

Tanami Resources NL (TAM.ASX, \$1.06/sh, Mkt Cap \$276m) – June Quarter Delivers Record Gold Production at Western Operations. BUY (PT \$1.85/sh)

Event:

- June 2011 Quarterly Report.

Details:

- Total Company gold Resources increase by 12% to 2.3Moz and Reserves to 0.4Moz.
- Record quarterly gold production of 14,391 ounces from the Western Tanami Operations, lifting full year FY11 gold production to 40,542 ounces.
- Central Tanami Operations deliver exceptional exploration results from resource drilling at Groundrush, Carbine and Pheonix deposits. Progress continues on Feasibility Study due for completion October 2011.

Analysis:

- **Record gold production at Western operations.** Gold production of 14.4koz for the June quarter at Western will deliver a full year FY11 result of 40.5koz. This is slightly ahead of our forecast of 38.2koz, a reflection of an increased rate of underground ore processed from Coyote vs open pit ore from Bald Hill. Cash costs for the quarter were \$807 (incl. royalties) slightly above our full year forecast of \$747/oz. The production grade was 7.0g/t with a recovery of 97.7%. Management remain confident of further opex savings going forward given a number of operating initiatives are now complete targeting increased efficiencies at the Coyote plant and underground mining operations. We also expect an increase in open pit tonnes from Bald Hill to be processed in the September quarter in line with our assumption of 50:50 underground to open pit ore processed. Overall, the June quarter demonstrates the Stage 1 upgrade at the Coyote treatment plant has been a success with recoveries above our target of 95%. We expect improved operating efficiencies should continue to see a reduction in cash costs to our target of US\$763/oz for FY12 and target production of 53koz.
- **Scoping Study at Western underway for a second underground operation.** TAM has announced the start of a Scoping Study to determine viability of a second underground operation to mine a high grade zone beneath the floor of the Kookaburra pit. We expect the results of this study 4QCY11 along with an update on the status of the proposed Stage 2 upgrade to the Coyote treatment plant moving to 500ktpa production capacity.
- **Exploration success and resource definition continues at Central operations.** TAM released outstanding results from the diamond drill program underway at Central. In particular, the Groundrush deposit had 7,392m drilling for 21 holes across 2 rigs. All holes delivered high grade wide intersections of mineralisation from the target zone plus a new zone of mineralisation was uncovered with widths up to 5m and grades up to 15g/t. JORC resources at Central are now 20.9Mt at 2.6g/t. The exploration focus at the Groundrush deposit delivered a Resource of 203koz and an Ore Reserve of 48koz. We note only 2 of 33 drill holes completed at Central had been calculated into the resource estimate highlighting the potential for a significant increase expected in the September 2011 quarter.
- **Feasibility Study at Central to wrap up September Quarter.** Management expect to complete the Feasibility Study for the recommencement of mining operations during the September quarter and release to the market in October. In support of the Feasibility an updated resource estimate and reserve will also be delivered in the September quarter and expect a considerable increase given the large quantity of high grade assay results yet to be included. Our modelling assumes Central will deliver 85koz in FY13 ramping up to +130koz in FY14, setting up TAM as a viable long-term 200koz producer.

- **Funding of development activities continues via debt facility.** While the production of gold operations continues to ramp up at Western, we note TAM has drawn down a further \$10m under its loan facility. Of the \$28m available from the facility the total amount drawn down is now \$23m. Cash on hand at the end of the quarter is \$6.7m. We do not foresee any funding shortfall until the results of the Feasibility Study are released in early 2QFY12. TAM's facility has no hedging requirements delivering 100% upside to stronger gold prices.

Catalysts:

- **Resource & Reserve Upgrade for Central – late 1QFY12.**
- **Results for Feasibility Study at Central – early 2QFY12.**
- **Scoping Study for a Stage 2 expansion at Western Operation – late 2QFY12.**

Recommendation:

- **We continue to rate TAM a BUY with a price target of \$1.85/sh.**

Regards,



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