

18 Jun 2012

TANAMI GOLD NL

Groundrush Resource Increases 39% to 743Koz

Tanami Gold NL ("Tanami", "Company", "TAM") has released a new resource estimate for the Groundrush Deposit, Central Tanami, NT. The updated resource estimate is now **5.136Mt @ 4.5g/t Au for 743Koz gold**, up 39% from the last estimate (September 2011) of 535Koz gold.

The latest resource update increases the confidence in the Groundrush mineralisation with Measured and Indicated resource category ounces up some 37% on the previous estimate. Importantly, Groundrush remains open along strike and at depth (down-plunge and down-dip). Total resources for Central Tanami (excluding surface stockpiles) are now 22.8Mt @ 3.1g/t Au for ~2.24Moz (up from 2.03Moz).

Tanami currently has 3 drill rigs continuing with exploration at Central Tanami; 2 diamond rigs active with infill and extensional drilling at Groundrush and an RC rig is currently focused on follow-up drilling at the Ripcord prospect, located to the south-west of Groundrush. The Company expects to add another diamond rig in late July 2012 and plans to continue with drilling up until December 2012, enabling the next resource update in late CY2012/early CY2013. On the current schedule TAM should release the Central Tanami Feasibility Study in late Q1 CY2013 (before April 2013).

Multiple South-Plunging Zones to Test at Groundrush

Groundrush continues to prove up as a significant mineralised system. The historic open pit at Groundrush produced over 600Koz gold over a four-year period at a good recovered grade of 4.3g/t Au, and with the current resource now exceeding 740Koz @ 4.5g/t Au, highlights strong grade continuity with gold tenor increasing (in parts) at depth. Recent high-grade results from the Southern Deeps target at Groundrush, for example, are yet to be included in the resource estimate, and provide confidence in more significant resource growth to come.

Southern Deeps is developing into a substantial exploration target, and is interpreted to extend between 600-700m down plunge, between 150-200m down-dip from the main Groundrush resource envelop. This zone is modelled to be 15-20m wide providing for a tonnage range of 3.8Mt-8Mt with an expected grade of 4-6g/t Au which implies an exploration target range of 490Koz up to 1.5Moz gold. This zone is the first of many to be drill-tested in the coming months, located within a south-plunging corridor that could contain multiple mineralised repeats.

Central Tanami Feasibility Study Now Due Late Q1 CY2013

The Groundrush Deposit is located ~40km north of the Central Tanami processing infrastructure, which TAM needs to refurbish and upgrade to 1.5mtpa (estimated capex of ~A\$30m). Tanami delayed the release of the Central Tanami Feasibility Study (FS) in preference to further drilling at Groundrush, which should provide the level of detail needed for robust study and more informed decision before committing to mining. The Company now expects to release the FS before April 2013 and has a healthy exploration budget of ~A\$15m for CY2012.

We continue to recommend Tanami Gold as a **Speculative Buy**, with a Valuation of **\$1.60/share** and 12-month Price Target is **\$1.50/share**.

Share Price	\$0.785
Valuation	\$1.60
12Mth Price Target	\$1.50

Brief Business Description:

Gold developer/producer

Hartleys Brief Investment Conclusion

Groundrush adding scale to the Central Tanami Project with 200koz pa targeted from two production centres from early 2014.

Chairman & MD

Arthur Dew (Non-Exec Chairman)

Denis Waddell (Deputy Chairman)

Top Shareholders

Allied Properties Resources Limited	23.5%
Sun Hung Kai Investment Services	12.6%

Company Address

Level 4 50 Colin Street

West Perth WA 6005

Issued Capital 261.0m

- fully diluted 261.1m

Market Cap \$204.9m

- fully diluted \$205.0m

Cash - est \$2.2m

Debt - est \$22.8m

EV \$225.5m

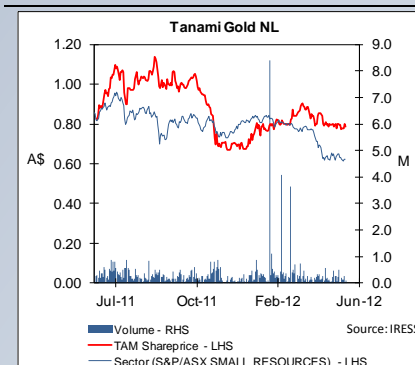
EV/Resource Oz \$80/oz

EV/Reserve Oz \$561/oz

	FY11a	FY12e	FY13e
Prod (koz Au)	41	40	74
Op Cash Flw	11.7	8.9	55.3
NPAT	1.0	-7.5	22.7
CF/Share (cps)	7.9	4.2	14.9
EPS (cps)	0.4	-2.9	8.7
P/E	211	-27	9

Resources (Moz Au) 2.82

Reserves (Moz Au) 0.40



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Tanami Gold NL. A director of Hartleys has a beneficial interest of >1% in TAM shares. See back page for full disclosure.

SUMMARY MODEL

Tanami Gold NL					Share Price				
TAM					\$0.785				
Key Market Information									
Share Price					\$0.785				
Market Capitalisation					\$205m				
52 Week High-Low					\$1.14-\$0.67				
Issued Capital					261.0m				
Issued Capital (fully diluted inc. ITM options)					261.1m				
Options					0.1m@A\$5.11				
Hedging					None				
Yearly Turnover/Volume					\$75.2m/81.0m shares				
Liquidity Measure (Yearly Turnover/Issued Capital)					31%				
Valuation					\$1.60				
12Mth Price Target					\$1.50				
Financial Performance					Unit	FY2011A	FY2012F	FY2013F	FY2014F
Net Revenue					A\$m	59.5	64.4	129.0	322.1
Total Costs					A\$m	(41.1)	(48.3)	(80.8)	(174.4)
EBITDA					A\$m	18.4	16.2	48.1	147.7
Depreciation/Amort					A\$m	(19.6)	(18.4)	(16.2)	(23.2)
EBIT					A\$m	(1.1)	(2.3)	32.0	124.5
Net Interest					A\$m	2.1	(5.2)	(3.4)	(2.4)
Pre-Tax Profit					A\$m	0.97	(7.47)	28.56	122.07
Tax Expense					A\$m	-	-	(5.8)	(36.6)
NPAT					A\$m	0.97	(7.47)	22.74	85.45
Abnormal Items					A\$m	0.1	-	-	-
Reported Profit					A\$m	1.07	(7.47)	22.74	85.45
Financial Position					Unit	FY2011A	FY2012F	FY2013F	FY2014F
Cash					A\$m	6.7	33.8	(10.8)	108.7
Other Current Assets					A\$m	14.0	13.1	16.0	20.7
Total Current Assets					A\$m	20.8	46.9	5.2	129.4
PP&E + Development					A\$m	32.5	39.0	86.3	85.6
Exploration					A\$m	49.5	54.5	61.1	59.5
Investments/other					A\$m	23.8	23.8	23.8	23.8
Tot Non-Curr. Assets					A\$m	105.8	117.4	171.2	169.0
Total Assets					A\$m	126.6	164.3	176.4	298.4
Short Term Borrowings					A\$m	(22.9)	(27.1)	-	-
Other					A\$m	(15.9)	(7.7)	(17.7)	(17.6)
Total Curr. Liabilities					A\$m	(38.8)	(34.8)	(17.7)	(17.6)
Long Term Borrowings					A\$m	(0.1)	(0.1)	(0.1)	(0.1)
Other					A\$m	(4.7)	(4.7)	(10.5)	(47.1)
Total Non-Curr. Liabil.					A\$m	(4.8)	(4.8)	(10.6)	(47.2)
Total Liabilities					A\$m	(43.5)	(39.6)	(28.3)	(64.9)
Net Assets					A\$m	83.1	124.7	148.1	233.5
Cashflow					Unit	FY2011A	FY2012F	FY2013F	FY2014F
Operating Cashflow					A\$m	11.7	8.9	55.3	142.9
Income Tax Paid					A\$m	-	-	-	-
Interest & Other					A\$m	(2.4)	(5.2)	(3.4)	(2.4)
Operating Activities					A\$m	9.4	3.8	51.9	140.5
PP&E + Development					A\$m	(22.9)	(14.0)	(54.0)	(13.0)
Exploration					A\$m	(19.9)	(16.0)	(16.0)	(8.0)
Investments					A\$m	2.9	-	-	-
Investment Activities					A\$m	(39.9)	(30.0)	(70.0)	(21.0)
Repayment of Borrowings					A\$m	(53.3)	(11.0)	(27.1)	-
Proceeds of Borrowings					A\$m	23.3	14.2	-	-
Equity					A\$m	60.7	50.1	0.6	-
Dividends Paid					A\$m	-	-	-	-
Financing Activities					A\$m	30.8	53.3	(26.5)	-
Net Cashflow					A\$m	0.3	27.1	(44.6)	119.5
Ratio Analysis					Unit	FY2011A	FY2012F	FY2013F	FY2014F
Cashflow Per Share					A¢	7.9	4.2	14.9	41.6
Cashflow Multiple					X	10.0	18.7	5.3	1.9
Earnings Per Share					A¢	0.4	(2.9)	8.7	32.7
Price to Earnings Ratio					X	210.7	(27.4)	9.0	2.4
Dividends Per Share					A¢	-	-	-	-
Dividend Yield					%	-	-	-	-
Net Debt / Equity					%	0.2	na	0.1	na
Interest Cover					X	51.9	-	-	-
Return on Equity					%	1%	na	23%	46%
Directors					Company Information				
Arthur Dew (Non-Exec Chairman)					Level 4 50 Colin Street				
Denis Waddell (Deputy Chairman)					West Perth WA 6005				
Lee Seng Hui (Non-Exec Director)					Tel: + 61 8 9212 5999				
Alan Senior (Non-Exec Director)					Fax: + 61 8 9212 5900				
Lyle Procter (Non-Exec Director)					Web: w w w .tanami.com.au				
Top Shareholders					m shares %				
Allied Properties Resources Limited					61.4 23.5%				
Sun Hung Kai Investment Services					32.9 12.6%				
Reserves & Resources					Gold	Mt	g/t Au	Koz	Attrib.
Reserves									
Western Tanami						0.78	5.3	133	133
Central Tanami						2.04	3.4	221	221
<i>Sub Total</i>						2.82	3.9	354	354
Central Tanami Stockpile						1.70	0.9	48	48
Total					Mar-11	4.52	2.8	402	402
Resources									
Western Tanami						3.01	5.4	538	538
Central Tanami						22.82	3.1	2,238	2,238
<i>Sub Total</i>						25.92	3.3	2,776	2,776
Central Tanami Stockpile						1.70	0.9	48	48
Total					Sep-11	27.62	3.2	2,824	2,824
Production Summary					Unit	FY2011A	FY2012F	FY2013F	FY2014F
Mill Throughput					Mtpa	0.2	0.3	0.5	1.7
Payable Gold Metal					000oz	41	40	74	194
Cost per milled tonne					A\$/t	162	152	142	95
EBITDA / tonne milled ore					A\$/t	80	58	94	87
C1: Op Cash Cost = (a)					A\$/oz	904	1051	990	832
(a) + Royalty = (b)					A\$/oz	939	1090	1033	873
C2: (a) + Dep & Am = (c)					A\$/oz	1376	1512	1210	951
(a) + development = (d)					A\$/oz	1936	1801	1940	940
C3: (c) + Royalty					A\$/oz	1411	1551	1253	993
(d) + Royalty					A\$/oz	1971	1840	1983	981
Price Assumptions					Unit	FY2011A	FY2012F	FY2013F	FY2014F
Gold					US\$/oz	1398	1631	1823	1734
Exchange Rate					A\$/US\$	1.00	1.02	1.05	1.05
\$A Gold					A\$/oz	1398	1601	1736	1652
Hedging					Unit	FY2011A	FY2012F	FY2013F	FY2014F
Total Forw ard Sales - Gold					000oz	-	-	-	-
Forw ard Gold Price					\$/oz	-	-	-	-
Sensitivity Analysis					Valuation (\$/s)	NPAT	EPS (¢)	CFPS (¢)	
Base Case					1.60	-7.5	-2.9	4.2	
Exchange Rate +10%					1.23	-13.2	-5.0	2.0	
Exchange Rate -10%					2.05	-0.5	-0.2	6.9	
Gold Price +10%					2.00	-1.2	-0.5	6.6	
Gold Price -10%					1.19	-13.7	-5.3	1.8	
Operating Costs +10%					1.36	-11.7	-4.5	2.6	
Operating Costs -10%					1.84	-3.2	-1.2	5.8	
*N.B. NPAT, EPS, CFPS forecasts are for FY2012									
Share Price Valuation at Spot					Est. \$/share				
Gold: US\$1,618/oz, AUDUSD: 1.011					515.1 1.97				
Share Price Valuation (NAV)					Est. \$m		*Est. \$/share		
Western Tanami (NPV @ 8%)					92.9		0.36		
Central Tanami (NPV @ 14%) - risk weighted					301.1		1.15		
Exploration									
- 160m ABM sh (ABU.asx) @ 4.2+ Opt Val cps					15.4		0.06		
- Other Exploration (WTP & CTP)					40.0		0.15		
Cash					2.2		0.01		
Forwards					0.0		0.00		
Corporate Overheads (NPV @ 3%)					(20.9)		(0.08)		
Total Debt-est.					(22.8)		(0.09)		
Tax Losses					9.4		0.04		
Options & Other Equity					0.7		0.00		
Total					417.9		1.60		
Analyst: Mike Milikan					Last Updated: 18/06/2012				
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Sources: IRESS, Company Information, Hartleys Research									

Interim Resource Upgrade at Groundrush; More to Come

Groundrush is located ~40km north of the Central Tanami mill, accessible via an all-weather sealed haul road

Tanami has released a new resource estimate for the Groundrush Deposit of 5.136Mt @ 4.5g/t Au for 743Koz gold, up 39% from the last estimate (September 2011) of 535Koz gold. The deposit is located ~40km north of the Central Tanami processing infrastructure, which Tanami needs to refurbish and upgrade to 1.5mtpa (for estimated capex of ~A\$30m). The latest resource update increases the confidence in the Groundrush mineralisation with Measured and Indicated resource category ounces up some 37% on the previous estimate. Importantly, Groundrush remains open along strike and at depth (down-plunge and down-dip) and drilling is ongoing. Central Tanami total resources (excluding surface stockpiles) are now 22.8Mt @ 3.1g/t Au for ~2.24Moz (up from 2.03Moz).

New Groundrush resource estimate 5.136Mt @ 4.5g/t Au for 743Koz Au

Fig. 1: Groundrush Mineral Resource Estimate – June 2012

Classification	Tonnes	Grade (g/t Au)	Oz
Measured	472,000	4.3	66,000
Indicated	1,515,000	4.4	212,000
Inferred	3,149,000	4.6	465,000
Total	5,136,000	4.5	743,000

Source: Tanami Gold NL

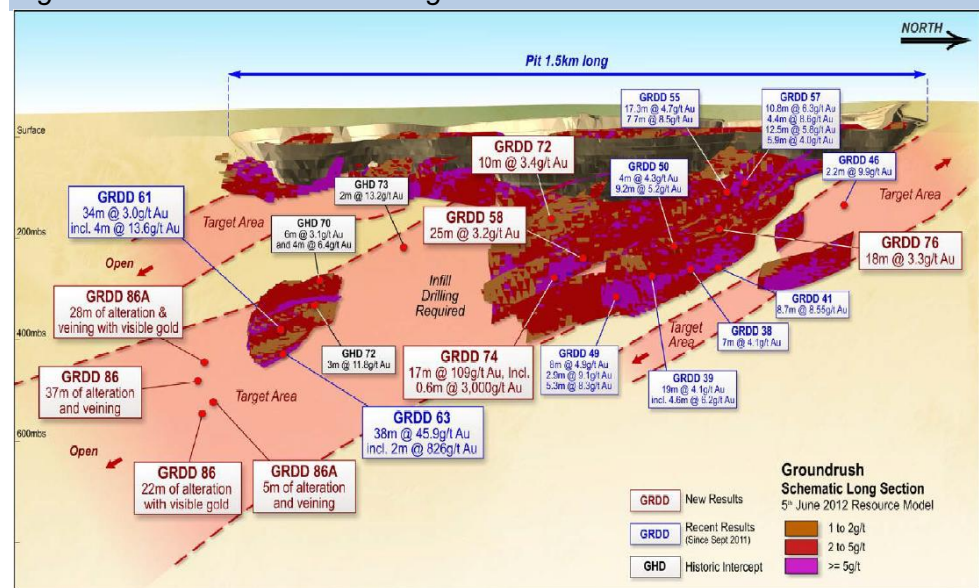
Further drill information at Groundrush will determine the most appropriate locations for decline(s) and the optimal mining method to be employed. Tanami has delayed the release of the Central Tanami FS in preference to further drilling at Groundrush, as the true size of the deposit is yet to be realised and should provide the level of detail needed for an upgradeable FS and more informed decision before committing to mining. Following the refurbishment and upgrade of the Central Tanami plant, the Company is targeting production of 130–150Kozpa within 3 years for combined Group production of ~200Kozpa. We forecast first production from Central Tanami at this stage from late CY2013.

Key risks include managing debt

Key risks for Tanami include managing the debt position (for capital and development requirements), expanding and converting its resource base to reserves from multiple deposits and funding the growth aspirations of the Company through the establishment of a second production centre (Central Tanami). Our key assumption risks for the Central Tanami valuation are detailed in Fig.5.

Historic production of 600Koz at average grade 4.3g/t Au

Fig. 2: Groundrush – Long Section with Latest Drill Results



Assays pending from recently completed drilling; reports of intense alteration and visible gold in the Southern Deeps Target Zone

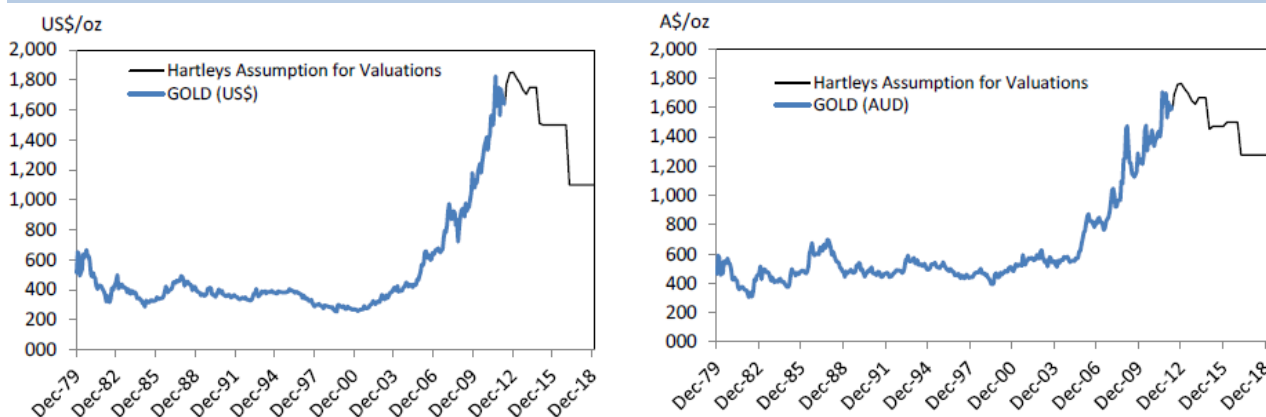
Source: Tanami Gold NL

Fig. 3: Price Target Methodology

Price Target Methodology	Weighting	18/06/2012	12 mth out
NPV base case	65%	\$1.60	\$1.63
NPV base case at spot commodity and fx prices	20%	\$1.97	\$1.97
CTP not developed/commodity prices falls	10%	\$0.45	\$0.45
Net Cash Backing	5%	\$0.00	\$0.00
Risk weighted composite		\$1.48	
12 Months Price Target		\$1.50	
Shareprice - Last		\$0.785	
12 mth total return (% to 12mth target + dividend)		91%	

Source: Hartleys Estimate

Fig. 4: Gold price assumptions for our valuation



Source: Hartleys Estimates, IRESS

Fig. 5: Key assumptions and risks for valuation (\$1.60 per share)

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Groundrush deposit size	Low-Med	Low	Our Central Tanami model only uses the current reserve and resource for Central Tanami, it is yet to factor in the resource growth over time for Groundrush.
Funding for ongoing exploration/DFS	Low-Med	High	TAM's current debt position and relatively low cash position will need to be managed. Allied Group (major shareholder and debt provider) has taken a more active role in the Company (increased board positions) which possibly indicates ongoing funding if so required, will be made available.
Funding for project development	Low-Med	Extreme	Capital markets currently appear difficult. TAM continues with improving the confidence of the Groundrush and other Central Tanami resources which should provide robust FS numbers which should be bankable. With ongoing major shareholder support funding risk for project development may be mitigated somewhat.

Conclusion

At this stage we consider the assumptions have a low to medium risk of not being achieved. The gap between share price and valuation, as well as being market related, may be due to board restructuring, delays in delivering the FS and the uncertainty around development funding.

Source: Hartleys Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Tanami Gold NL for which it has earned fees and continues to earn fees. A director of Hartleys has a beneficial interest in approximately 8 million shares in Tanami.

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