Regional benefits of locating the demonstration plant in Germany



and micronized product but surprisingly conservative when compared to today's graphene prices.

The key to the economics of the project is the comminution circuit which incorporates a series of cells that subject whole ore blocks to a wet physiochemical technique.

This allows the liberation of graphene and graphite without any primary crushing, grinding or screening. The series of processes are well known in other mineral processing industries but applied in a non-conventional way that specifically suits Nunasvaara-type graphite ore.

While early stage, the Study has demonstrated attractive economics based on the production and pricing assumptions. We believe the ultimate processing configuration that TLG develops for this asset will be dependent on outcomes from the demonstration plant.

Figure 5: Key metrics from Oct '14 scoping study

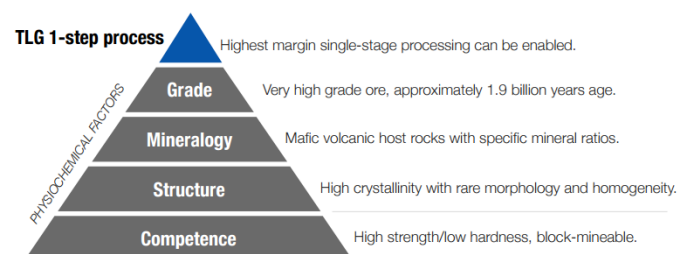
Items		Base Case
Plant throughput	(tpa)	250,000
Diluted Feed Grade	(%)	23.6*
Graphite production	(tpa)	~46,000
Graphene production	(tpa)	~1,000
Life of Mine Strip Ratio	W:O	4:1
Graphite price assumption	(USD\$/t)	480
Graphene price assumption	(USD\$/t)	55,000
Capital cost	(AUD\$m)	29.3
Mine Life	(years)	19.7
Discount Rate	(%)	12
Pre Tax Net Present Value (NPV)**	(AUD\$m)	~490
Payback from construction start	(years)	1.4

*Feed grade after mining dilution factors. ** Pre-tax and other impositions but including state and private royalties.

Assuming TLG does produce an additional 100-200t of graphene in the next 18 months, how the market

digests this abundance of supply will ultimately govern the next phase of the Company's development.

Figure 7: factors which facilitate single stage processing



Non-core assets

TLG currently owns two advanced iron ore projects in Sweden with a combined resource of 236Mt at 31% Fe. While the projects are located favourably and compare well to operating mines in the area in terms of grade and metallurgy (coarse grained magnetite), we believe TLG is looking to divest these assets to concentrate on developing its graphite and graphene projects. Likewise the wholly owned Kiskama cobalt-copper-gold deposit in the same area, where the cobalt is of interest as a battery-related mineral.

TLG announced the sale of its Australian gold projects for \$1.3m in cash to Caledonian Capital Ltd in February CY15. Consideration is in the form of a \$50k non-refundable deposit, \$250k post 3 months due diligence with the balance of \$1m on or before the 4th anniversary of due diligence completion.

Assuming due diligence is satisfied, the modest front end consideration will provide a timely injection of funds to be directed towards development and execution of the Company's focus project in Sweden.

Figure 6: Product and pricing summary (Source: Talga Resources)

Product	Flake Size	~Length	Graphene Layers	Graphene Thickness (nm)	Purity	Price (US\$/t)
SUG	Ultrafine	<75 micron	n/a	n/a	+80%	\$480
vFLG	Ultrafine	<10 micron	1-5	2 (max)	99.9%	\$55,000
Micronised	Ultrafine	<10 micron	n/a	n/a	94-97%	\$1,600

Note: Testwork confirming graphite and graphene specifications above undertaken by IMO in Perth.

Board of Directors

Keith Coughlan - Non-Executive Chairman

Mr Coughlan has over 26 years of experience in stockbroking and funds management where he has been largely involved in the funding and promoting of resource companies listed on the ASX, AIM and TSX. He has advised various companies on the identification and acquisition of resource projects and was previously employed by one of Australia's then largest funds management organisations.

Mr Coughlan is a current executive director of ASX listed Equamineral Holdings Ltd.

Mark Thompson - Managing Director MAIG, MSEG

Mr Thompson has more than 20 years industry experience in mineral exploration and mining management, working extensively on major resource projects throughout Australia, Africa and South America. He is a member of the Australian Institute of Geoscientists and the Society of Economic Geologists, and holds the position of Guest Professor

in Mineral Exploration Technology at both the Chengdu University of Technology and the Southwest University of Science and Technology in China.

Mr Thompson founded and served on the Board of ASX listed Catalyst Metals Ltd and is a Non-Executive Director of Phosphate Australia Ltd.

Grant Mooney - Non-Executive Director

Mr Mooney has a wealth of experience in resources and technology markets that will benefit Talga as it proceeds with the Company's dual graphene/graphite project development at its world-class deposits in Sweden.

Mr Mooney serves as Director and Company Secretary to several ASX listed companies including Chair of renewable energy developer, Carnegie Wave Energy Ltd and Director of ASX-listed resource companies, Barra Resources Ltd, Carbine Resources Ltd, Phosphate Australia Ltd and Wild Acre Metals Limited. Mr Mooney is a member of the Institute of Chartered Accountants in Australia.

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