Tanami Gold NL (TAM.ASX)

16 February 2011

Initiation. Transforming to a Mid-Tier Producer

Event:

- We initiate on TAM with a BUY recommendation and a $1.60/share price target.

Investment Thesis:

- **Transforming into a mid-tier producer:** Following the acquisition of Central Tanami in March 2010 and recent Board approval to increase plant throughput at Western Tanami, we expect TAM's valuation to be re-rated as operations progressively ramp up to 200kozpa over coming years and the Company becomes a 'mid-tier' ASX listed producer.
- **>3Moz resource potential**: TAM's 5,000km^2 of highly prospective ground is located in a similar geological host sequence to Newmont's neighbouring >10Moz endowment surrounding the Callie & Granites production centres. The limited exploration drilling done to date below 400m has demonstrated the potential for multiple high grade underground operations below historical high performing pits. Following a recent resource upgrade at Central Tanami, TAM's current resource stands at 2.0Moz at 3.0g/t with 75% classified as Measured and Indicated.
- **Low risk 'mid-tier' production strategy:** We view the development of the combined Central and Western Tanami operations into a ~200kozpa production hub to be a low risk strategy. TAM acquired the Central Tanami project and surrounding 2,000km^2 of exploration licences from Newmont for just $22m. We forecast the capex required to refurbish the Central Tanami plant to be relatively low at $35m. Central Tanami is expected to be commissioned in early 2012 and we forecast ongoing resource upgrades following an aggressive drilling program planned for 2011 with an exploration budget of $15m. When fully ramped up, combined operations are expected to generate >$60m in free cash flow at group cash costs of ~US$600/oz.
- **Strong outlook for gold:** We forecast demand for gold to remain strong in coming years driven by ongoing inflation concerns following US quantitative easing, strong Asian demand and continued buying by Central Banks.

Recommendation:

- **We initiate on TAM with a BUY and a price target of $1.60, which represents a 54% premium to the current share price.**
- TAM offers investors exposure to a low cost, high grade gold producer which is expected to benefit from a significant valuation re-rating as the Company progressively ramps up operations to ~200kozpa across two key production centres.
- TAM's current EV/oz resource of $130/oz represents a discount of ~20% to the ASX listed producer peer group average of $160/oz. We consider this to be unwarranted given TAM's high grade and strong expected resource growth.
- We value TAM at $1.61/share and derive a 12 month price target of $1.60. We highlight valuation upside should TAM be successful in identifying higher grade resources at depth to feed into the 1.5Mtpa Central Tanami plant. Our upside valuation case is $2.17.
- News flow should be constant over the coming 12 months with a $15m exploration program expected to result in ongoing resource/reserve definition at both Central and Western Tanami, capacity expansions at Western to 60-70kozpa and completion of Feasibility studies on the Central Tanami operation.

Metals & Mining

Rating	BUY
Previous	NA

Share Price ($)	1.04
52 week low - high ($)	**0.54 - 1.36**
Price Target ($)	**1.60**
Previous ($)	NA
Valuation ($/share)	**1.61**
Methodology	DCF
Risk	Medium

Capital Structure	
Shares on Issue (m)	261
Market Cap ($m)	**271**
Net Debt/(Cash) ($m)	-5
EV ($m)	**266**
Options on issue (m)	1
12mth Av Daily Volume ('000)	429

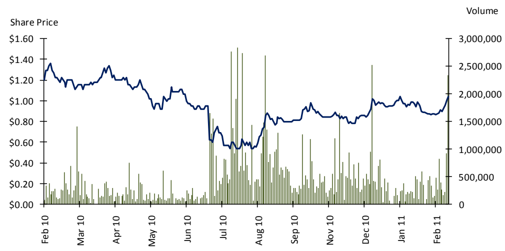
Board and Management	
Denis Waddell	Chairman
Graeme Sloan	Managing Director/CEO
Alan Senior	Non Executive Director
Lee Seng Hui	Non Executive Director

Major Shareholders	
Allied Property Resources	23.5%
Sun Hung Kai Investments	12.6%
Eurogold	3.7%

Key Milestones	
Western Stage 1 Expansion Complete	1QCY11
Central Maiden JORC Reserve	1QCY11
Central Feasibility	2QCY11
Western Stage 2 Expansion Complete	3QCY11
Commission Central Operations	1QCY12

Key Metrics				
Year to June	**FY10a**	**FY11e**	**FY12e**	**FY13e**
Revenue ($m)	57	56	126	171
EBITDA ($m)	12	3	51	67
NPAT rep ($m)	0	-2	44	62
NPAT adj ($m)	-11	-2	44	62
EPS adj (¢)	-10	-1	17	24
PER (x)	-11	-130	6	4
EV / EBITDA (x)	22	86	5	4
Op Cashflow ($m)	-3	1	48	72
Capex ($m)	-2	-14	-38	-5
FCF ($m)	-5	-13	10	67

Share Price Graph



Analyst

JP Vargas de la Vega +612 9993 8152
jp@fostock.com.au

COMPANY OVERVIEW

- Tanami Gold NL ('TAM' or the 'Company') is an Australian gold producer and explorer. TAM's tenements are located in two large areas: Western Tanami Project (Western Tanami) in Western Australia; and Central Tanami Project (Central Tanami) in the Northern Territory. The operations and projects can be accessed by plane from Perth (3.5 hours flight) or Darwin (1.5 hours flight) as well by road from Alice Springs. The Western and Central Tanami projects are separated by 90km of accessible road.
- Historically, Western Tanami and Central Tanami projects have collectively produced more than 2Moz of gold and are located in a world class area that shares a similar geologically host sequence to Newmont's +10Moz endowment surrounding the Callie and Granites production centres.
- 2010 proved to be a transformational year for TAM with a number of completed initiatives providing the foundations for a prospective 200kozpa producer:
  - Achievement of ~50kozpa production at the Western Tanami Project in FY10 (106% increase on FY09), and approval for the expansion of the plant capacity to 500ktpa;
  - Acquisition of the 'company transforming' Central Tanami Gold project from Newmont Mining Corporation for $22m, including 0.5Moz resource, 1.2Mtpa plant, significant mining infrastructure and land tenements;
  - Completion of a $63.7m capital raising to retire $53m of debt used to acquire Central Tanami and provide working capital;
  - Completion of a 1-for-30 capital consolidation resulting in the Company's issued capital reducing to ~261m shares;
  - Major increase in exploration expenditure to $15m, highlighting the significant potential of the Tanami region;
  - Expansion of the Western Tanami plant capacity to 500ktpa; &
  - Commenced Feasibility studies at Central Tanami for the refurbishment of a 1.5Mtpa plant and ~150kozpa operation.

FY10 established the foundations for TAM to become a 200kozpa producer

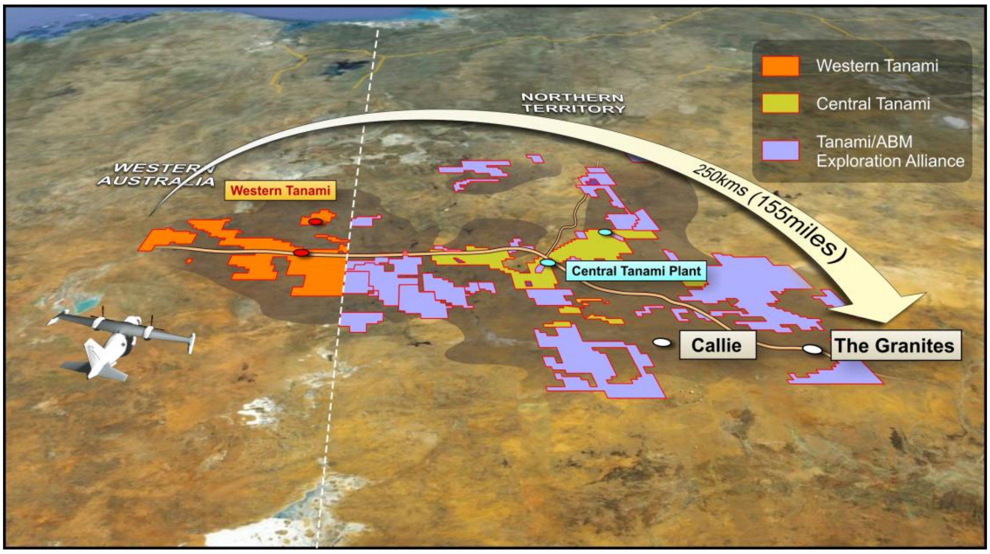
- The Company aims to become a 150-200kozpa gold producer. The strategy involves expanding the resource base to support increased production at Western Tanami from 50kozpa to 60-70kozpa by mid-late CY2011 and refurbishing and expanding the plant at Central Tanami to produce 100-130kozpa (expecting full capacity by the start of FY2013).
- TAM's exploration prospects lies in the vast area for resource potential within its 5,000sqkm tenement across Central and Western Tanami. We view favourably the exploration potential for growth in the resource base from 2Moz to >3Moz over the next 12mths. In our view, this is achievable through:
  - Continued infill drilling of the existing resources at Central and Western Tanami to clearly define the position and tenor of gold mineralisation and confirm mineable reserves;
  - Testing for dip and strike extensions to known mineralisation within the Inferred, Indicated and Measured Resource categories at both Central and Western Tanami; &
  - Testing of conceptual targets at depth for significant mineralisation external to defined resources.
- TAM's cash and gold on hand were $8.9m (as at 31 December 2010).
- We believe 2011 will be a breakthrough year for TAM with plenty of news flow expected, including the expansion of the Western Tanami operations, resource and reserve upgrades at Central Tanami and a Feasibility study released midyear for the resumption of mining at Central.

Strategic landholding of 5,000km^2 in the highly prospective Tanami region

Key Assets

- Along with the Western and Central Tanami projects, TAM holds a strategic holding in ABM Resources NL (ABU.ASX; Market Cap $80m; TAM's holding is 25% fully diluted). In total, the Western and Central projects along with ABU's tenements make up ~20,000km^2 of prospective ground with limited historical exploration drilling below 400m.

Figure 1: Western Tanami, Central Tanami and TAM/ABM Exploration Alliance



Source: Company

- TAM recently announced an increase to the Company's total JORC compliant resource to 2Moz. The upgrade is based on infill drilling undertaken within 4 of the 6 Mineral Leases at Central Tanami. The total increase in resources is an impressive 300% since completing the acquisition in March 2010.
- We expect a maiden Reserve statement 1QCY11 for Central Tanami enabling the completion of mine plan and feasibility studies in 2QCY11. We believe the high level of Measured and Indicated (75%, 1.1Moz) categories should result in a high level of Resource to Reserve conversion.

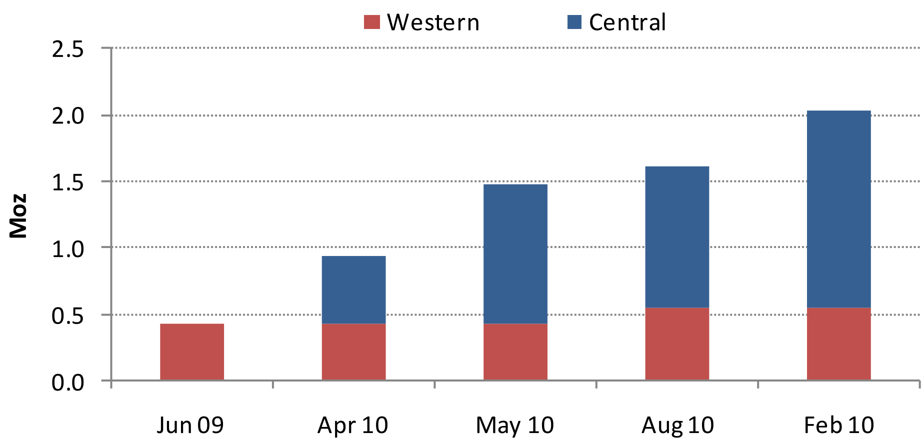
2.03Moz total resource with 75% of the estimate in the Measured & Indicated category

Figure 2: TAM Global Resource (cut off of 1g/t Au and 100% Project Basis)

Deposit	Type	Mt	Grade (g/t)	Contained Au (Koz)
Central Tanami	Measured	7.4	2.5	552
	Indicated	6.4	2.7	551
	Inferred	4.3	2.7	373
Total - Central		**18.2**	**2.5**	**1,476**
Western Tanami	Measured	0.3	9.5	80
	Indicated	1.5	5.9	281
	Inferred	1.4	4.4	194
Total - Western		**3.1**	**5.5**	**555**
Total Resources		**21.3**	**3.0**	**2,031**

Source: Company, FSB Research

Figure 3: TAM Gold Resource Growth Since 2009



Source: Company, FSB Research

Low risk exploration strategy has delivered 300% resource growth since June 2009

WESTERN TANAMI PROJECT & OPERATIONS (TAM 100%)

BACKGROUND

- Western Tanami is located in Western Australia close to the border with the Northern Territory, covering an area of ~2500sqkm. The operations can be accessed by road from the Tanami Highway which connects Alice Springs to the East and Halls Creek to the west.
- The project consists of two mining centres being The Bald Hill open pit operations and the Coyote underground mine, both of which feed into the centrally located 250ktpa Western Tanami treatment facility (upgrading to 500ktpa).
- Gold is hosted in high grade quartz veins at Coyote (>10 g/t) which supports an underground mining operation. Bald Hill's gold is hosted in quartz sulphide load with an average grade of ~3.5 g/t and higher tonnage than Coyote. The weathered rock depth is on average 100m and the transition from open pit to underground mining occurs between 80-90m in depth.
- Operational improvements implemented over the past 12 months have resulted in a >100% increase in gold production, a decrease in operating costs per ounce and a stable underground development program.
- FY10 production totalled 47,960oz (106% increase on FY09), treating 227,610t at an average grade of 6.7g/t and cash costs of A$697/oz. The Coyote underground mine supplied ~60% of the ore feed to the adjacent treatment facility, leaving the balance supplied from the Bald Hill satellite open pit mining operation located 35km to the north of the treatment facility.
- In November 2010, the TAM Board approved an $8m staged expansion of the existing plant and operations to double the capacity from 250ktpa to 500ktpa. We expect the Bald Hill operation will provide up to 70% of ore feed when the plant upgrade is complete, hence reducing the head grade slightly to ~4.5 g/t. We estimate $13m in total capital expenditure for the upgrade. Funding for the expansion is via existing cash and the Company's corporate debt facility.

Operational improvements at Western Tanami have delivered a 106% increase in gold production.

RESOURCES & RESERVES

- Total resource for Western Tanami stands at 3.1Mt @ 5.5 g/t for 555koz of gold. We are encouraged by the high level (65%) of Measured and Indicated JORC categories. During FY10 TAM increased the total resource at Western Tanami by 31% at an exploration cost of $21/oz.
- Exploration drilling in 2011 will focus on the underground potential below the operating Sandpiper open pit (Bald Hill) for new resources and additional resources at the Coyote underground operation, as well as follow up drilling on the new Hutch's Find discovery and regional targets.

Figure 4: Western Tanami Resource (cut off of 1g/t Au and 100% Project Basis)

	Measured			Indicated			Inferred			Total		
Deposit	**kt**	**Grade (g/t)**	**koz**	**kt**	**Grade (g/t)**	**koz**	**kt**	**Grade (g/t)**	**koz**	**kt**	**Grade (g/t)**	**koz**
Coyote	78	25.6	64	473	11.5	174	329	7.0	74	880	11	312
Sanpiper	27	3.3	3	466	4.0	61	633	4.4	90	1,126	4.2	153
Kookaburra	55	2.8	5	539	2.6	46	342	2.2	24	936	2.5	75
Pebbles	0	0	0	0	0	0	76	2.5	6	76	2.5	6
Stockpiles	100	2.4	8	0	0	0	0	0	0	100	2.4	8
Total	**260**	**9.4**	**80**	**1,479**	**5.9**	**281**	**1,380**	**4.4**	**194**	**3,119**	**5.5**	**555**

Source: Company, FSB Research

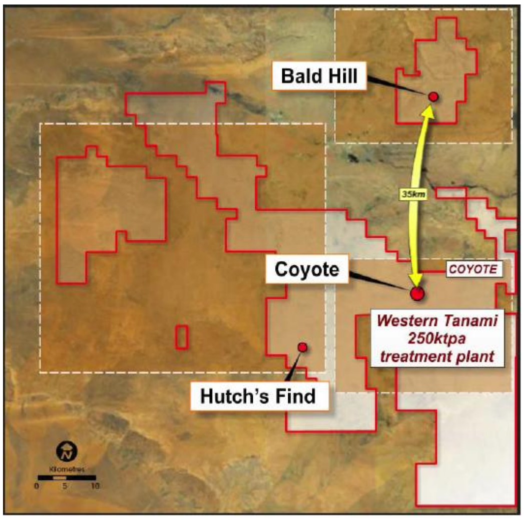
OPERATIONS & PROCESSING

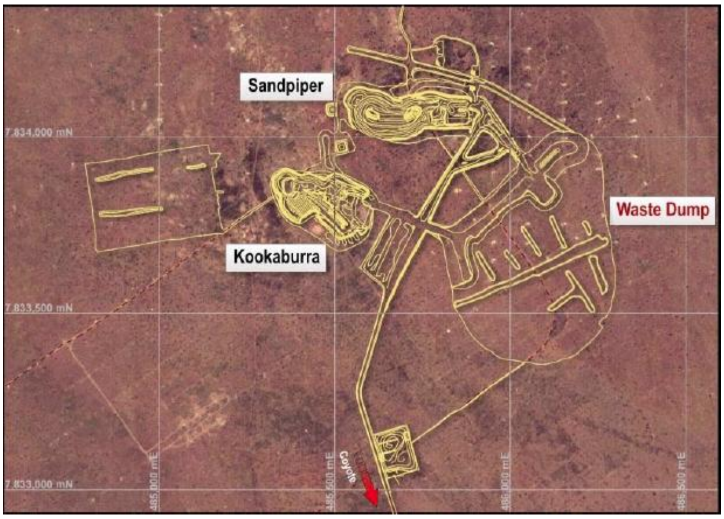
- The Western Tanami Project consists of two mining centres being The Bald Hill open pit operations and the Coyote underground mine, both of which feed into the centrally located 250ktpa Western Tanami treatment facility. The upgraded plant capacity to 500ktpa will leverage off recent exploration success at depth along with resource extension drilling.
- Coyote is located between Bald Hill and Hutch's Find and is adjacent to the Western Tanami processing plant. Bald Hill, which is located 35km north of the Western Tanami processing plant, is made up of two main open pits, Sandpiper and Kookaburra.
- The Western Tanami plant is a Carbon-in-Pulp (CIP) plant (Cyanidation) with a gravity circuit. Ore feed is a blend of high grade ore from the Coyote underground mine (~8 g/t) and low grade ore from Bald Hill mine (~2.5 g/t) with an average ore blend of ~5.5 g/t.

We forecast the capacity upgrade will result in 65kozpa from FY12 at an average 4.4 g/t LOM

- Due to the 'nugget' nature of the ore at Coyote, the operation has historically delivered a positive geology model to actual plant production reconciliation, leading to the plant producing more gold than estimated. For example, the FY10 head grade for gold produced was 7.8 g/t.
- Open pit mining operations at Bald Hill recommenced during November 2010 with Brierty Ltd (BYL.ASX) appointed as the mining contractor.
- We estimate the mine life to be approximately six years following the staged expansion to 500ktpa based on a resource of 550koz producing at 60-70kozpa. The open pit mining operation has an average strip ratio of ~10:1 and head grade of 4.4 g/t.
- The operation sells its gold at spot price with no hedging on the gold price or exchange rate.
- Water is available on site via boreholes, producing in excess of processing requirements.

Figure 5: Western Tanami Operations (LHS) & Bald Hill Open Pit Operations (RHS)



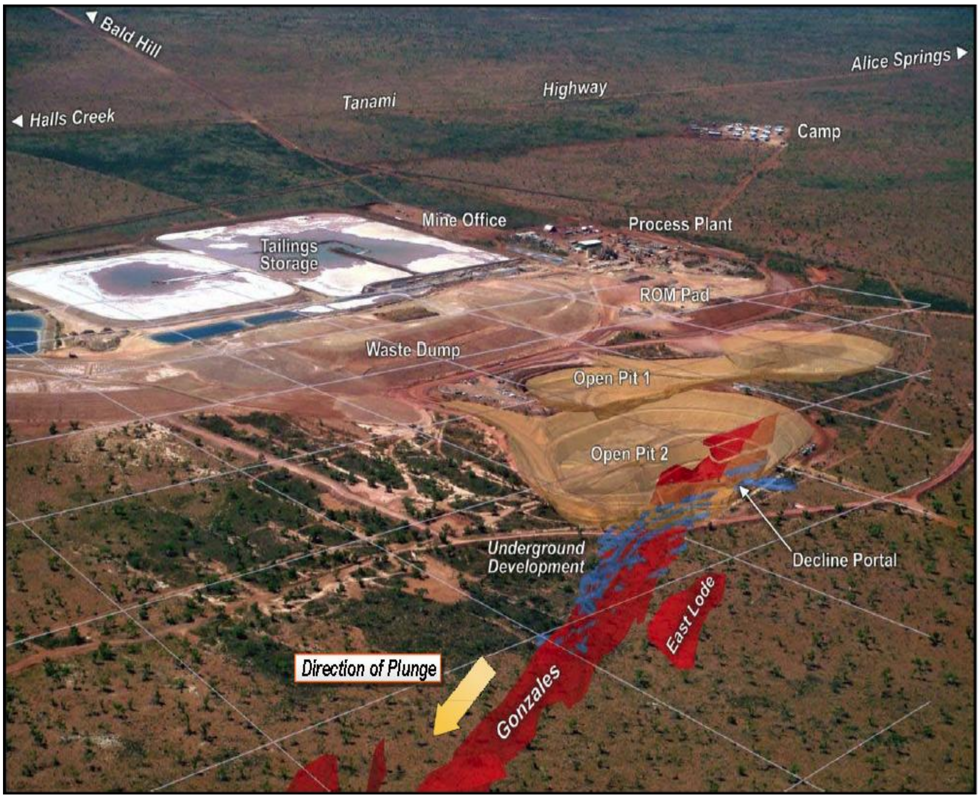


Source: Company

- The underground mining operation uses a mechanised long-hole stoping to maximise mining recovery and minimise ore sterilisation. The current underground development at Gonzales remains open along strike and at depth. During the December 2010 quarter, underground operations mined a total of 8,075oz from mining 27,769t of ore at an average grade of 9.05 g/t.

Western Tanami remains highly prospective for multiple 'Coyote' style underground operations

Figure 6: Western Tanami Coyote Underground Operations



Source: Company

We estimate cash costs to decline from an average of US$680/oz to ~US$600/oz and EBITDA of ~A$30m per year

- TAM's development strategy at Western Tanami is encouraging as the Company is planning to double its processing capacity for a low level of capex ($14m) along with sustaining life-of-mine capital expenditure estimated at $2m per year.
- The staged capacity upgrade for the treatment facility is as follows:
  - **Stage 1** will increase throughput from 250ktpa to 350ktpa following the installation of three additional leach tanks and associated equipment. We expect commissioning to be completed by mid March 2011. GR Engineering has been awarded with the contract for the Stage 1 build; &
  - **Stage 2** will increase milling capacity from 350ktpa to 500ktpa (completion estimated by 3QCY11). The expansion will include the installation of a second ball mill, cone crusher and associated infrastructure. The engineering study is near completion. Once completed, the study will be submitted to TAM's Board for approval.
- Given the planned capacity expansion, our operating costs are estimated to decline from an average of US$680/oz to ~US$600/oz and EBITDA of ~A$30m per year (using US$950/oz long term and AUD/US $0.80).
- The planned expansion will de-constrain its processing facility and provide flexibility for blending of high/low grade ore without reducing overall production output. The ore feed for the 500ktpa plant will be sourced 30% from underground and 70% from open pit, hence the 10-20kozpa production increase and not 50kozpa.
- We believe the expanded plant to 500ktpa will deliver plant recoveries in the mid nineties as the ore feed will continue from its current sources at Coyote and Bald Hill. Past performances at Western Tanami give a weighted average 97.3% gold recovery for the last two financial years (FY09 and FY10) and weighted average of 95.6% gold recovery for the second half of CY2010.
- Our risked valuation of $101m for Western Tanami assumes the ramp up to 65kozpa post the upgrade of the treatment plant will be achieved during FY12 and an average LOM head grade of 4.4 g/t. An additional high grade underground discovery to compliment the Coyote operation could deliver considerable upside, in our opinion. We have risked our valuation by 10% to account for Stage 2 commissioning risk, providing a valuation of $0.39/share.

Figure 7: Western Tanami Valuation Summary

Cumulative free cash flow (A$m)	149.3
Mine life (yrs)	6
Discount rate	10.0%
NPV (A$m)	112.3
P/NPV	0.9
Risked NPV (A$m)	101.1
Per share	**$0.39**

Source: FSB Research

- Based on our modelling of the increased capacity, we forecast ~$25m of free cash flow to fund continued exploration and the redevelopment of the Central Tanami operation.

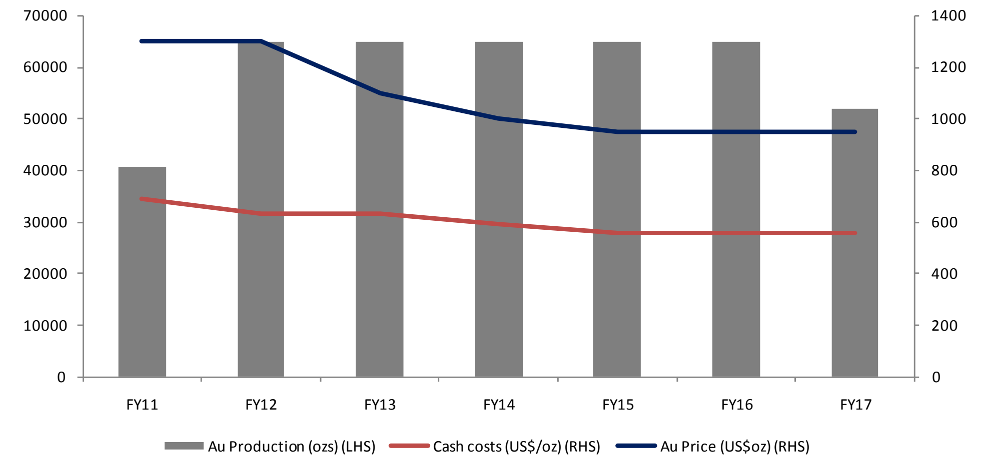
Figure 8: Western Tanami Project Summary

Year Ending 30 June	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Au Price (US$oz)	$1,300	$1,300	$1,100	$1,000	$950	$950	$950
AUD	$0.95	$0.90	$0.90	$0.85	$0.80	$0.80	$0.80
Ore treated (Mt)	0.3	0.5	0.5	0.5	0.5	0.5	0.4
Head grade (g/t)	5.5	4.4	4.4	4.4	4.4	4.4	4.4
Recovery (%)	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
Au Production (ozs)	**40,629**	**65,006**	**65,006**	**65,006**	**65,006**	**65,006**	**52,005**
Cash costs (US$/oz)	**689**	**635**	**631**	**595**	**560**	**560**	**560**
Total Revenue (A$m)	**56**	**94**	**79**	**76**	**77**	**77**	**62**
Operating Costs (A$m)	29	46	46	46	46	46	36
EBITDA (A$m)	**26**	**48**	**34**	**31**	**32**	**32**	**25**
Depreciation (A$m)	4	5	5	6	6	7	9
EBIT (A$m)	**18**	**43**	**29**	**25**	**25**	**24**	**16**
Capex (A$m)	14	3	2	2	2	2	2
Tax (A$m)	1	12	8	7	7	7	4
Free Cash Flow (A$m)	**11**	**33**	**24**	**22**	**23**	**23**	**19**
Cumulative Free Cash Flow (A$m)	**11**	**38**	**62**	**84**	**107**	**130**	**149**

Source: FSB Research

We forecast Western to provide ~$25m free cash flow LOM to continue exploration & assist with funding Central

Figure 9: Western Tanami: Gold Production & Cash Costs



Source: FSB Research

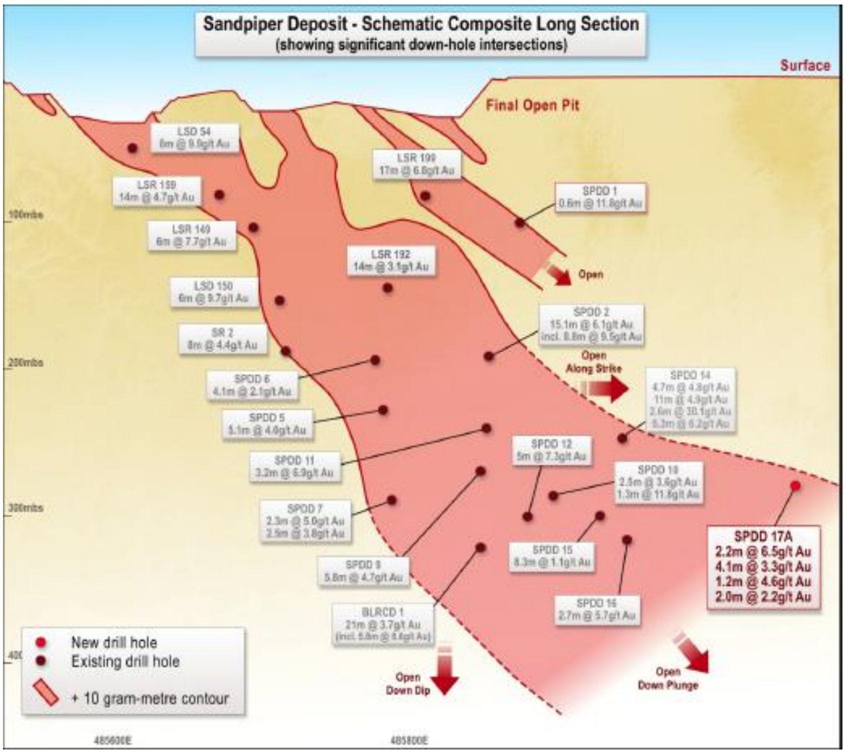
EXPLORATION

- Exploration activity to be conducted in 2011 at Western Tanami includes RC, DD and AC programs undertaken at four prospects, with particular focus at the Sandpiper deposit and the Coyote underground development which has a dedicated drill rig onsite.
- The host rocks lying below the existing open pit operations are equivalent to the Dead Bullock Formation, the same host rocks as Newmont's Callie deposit, a +10moz endowment, with mineralisation extending up to 2km below surface.
- All lodes within the Sandpiper system remain open along strike to the east, up and down dip and down plunge, supporting the potential for future underground mining operations at this deposit.
- Recent success includes a DD hole (SPDD17) at Sandpiper aimed at testing the down plunge component to the mineralisation in a step out of approximately 100 metres to the east of hole SPDD14 which intersected four strongly mineralised lodes. SPDD17A intersected multiple parallel lodes providing significant intersections including 2.2 metres @ 6.6g/t Au from 316 metres and 4.1 metres @ 3.3g/t Au from 321 metres.
- We expect the exploration program will continue to add new resources from both infill drilling to extend mine resources as well as new resources from near-mine and regional discoveries.

Host rocks below existing open pits are equivalent to the same host rocks at Newmont's neighbouring +10Moz Callie deposit.

Significant intersections including 2.2 metres @ 6.6g/t Au from 316 metres and 4.1 metres @ 3.3g/t Au from 321 metres.

Figure 10: Western Tanami – Sandpiper Deposit Long Section



Source: Company

CENTRAL TANAMI PROJECT & OPERATIONS (TAM 100%)

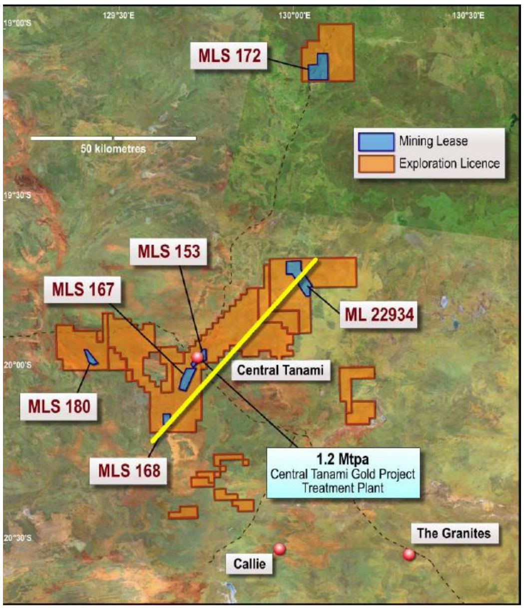
BACKGROUND

Acquisition of Central Tanami in March 2010 provides a platform for TAM to become a 200kozpa 'mid-tier' producer

- Central Tanami is located in the Northern Territory and 90km east from the Western Tanami operations.
- TAM acquired the Central Tanami Gold project (formerly known as Groundrush Gold Project) from Newmont Mining Corporation for $22m (completed March 2010), including significant mining infrastructure and land tenements. Key details are:
  - 0.5Moz of JORC resources with exploration targets open at strike and length;
  - 1.2Moz processing plant (planned to refurbish and expand to 1.5Mtpa);
  - Operational infrastructure including a 140-person camp and air strip; &
  - 2,000km^2 of exploration tenements comprising 21 Mineral Leases and 16 exploration licences.
- We view the transaction as a company transforming deal which provides scale, diversification and low risk growth opportunities while also complementing the Western Tanami operations.
- The combined projects provide TAM with the potential to lift the Company to a mid-tier Australian gold producer by more than doubling FY10 production to a ~140kozpa by FY13, in our opinion.
- Mineral Leases contain 43 open pits ranging in depth from 40 metres to 120 metres. Historical data shows that between 1987 and 2005, approximately 2.1Moz of non-refractory ore was mined.
- We note approximately 130km east of the Central Tanami treatment plant is the +10Moz endowment of the Callie-Granites production centre located within a geologically similar host sequence to the acquired resource. We understand Newmont excluded any drilling below a depth of 200m across the acquired tenement package.
- We view the tenement package as likely to hold a significant multi-million ounce ore body below the existing set of open pits. We note the Groundrush open pit produced over 600koz at a total pit depth of less that 100m where the fresh (primary) rock was encountered.

Tenement package highly prospective for a multi-million ounce ore body below the existing set of open pits

Figure 11: Central Tanami Deposits



Source: Company

RESOURCES & RESERVES

- The bulk of the 2Moz resource at Central Tanami is contained in a 63km strike which TAM has reassessed and divided into four zones, which include:
  - ML22934 (Groundbush; 611koz historical production);
  - MLS153 (includes Hurricane-Repulse & Southern/Miracle; 725koz historical production);
  - MLS167 (includes several pits Carbine Dogbolter, Legs and Redback SW, with 541koz historical production); &
  - MLS168 (includes Jims Main; 122koz historical production).

Figure 12: Central Tanami Resource (cut off of 0.7g/t Au and 100% Project Basis)

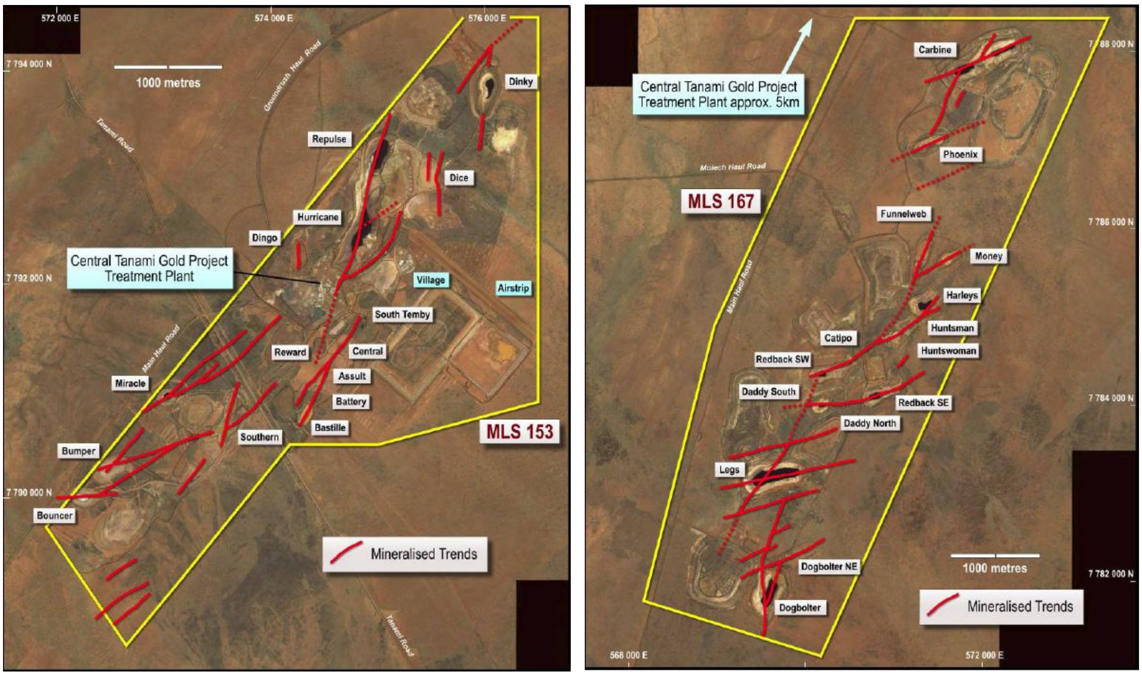
	Measured			Indicated			Inferred			Total		
Deposit	kt	Grade (g/t)	koz	kt	Grade (g/t)	koz	kt	Grade (g/t)	koz	kt	Grade (g/t)	koz
MLS 153	1,051	2.2	73	2,207	1.9	137	1,072	3.1	107	4,331	2.3	317
MLS 167	2,470	3.0	234	2,854	3.4	311	1,742	3.2	178	7,066	3.2	724
MLS 168	854	2.2	60	314	1.6	16	1,094	1.6	58	2,262	1.8	134
MLS 180	545	3.3	57	872	2.7	76	269	2.0	18	1,685	2.8	151
MLSA172	1,097	2.7	96	176	1.9	10	142	2.7	12	1,415	2.6	119
Stockpiles	1,400	0.7	31	0	0	0	0	0	0	1,400	0.7	31
Total	**7,416**	**2.5**	**552**	**6,424**	**2.7**	**551**	**4,319**	**2.7**	**373**	**18,159**	**2.5**	**1,476**

Source: Company, FSB Research

Significant potential for further resource growth from ongoing drilling programs through CY11

- Resource and reserve definition drilling is currently testing 6 of the 43 existing pits. Drilling to add new resources is focused on down dip and lateral extensions to previously defined mineralisation at Lynx, Dogbolter, Bulldog, Carbine, Inca and Phoenix, all within MLS167 and Miracle Southern and Hurricane pits within MLS153.
- Infill drilling is also in progress to upgrade the classification of existing resources at Southern Miracle, Lynx and Bulldog, with all deposits remaining open at depth.
- TAM recently announced the third resource upgrade since acquiring the project in March 2010. Resource estimate has increased to 1.5Moz at 2.5 g/t at an average discovery cost of $23/oz. An impressive effort in only seven months of work.
- The updated resource estimate was completed for four of the six pits being tested for extensions to known mineralisation. Importantly, we note TAM has yet to include test work to be completed below the Groundrush open pit, which historically was the highest producing pit within the Mineral Lease package, producing over 600koz at 3g/t.
- We expect a maiden Reserve statement 1QCY11, followed by further Resource and Reserve upgrades through 2011.

Contained Pits within MLS153 (LHS) & MLS167 (RHS)

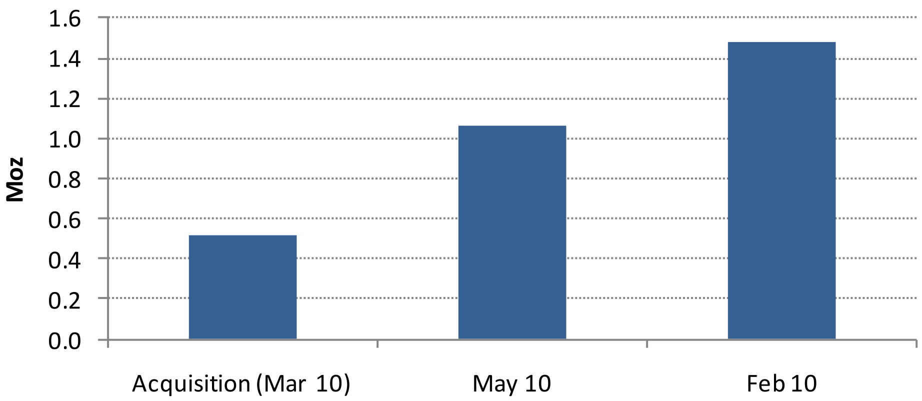


Source: Company

300% resource growth since acquisition through resource remodelling and exploration drilling

- The recent Resource upgrade has demonstrated the geological team's ability to identify additional resources, with high confidence, to known gold mineralisation below the existing pit walls.

Figure 13: Central Tanami Resource Growth



Source: Company

OPERATIONS & PROCESSING

- Historical production across the 43 existing pits produced ~2.0Moz between 1987-2005.

Existing infrastructure acquired in the transaction from Newmont would have a replacement value of up to $100m-$150m

- We estimate the existing infrastructure acquired in the transaction from Newmont would have a replacement value of up to $100m-$150m. The treatment plant is currently non-operational and will require partial refurbishment to return to full operational mode. Associated support infrastructure includes: offices, workshops, airstrip, 140-person accommodation village, borefield and communication facilities.
- The processing plant will operate similar to Western as a Carbon-in-Pulp (CIP) plant (Cyanidation) with a gravity circuit.. The existing 1.2Mtpa capacity will be upgraded to 1.5Mtpa.

Figure 14: Central Tanami Treatment Plant

Source: Company

- TAM's preliminary capex guidance for refurbishment/expansion (from 1.2Mtpa to 1.5Mtpa) and the restart of Central Tanami operations is estimated at $35m plus a life-of-mine sustaining capital of $3m per year. Of the $35m to bring the plant online, $20m will be spent directly on the processing plant, $5m will be used for mining pre-strip and $10m will be used as working capital.

Capex guidance for the plant refurbishment and expansion to 1.5Mtpa is $35m, starting operations 1QCY12 and ramping up to ~110kozpa production in FY14

- Our base case assumes the re-commencement of mining from open pit operations only. We expect the results of a Reserve definition in 1QCY11 for mining studies to be completed around the existing pits. Further extensions to the known mineralisation in the Inferred and Indicated categories will continue through 2011 along with a new resource estimate expected mid 2011 to define mineralisation for one or more underground operations.
- Our upside case includes an underground operation that will deliver ore feed on a 70/30 low/high grade feed from FY14. We expect to update our base case model to include underground operations closer to the completion of TAM's Feasibility Study.
- Our base case assumes a starting mining inventory of 13Mt at 2.6 g/t for 1.1Moz resource (current Measured & Indicated resource), we estimate the re-start of open pit operations will have a mine life of 10 years, processing 1.5Mtpa and mining only from open pit operations at a strip ratio of 7:1.
- We expect a feasibility to be finalised by the end of 2QCY11, to then start operations in 1QCY12 ramping up to full production of 1.5Mtpa in FY14 producing ~110kozpa of gold.
- We derive a risked valuation of $161m ($0.62/share) based on the extension to existing open pits, assuming a 2.6 g/t head grade, operating cost of US$515/oz, mineral recovery of 93%, expected EBITDA life-of-mine at ~$60m (using US$950/oz long term and AUD/US

$0.80). We have risked our base case valuation by 20% to account for the mining studies still to be completed along with refurbishment and expansion activities still to be finalised.

Our base case for Central delivers expected EBITDA life-of-mine at ~$60m (using US$950/oz long term and AUD/US $0.80; 2.6 g/t head grade; operating cost of US$515/oz; 93% recoveries).

We calculate a 2.5yr payback on the acquisition and development costs for Central Tanami.

Figure 15: Central Tanami Valuation Summary

Cumulative free cash flow (A$m)	365.5
Mine life (yrs)	10
Discount rate (A$m)	10.0%
NPV (A$m)	201.2
P/NPV	0.8
Risked NPV (A$m)	161.0
Per share	**$0.62**

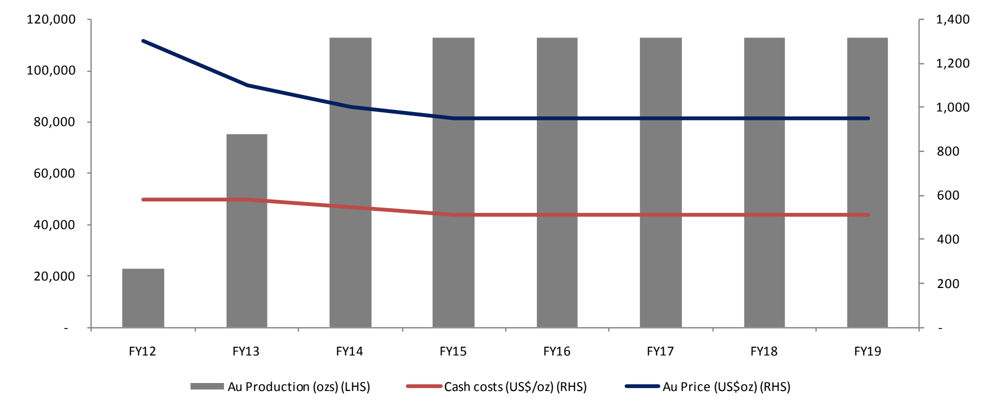
Source: FSB Research

Figure 16: Central Tanami Project Summary

Year Ending 30 June	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Au Price (US$oz)	$1,300	$1,300	$1,100	$1,000	$950	$950	$950	$950	$950
AUD	$0.95	$0.90	$0.90	$0.85	$0.80	$0.80	$0.80	$0.80	$0.80
Ore treated (Mt)		0.3	1.0	1.5	1.5	1.5	1.5	1.5	1.5
Head grade (g/t)		2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Recovery (%)		93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%
Au Production (ozs)	**-**	**22,562**	**75,208**	**112,812**	**112,812**	**112,812**	**112,812**	**112,812**	**112,812**
Cash costs (US$/oz)	**-**	**582**	**578**	**546**	**514**	**514**	**514**	**514**	**514**
Total Revenue (A$m)		**33**	**92**	**133**	**134**	**134**	**134**	**134**	**134**
Operating Costs (A$m)		15	48	72	72	72	72	72	72
EBITDA (A$m)		**18**	**44**	**60**	**62**	**62**	**62**	**62**	**62**
Depreciation (A$m)		4	4	5	5	6	7	8	9
EBIT (A$m)		**14**	**39**	**56**	**56**	**56**	**55**	**54**	**52**
Capex (A$m)		35	3	3	3	3	3	3	3
Tax (A$m)		-	11	16	16	16	16	15	15
Free Cash Flow (A$m)	**-**	**17**	**30**	**42**	**43**	**43**	**43**	**43**	**44**
Cumulative Free Cash Flow (A$m)	**-**	**17**	**13**	**54**	**97**	**139**	**182**	**226**	**269**

Source: FSB Research

Figure 17: Central Tanami: Gold Production & Cash Costs



Source: FSB Research

- A key observation of our modelling of the base case is the ability for the Central operations to payback both the acquisition cost ($22m) and redevelopment capex ($35m) within 2.5 years of operations.
- Successful delivery of the Central operations will prove correct TAM's identification of the asset as a low risk/high return brownfield development opportunity delivering significant shareholder value.

- We believe the Central Tanami project will transition TAM to 'mid-tier production status', without exposing shareholders to significant exploration risks, sovereign risk, and/or significant development capex associated with a new ~150koz operation.
- Finally, we don't expect any environmental and native title issues to delay the recommencement of mining operations.

Central Tanami – Upside Case

We calculate an upside valuation of $307m which represents a >90% increase on our base case valuation of $161m for Central Tanami.

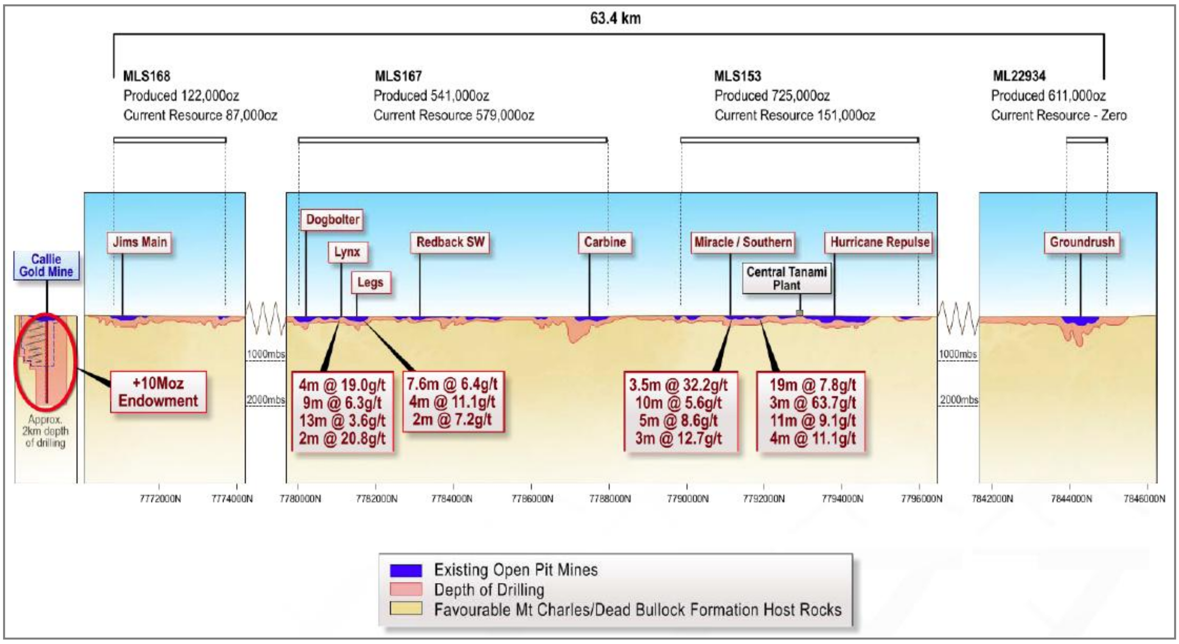
- We have also modelled an upside case for the Central operations on the basis that continued exploration success from the 2011 program delivers a 'Callie' style deposit suitable for immediate underground mining development.
- Early indications from drilling below the Hurricane pit show encouraging signs for an underground development and the Groundrush pit has yet to see any holes at depth.
- In developing the upside case, Central will benefit from the blend of high/low grade ore (similar to Western). Our upside case assumes a head grade of ~4.4 g/t on the basis of a 70/30 blend of ore from open pit and underground operations from FY14.
- We assume underground capex of $30m in FY14 for the underground development, commissioning in FY15, and increasing total gold production at Central to ~190kozpa (~115kozpa base case). Average cash costs of ~US$500/oz and free cash flow from FY15 of ~$90m.
- We derive a risked valuation for the upside case of $307m ($1.18/share).

EXPLORATION

64km of strike of known mineralisation surrounding the Central Tanami project with limited drilling below 200-300m

- Central Tanami exploration potential includes approximately 64km of strike of known mineralisation surrounding the Central Tanami project operation where minimal shallow drilling or reconnaissance drilling has been done. Good high grade gold intersections in all of the previous drilling varying from 1.4 g/t to 32.2 g/t of gold have been recorded to date.
- TAM commenced drilling at Central Tanami in May 2010, with 9 out of the 43 historic open pits targets partially drilled to date, all with encouraging results showing deposits remain open at depth.
- We highlight the significant upside of Central Tanami as all historic mining data and resource drilling of the ~64km length of Central Tanami was completed at relative low depths (200-300m). All data to date shows that the high grade gold mineralisation remains open at depth in all the open pits previously mined which is very encouraging.
- Enforcing our view is the fact that Newmont's Callie-Granintes operation centre has an endowment of +10Moz to a depth of 2,000m which occurs within a geologically similar host sequence to Central Tanami.

Figure 18: Central Tanami Schematic Long Section



Source: Company

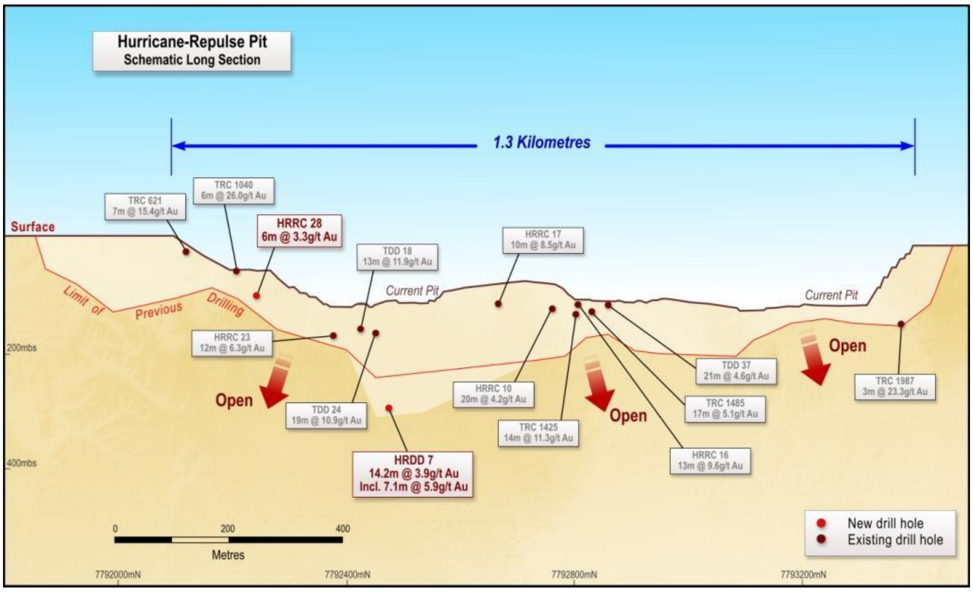
Measured and Indicated now representing 75% of the total resource estimate.

- The exploration and resource development drill program for FY11 consists of RC and DD drilling. Key observations from results to date include:
  - New zones of mineralisation extend from the footwall of existing lodes showing similar mineralogy and structural characteristics to previously mined resources;
  - Intersections are significantly thicker than previously recorded; &
  - Significant extensions identified >150m below the base of existing pits.
- The recent Resource upgrade (February 2011) has delivered an increase of 40% in resources at Central and importantly a high level of confidence with Measured and Indicated now representing 75% of the total resource estimate. This is an outstanding result.
- Geological modelling and Reserve estimation is underway for six of the deposits tested with a maiden Reserve statement expected in March 2012.

High grade intersections below the existing Hurricane pit confirm significant extensions of mineralisation below productive historical pits.

- While there have been numerous positive results from the pits tested to date, we highlight the recent success made at the Hurricane-Repulse open pit. In line with TAM's expectations, deep hole diamond drilling has returned broad, high-grade gold intersections beneath the existing pit floor, confirming significant extensions to one of the most productive pits in the portfolio. Historically, the Hurricane pit produced 250koz at ~3 g/t from oxide and transitional ore only.
- Historical drilling intersections include grades up to 26g/t within the oxide/transition ore and up to 12g/t at depths of 175m.
- The recent 430m hole intersected a mineralised zone of 14.2 metres @ 3.9g/t Au from 396m down hole including a higher grade core of 7.1 metres @ 5.9g/t Au from 400m. This indicates that sizable extensions to known deposits could be mined via cutbacks to existing pit walls followed by a potential underground operation.

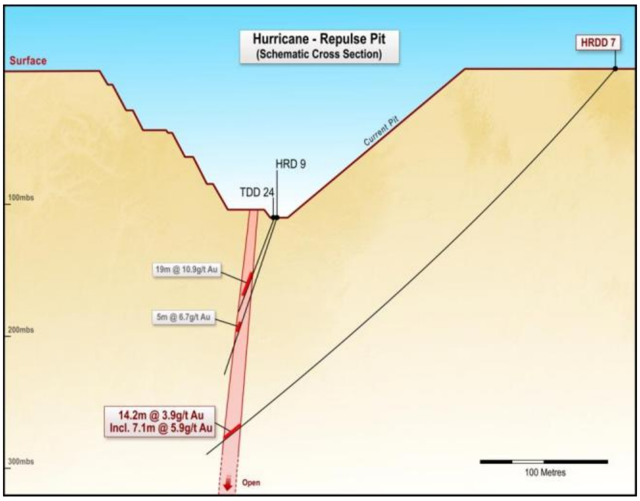
Figure 19: Hurricane-Repulse Deposit Long Section



Source: Company

- The broad zone of mineralisation intersected is 160m below the base of the existing pit and 80m deeper than any historical drilling. Mineralisation is interpreted to occur via three plunging shoots within a north-south trend which could extend at depth along the entire 1.3km strike of the existing open pit.

Figure 20: Hurricane-Repulse Deposit Cross Section



Source: Company

Recent diamond drilling intersected a mineralised zone of 14.2 metres @ 3.9g/t Au from 396m down hole, including a higher grade core of 7.1 metres @ 5.9g/t Au from 400m.

- Presently there are two drill rigs on the ground, with an additional three to join the ongoing program throughout 2011.
- The total budget for exploration for FY11 is $15m of which $10m will be allocated to the program across Central. We expect a similar level of expenditure in FY12, then dropping back to $10m pa.
- We estimate the additional resource ounces delivered from the CY11 exploration program to be at least 500koz and up to >1Moz. This potential is reflected in our valuation for exploration upside of $60m for both Central and Western.
- Further to the exploration program within the existing Mineral Leases is the significant potential for new discoveries from recently awarded exploration licenses SEL26925 & SEL26926.

New exploration tenements enable high grade regional prospects to be to be followed up.

- The two tenements provide the Company with advanced exploration prospects surrounding the granted Mineral Leases. Major discoveries in either of these would add to the studies of new pit development vs existing pit re-development/extension to feed the refurbished processing plant.
- Prospects to be followed up with a RC drill program immediately post the wet season have previously recorded positive RAB results, including:
  - Gallifrey (22m @ 8.5 g/t)
  - Marlena (16m @ 16.1 g/t)
  - Dolphin (4m @ 32.8 g/t)

INFRASTRUCTURE

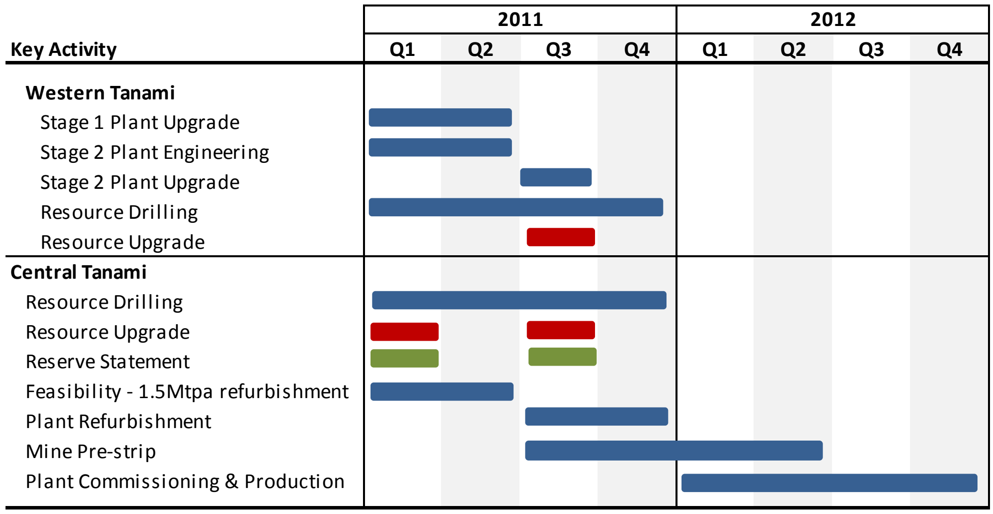
- Local infrastructure at Central and Western Tanami is established due to the current operations and refurbishment/expansion at both sites. Central Tanami infrastructure also includes an air strip and a camp. Power is supplied at both sites by Diesel generators.
- Water requirements are sourced from bores which have been developed and are in operation.
- Road access to both projects is available from Alice Springs (NT) and Halls Creek (WA). The Western and Central Tanami projects are separated by 90km of accessible road.

WORK PROGRAM

- We estimate the timing of key events across the two projects below. We expect there to be regular news flow through 2011 on both the development of operations and exploration success.

Regular newsflow is expected through 2011 for development at Western and Central along with ongoing exploration

Figure 21: TAM Work Plan



Source: FSB Research

FUNDING

- TAM had a cash balance of ~$9m (incl. gold stockpile) as at the end of December 2010 and remains funded for the completion of the Western Tanami plant upgrade, current resource drilling and feasibility programs for Central Tanami using a combination of cash/reserves and a corporate debt facility in place. TAM also has 4,064oz in ROM stocks.

Corporate loan facility and cash flow enable the funding of capex requirements for both Central and Western projects

- TAM has an in-principle funding arrangement with AP Finance Limited to provide a loan facility to fund up to $40m of capital expenditure requirements for both the Western and Central projects, should this be deemed by the Board to be the most appropriate funding mechanism.
- On 13 December 2010, the Company entered into a loan agreement with AP Finance Limited, a subsidiary of its major shareholder Allied Properties Resources, for HK$152m. (A$19.2m). As at 31 December 2010, the Company had drawn down HK41m (A$5.2m).

TAM/ABM RESOURCES ALLIANCE (ABU.ASX)

- In August 2009 TAM formed a strategic exploration alliance with ABM Resources NL (ABU.ASX) aiming to fast track the exploration of the significant tenement package in the area. ABU is required to spend $10m in two years. As a result, TAM owns 21% of ABM Resources NL (25% fully diluted). The Aliance holds a combined ~30,000sqkm in the Tanami-Arunta province in Western Australia and the Northern Territory.
- ABM Resources' exploration is targeting for gold and copper porphyry style mineralisation (which leads to open pit operations). ABM has no JORC resource to date, however current drill results have been encouraging at the Twin Bonanza and the Hyperion Projects with their drilling campaign completed in the last quarter of CY2010 and awaiting further results.
- ABM Resources' current market cap is ~$80m, with no debt and cash of $11.5m as at 31 December 2010, which we estimate is enough to fund the current drilling program to 2012. Given the vast tenements and good results of ABM Resources' drilling campaign to date, we expect a maiden JORC resource in mid 2012 which potentially could be of significant size and add value to TAM's exploration portfolio and company value.
- Graeme Sloan (TAM MD) joined the board as a Non-Executive Director in November 2010.

SHARE REGISTER

- The Company's register has remained stable following the completion of the Company's $63.7m rights issue in July 2010. Post the rights issue, TAM completed a 1-for-30 share consolidation.
- TAM's major shareholder is Allied Properties (23.5%) who underwrote the Company's successful rights issue in March 2010. Allied Properties is also a related party to AP Finance Limited, the provider of TAM's $19m loan facility.

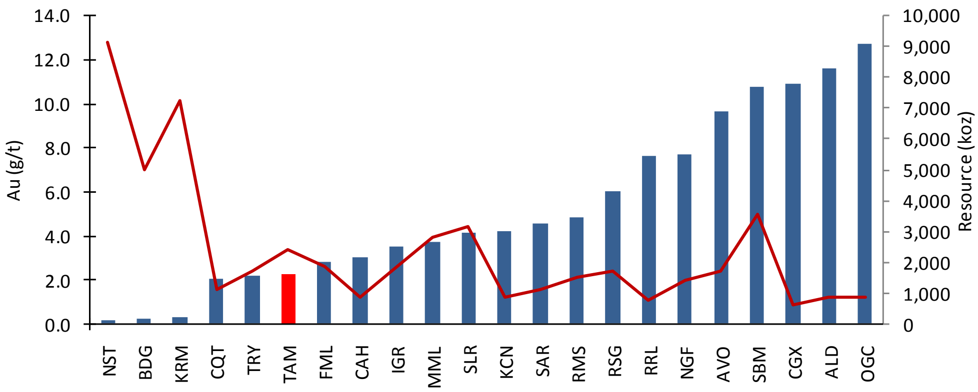
Figure 22: TAM Top 10 Shareholders

Top 10 Shareholders	Percentage Held (%)
Allied Properties Resources	23.5
Sun-Hung-Kai Investments	10.7
Eurogold	3.7
Jemaya Pty Ltd (Featherby Family Account)	1.7
Krone Jorg (Tynedale Farm Account)	1.7
Perth Select Seafoods Pty Ltd	1.7
Tarney Holdings Pty Ltd (DP & FL Waddell Family Account)	1.5
Yandal Investments Pty Ltd	1.4
CEN Pty Ltd	1.2
Sun Hung Kai Investment Services Ltd (Client Katong Assets)	1.0
	48.1

Source: Company, FSB Research

PEER COMPARISON

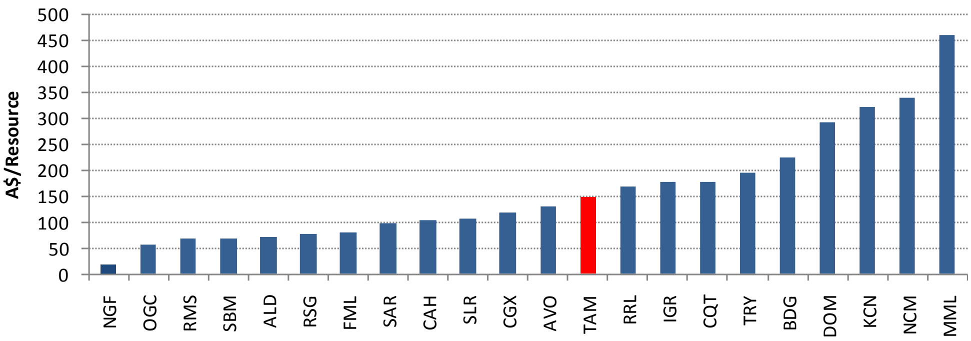
Figure 23: Resource Size and Grade (Equity Interest)



Source: FSB Research

- TAM's current EV/oz resource of $130/oz represents a discount of ~20% to the ASX listed producer peer group average of $160/oz. We consider this to be unwarranted given TAM's high grade and strong expected resource growth.

Figure 24: EV/Resource



Source: FSB Research

VALUATION

Risked Discounted Cash Flow (DCF) - $421m, $1.61/share

Significant upside to our base case should the exploration program be successful in indentifying higher grade resources at depth

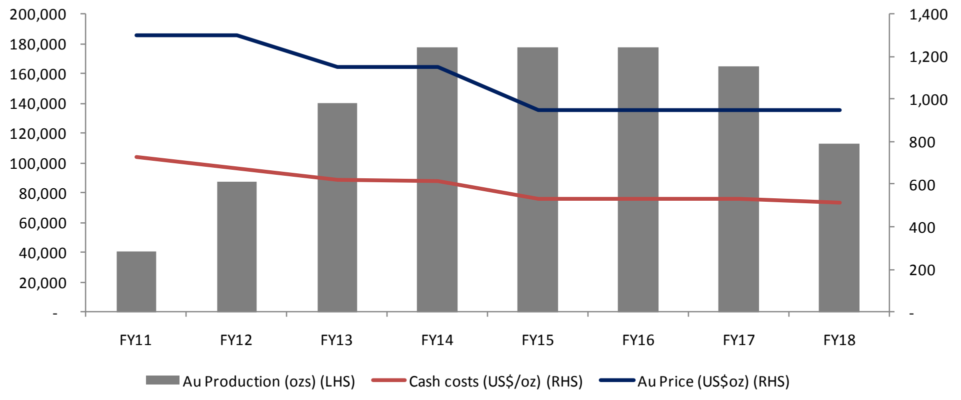
- We have completed a DCF valuation of both Central and Western Tanami and derive a risked NPV_{10} of $421m ($1.61/share).
- A major component of our valuation is derived from Central Tanami and therefore we assume the Central Tanami processing plant and operations is successfully commissioned in FY12. On our base case scenario of open pit operations only we calculate a risked NPV of $161m, which represents 38% of our valuation.
- We consider there to be significant valuation upside to our base case should the Company be successful in indentifying higher grade resources at depth and developing an underground operation to feed up to 30% of plant throughput. We calculate an upside valuation of $307m which represents a >90% increase on our base case valuation of $161m for Central Tanami.
- As highlighted in Figure 25 below, we forecast TAM to be producing >175kozpa at competitive cash costs of ~US$600/oz following the ramp up at Central Tanami in FY14. Based on our long term forecast Au and FX of US$950 and $0.80, the combined projects will be delivering >$60m in annual free cash flow.
- In respect of near term capex, $38m will be required for the refurbishment of the Central Tanami plant which is essentially fully funded given the in-principle $40m debt facility in place with AP Finance Limited.

Figure 25: Consolidated Financial Summary (Base Case)

Year Ending 30 June	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Au Price (US$oz)	$1,300	$1,300	$1,100	$1,000	$950	$950	$950	$950	$950
AUD	$0.95	$0.90	$0.90	$0.85	$0.80	$0.80	$0.80	$0.80	$0.80
Ore treated (Mt)	0.25	0.8	1.5	2.0	2.0	2.0	1.9	1.5	1.5
Head grade (g/t)	5.5	3.1	3.1	3.0	3.0	3.0	2.9	2.6	2.6
Recovery (%)	95.0%	94.3%	93.7%	93.5%	93.5%	93.5%	93.4%	93.0%	93.0%
Cash costs (US$/oz)	**689**	**621**	**603**	**564**	**531**	**531**	**528**	**514**	**514**
Au Production Western (ozs)	**40,629**	**65,006**	**65,006**	**65,006**	**65,006**	**65,006**	**52,005**	**-**	**-**
Au Production Central (ozs)	**-**	**22,562**	**75,208**	**112,812**	**112,812**	**112,812**	**112,812**	**112,812**	**112,812**
Au Production (ozs)	**40,629**	**87,569**	**140,214**	**177,819**	**177,819**	**177,819**	**164,817**	**112,812**	**112,812**
Total Revenue (A$m)	**56**	**126**	**171**	**209**	**211**	**211**	**196**	**134**	**134**
Operating Costs (A$m)	29	60	94	118	118	118	109	72	72
EBITDA (A$m)	**26**	**66**	**77**	**91**	**93**	**93**	**87**	**62**	**62**
Depreciation (A$m)	3	7	8	9	9	10	12	13	14
EBIT (A$m)	**21**	**59**	**70**	**83**	**84**	**83**	**75**	**49**	**47**
Capex (A$m)	14	38	5	5	5	5	5	3	3
Tax (A$m)	2	6	19	23	24	23	21	14	13
Free Cash Flow (A$m)	**10**	**22**	**53**	**63**	**65**	**65**	**61**	**45**	**45**
Cumulative Free Cash Flow (A$m)	**10**	**27**	**80**	**143**	**208**	**272**	**333**	**378**	**423**

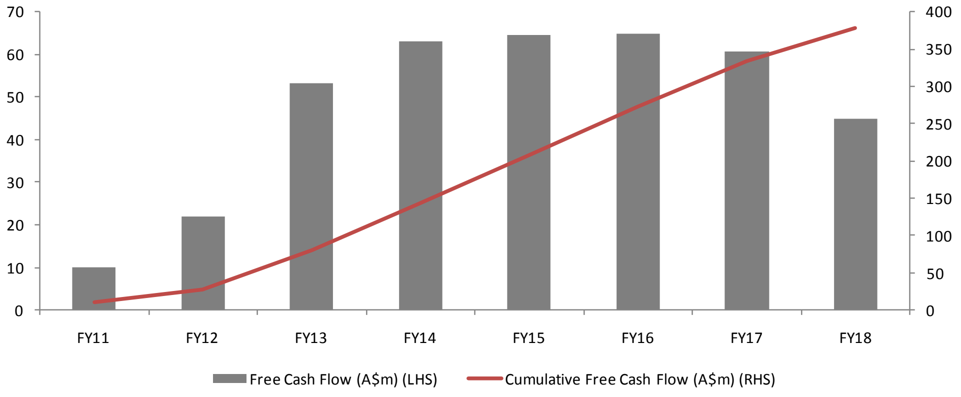
Source: FSB Research

Figure 26: Production and Cash Cost Profile (Base Case)



Source: FSB Research

Figure 27: Free Cash Flow (Base Case)



Source: FSB Research

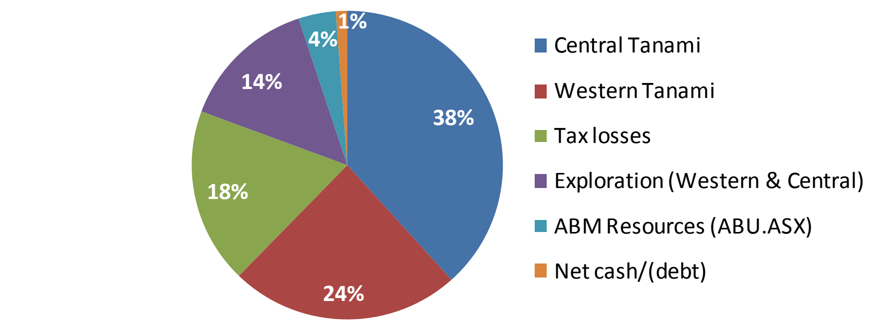
Figure 28: DCF Valuation Summary

VALUATION SUMMARY	Unrisked ($m)	P/NPV	Risked ($m)	Base Case	Upside Case
Central Tanami	201	0.80	161	$0.62	**$1.18**
Western Tanami	112	0.90	101	$0.39	$0.39
NPV of Tax Losses	110	0.70	77	$0.30	$0.30
Exploration (Western & Central)	60	1.00	60	$0.23	$0.23
ABM Resources (ABU.ASX)	16	1.00	16	$0.06	$0.06
Net cash/(debt)	5	1.00	5	$0.02	$0.02
TOTAL	**505**	**0.83**	**421**	**$1.61**	**$2.17**
			Current Price	**$1.04**	**$1.04**
			Upside	**55%**	**109%**
			P/NPV	**0.6**	**0.5**

Source: FSB Research

- We have included a value for the $163m of tax loses based the Company advising it can utilise 100% of this amount going forward. We have calculated the tax losses by running two DCF models @ 10% discount: one including the $163M tax losses; and the second without. The difference between these two estimations gave us a NPV of ~$110m, which we have discounted by 30% to give a value of $77m.

Figure 29: Valuation Split (Base Case)



Source: FSB Research.

Our base case NPV is sensitive to long term gold price and currency assumptions along with major changes to operating costs.

Figure 30: Sensitivity Analysis

LT Au Price (US$/oz)	**750**	**850**	**950**	**1,050**	**1,150**
Projects NPV (100%) basis	350	388	421	463	501
TAM valuation ($/share)	$1.34	$1.49	$1.61	$1.78	$1.92
LT Exchange Rate (US$/AUD)	**0.60**	**0.70**	**0.80**	**0.90**	**1.00**
Projects NPV (100%) basis	545	477	421	385	353
TAM valuation ($/share)	$2.09	$1.83	$1.61	$1.48	$1.35
Grade (g/t)	**1.75**	**2.50**	**3.00**	**3.50**	**4.00**
Projects NPV (100%) basis	152	323	421	533	630
TAM valuation ($/share)	$0.58	$1.24	$1.61	$2.04	$2.42
Recovery (%)	**85%**	**88%**	**93%**	**95%**	**96%**
Projects NPV (100%) basis	367	384	421	434	438
TAM valuation ($/share)	$1.41	$1.47	$1.61	$1.66	$1.68
Chaneg in Opex (%)	**-20.0%**	**-10.0%**	**0.0%**	**20.0%**	**40.0%**
Projects NPV (100%) basis	495	452	421	356	289
TAM valuation ($/share)	$1.90	$1.73	$1.61	$1.36	$1.11
Change in Capex (A$m)	**-25%**	**-20%**	**0%**	**50%**	**150%**
Projects NPV (100%) basis	432	429	421	414	395
TAM valuation ($/share)	$1.65	$1.64	$1.61	$1.59	$1.53

Source: FSB Research

In-Situ Valuation - $395m, $1.51/share

- We have also completed an in-situ valuation of TAM as a cross check to our DCF.
- We apply a 20% premium to the average EV/oz resource multiple for gold producers of $160/oz, which we consider is warranted given the low risk nature of TAM's expansion target of 150-200kozpa, minimal cost for expansion and high exploration potential at depth and regionally to add significant resource/reserve. Moreover, 75% of TAM's resource is classified as Measured and Indicated. Applying a $192 EV/oz resource multiple results in an equity valuation of $395m, or $1.51 per share.

BOARD & MANAGEMENT

Name	Title	Details
Denis Waddell	**Chairman**	Denis Waddell, is a Chartered Accountant with extensive experience in the management of exploration and mining companies. Prior to establishing Tanami Gold NL in 1994, Denis was the Finance Director of the Metana Minerals NL group and previously worked for Alcoa Australia and KPMG. During the past 26 years, Denis has gained considerable experience in corporate, finance and operations management of exploration and mining companies
Graeme Sloan	**Managing Director/CEO**	Graeme Sloan,is a Mining Engineer with extensive operational and corporate experience both within Australia and overseas including Managing Director/CEO positions of publicly listed mining companies. Graeme's mining experience has been gained in different commodities and includes project development, open pit and underground mining
Alan Senior	**Non Executive Director**	Alan Senior is a Consulting Engineer with over 30 years of experience in design and project development mainly associated with the mining and mineral processing industry in Australia. Alan's previous roles included Project Manager for the development of the Cosmos Nickel Mine and the subsequent transition from open cut to underground mining for Jubilee Mines NL.
Lee Seng Hui	**Non Executive Director**	Mr Lee Seng Hui, is currently the Chief Executive of Allied Group Limited, a Hong Kong listed company. Seng Hui graduated with Honours from the Law School of the University of Sydney. Seng Hui previously worked with Baker & McKenzie and NM Rothschild & Sons (Hong Kong) Limited. Lee is an Executive Director of Allied Group Limited and Chairman of Tian An China Investments Company Limited and an Executive Director of Yu Ming Investments Limited, both of which are Hong Kong listed companies
Jon Latto	**Company Secretary / Chief Financial Officer**	Jon Latto is a chartered accountant with over 16 years' experience gained both locally and internationally. Prior to joining Tanami Gold NL in November 2007, Jon was a Senior Manager within Ernst & Young's Business Advisory Services division working in Australia, America and India on projects focused primarily on finance function reform. Prior to this, Jon held roles with Iluka Resources Limited in Australia, and Halifax Bank of Scotland and Cable & Wireless in London
Tony Deacon	**Mining Manager**	Mr Tony Deacon has over 30 years' experience in the mining industry working in a wide range of hands on and managerial positions covering all facets of underground mining. He has worked for mining operations throughout Australia but predominantly in Western Australia. In recent years Tony has filled a number of senior managerial positions for both contracting and owner operator companies. Tony's focused approach to getting the job done and his expertise in underground mining further strengthens the Company's operational ability.
Robert Walker	**General Manager Operations**	Mr Rob Walker has over 35 years' experience in the mining and exploration industry and has worked extensively with both surface and underground mining operations. Rob has owned and operated several mining and processing projects within Western Australia working primarily in gold, copper and nickel. He is a founding director of emerging ASX listed lithium producer Galaxy Resources and played an integral role in the company's establishment and project acquisition. Rob's extensive mining experience, network of personnel and strong commercial focus provides Tanami Gold NL the expertise required for remote mine operations.
Robert Henderson	**Geology Manager**	Rob Henderson is a Geologist with over 25 years' experience in mineral exploration and mining. Rob has worked for various companies including MMC Management, Kilkenny Gold, Goldfields Limited, Exploration and Mining Consultants, Delta Gold-Auriongold-Placer Dome-Barrick and Consolidated Minerals in mining and exploration at Senior Geologist and Manager levels. Rob held the position of Exploration Manager-Nickel with Consolidated Minerals through 2007 and 2008 and consulted to a number of listed and private mining companies prior to joining Tanami Gold NL in September 2009.

RISKS

Risk	Details
Exploration	TAM may be unsuccessful in the conversion of current inferred resources at Central and Western Tanami to mining reserves, which would affect mine life of Western Tanami and expected start up of Central Tanami production Centre
Feasibility Study at Central Tanami	The refurbishment of Central and restart of operations, which represents 38% of our DCF valuation, has yet to complete a feasibility. These studies will be completed mid 2011 and may result in delays to development and/or additional capital estimates.
Gold Market	A further slowdown or strong recovery in the US and/or China may have negative implications for the gold price.
Delays	Whilst we do not expect any significant delays to the commissioning of Stage 1 and 2 (1Q-3Q 2011) at Western Tanami, any long delays to the start of Stage 2 would have a material impact on valuation. Also any delays on starting Central tanami production centre will have a greater impact on our valuation as this project it the step changing making of TAM future value.

RECOMMENDATION

- **We initiate on TAM with a BUY and a price target of $1.60, which represents a 54% premium to the current share price.**
- TAM offers investors exposure to a low cost, high grade gold producer which is expected to benefit from a significant valuation re-rating as the Company progressively ramps up operations to ~200kozpa across two key production centres.
- TAM's current EV/oz resource of $130/oz represents a discount of ~20% to the ASX listed producer peer group average of $160/oz. We consider this to be unwarranted given TAM's high grade and strong expected resource growth.
- We value TAM at $1.61/share and derive a 12 month price target of $1.60. We highlight valuation upside should TAM be successful in identifying higher grade resources at depth to feed into the 1.5Mtpa Central Tanami plant. Our upside valuation case is $2.17.
- News flow should be constant over the coming 12 months with a $15m exploration program expected to result in ongoing resource/reserve definition at both Central and Western Tanami, capacity expansions at Western to 60-70kozpa and completion of Feasibility studies on the Central Tanami operation.

Tanami Gold NL (TGS.ASX)

Full Year Ended 30 Jun

Profit & Loss ($m)	2010a	2011e	2012e	2013e
Revenue	**57**	**56**	**126**	**171**
Other Revenue	0	0	0	0
Revenue	**57**	**56**	**126**	**171**
Operating costs	37	33	56	90
Exploration costs	4	15	15	10
Corporate costs	4	4	4	4
EBITDA	**12**	**3**	**51**	**67**
EBITDA margin (%)	21	6	40	39
D & A	15	3	7	8
EBIT	**-3**	**1**	**44**	**60**
EBIT margin (%)	-5	1	35	35
Net Interest exp / (income)	6	3	-1	-3
Associates	-3	0	0	0
Profit before tax	**-8**	**-2**	**44**	**62**
Tax exp / (benefit)	0	0	0	0
NPAT pre minorities	**-8**	**-2**	**44**	**62**
Minoritiy Interests	0	0	0	0
NPAT pre sig items	**-8**	**-2**	**44**	**62**
Significant items	-12	0	0	0
NPAT reported	**0**	**-2**	**44**	**62**
NPAT adjusted *	**-11**	**-2**	**44**	**62**
WA # Shares Diluted (m)	118	256	261	261
EPS adj ¢	-10	-1	17	24

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow ($m)	2010a	2011e	2012e	2013e
EBITDA	**12**	**3**	**51**	**67**
Net Interest exp / (income)	0	-3	1	3
Tax	0	0	0	0
Δ Working Capital	1	1	-4	2
Other	-15	0	0	0
Operating Cashflow	**-3**	**1**	**48**	**72**
Capex	-2	-14	-38	-5
Net Acquisitions	-27	0	0	0
Asset Sales	2	0	0	0
Other	-9	0	0	0
Investing Cashflow	**-36**	**-14**	**-38**	**-5**
Equity proceeds	0	61	0	0
Debt proceeds	45	0	0	0
Debt repayment	0	-55	0	0
Dividends paid	0	0	0	0
Other	0	0	0	0
Financing Cashflow	**44**	**6**	**0**	**0**
Net Cashflow	6	-7	10	67
Free Cashflow	**-5**	**-13**	**10**	**67**

Balance Sheet ($m)	2010a	2011e	2012e	2013e
Cash	**7**	**0**	**10**	**77**
Receivables	12	12	13	14
Inventories	6	6	14	19
PPE	23	35	65	63
Intangibles	0	0	0	0
Exploration & Development	29	29	29	29
Other	12	17	18	18
Total Assets	**89**	**98**	**150**	**220**
Payables	8	8	14	22
Provisions	6	6	7	7
Tax liabilities	0	0	0	0
Debt	55	5	5	5
Other	0	0	0	0
Total Liabilities	**68**	**19**	**26**	**35**
Reserves and capital	183	244	244	244
Retained earnings	-164	-166	-122	-59
Minorities	1	1	1	1
Total Equity	**21**	**79**	**124**	**185**

Capital Structure	
Shares on Issue (m)	261
Shares on Issue diluted (m)	262
Market Cap ($m)	**271**
Net Debt/(Cash) ($m)	-5
EV ($m)	**266**

Key Metrics	2010a	2011e	2012e	2013e
PER (x)	-11	-130	6	4
EV / EBITDA (x)	22	86	5	4

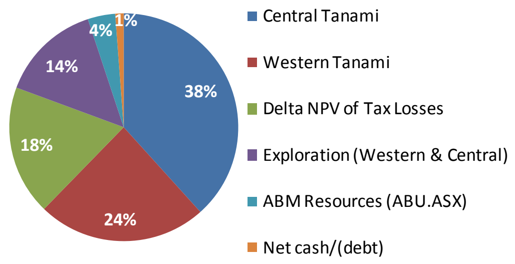
Key Assumptions	2010a	2011e	2012e	2013e
Gold Price (US$/oz)	1,080	1,300	1,300	1,100
AUD/USD	0.88	0.95	0.90	0.90

Production Summary	2010a	2011e	2012e	2013e
Gold Production (koz)	48	41	88	140
Total cash costs (US$/oz)	$615	$689	$621	$603

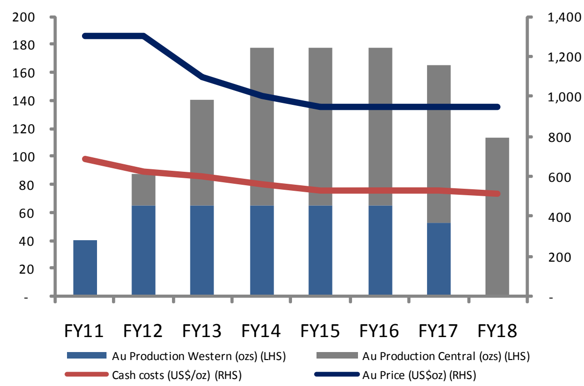
Resources (100% Basis)	Mt	Au g/t	Moz Au
Central Tanami	18.2	2.5	1.48
Western Tanami	3.1	5.5	0.55
TOTAL	**21.3**	**3.0**	**2.03**

Valuation Summary	$m	P/NPV	$/share
Central Tanami	201	0.80	0.62
Western Tanami	112	0.90	0.39
Exploration (Western & Central)	60	1.00	0.23
NPV of Tax Losses	110	0.70	0.30
ABM Resources (ABU.ASX)	16	1.00	0.06
Net cash/(debt)	5	1.00	0.02
Total	**505**		**1.61**

Valuation Split (%)



Gold Production (koz) and Cost Profile (100% Basis)



FOSTER STOCKBROKING CONTACTS

DEALING

Stuart Foster	+61 (0)2 9993 8131	stuart.foster@fostock.com.au
Jason Lal	+61 (0)2 9993 8167	jason.lal@fostock.com.au
Kevin Massey	+61 (0)2 9993 8130	kevin.massey@fostock.com.au
Trenton Brown	+61 (0)2 9993 8161	trenton.brown@fostock.com.au
Tolga Dokumcu	+61 (0)2 9993 8144	tolga.dokumcu@fostock.com.au
George Mourtzouhos	+61 (0)2 9993 8136	george.mourtzouhos@fostock.com.au

RESEARCH

Dominic Rose (Industrials)	+61 (0)2 9993 8150	dominic.rose@fostock.com.au
JP Vargas de la Vega (Resources)	+61 (0)2 9993 8152	jp@fostock.com.au
Toni Addison-Lafferty (Resources)	+61 (0)2 9993 8163	toni.addisonlafferty@fostock.com.au

CORPORATE SERVICES

Martin Carolan	+61 (0)2 9993 8135	martin.carolan@fostock.com.au
Mark Hinsley	+61 (0)2 9993 8166	mark.hinsley@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

Foster Stockbroking recommendation ratings: Buy = return >10%; Hold = return between –10% and 10%; Sell = return <-10%. Spec Buy = return > 20% for stock with very high risk. All other ratings are for stocks with low-to-high risk. Returns quoted are annual.

Important Notice:

Disclaimer & Disclosure of Interests. Foster Stockbroking Pty Limited has prepared this report. This document contains general securities advice only. In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Foster Stockbroking is not aware that a recipient intends to rely on this report and is not aware of the manner in which it will be used by the recipient. Investors must obtain personal financial advice from their investment advisor to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment. The views expressed in this report are that of the analyst named on the cover page, and no part of compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports. Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation or warranty is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this document and, to the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this document. Foster Stockbroking is under no obligation to update or keep current the information contained herein and has no obligation to tell you when opinions or information in this report change. Foster Stockbroking, and its directors, officers and employees or clients may have or had interests in the securities of the instruments referred to herein, and may make purchases or sales in them as principal or agent at any time and may affect transactions which may not be consistent with the opinion set out in this report. Foster Stockbroking and its Associates state that they may earn brokerage, fees or other benefits from securities referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant Company.

Specific disclosure: The analyst, Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by TAM at the time of this report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation.