

Tanami Gold NL (TAM.ASX)

24 June 2011

Central Tanami Delivering on Resource & Reserve Potential

Event:

- Maiden gold reserve and increase in group mineral resources.
- New zones of mineralisation discovered at Groundrush deposit (Central Tanami).

Details:

- **Maiden 400koz gold reserve the start of things to come:** Group resources have increased to 24Mt @ 3.0g/t for 2.3Moz of contained gold, with >70% classified as Measured and Indicated. Given the high confidence level, we expect TAM to convert a large proportion of the resource to reserves and build upon the maiden reserve of 400koz. The last 12 months of exploration has delivered >1Moz in resources and a maiden 400koz ore reserve. An updated resource and reserve is expected in Q3 CY11.
- **Groundrush deposit taking shape:** The Groundrush deposit, located at Central Tanami, has delivered a maiden resource of 203koz at 4.1g/t along with a reserve of 48koz from only 2 of the 13 completed diamond holes. New zones of mineralisation have also been discovered at depth with intersections of 20-30m at +3g/t.
- **Central Tanami Feasibility Study on track for Q4 CY11:** The recently released maiden reserve of 48koz and expected reserve increase in Q3 CY11 is expected to form the basis for the Central Tanami Feasibility Study to be released in Q4 CY11. We forecast \$45m of development capex to be incurred in FY12 for the refurb of the plant and open pit/underground development activities. We expect maiden production from Central Tanami in FY13 and, when fully ramped up, to operate at >150kozpa with operating costs of less than US\$700/oz.
- **Production at Western Tanami to deliver ~40kozpa in FY11:** Operations at Western Tanami have returned to full capacity following the unseasonal weather in early 2011. The June quarter is on track to deliver an annualised production rate of 60kozpa.

Recommendation:

- **We maintain our BUY recommendation and increase our price target to \$1.85/share**, 118% above the current share price.
- Our DCF valuation has been updated following the release of the reserve/resource increase and to reflect our new commodity price deck. In respect of near term funding of project capex (forecast >\$50m across Western and Central in FY12), we note that debt facilities will be made available to TAM should equity markets not be conducive to raising capital. Consequently funding risk is minimised.
- Corporate activity amongst the mid-tier gold producers has increased in recent times with the proposed mergers of Catalpa Resources (CAH.ASX) and Conquest Mining (CQT.ASX) along with Focus Minerals (FML.ASX) and Crescent Gold (CRE.ASX). Both transactions are seeking to create large scale (>400kozpa) production profiles and we believe TAM will be on the watchlist of many ASX-listed producers as it progresses on the low-risk development path to 200kozpa.
- TAM offers investors exposure to a producer targeting a four-fold increase in production to 200kozpa in FY14 with plenty of exploration upside. We consider the Tanami region to be well-endowed given the recent exploration success and renewed focus by majors like Newmont Mining.

Metals & Mining

Rating	BUY
Previous	BUY

Share Price (\$)	\$0.85
52 week low - high (\$)	0.51 - 1.11
Price Target (\$)	\$1.85
Previous (\$)	\$1.60
Valuation (\$/share)	\$1.81
Methodology	DCF/Sum of Parts
Risk	Medium

Capital Structure

Shares on Issue (m)	261.0
Market Cap (\$m)	221.8
Net Cash/(Debt) (\$m)	-10.1
EV (\$m)	211.7
Options on issue (m)	0.2
12mth Av Daily Volume ('000)	480

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%

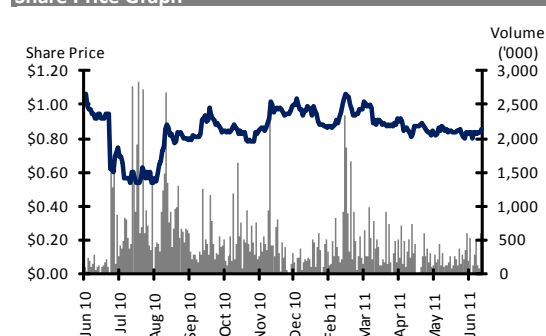
Key Milestones

Reserve/Resource update	Q3 CY11
CTP Feasibility Study	Q4 CY11
Project Finance	Q4 CY11
CTP Commissioning	Q2 CY12

Key Metrics

Year to June	FY10a	FY11e	FY12e	FY13e
Revenue (\$m)	57.1	51.8	76.7	234.4
EBITDA (\$m)	12.1	9.0	22.4	96.7
NPAT rep (\$m)	0.4	-2.0	8.6	75.0
NPAT adj (\$m)	-11.4	-2.0	8.6	75.0
EPS adj (c)	-9.7	-0.8	3.3	28.7
Op Cashflow (\$m)	-3.1	7.1	14.9	65.6
Capex (\$m)	-1.7	-5.0	-54.0	-4.0
FCF (\$m)	-4.8	2.1	-39.1	61.6

Share Price Graph



Tanami Gold NL (TAM.ASX)

Full Year Ended 30 June

Profit & Loss (\$m)	2010a	2011e	2012e	2013e
Revenue	57.1	51.8	76.7	234.4
Other Revenue	0.1	0.0	0.0	0.0
Revenue	57.1	51.8	76.7	234.4
Operating costs	37.1	28.8	40.4	128.7
Exploration costs	4.0	10.0	10.0	5.0
Corporate costs	3.9	4.0	4.0	4.0
EBITDA	12.1	9.0	22.4	96.7
EBITDA margin (%)	21.3	17.3	29.1	41.2
D & A	14.9	8.0	11.4	18.8
EBIT	-2.8	1.0	11.0	77.9
EBIT margin (%)	-4.9	1.9	14.3	33.2
Net Interest exp / (income)	5.6	3.0	2.4	2.9
Associates	-3.0	0.0	0.0	0.0
Profit before tax	-8.4	-2.0	8.6	75.0
Tax exp / (benefit)	0.0	0.0	0.0	0.0
NPAT pre minorities	-8.4	-2.0	8.6	75.0
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-8.4	-2.0	8.6	75.0
Significant items	-11.7	0.0	0.0	0.0
NPAT reported	0.4	-2.0	8.6	75.0
NPAT adjusted *	-11.4	-2.0	8.6	75.0
WA # Shares Diluted (m)	117.9	255.7	261.0	261.0
EPS adj c	-9.7	-0.8	3.3	28.7

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2010a	2011e	2012e	2013e
EBITDA	12.1	9.0	22.4	96.7
Net interest (exp) / income	-0.5	-3.0	-2.4	-2.9
Tax	0.0	0.0	0.0	0.0
Δ Working Capital	-7.6	1.2	-5.1	-28.1
Other	-7.1	0.0	0.0	0.0
Operating Cashflow	-3.1	7.1	14.9	65.6
Capex	-1.7	-5.0	-54.0	-4.0
Net Acquisitions	-27.3	0.0	0.0	0.0
Asset Sales	2.1	0.0	0.0	0.0
Other	-8.8	0.0	0.0	0.0
Investing Cashflow	-35.7	-5.0	-54.0	-4.0
Equity proceeds	0.0	60.7	0.0	0.0
Debt proceeds	44.5	11.2	30.0	0.0
Debt repayment	-0.1	-55.2	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	44.4	16.7	30.0	0.0
Net Cashflow	5.6	18.8	-9.1	61.6
Free Cashflow	-4.8	2.1	-39.1	61.6

Balance Sheet (\$m)	2010a	2011e	2012e	2013e
Cash	6.7	25.5	16.5	78.1
Receivables	11.8	10.7	15.9	48.6
Inventories	6.2	5.6	8.4	25.6
PPE	23.4	20.4	63.0	48.3
Exploration & Development	29.2	29.2	29.2	29.2
Other	11.6	16.8	17.1	19.0
Total Assets	89.0	108.3	150.1	248.7
Payables	7.6	7.1	9.9	31.7
Provisions	5.6	5.5	5.9	8.3
Debt	55.2	15.8	45.8	45.8
Total Liabilities	68.4	28.4	61.6	85.8
Reserves and capital	183.5	244.2	244.2	244.2
Retained earnings	-163.8	-165.8	-157.2	-82.2
Minorities	0.9	0.9	0.9	0.9
Total Equity	20.6	79.9	88.4	162.9

Recommendation: BUY

Price Target - \$1.85

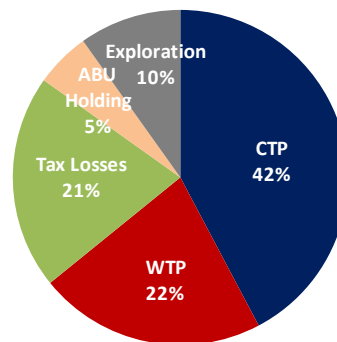
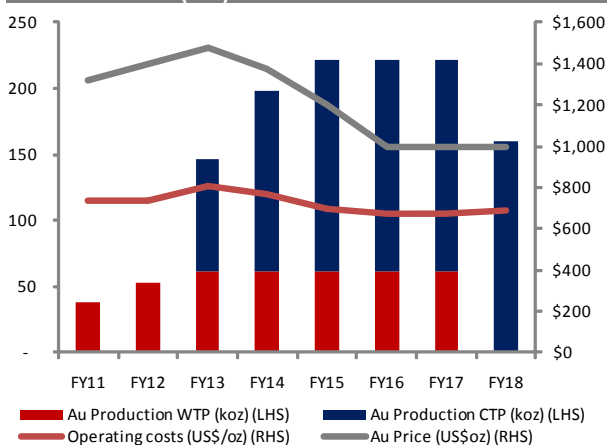
Capital Structure	
Shares on Issue (m)	261.0
Shares on Issue diluted (m)	261.2
Market Cap (\$m)	221.8
Net Cash/(Debt) (\$m)	-10.1
EV (\$m)	211.7

Resources	Mt	Au g/t	Moz Au
Central Tanami	20.9	2.6	1.75
Western Tanami	3.1	5.5	0.55
TOTAL	24.0	3.0	2.30

Key Assumptions	2010a	2011e	2012e	2013e
Au Price (US\$/oz)	\$1,080	\$1,322	\$1,400	\$1,475
AUD/USD	0.88	0.98	0.98	0.93

Production Summary	2010a	2011e	2012e	2013e
Gold production (koz)	48	38	53	147
Total opex costs (US\$/oz)	\$615	\$735	\$737	\$810

Valuation Summary	\$m	P/NPV	\$/share
Central Tanami	268	0.80	\$0.82
Western Tanami	124	0.90	\$0.43
Tax Losses	150	0.70	\$0.40
Exploration	50	1.00	\$0.19
ABM Resources (ABU.ASX)	27	1.00	\$0.10
Net cash/(debt)	-10	1.00	-\$0.04
Corporate costs	-25	1.00	-\$0.10
TOTAL	583		\$1.81

Valuation Split (%)

Gold Production (koz) and Cost Profile


The last 12 months of exploration has delivered over 1Moz in resources and a maiden 400koz reserve.

MAIDEN RESERVE AND INCREASE IN RESOURCES

- In early June TAM released a maiden 400koz ore reserve for operations at both Western Tanami ('**Western**') and Central Tanami ('**Central**') which has delivered the foundation to commence production at Central for which a Feasibility Study is due for completion by Q4 CY11.
- Along with the maiden reserve TAM also increased total gold resources to 24Mt @ 3.0g/t for 2.3Moz of contained gold, with over 70% classified as Measured and Indicated. Given the high confidence level of the resource we expect the Company to convert a large proportion into reserves.
- Tanami has now delivered total resource growth of almost 2Moz since 2009 and over 1Moz of new resources at Central since acquisition in early 2010.
- We expect both resources and reserves to achieve further upgrades over the next two years with a \$15mpa exploration budget approved, and highlight Figures 1 and 2 below do not include recently released high-grade infill and exploration results at Central's Groundrush deposit.

Figure 1: Total Gold Reserves (as at 31 March 2011)

Deposit	Type	Mt	Grade	Contained Au (Koz)
Central Tanami	Proven	0.4	5.5	62
	Probable	1.7	2.9	159
Total - Central		2.0	3.4	221
Western Tanami	Proven	0.1	10.5	29
	Probable	0.7	4.7	104
Total - Western		0.8	5.3	133
Central Stockpile	Proven	1.7	0.9	48
Total Reserves		4.5	2.8	402

Source: Tanami Gold

Figure 2: Total Gold Resources (as at 31 March 2011)

Deposit	Type	Mt	Grade	Contained Au (Koz)
Central Tanami	Measured	8.0	2.5	627
	Indicated	7.9	2.6	668
	Inferred	5.0	2.8	451
Total - Central		20.9	3.0	1,747
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		24.0	3.0	2,302

Source: Tanami Gold

Central Tanami's updated mineral resource is now 1.75Moz with >70% classified as Measured and Indicated.

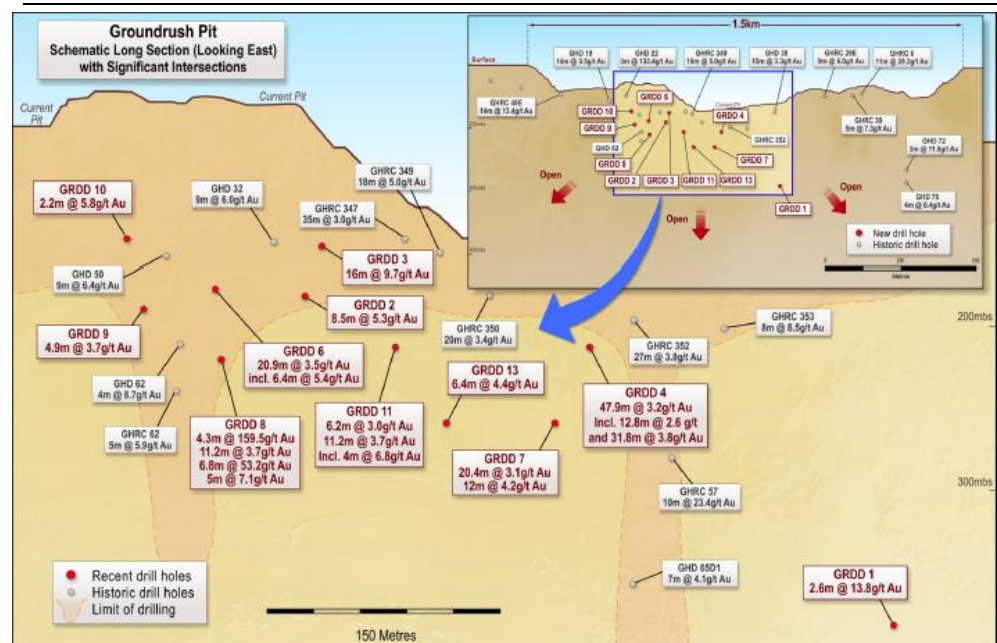
- The ore reserve at Western Tanami provides a ~3 year mine life, while TAM's target production of 150koz at Central implies a reserve mine life of <2 years. Management have advised that a target reserve and/or inventory of at least 4 years (i.e ~600koz) will be in place for the completion of the Feasibility study. We believe this is imminently achievable on the basis of an existing 1.3Moz Measured and Indicated resource already in place.

GROUND RUSH DEPOSIT TAKING SHAPE

Early results at Groundrush look outstanding with the first 2 of 13 holes delivering a 48koz reserve at 4.2g/t and a 203koz resource at 4.1g/t.

- In recent weeks TAM has reported outstanding results from its near-mine exploration drilling at the Groundrush deposit at Central Tanami, delivering a **maiden resource of 203koz at 4.1g/t along with a reserve of 48koz from only 2 of the 13 completed diamond holes**.
- Management have indicated for some time this deposit would deliver the foundation to recommence operations at Central and with only 2 of 13 completed diamond holes included in the March resource modelling, we believe the upside potential from the balance of the 13 holes will deliver significant resources and reserves from both infill and extension drilling of the existing pit and new mineralisation discovered at depth.
- With the drilling program now back on track following 5 months of rain interruptions, we expect a material upgrade to the next resource and reserve given it will include all 13 diamond holes drilled to date, plus a further 7 holes planned. A ramp up in drilling is now planned at Central to continue resource extensions to existing pits and numerous new regional targets. Results from this program will be included in the updated resource and reserve expected in Q3 CY11.
- TAM continues to release high grade drilling results showing wide intercepts of mineralisation from 8 of 13 holes. Recent results include:
 - 6.8m @ 53.2g/t from 239.0m, 5.0m @ 7.1g/t from 273.0m - GRDD8**
 - 47.9m @ 3.2g/t from 243.1m - GRDD4;**
 - 20.9m @ 3.5g/t from 188.5m including 6.4m @ 5.4g/t from 196.6m - GRDD6;**
 - 20.4m @ 3.1g/t Au from 275.3m and 12.0m @ 4.2g/t Au from 307.0m - GRDD7;**
 - 11.2m @ 3.7g/t from 311.0m including 4.0m @ 6.8g/t Au from 311.0m - GRDD11; and**
 - 6.4m @ 4.4g/t from 288.1m - GRDD13.**
- Mineralisation remains open at depth and along the 1.5km strike.

Figure 3: Groundrush Deposit Long Section with historic and recent drill results



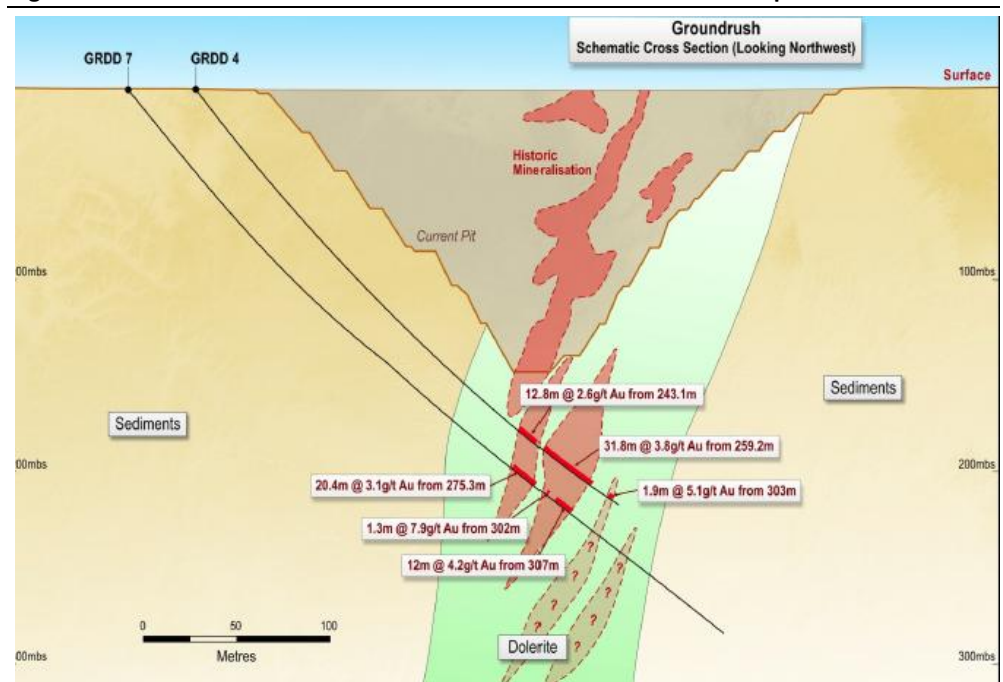
Source: Company

- GRDD2 (8.5m @ 5.3g/t) and GRDD3 (16m @ 9.7g/t) are the only two holes included in the resource and reserve upgrade.

Groundrush remains open along strike and at depth with wide, high grade intersections supporting the foundation for open pit and/or underground operations.

- More impressive in the result above is the **discovery of a new zone of mineralisation for the Groundrush deposit that has been intersected by five diamond holes** (GRDD4, GRDD7, GRDD11, GRDD13) further highlighted in Figure 4 below. Management indicates the strike potential of the new zone could be >200m, with additional holes in plan to test this discovery.
- In particular, wide intersections of 20-30m at depths between 240 – 300m include:
 - 12.8m @ 2.6g/t
 - 31.8m @ 3.8 g/t
 - 20.4m @ 3.1g/t
 - 12m @ 4.2g/t

Figure 4: New Zone of Mineralisation Discovered at the Groundrush Deposit



Source: Company, FSB Research

- The continued success of infill drilling at Groundrush and a discovery of new mineralised zones will see the drilling program expand with an additional diamond rig to be mobilised at Groundrush to expedite the resource and reserve delineation.

WESTERN TANAMI OPERATIONS

- With the plant upgrade from 250ktpa to 350ktpa now complete and adverse impacts from unseasonal wet weather out of the way, operations at the Coyote underground mine and Bald Hill open pit mine are now back running at an annualised 60kozpa production rate. Management anticipate 15koz for the June quarter after April was a record month producing 5,273oz grading 7.4g/t.
- Current 554koz resource is 65% Measured and Indicated providing our estimate for a mine life of 6 years on the basis of the Stage2 capacity upgrade to 500ktpa being implemented in FY12. We forecast capex of \$9m to complete this upgrade.
- Exploration drilling continues under the Coyote mineralised system for extensions at depth along with new regional open pit and underground targets all within trucking distance of the Coyote treatment plant.

Identification of a new mineralised zone demonstrates the long-term potential of Central Tanami to deliver significant high grade ounces.

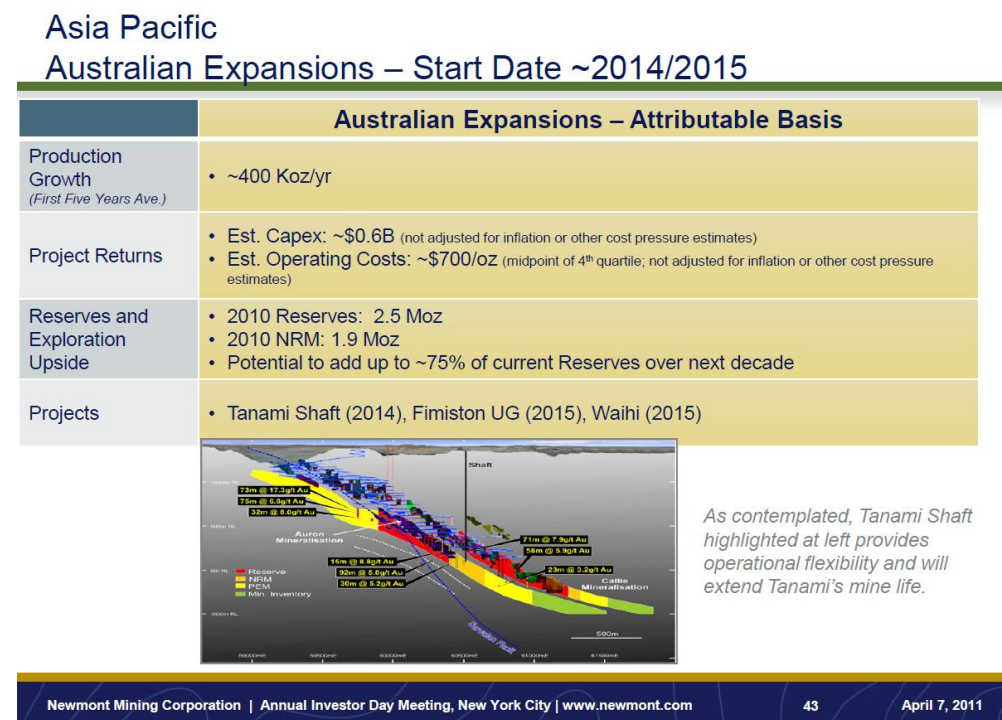
Record gold production in April delivered 5,273oz at 7.4g/t to have Western operations back on track at an annualised 60kozpa production rate.

CENTRAL TANAMI SITUATED IN A WELL-ENDOWED GOLD REGION

**\$600m capex expansion
approved at Newmont's Callie
targeting a 75% increase in
gold reserves.**

- Further to TAM's recent exploration success and resource growth which has further de-risked the regional location of the Western and Central operations, Newmont Mining (NEM.ASX) has recently advised the market of its intention to also grow its production in the region, highlighting the huge potential of the province, including the discovery of a potential 'Callie' style deposit.
- Figure 5 is an extract from a recent company presentation announcing Newmont's production growth in the region including the approval for a \$600m capital expansion at its Callie operations targeting a ~75% increase to its current 2.5Moz Reserve (4.3g/t). Callie is located 100km south-east of the Central Tanami operation and is currently producing 400kozpa.
- Figure 6 also highlights Newmont's announcement of a major new gold discovery 'Oberon' at Tanami, through two deep holes completed (750m) with underground grades in Callie style stratigraphy. Intersections included: 41.7m @ 2.1g/t, 17m @ 3.56g/t, 24m @ 5.9g/t & 1m @ 96.5g/t.
- This discovery is significant given Newmont's previous downplay of the Tanami region's growth potential for exploration following the sale of the Central Tanami Project to TAM. Newmont now view Oberon as "holding exciting promise for the future".
- With the recent success of diamond drilling at Groundrush making a discovery of a new zone of mineralisation and the regional drill targets to be tested in 2H CY11 across Central Tanami, we remain confident of the potential for TAM to make a Callie style discovery.

Figure 5: Newmont Mining – Callie Operations Capital Expenditure



Source: Newmont Mining

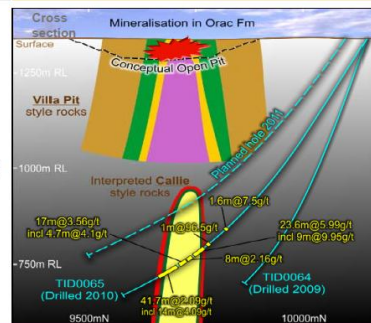
Figure 6: Newmont Mining – Major Gold Discovery in the Tanami Region

Asia Pacific Oberon: A New Discovery at Tanami

Oberon is a new discovery indicating the region is back on the radar for the majors to deliver potential for multi-million ounce deposits at depth.

	Oberon – Attributable Basis
Site Characteristics	<ul style="list-style-type: none"> Two holes with UG grades in Callie stratigraphy
Initial Indications	<ul style="list-style-type: none"> Exciting new exploration space in a perceived mature district
Reserves and Exploration Upside	<ul style="list-style-type: none"> 2010 reserves: None 2010 NRM: None Potential: Orogenic gold deposits

The Oberon target holds exciting promise for the future. At right are recent drill intercepts.



Newmont Mining Corporation | Annual Investor Day Meeting, New York City | www.newmont.com

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April 7, 2011

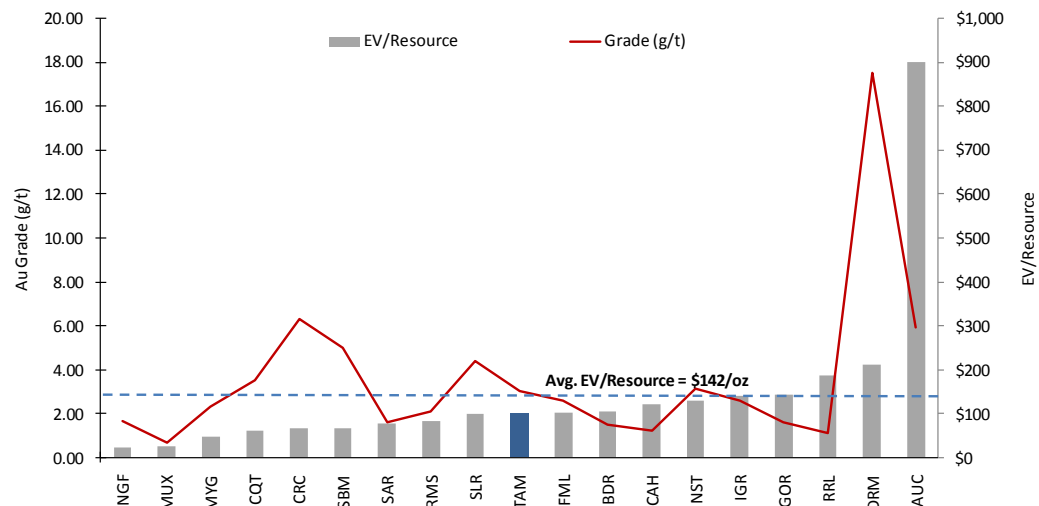
Source: Newmont Mining

- TAM holds significant exploration exposure in the Tanami region with a direct holding of 35,000sqkm of ground across Western and Central with 100% ownership, plus a 25% (fully diluted) interest in ABM Resources (ABU.ASX) with 30,000sqkm of ground in the Tanami-Arunta province.

PEER COMPARISON

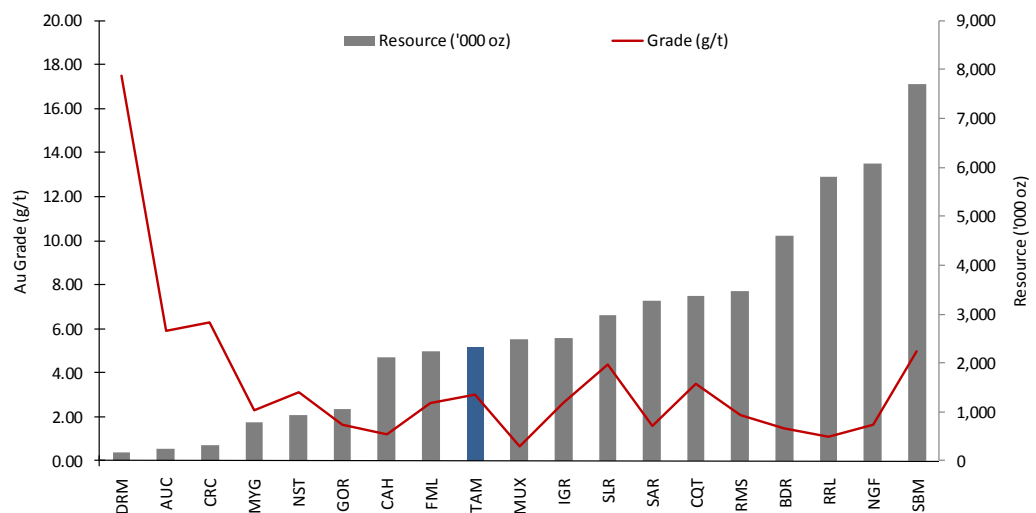
- TAM's current EV/oz resource moves down from \$114/oz to \$101/oz, a discount to the ASX listed gold peer group below.
- In our view, TAM warrants a premium to the direct peer group given existing production at Western and the expected strong growth in production profile when Central Tanami comes on line in FY13.

Figure 7: EV/Resource



Source: FSB Research

Figure 8: Resource and Grade (Equity Interest)



Source: FSB Research

VALUATION AND PRICE TARGET

Risked Discounted Cash Flow (DCF)/Sum of Parts Valuation - \$475m, \$1.82/share

Price Target - \$1.85/share

Our price target of \$1.85 represents upside of 118% to the current share price.

- Our revised TAM risked valuation has increased to \$1.82/share following the maiden reserve and increase in resource at Western and Central and incorporating our updated commodity price deck. Our price target has consequently increased from \$1.60 to \$1.85, in line with our valuation. Our long-term forecasts for AUD is \$0.80 and gold price is US\$1,000/oz.
- We highlight that our valuation of Central remains risked by 20% to account for the finalisation of the Feasibility Study, timing, funding and commissioning risks. We expect the Feasibility Study to be completed in early Q4 CY11 and view the commissioning risk of the refurbished plant to be low given high recoveries achieved by Newmont in past operations.
- We note the valuation of Central is highly sensitive to the LT gold price and assumed grade. At US\$1,200/oz, our valuation increases to \$2.34 (risked) and \$2.67 (unrisked). Should the head grade increase from 3.5g/t to 4.5g/t, our valuation increases to \$2.37 (risked) and \$2.70 (unrisked).
- In respect of near term funding of project capex (forecast >\$50m across Western and Central in FY12), we note that debt facilities will be made available to TAM should equity markets not be conducive to raising capital. Consequently funding risk is minimised.

Figure 9: Valuation Summary

VALUATION SUMMARY	Unrisked (\$m)	P/NPV	Risked (\$m)	Per Share
Central Tanami	268	0.80	214	\$0.82
Western Tanami	124	0.90	111	\$0.43
Tax Losses	150	0.70	105	\$0.40
Exploration	50	1.00	50	\$0.19
ABM Resources (ABU.ASX)	27	1.00	27	\$0.10
Net cash/(debt)	-10	1.00	-10	-\$0.04
Corporate costs	-25	1.00	-25	-\$0.10
TOTAL	583	0.81	472	\$1.81
				Current Price
				\$0.85
				Price target
				\$1.85
				Upside
				118%

Source: FSB Research

RECOMMENDATION

- **We maintain our BUY recommendation and increase our price target to \$1.85/share, 118% above the current share price.**
- Corporate activity amongst the mid-tier gold producers has increased in recent times with the proposed mergers of Catalpa Resources (CAH.ASX) and Conquest Mining (CQT.ASX) along with Focus Minerals (FML.ASX) and Crescent Gold (CRE.ASX). Both transactions are seeking to create large scale (>400kozpa) production profiles and we believe TAM will be on the watchlist of many ASX-listed producers as it progresses on the low-risk development path to 200kozpa.
- TAM offers investors exposure to a producer targeting a four-fold increase in production to 200kozpa in FY14 with plenty of exploration upside. We consider the Tanami region to be well-endowed given the recent exploration success and renewed focus by majors like Newmont Mining.

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