

## **Tanami Gold NL (TAM.ASX, \$0.85/sh, Mkt Cap \$222m) – Maiden 400koz Gold Reserves & Increase in Gold Resources to 2.3Moz.- Initial Thoughts. BUY (PT \$1.60/sh)**

### **Event:**

- TAM has announced an increase in Gold Resources to 2.3Moz and a maiden 400koz Gold Reserve at the Western and Central Tanami projects in Western Australia.

### **Key details:**

- Total Measured, Indicated and Inferred Mineral Resources increase further to 24.0Mt @ 3.0g/t Au for 2.30Moz of contained gold – a 12% increase.
- New 402,200oz Mineral Reserve completed for the Western and Central Tanami Operations.
- 17% increase in Mineral Resources for the Central Tanami Project with updated Measured, Indicated and Inferred Mineral Resources totalling 1.75Mozs or 20.9Mt @ 2.6g/t Au – of which 1.3Moz, or approximately 75%, classified as Measured or Indicated.
- Appointment of Don Harper as Chief Operating Officer to run the existing Western gold operations and develop the Central operations.

### **Analysis:**

- **Maiden 400koz Gold Reserve a positive start:** we are encouraged by the release of TAM's maiden gold reserves for Western (133koz at 5.3 g/t Au) and Central Tanami (221koz at 3.4 g/t Au). There is also a further 48koz available from low-grade (0.9 g/t) stockpiles. Importantly, the maiden reserve is the beginning of a potential high grade and large reserve base for Central to support the restart of mining operations targeted for mid-2012, targeting a rate of 100-120kozpa.
- **Significant Resource and Reserve growth expected follow quickly at Groundrush:** TAM has highlighted that not all of the recently reported holes have been included in this resource/reserve upgrade. In particular, only 2 of 13 holes drilled at the Groundrush deposit have been included in the resource model. (Exclusions include the wide-high grade 4.35m @ 159.5 g/t and 9.5m @ 38.8 g/t). For the two holes included (GRDD2, GRDD3), the result looks outstanding with the delivery of 48.4koz Reserves at 4.2g/t and a 203koz Resource at 4.1g/t.
- **No further rain delays to drilling:** the extended wet season has seen TAM's drilling interrupted over the past 5mths, leading to a delay in completing Central's Feasibility Study. We expect the target reserve profile for Central to be ~400koz, or four years of mine life, before the decision is made for development. A ramp-up in drilling is now underway to continue the Resource to Reserve conversion at Central and Western, while also test numerous new targets at Central and Western.
- **Central Tanami Feasibility Study remains on track for Q4CY11 completion:** we remain encouraged by the success from recent exploration drilling for additional resources as an extension to existing pits and at depth. We expect further continued exploration success to flow in Q2 and Q3 to support the Feasibility Study at Central and the extension to the mine life at the Western operations. Our base case risked valuation for open pit operations at Central is \$161m (\$0.62/sh). Parameters include: 2.6g/t head grade, US\$515 cash cost, 93% recovery, US\$950/oz and EBITDA life-of-mine ~\$60m. Upside to our

valuation is considerable should the Feasibility also include a mine plan which includes near-term underground production.

- **Central Tanami clearly situated in a well-endowed gold region:** Newmont Mining (NEM.ASX) recently announced the Tanami region will again be a focus of reserve growth in its Asia Pacific operations. Two major initiatives that will again bring focus back to the region include:
  - i. Approval for a \$600m capital expansion at its Callie operations targeting a ~75% increase to its current 2.5Moz Reserve. Callie is located 100km south-east of the Central Tanami operation, producing 400kozpa; and
  - ii. A major new gold discovery at Tanami 'Oberon'. Two deep holes (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 is significant given Newmont had previously believed the Tanami to be a mature region for exploration and now view Oberon as "holding exciting promise for the future".
- **Significant exploration exposure in the Tanami region:** TAM has a direct holding of 35,000sqkm of ground across Western and Central with 100% ownership, plus they hold a 25% (fully diluted) interest in ABM Resources (ABU.ASX) with 30,000sqkm of ground in the Tanami-Arunta province.
- **Impressive return on investment:** TAM has now delivered almost 1Moz new Resources in the last 12mths AND 400koz of new Reserves.

#### **Recommendation:**

- **We reiterate our BUY recommendation and our price target of \$1.60/share, 88% above the current share price.**
- We expect further upgrades to Reserves and Resources in Q3CY11, with particular attention coming from the assays still to be received from drilling completed at Groundrush. It could also be 'only a matter of time' before they systematically discover a 'Callie' style multi-million oz deposit, similar to Newmont's recent Oberon discovery.

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