



Matt Bohlsen

## Talon Metals Corp. President Sean Werger Talks With Matt Bohlsen Of Trend Investing

Aug. 13, 2020 8:56 PM ET | (TLOFF)

### Summary

- Talon Metals Corp. is in a JV with Rio Tinto at the high-grade Tamarack Nickel-Copper-Cobalt Project located in Minnesota, USA.
- Talon has an earn-in to acquire up to 60% of the Tamarack Project. The Project has completed an updated PEA in 2020.
- President Sean Werger shares his views on the nickel market and on Talon Metals Corp.

### Talon Metals Corp. [TSX:TLO] (OTCPK:TLOFF) ("Talon")

Talon is a TSX-listed base metals company in a joint venture with Rio Tinto on the high-grade Tamarack Nickel-Copper-Cobalt Project located in Minnesota, USA, comprised of the Tamarack North Project and the Tamarack South Project. Talon has an earn-in to acquire up to 60% of the Tamarack Project. The Tamarack Project comprises a large land position (18km of strike length) with numerous high-grade intercepts outside the current resource area. Talon is focused on expanding its current high-grade nickel mineralization resource prepared in accordance with NI 43-101; identifying additional high-grade nickel mineralization; and developing a process to potentially produce nickel sulphates responsibly for batteries for the electric vehicles industry. Talon has a well-qualified exploration and mine management team with extensive experience in project management.

### Talon has an earn-in to acquire up to 60% of the high-grade Tamarack Nickel-Copper-Cobalt Project in Minnesota, USA

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Source: [Company website](#)

### What is your view on the nickel market both in the short term (<1 year) and the mid-term (1-5 years)?

In the short term, due to the global recession, we believe the market will be over-supplied with nickel, keeping nickel prices low which hampers expansion of production capacity. Over the medium term however, we believe things will change because of expected nickel deficits; more specifically, Class 1 nickel deficits are expected to arise in the next 2-3 years mainly due to A) the expected "EV Boom" and B) the Lack of production capacity expansion, hence the recent statement by Elon Musk: "Don't wait for the nickel price to go up!" When the market is under supplied, nickel prices will rise to what is termed "incentive prices" or even "auction prices", as opposed to the current marginal operating cost price regime.

### Can you please give a summary of why you think the Tamarack High-Grade Ni-Cu-Co Project stands out from others?

- High-grade nickel sulphide projects are extremely rare – examples from the last 20 years are few and far between. They include Sirius/Independence Group's Nova Bollinger Project in Australia; Anglo American's Sakatti project in Finland (~45% nickel by revenue); and Lundin's Eagle project in the USA (Michigan), which was discovered and operated by the same team that discovered the Tamarack high-grade nickel project. The majority of undeveloped nickel sulphide projects globally are conceptual, low-grade and have huge CAPEX in the order of \$1 billion or more, which makes them challenging to finance and really constrains the market of who might be able and interested in putting them into production. The risk of nickel pr

falling before a very large project has time to pay back its capital is also a key risk when you combine the time for permitting, detailed engineering, construction, commissioning, ramp-up, reliably running at steady-state and the payback period itself.

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- The project is in the USA. Currently, there is only one operating nickel project in the USA, being the Eagle Mine in Michigan which is expected to close around 2025). The fact that the project sits in the USA gives it significant potential strategic value, as the nickel from Tamarack could be used for “Made in the USA” electric vehicles (which has been a focal point for a number of EV automobile manufacturers). Nonetheless, because the project is on existing infrastructure (rail, road, power), with the Duluth port in close proximity, the product made from the high-grade Tamarack Nickel Project can essentially go anywhere in the world.
- Talon’s unique partnership with Rio Tinto. Rio Tinto is very much an active partner and adds tremendous value. Rio Tinto has allowed Talon to retain some of Rio’s key employees on the project. Talon’s current head of exploration is a full-time Rio Tinto employee, who has been on the Tamarack Project for many years. This enables Talon to have the bench strength of a major mining company, while still being able to be as nimble as a junior company. Talon also has the benefit of all of the historical work conducted on the project by a top exploration team.
- The economics on the project are excellent – and at this point, the economics are only based upon a limited portion of the resource that already exists at Tamarack, and completely excludes consideration of the electric vehicle market. The project’s economics have been summarized in a document called a Preliminary Economic Assessment (PEA), which is readily available to the public. Under the PEA, the after-tax IRR, even at a \$6.75 Ni price, is high at 27%. In addition, the project’s low capital intensity and relatively small CAPEX means the project is readily financeable. Notwithstanding the excellent economics that already exist, the Company plans to issue an updated PEA in the coming months. It is expected that this document will contain even more of the resource in the economics, plus will give consideration to producing a product suitable for the electric vehicle market (nickel sulphate), while considering the economic benefits of taking this approach.
- Beyond the existing resource, there is significant exploration upside potential, given that we have only adequately explored 1 km of the 18 km trend and we have already hit high-grade nickel mineralization 3 km’s to the north (9.95% Ni) of the existing resource and 1 km to the south (3.67% Ni) – clearly, there’s already “smoke”. On the 18 km’s, there is the potential to have multiple deposits similar to Talnakh in Russia.

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### Tamarack North Project NI 43-101 Mineral Resource Estimate (February 15, 2018) - Tamarack and 138 Zones

Domain	Resource Classification	Tonnes (000)	Ni (%)	Cu (%)	Co (%)	Pt (g/t)	Pd (g/t)	Au (g/t)	Calc NiEq (%)
SMSU	Indicated	3,639	1.83	0.99	0.05	0.42	0.26	0.20	2.45
<b>TOTAL</b>	<b>Indicated</b>	<b>3,639</b>	<b>1.83</b>	<b>0.99</b>	<b>0.05</b>	<b>0.42</b>	<b>0.26</b>	<b>0.20</b>	<b>2.45</b>
SMSU	Inferred	1,107	0.90	0.55	0.03	0.22	0.14	0.12	1.25
<b>MSU</b>	<b>Inferred</b>	<b>570</b>	<b>5.86</b>	<b>2.46</b>	<b>0.12</b>	<b>0.68</b>	<b>0.51</b>	<b>0.25</b>	<b>7.24</b>
<b>138 Zone</b>	<b>Inferred</b>	<b>2,705</b>	<b>0.95</b>	<b>0.74</b>	<b>0.03</b>	<b>0.23</b>	<b>0.13</b>	<b>0.16</b>	<b>1.38</b>
<b>TOTAL</b>	<b>Inferred</b>	<b>4,382</b>	<b>1.58</b>	<b>0.92</b>	<b>0.04</b>	<b>0.29</b>	<b>0.18</b>	<b>0.16</b>	<b>2.11</b>

Source

Please discuss the 2020 PEA (Base case NPV US\$291m; high after-tax IRR 36%; C1 Cost US\$2.67/lb), noting the base case assumes a US\$8/lb nickel selling price, which is above current prices. Please discuss how Talon might fund the KEX property payments and the initial project CapEx of US\$218m.

The 2020 PEA was our second PEA on the project, the first being in 2018, with the 2020 PEA’s NPV having grown by 39% compared to the first PEA. As discussed, we plan to issue a third PEA in the coming months that will likely include 100% of the project’s tonnage, whereas the second PEA only included 61%.

We believe the \$8/lb Ni price used in the PEA is justified because it represents a conservative incentive price. Without nickel prices in approximately the \$8 to \$11/lb range, new nickel projects (which, unlike Tamarack, are mostly low-grade) will not be able to cover their operating costs, capital costs, a contingency and a return on capital. Consequently, it will likely take nickel prices of approximately \$8 to \$11/lb to incentivize these new mines to go into production to meet demand from EV's in the 2020's – because Tamarack will be a low cost producer (current C1 cost of US\$2.67 per lb of nickel in concentrate, including transportation, smelting and refining costs), the expected price escalation will only further benefit the economics of the Tamarack high-grade nickel project.

We will need to raise capital for the \$5M payable to Rio Tinto (which will give us a 51% interest in the project), however this is not due until 2022. The final \$10M payment to Rio (which will give us a 60% interest in the project) is not due until 2026. For now, our focus is on creating additional value through further exploration success.

Based on discussions with private equity funds and European banks, the project CAPEX is in a preferred “sweet spot” of US\$100 million to US\$500 million. As Rio Tinto will own 40% of the project, Talon will only need to finance its 60% interest. It should be noted that Rio Tinto does not have a back-in right; Talon has a right of first refusal (right to match) in respect of Rio Tinto's 40% interest; and Talon controls the offtake rights on 100% of the project, including Rio Tinto's 40%.

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## 2020 PEA summary scenarios

**THE PEA RESULTS SHOW STRONG ECONOMICS EVEN AT LOW METAL PRICES**

	Unit	Low	Base case	Incentive pricing
Ni	US\$/lb	\$6.75	\$8.00	\$9.50
Cu	US\$/lb	\$2.75	\$3.00	\$3.25
Co	US\$/lb	\$15.00	\$25.00	\$35.00
Pt	US\$/oz	\$1,000	\$1,000	\$1,000
Pd	US\$/oz	\$1,000	\$1,000	\$1,000
Au	US\$/oz	\$1,300	\$1,300	\$1,300
C1 Costs	US\$/lb of Ni	\$2.56	\$2.67	\$2.85
Payback period	Years (Pre/After-tax)	2.7/2.9	2.3/2.5	2.0/2.1
After-tax NPV	US\$ millions	\$191M	\$291M	\$398M

Source

## What is Talon Metals currently working on and what are the near term catalysts for the stock? Any interest from battery manufacturers/Elon Musk?

The near-term catalysts include:

1. August 2020 drill program, which will mainly focus on drilling outside the Company's existing resource area with the goal of growing the size of the project;
2. Test program to determine if battery-grade nickel sulphate can be produced to supply the lithium-ion battery industry. We recently announced that we were able to extract 99.1% of the nickel in the flotation concentrate to a leach solution;
3. Updated resource estimate; and
4. Updated PEA based on the full resource that is expected to show economics of two scenarios: (1) Concentrate for smelters; and(2) Sulphates for lithium-ion batteries for the electric vehicle and stationary battery industries.

We are in discussions with numerous companies in the supply chain, including automobile manufacturers, battery companies, chemical companies and nickel mining companies. Given that Minnesota is 4 states away from Nevada, Tesla may seem like a logical customer; however, so would the battery and car companies in Michigan, Ohio and other parts of the USA given their vicinity to the project. Smelters in Canada and Europe are also interested because, as you may know, supply of nickel concentrate from nickel sulphide mines has been declining for years.

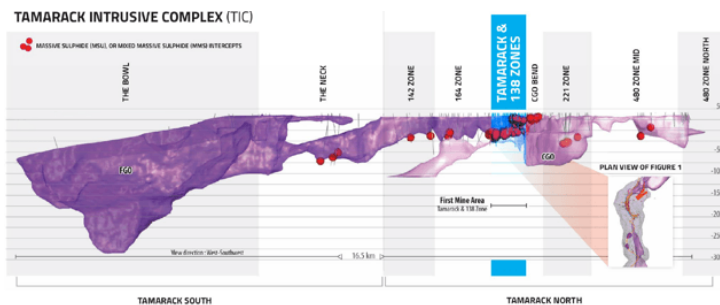
## Can you please discuss the exploration upside given the resource sits on only 1km of an 18 km strike zone?

There is significant exploration upside at the Tamarack high-grade nickel project.

We have already drilled high-grade mineralization along the 18 km trend (see illustration below). From the most northern interval to the most south interval, we have demonstrated at least 7.6 km's of strike length where sulphide mineralization has been intercepted. Using a combination of various

geophysical techniques, we are continuously getting better at identifying and hitting our targets. Given the high-grade nature of the mineralization at Tamarack, it really doesn't take significant volume to make a material impact on the project's NPV. Going forward, we plan to prioritize the targets (of which there are many) to add significant tonnage to the project.

**Tamarack cross-sectional view**



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Source











**Do you think Talon Metals is currently undervalued/fairly valued/overvalued by the market and why?**

The market appears to have just started to realize the strategic value of the Tamarack project, as evidenced by the recent positive move in our share price – we believe this is just the beginning! Not only will we be strategic to the EV industry, but we also expect to be in demand for the stainless-steel market, given the shortage of high-quality nickel concentrates globally. In our view, the market may still not fully appreciate the exploration upside potential on this underexplored 18 km trend.

**Is there anything else investors should know about Talon Metals?**

There's a saying in mining that good projects keep getting better. At Tamarack, we believe that we are able to add value in so many different ways that investors should feel confident in the Company's ongoing future growth potential. The key word for us at Talon when it comes to Tamarack is "optionality" – given that the project is high-grade, with simple metallurgy (great recoveries), on infrastructure, with a large unexplored land area, and most importantly in the USA, we believe that the world is our oyster in terms of *what* product we ultimately produce (concentrate, sulphate or precursor), for *whom* (stainless steel market, automobile manufacturers, battery companies, etc.) and to *where* we send it (anywhere), and as such there are a lot of levers to add value.

TAMARACK PROJECT: REASONS TO INVEST

 <b>BATTERY GRADE CLASS 1 NICKEL PROJECT</b> High-grade nickel (sulphide), copper and cobalt project that can produce for either the stainless steel market or for batteries for electric vehicles	 <b>INSTITUTIONAL PRESENCE</b> Predominantly funded by sophisticated resource funds with specific focus on mining or electric vehicles
 <b>EXPANSION POTENTIAL</b> Resource sits on less than 1 km of the 18 km Tamarack Intrusive Complex (TIC), with numerous high-grade intercepts outside the resource area	 <b>TIGHTLY HELD</b> Over 75% of the shares are held by management, board and institutions
 <b>EXPERIENCED TEAM</b> "Not just another Junior" with a combined Talon Metals and Rio Tinto team	 <b>ANALYST COVERAGE</b> Paradigm Capital commenced coverage on Sept. 18, 2019, with a follow-up report on March 6, 2020. Company expects further coverage over the coming months
 <b>FIVE YEARS OF DEVELOPMENT</b> Talon acquired control and operatorship in March 2019	 <b>PROVEN HISTORY OF PERFORMANCE</b> Management and board have previously developed, built and sold numerous companies that realized significant returns to investors
 <b>WELL FINANCED</b> As of June 30, 2020, Talon had cash of approximately C\$5.3m and has a history of raising capital in tough markets (2 <sup>nd</sup> largest TSX junior mining financing in 2015).	 <b>STRONG BASE CASE</b> PEA (effective date of March 12, 2020) shows robust economics even under low nickel prices - Base case NPV US\$29.1m; high after-tax IRR 36%; C1 Cost US\$2.67/lb

TSX:TLO TALON METALS CORP.

Source: [Company Investor presentation July 2020](#)

**Conclusion**

I would sincerely like to thank Sean Werger for giving freely of his time and insight into Talon Metals Corp. Certainly one to watch with a growing high grade nickel-copper-cobalt sulphide project on US soil.

As usual all comments are welcome.



**Disclosure:** I/we have no positions in any stocks mentioned, but may initiate a long position in Talon Metals [TSX:TLO] over the next 72 hours.

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