Wednesday, October 21, 2015

# HALLGARTEN & COMPANY

## Corporate Action Update

Christopher Ecclestone
cecclestone@hallgartenco.com

# Tango Mining (TGV.v)

## Strategy: Long

| Key Metrics | |
|---|---|
| Price (CAD) | $ 0.015 |
| 12-Month Target Price (CAD) | $ 0.12 |
| Upside to Target | 700% |
| High-low (12 mth) | $0.01 - $0.06 |
| Market Cap (CAD mn) | $ 2.30 |
| Shares Outstanding (millions) | 153.4 |

| | 2014 | 2015e | 2016e |
|---|---|---|---|
| Consensus EPS | | n/a | n/a |
| Hallgarten EPS | | ($0.001) | $0.015 |
| Actual EPS | ($0.01) | | |
| P/E | n/a | (14.78) | 1.00 |

Wednesday, October 21, 2015

# Tango Mining

## Bulking Up Its Diamond Division

- + Tango is acquiring the important BK11 kimberlite diamond mine in Botswana, that is on care and maintenance, thereby bolstering and geographically diversifying its nascent diamond mining division
- + Price for 90% of BK11 is US$8mn, with agreement also reached to take out a minority holder of the other 10% for US$0.8mn
- + Recently released PEA gives BK11 a NPV of US$40mn and an IRR of 43%
- + Recently reactivated the prolific Oena alluvial diamond mine on the rich Orange River
- + Cashflow and current operations underpinned by four producing coal mines in South Africa
- + Long term coal offtake contracts with Exarro and Glencore
- + With the latest deal, the main producing asset will be in Botswana, a jurisdiction with a very good reputation
- × Investors remain wary of South Africa but that is largely due to labour relations problems and energy supply issues
- × Exposure to Glencore has brought recent stock price weakness

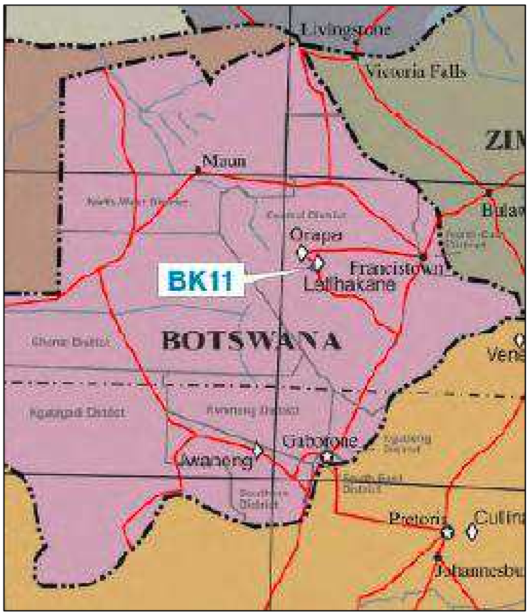
**New Diamond Player in the Making**

Producing diamond companies are an even rarer commodity than the gems they seek. Occasionally there are surges in the number of explorers in the space, but this is usually triggered off by some new diamondiferous region being identified. Tango is different in that it recently joined the ranks of producers with one producing mine, and reactivation of a second one imminent in two of the world's most well-documented diamond mining provinces.

From the company name one would have thought a Latin flavour to the Tango's projects and one would not be wrong as, until October of 2014, the company was solely devoted to a gold exploration project in Nicaragua. However a transformative deal in the last quarter of 2014 resulted in the company acquiring African Star Minerals which brought with it a mix of assets heavily biased towards southern Africa in particular a set of four producing coal assets and the Oena project, an alluvial diamond field that has just returned to production under Tango's guidance. For more information on the assets picked up from the African Star transaction refer to our recently published note on the subject.

The object of this note is to elaborate on a just-announced transaction which should catapult Tango into being a substantial diamond producer both from the asset it already has and from the newly added asset, a diamond mine currently on a care and maintenance basis with a short lead-time to reactivation.

**BK11 – Bulking Up in Botswana**




In recent days Tango has confirmed its purchase of the BK11 kimberlite diamond mine in Botswana. Tango is purchasing the 90% that is owned by Firestone Diamonds (AIM:FDI) while a group of local investors own the remaining 10%.

The BK11 kimberlite mine is located in the Orapa kimberlite field in northern Botswana. It is located approximately 10 kilometres west and 20 kilometres southeast of De Beers' Letlhakane and Orapa mines, respectively, and is within five kilometres of Lucara's Karowe mine. The prospecting license was awarded to Firestone Diamonds in March 2007, followed by a Mining Licence in July 2010.

**The Transaction**

Tango is acquiring the stake owned by Firestone Diamonds in the BK11 Mine. An agreement has been reached with the minority holders on taking them out also.

The basic terms of the deal are the payment by Tango of US$0.35mn to Firestone as a deposit which will be followed by completion of the transaction on or before the 9 April 2016 with the payment of a further US$7.65mn. Tango has full access to the site now that the deposit is paid and it has also been agreed to pay the care & maintenance costs for the mine between now and the final settlement.

Tango has agreed to purchase 100% of all issued and outstanding shares of Firestone Botswana, which owns the existing production facility for the BK11 Mine and 90% of all issued and outstanding shares of Monak, which owns the BK11 Mining Licence. The purchase price for both of these is US$8 million. In the short-term Tango paid US$350,000 (which is non-refundable) on the execution of the Firestone Agreement on the 9 July 2015.

During the period from the execution of the Firestone Agreement to the closing of the transaction, Tango has agreed to pay the care and maintenance fees in respect of the BK11 Mine up to a maximum of US$40,000 per month.

It's anticipated that the closing will occur within nine months from the date of signing of the Firestone Agreement (therefore by 8 April 2016). If by then, the required regulatory approvals from Botswana Competition Authority and from the Minister of Minerals, Energy and Water Affairs in Botswana regarding the transfer of the controlling interest in Monak are not obtained, then the Firestone Closing will be extended to end of April 2016, or a further date by mutual agreement. The Competition Authority granted unconditional approval for the transaction in late September 2015.

If the Regulatory Approvals cannot be obtained then the closing will not occur and the maintenance fees will be returned to Tango together with accrued interest.

Over and above the deal with Firestone, Tango has negotiated an agreement with the minority holder in the mining license, Tema Thuo, to purchase the balance of 10% of the shares in Monak it holds for US$800,000. This will be payable on closing of the deal with Firestone.

In mid-October, it was announced that Tango and Firestone had agreed to extend the Firestone closing to the $9^{th}$ of April 2016. At that time the balance of the outstanding total purchase price of US$8mn (made up of US$7.65mn and the monthly care & maintenance fees) will be payable.

The strategy of Firestone Diamonds (which has a market cap of £67mn) in selling BK11 is to become a mid-tier diamond producer by focusing on its flagship asset, the Liqhobong Diamond Mine, in the Lesotho Highlands. That mine is owned 75% by Firestone and 25% by the Government of the Kingdom of Lesotho. Firestone commenced construction of the Main Treatment Plant and related infrastructure at the Liqhobong Diamond Mine in July 2014 with full production of more 1.1 million carats per annum, targeted for mid-2016.

**BK11 Mine PEA**

In mid-October, Tango published the findings of a PEA prepared by Senlis Consultancy (Private) Limited on the BK11 deposit and mine. It used as its base the NI43-101 Inferred Resource of 780,820 cts announced in August. The plan is predicated upon an open pit mine of 7-years duration, producing an average of 90,000 cts per annum (excluding the final year) at a bottom cut off screen size of 1.6mm.

The total pit is designed to a depth of 143m below surface and the strip ratio will be a low 0.86:1. The anticipated commissioning and start-up date is January 2017, following a one-year autogenous mill manufacture and construction period. The autogenous mill will be retrofitted to the current processing plant and associated infrastructure. The annual treatment rate is estimated at 1.4mn tonnes per annum, after a Year 1 start-up production rate of 1.2mn tonnes. Over the life of mine this should yield total production of an estimated yielding 569,610 cts.

The economic metrics are:

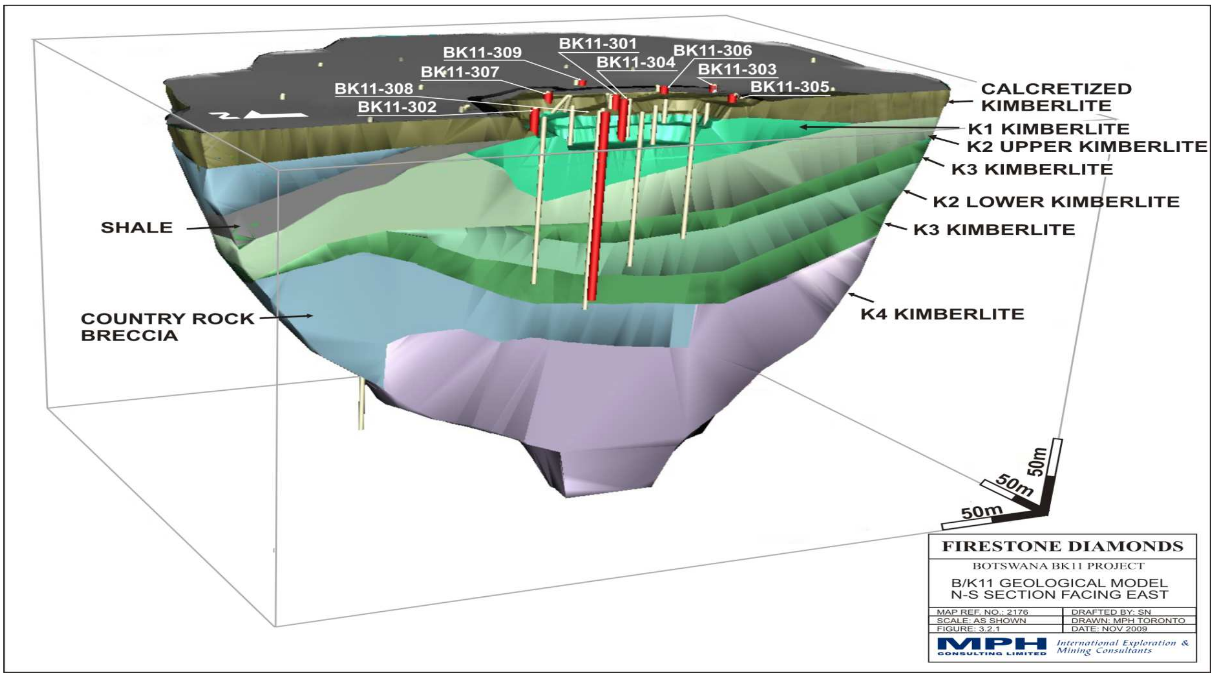
- ✓ Post-tax discounted NPV of US$40mn, excluding acquisition cost (at a 8% discount rate)
- ✓ An IRR of 43%
- ✓ Development CapEx of US$15mn, including the purchase of an autogenous mill and contingencies
- ✓ Diamond valuation experts (as of August 2015) advise a price of US$260/ct, and an upside price of US$285/ct
- ✓ Diamond price escalation of 3% is applied for 2016 and 6% per annum thereafter.
- ✓ Nominal Life of Mine operating cost, before inflation, of US$10.20 per tonne (ore & waste)
- ✓ Revenue of US$20.60/t
- ✓ Gross mine revenues over the LoM of US$188mn

- ✓ Accumulated tax losses of US$45mn to be utilized against future taxable earnings

The majority of licences for the property are still valid and environmental and social impact assessments were conducted previously. The Botswana Competition Authority has granted unconditional approval on the 28 September 2015 for the transaction. The Mining Licence is in place and approval is pending by the Minister of Mines for transfer of ownership.

**Resource**

The BK11 deposit consists of an 8.7 hectare kimberlite at surface. The BK11 kimberlite pipe is located approximately eight kilometres south west of Letlhakane Village. The geology of BK11 kimberlite is well understood, especially since it has been mined for 11 months the data from which was used to update the existing NI43-101. Work by Firestone included nine large diameter drill holes plus 39 delineation core holes totalling 6,200m, have served to provide a reasonable degree of confidence in outlining the pipe's internal geology and morphology to a depth of 300m below surface.




The BK11 kimberlite is sub-cropping under around 10m of overburden (five metres of which were Kalahari sands), and is an ovoid, steeply dipping pipe near surface, with an overall "champagne glass" shape with depth with the flattening occurring at about 200m depth. Very little is known at this time about the "neck" or vent structure.

In late August the company announced a new resource estimate to NI43-101 standards that had been prepared by the same firm, Senlis Consultancy, that also prepared the latest PEA.

The new Inferred Resource was estimated at 17.4mn tonnes, containing a total of 780,820 cts, Of this approximately 9mn tonnes (being Kimberlite Facies K2U, K2L and K3) average 6.8 carats per hundred tonnes for a total of 608,000 cts, with higher-grade areas being identified at 9.8 cpht.

BK11 contains good quality white diamonds in the top 10% of global gem diamond production in terms of value per ct. The recovery of a 1.5 ct high quality Type IIa D colour diamond is significant as it indicates the presence of top quality stones within the BK11 kimberlite, with the potential for large +100 ct stones.

Geophysics and geological remodelling have identified a possible low-grade basalt raft near the centre of the resource that was estimated to be 0.6mn tonnes in size. Historically, this would have diluted feed grade to the plant considering that approximately 1mn tonnes of the deposit was treated up to February 2012 out of a total of 2.7mn tonnes mined. This raft is now almost completely mined away with the pit exposed and developed down to 60 metres.

The resource is based on the evaluation of: 6,392 metres of core drilling and 1,473 metres of large diameter drilling. Sampling and mining produced approximately 19,000 cts that was valued up until February 2012, and analyzed in terms of size frequency distribution.

Tango's Qualified Persons consider the latest resource to be conservative as the majority of kimberlite mined to date was highly diluted and low grade. There is grade control bulk sample evidence for higher-grade kimberlite in the lower levels of the BK11 Mine open pit (e.g. average of 8.5 cpht). They have noted that with more accurate and controlled bulk sampling of the BK11 facies types, in order to collect a representative number of stones and cts per facies type, the current resource category could be upgraded into a higher confidence resource category such as Indicated

**Background to the BK11 shutdown**

That Firestone placed BK11 on care and maintenance since February 2012 is not out of the ordinary. Recent years have seen some diamond mines in Botswana being forced to close because of weak diamond prices and technical challenges. London-based Mantle Diamonds suspended its Lerala mine in August 2012, just a few months after its opening. Even the Damtshaa mine, owned by Debswana, was closed for about two years before it re-opened in 2011.

During its operating period the BK11 mine showed strong potential with some of the key metrics being:

- Stones of >1 ct made up 15% of production (49% of revenue)
- Stones of 0.3 to 1 ct made up 46% of production (35% of revenue)
- Exceptional stones of 7cts & 11 cts sold for US$ 6,000 per ct
- There were stones of >2 cts of high color and high quality

Despite these good results the decision to shut BK11 was made by the previous operator and was attributed to the plant's inability to successfully liberate diamonds. As a smaller player, Firestone could not afford to have several loss-making operations at once and its focus had clearly shifted to the properties that it is now developing.

Firestone had some serious problems with diamond liberation and recoveries. For most of the mine life recoveries were less than 25%. A detailed assessment of the production history of BK11 shows there was a lack of small diamonds, plus there was a deficiency in the large diamonds. The lack of small diamonds would appear to be due to the screen panels not being changed regularly. This can result in a significant loss of diamonds.

The deficiency in the larger diamonds can be attributed to:

- theft
- poor x-ray performance (specifically, those x-ray machines treating larger material)
- diamond lock up

The latter problem is best explained as rock has to be crushed to about 3-4x the maximum diamond size in order to be liberated (or not locked up in the rock). So if the largest diamond is 9mm (as experienced to date at BK11) then rock must be crushed to 27mm.

The initial liberation of diamonds occurs from blasting then comes the crushing. Firestone had not installed the crushing circuit to specifications and for most of the mine life only operated with a primary crushing unit, until near the end of production, and therefore were liberating less than 25% of the diamonds, vs near the end of the mine operations, where a secondary crusher was installed.

Using other kimberlites as an example (and as base cases) the BK11 resource would be exactly as per the resource model and grading at between 9 cpht and 12 cpht (carats per hundred tonnes), but due to operational inefficiencies Firestone were never able to recover diamonds to expectations. Tango's management therefore believes that the historical problems were operational and not mineralogical problem or grade problems. In the opinion of Senlis Consultants, the presence of Type IIa diamonds can indicate the presence of large and exceptional diamonds.

The BK11 project was underinvested, and needed US$15mn to reach optimal recoveries according to management at the time. Given that US$45mn had already been invested the combined total made the return less attractive and the new board and bankers in London did not want to spend the money on the operation, and rather opted to invest in the much larger newer operation in Lesotho.

**The Mine**

Secondary crushing, as well as connection to the electrical power grid, were run to the site in the final months, when the site had already been scheduled for shutdown.

The latest mine plan envisages the construction of an autogenous mill, retrofitted to the processing plant and associated infrastructure. This is due to autogenous milling having been found to increase quantity and quality of diamond liberation while reducing the likelihood of diamond damage. The autogenous mill will also increase the mine capacity. It was previously designed for 200 tph but was only capable of processing at 120 tph, mainly due to material handling problems also related to the under-designing of the plant.

Approximately 2mn tonnes of waste material has already been removed from the pit thus exposing kimberlite. The first part of the reactivation process will be working through the potentially economic stockpiles at BK11 which include (economic tonnage):

- ROM (44,000 tonnes)
- Boulder (20,000 tonnes)
- Oversize (285,000 tonnes)

Over and above this there is around another 3.1mn tonnes of extra stockpile which is deemed to be low-grade.

The annual treatment rate is estimated at 1.4mn tonnes per annum, after a Year 1 start-up production rate of 1.2mn tonnes.

There is a Pilot Plant located on site at BK11. It has an operating capacity of 25 tph and consists of four separate operating sections namely, the pre-treatment section, the DMS section, the final recovery plant and the services section. This pilot plant will be used in future to monitor and control mining plans and waste discard.

The processing flowsheet consists of a two-stream plant with a crushing, screening and scrubbing circuit. Recovery is via a DMS section and X-Ray Flow sort. This plant had a planned head feed rate of around 200 tph and the DMS section at 125 tph. It was previously designed for 200tph but was only capable of processing at 120tph, mainly due to material handling problems also related to the under-designing of the plant.

As can be noted from the photo that follows the pit will need to be dewatered over a few months but the depth of water in-pit is not significant. This water will be used for plant commissioning.

Initial pit design work indicated that approximately 12mn tonnes of kimberlite could be extracted at an average grade of 8 cpht containing circa 900,000 carats. Phase 1 of the BK11 production plant commenced in August 2010.

The Phase 2 plan included secondary and tertiary crushing circuits and connection to the existing electrical power infrastructure, however only a secondary crusher was partially tested over the last two months of operations. The fully commissioned electrical power infrastructure was ready for connection to BK11 when the BK11 operations were placed on care and maintenance.

The establishment costs for Firestone at BK11 were around US$23mn for the pit development and US$21 million for the process plant including all infrastructure, all of which are contained in US$45m in tax credits which can be offset against any profits the BK11 mine makes in the future. Thus Tango is picking this up for a mere fraction of what it cost Firestone to build.

The reboot of the mine is expected to be a relatively inexpensive process with US$15mn being allocated for retrofitting the plant with an autogenous mill, plant refurbishment, power grid integration, mining contractor mobilization and pre-stripping of the pit.

Finally, we might note that the memory of the lacklustre management of this asset by Firestone might be best left behind by christening the project with a new name. BK11 is definitely not a sexy moniker.

**Diamond Trading**

It is important to note a rather seismic shift in the diamond trading scene as Botswana has risen in the ranks of producers. The country has made it a priority to attract regional and international producers to trade their production in Gaborone. To effect this a new tender house has been established as the platform for the trading of rough production.

Hitherto all of Botswana's production was sold through the DTC framework. However, in the past few years, government made clear its wish to sell part of the Debswana production through an independent window and made this a key part of negotiations of a new marketing agreement. The government apparently negotiated a 10-year deal with an independent 10% marketing window that will increase to 20% over the lifespan of the new contract. Media reports estimated the window would unlock rough diamond trading of around US$300-$400mn, giving the government flexibility through pricing and distribution policies to ensure success of the country's beneficiation aspirations.

Firestone owns its own Tender house in Botswana, and this is included in the transaction. The tender house facility is presently being used by Lucara for the sale of their stones, so BK11 stones will have immediate access to tender for their stones as Tango begins production.

**Diamond Demand/Pricing Outlook**

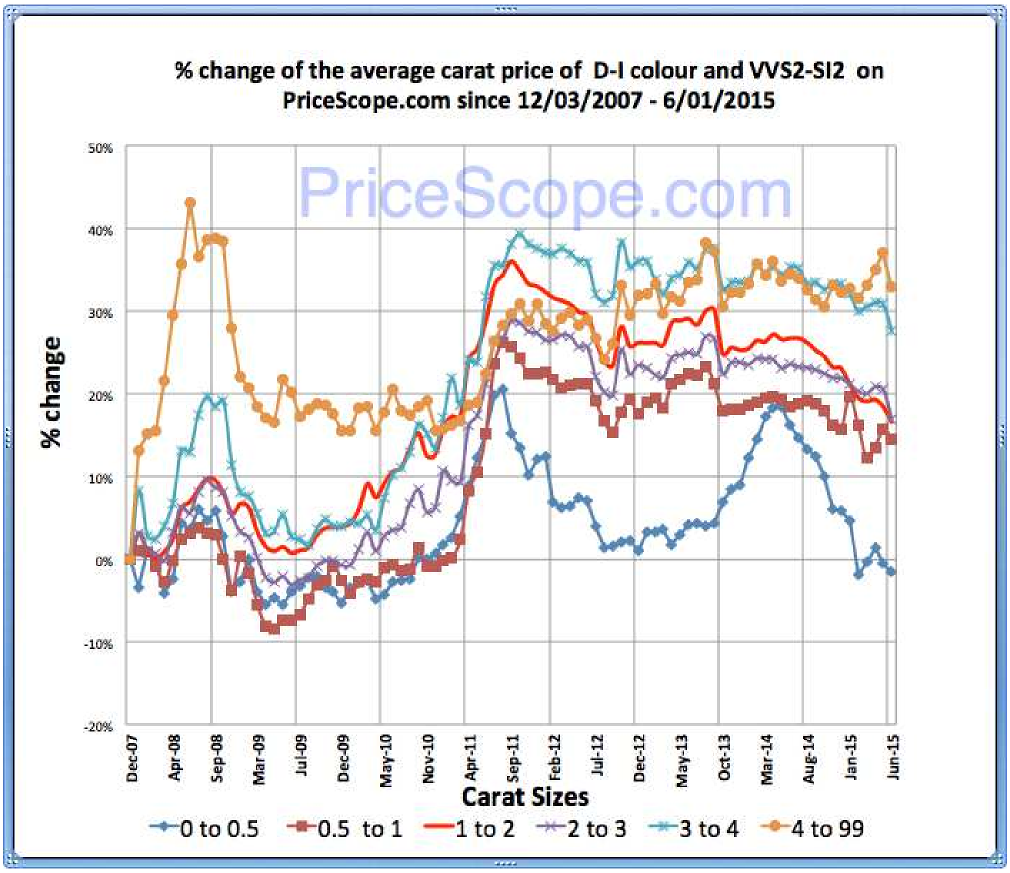
China has been the main engine of demand growth for the diamond industry, with sales expected to double in the next decade, according to Bain & Co., the private equity firm. The latest traumas in the Chinese equity markets only reinforce to the more conservative investors in the Chinese population that the safest place for parking funds is in precious assets, whether it be gold (or silver) and diamonds. Portability and the ability to be concealed during travel are two key pluses for diamonds where it even beats gold.

In recent months jewelers operating in China have been contending with the backwash from the anti-corruption campaign, that has dented sales of luxury goods, including premium cognac and high-end watches.

In a report by Bloomberg on the topic, it quoted Bruce Cleaver, head of strategy and corporate affairs at De Beers as saying "Patterns of buying by Chinese consumers are changing very fast. They travel more, and they buy a tremendous amount more than they used to outside of China." In many ways diamonds are a good example of a luxury product with potential for non-conspicuous consumption, being much easier to hide in times than a sports car or exotic watches or handbags.

Diamond prices are fair at this time and with production of rough diamonds rising at a modest 2% per annum between now and 2024 combined with surging demand from China there is a good supply/demand scenario. De Beers remain the guiding hand of the industry and have a very substantial vested interest in ensuring orderly markets.

The chart below shows prices for the lowest grades have not changed significantly since 2007 but the best grades have performed well and held up well.



Source: PriceScope

**The Financial Model**

The latest PEA gives us some idea of how the volumes mined might evolve. From this we have created the following estimates:

| Metrics | FY17 | FY18 | FY19 |
|---|---|---|---|
| Tonnes Mined | 612,500 | 1,312,000 | 1,400,000 |
| Carats processed | 45,000 | 77,000 | 90,000 |
| Price per Carat (US$) | $ 212 | $ 235 | $ 248 |

This produces BK11 cashflows which feed into an expanded version of the earnings model from the research note we published at the time that production kickstarted at Oena.

**Tango Mining**

FY ending August - millions of CAD

| | FY17e | FY16e | FY15e | 3Q15 | 2Q15 | 1Q15 | FY14 | 4Q14 | 3Q14 | 2Q14 | 1Q14 | FY13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue | 31.06 | 17.94 | 13.24 | 3.44 | 3.463 | 3.38 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Coal Assets | 13.91 | 13.64 | 13.24 | 3.44 | 3.463 | 3.38 | | | | | | |
| Oena | 5.70 | 4.30 | 0.00 | | | | | | | | | |
| BK11 | 11.45 | 0.00 | | | | | | | | | | |
| Cost of Revenue, Total | 16.80 | 10.30 | 9.25 | | 2.838 | 1.04 | - | - | - | - | - | - |
| Gross Profit | 14.26 | 7.64 | 3.99 | | 0.625 | 2.34 | - | - | - | - | - | - |
| Selling/General/Admin | 5.65 | 4.00 | 3.34 | | 0.37 | 2.28 | 1.19 | 0.22 | 0.26 | 0.26 | 0.44 | 1.50 |
| Exploration | 0.23 | 0.19 | 0.02 | | 0.005 | 0.01 | 0.09 | -0.01 | 0.00 | -0.01 | 0.11 | 0.93 |
| Depreciation/Amortisation | 1.78 | 0.83 | 0.24 | 0.054 | 0.048 | 0.056 | 0.02 | 0.00 | 0.00 | 0.01 | 0.00 | 0.02 |
| Other Operating Expenses | | | 0.745 | 0.69 | | 0.26 | - | - | - | - | - | -0.06 |
| Total Operating Expense | 24.46 | 15.32 | 13.60 | 5.11 | 3.261 | 3.65 | 1.31 | 0.22 | 0.26 | 0.26 | 0.56 | 2.39 |
| Operating Income | 6.60 | 2.62 | -0.36 | -1.66 | 0.19 | -0.27 | -1.31 | -0.22 | -0.26 | -0.26 | -0.56 | -2.39 |
| Financing Costs | 0.90 | 0.18 | 0.02 | 0.002 | 0.005 | | | | | | | |
| Income Before Tax | 5.70 | 2.44 | -0.38 | -1.66 | 0.184 | -0.26 | -1.36 | -0.24 | -0.27 | -0.26 | -0.59 | -2.66 |
| Tax | | | -0.10 | 0.24 | -0.19 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Income After Tax | 5.70 | 2.44 | -0.28 | -1.42 | -0.01 | -0.26 | -1.36 | -0.24 | -0.27 | -0.26 | -0.59 | -2.66 |
| Minority Interest | | | -0.13 | -0.35 | 0.24 | -0.06 | - | - | - | - | - | - |
| Net Income After Minorities | 5.70 | 2.44 | -0.15 | -1.08 | -0.01 | -0.32 | -1.36 | -0.24 | -0.27 | -0.26 | -0.59 | -2.66 |
| Weighted Average Shares | 162.00 | 162.00 | 148.80 | 153.43 | 149.26 | 148.18 | 95.33 | 98.49 | 98.45 | 98.45 | 59.12 | 59.12 |
| EPS | 0.04 | 0.02 | -0.001 | -0.01 | 0.00 | 0.00 | -0.01 | 0.00 | 0.00 | 0.00 | -0.01 | -0.05 |

With BK11 not scheduled to start production until January 2017, that implies that FY17 earnings will have a six month contribution from the new mine. Thus FY16, will be a pure reflection of the contribution from Oena, which shall be working for the entire period, and the coal income streams.

Some eleven million shares have returned to Treasury as a result of the recent board departures and this shall result in a meaningful reduction in shares on issue. We have presumed a share issuance at some time during FY16 resulting in a net 14mn extra shares on issue.

It is very important to note that the Botswana operations had an approximate tax loss as at 30 June 2013 of BWP399 million (around US$45 million). This tax loss represents a benefit that can be offset against future taxable income generated by Tango in-country and the country allows unlimited carry-forward of tax losses.

**Personnel Line-Up**

Some changes have gone through since our last research note on the company. In mid-October the company appointed a new COO in the form of **Devin McKay**, a veteran diamond mining engineer. He is a South African-educated metallurgist with more than 25 years of experience that has included positions such as Senior Process Engineer with De Beers Group Mining, Principal Metallurgist for Gem Diamonds and Technical Director for CENTAR Limited. Mr. McKay is an industry leading expert in reduction of gem breakage, mine planning and processing facility management having done so on large-scale projects throughout southern Africa and across the globe.

With the BK11 purchase there have been other line-up changes with a board clean-out. Marco Moller has departed as CEO while two directors, Marc Bamber and Ian Mann have also departed. This represents a clean break with the African Star-era.

**Botswana as a Mining Destination**

Obviously, from the history of these projects, it is clear that Botswana has been a gold mining destination for nigh on a millennium. Diamonds though are obviously the mineral product the country is known best for these days and its biggest money spinner.

As a mining destination, most surveys rank the country as the best mining jurisdiction in Africa and in one survey it is ranked 7$^{th}$ best mining country globally. The obvious advantages are the political stability (in a notoriously unstable continent and legal stability with English Law as the basis for the system.

On the economic front, there has been strong GDP growth in recent years, the country has an AA credit rating, while on the corporate front, the corporate tax rate can be as low as 22%, there is a 10% royalty on diamond sales and there are no exchange controls. However in recent weeks, the government has responded to tough times in the mining sector by allowing them to defer the payment of mineral royalties. Speaking at the thirteenth Botswana Resource Sector conference the Minerals, Energy and Water Resources Minister Onkokame Kitso Mokaila said the government was applying this short-term relief and would continue to assist the mining industry on a case-by-case basis for mutual benefit.

As far as diamonds are concerned Botswana is the world's largest producer by value with annual sales of over US$3bn. Currently, the largest diamond miners in the country are Debswana (partly owned by De Beers) and Lucara Diamond Corp (LUC.to). The country has a 10% royalty on precious stones, which is calculated on gross market value at the mine gate.

**Risks**

Unlike many miners that buy an asset first and then ponder how to finance it, Tango preferred to put its financing ducks in a row before closing. This effectively removes financing risk, which is the biggest pitfall these days.

The specific risks for this project, once the BK11 purchase is closed, will be:

- That grades do not reach expectations
- That diamond prices suffer a bout of weakness
- Problems with the coal mining operations (e.g. labour issues)
- Pricing challenges after the expiry of the three-year offtakes on the coal output

The first issue is a real unknown. The BK11 project was clearly underinvested and not tightly managed the first go around and this is scheduled to be remedied. Time will tell.

Since 2011, even with the recent drop in prices, diamond prices are net up approximately 15% overall. They have outperformed most major commodities and shown significant price resistance.

The coal processing operations have good labour relations at the moment. Pricing of coal is currently weak giving hope that prices will be back on an upcycle by the time contracts are up for renewal. Moreover, Tango will no longer be so concentrated upon coal by that time. A further risk is that the coal offtakes are with Exarro and Glencore. There are no questions over the former but the travails of the latter have clearly been the reasons for the sudden stock weakness in recent weeks at Tango despite the good news from the PEA.

**Conclusion**

Tango, with its recent deals, has the potential to ride the improved sentiment towards the African continent in mining circles. The first move into South Africa was a bargain buy which brought it cashflow from coal and diamond exposure at Oena. With the latest deal it has entered Botswana with a proven mine picked up for a very attractive price. Botswana, in particular, has come to be recognized as a rock of stability in a sea of fickle jurisdictions. In line with the adage that nothing succeeds like success investors have gravitated to the country because of the good experience that others have had in the country. The contrast with neighbouring Zambia could not be starker.

Tango Mining is on a fast track of transformation and in our opinion is pushing the right buttons (well, pushing the same button three times) with production, production and production. This is the mantra of our times. In relatively short order the company has changed from a disparate (geographically and product-wise) company, with one producing asset, into one with a focus on southern Africa and six producing mines, with its main focus being diamonds (with coal as a cashcow).

A welcome move would be to have Tango list on the London AIM market, which better appreciates diamonds and far better appreciates the attractions of mining in Africa.

The stock price has been bumping along the bottom of late with the occasional spike up and down. From the recent high the stock has to merely double to reach our target, while from the recent low it must rise 1,000%. A higher profile should remedy these liquidity blips and improve the trading environment.

Our strategy call on Tango Mining is **Long.** In light of the BK11 transactions potential to add significantly to earnings from 2017 onwards we reiterate our target price for the next 12-months of 12 cts.

## Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Hallgarten's Equity Research rating system consists of LONG, SHORT and NEUTRAL recommendations. LONG suggests capital appreciation to our target price during the next twelve months, while SHORT suggests capital depreciation to our target price during the next twelve months. NEUTRAL denotes a stock that is not likely to provide outstanding performance in either direction during the next twelve months, or it is a stock that we do not wish to place a rating on at the present time. Information contained herein is based on sources that we believe to be reliable, but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or as a solicitation to buy securities.

Hallgarten & Company or persons associated do not own securities of the securities described herein and may not make purchases or sales within one month, before or after, the publication of this report. Hallgarten policy does not permit any analyst to own shares in any company that he/she covers. Additional information is available upon request.

Hallgarten & Company acts as a strategic consultant to Tango Mining and as such is compensated for those services, but does not hold any stock in the company not has the right to hold any stock in the future.



**Web access at:**

Research: [www.hallgartenco.com](http://www.hallgartenco.com)

60 Madison Ave, 6th Floor, New York, NY, 10010