

10 October 2014

ASX CODE: TAR

Speculative Buy

Capital Structure

Sector	Materials
Share Price (A\$)	0.006
Fully Paid Ordinary Shares (m)	358.3
Options (m)	61.3
Market Capitalisation (undil) (A\$m)	2.15
Share Price Year H-L (A\$)	0.025-0.004
Est. Cash (A\$m)	1.0

Directors

Frank Terranova	Chairman
Bernard Aylward	MD
Myles Campion	Non-Exec Dir.
Dan Smith	Non-Exec Dir, Joint Co Sec

Major Shareholders

N&J Mitchell Holdings	15.7%
Tietto Minerals	14.0%
Mr Bernard Aylward	12.2%
Ascent Capital	6.7%



INITIATION OF COVERAGE

Taruga Gold Limited

Cheap West African Explorer Leveraged to Exploration Success

Sizeable, High Quality Projects

- Taruga is a junior gold explorer with a number of early stage projects located in West Africa covering +4,000km². The projects are in pro-mining jurisdictions of Cote d'Ivoire, Niger and Mali, situated on the prospective Birimian Greenstone belts, and are considered highly prospective for large gold deposits.
- Whilst the projects are at early stages of exploration, the vast majority have demonstrated degrees of gold mineralisation including sizeable geochemical anomalies, high grade trench results, and high grade drill results.

Drilling Soon

- In Mali, at the Nangalasso project, previous wide-spaced drilling intersected 1m at 7.8g/t gold and 3m at 7.84g/t gold. In addition, trenching returned 7m at 4.3g/t gold. The company plans to follow up these significant results with aircore drilling at the end of the wet season towards the end of October.
- At the Kossa project in Niger, reverse circulation drilling is planned to follow up a previous drill intersection of 22m at 2.0g/t gold. In addition, the company is investigating the potential for large scale copper-gold-molybdenum porphyry targets

Just Above Cash Backing

- With a market capitalisation of just c.\$2.1m and an enterprise value of c.\$1.1m, we see considerable upside for the company and little downside, given the pending news flow once exploration commences.

Price Catalyst

- We see price catalysts primarily relating to the pending drilling programs, and to a lesser degree trenching results. We also expect that any indications of mineralisation associated with the porphyry systems at Kossa to be viewed favourably.

Action and Recommendation

- RM Research is favourably disposed to the quality of Taruga's projects. Whilst early stage, we see considerable exploration upside across all projects.
- However, we do recognise that the Company will attract somewhat of a discount due to perceived sovereign risk concerns. Having said that, with such a low market capitalisation, the Company is highly leveraged to exploration success and we see the risk/return trade-off as very favourable.
- With the company actively progressing exploration on a range of fronts, including pending drilling programs at the Nangalasso and SLAM projects, **RM Research** expects that any positive results should lead to share price appreciation. Consequently, we initiate coverage of Taruga Gold Limited as a **Speculative Buy**.

Large ground holding in prospective parts of West Africa

Figure 1: Taruga Operating Countries Locations

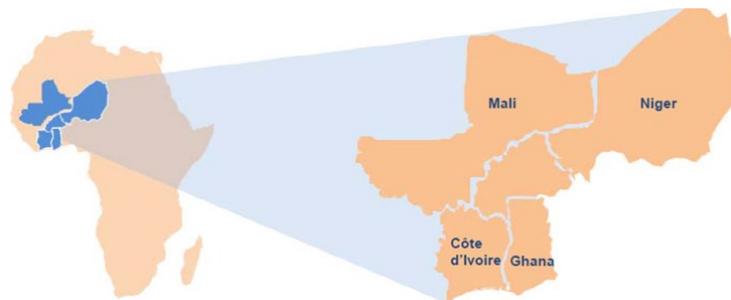
(Source: Company Presentation, June 2014)

COMPANY OVERVIEW

Introduction

Taruga Gold Limited (“Company”, “Taruga”) is an ASX listed [Ticker: TAR] junior gold explorer focusing on West Africa. The Company has number of exploration projects that cover almost 4,000km². The projects are located in Niger, Mali and Côte d’Ivoire, focusing on prospective Birimian greenstone geology.

The Birimian greenstone belts in West Africa host a number of world class gold deposits and the region is considered to be one of the world’s best gold districts.



The main projects are:

- The Nangalasso, SLAM and Diendo Projects in southern Mali,
- Four granted concessions in Côte d’Ivoire plus three applications, and
- The Kossa Project, covering 970km² in northwest Niger.

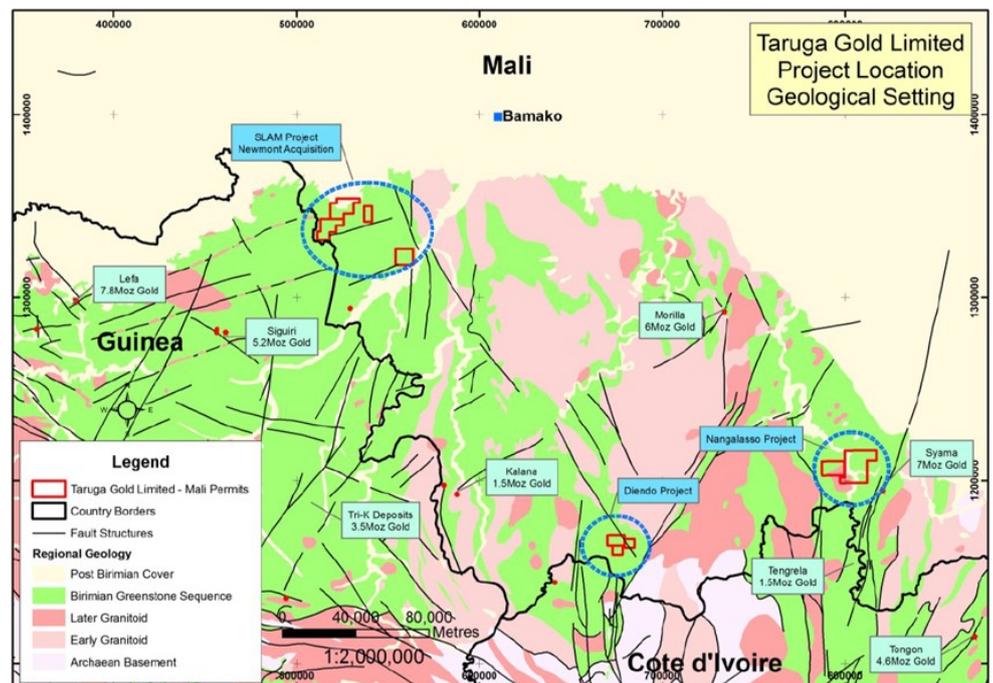
Asset Overview

Mali Projects

Taruga has three projects in southern Mali – Nangalasso, SLAM, and Diendo, covering c.830km². Of the three, Nangalasso is the most advanced having had reconnaissance drilling and trenching which have returned very encouraging assays to date.

Figure 2: Mali Projects, with geology and regional deposits of significance.

(Source: Taruga Gold Limited Quarterly Report – June 2014, 1st August 2014)



Nangalasso covers 345km² and is located 30km from Resolute's Syama

Figure 3: Nangalasso Project Drilling and Trenching

(Source: Taruga Gold Limited Quarterly Report – June 2014, 1st August 2014)

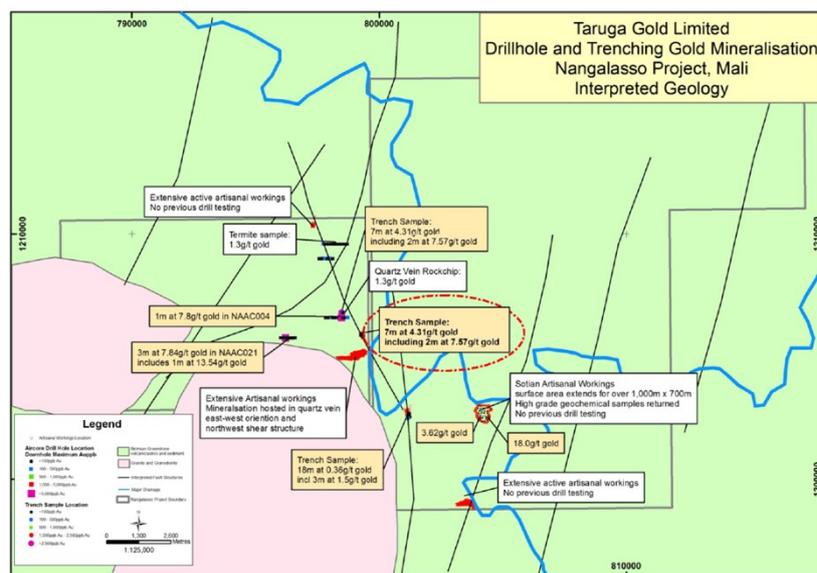
Good early stage exploration results from trenching, drilling and soil geochemistry

Nangalasso

The Nangalasso Project covers 345km². Taruga has option agreements over the two granted concessions (Nangalasso and Sotian). The option agreements give Taruga exclusive access to the ground for exploration purposes as well as grant the right to purchase 100% of the concessions for an agreed amount.

The project was acquired in July 2013, and is located just 30km from the 7Moz Syama gold deposit, currently being mined by Resolute Mining Ltd.

Gold anomalism within the project is typically associated with major structures and the granite pressure margin. Whilst the gold anomalism is extensive at +10km long, the project has had very limited drill testing.



Work to date by Taruga has included geochemical sampling, trenching, reconnaissance drilling and mapping. Highlights include:

- **Reconnaissance trench sampling** returned 7m at 4.3g/t gold. Within this, vertical sampling returned assays up to 2.9g/t gold from surface. Geological mapping highlighted a wide zone of quartz veining and strong alteration within sediments in close proximity to the granite/sediment contact. Taruga sees this zone as highly prospective for mineralisation where structures splay out from the granite intrusive, forming a pressure shadow.
- **Wide spaced reconnaissance aircore drilling** on lines +2km apart targeting surface geochemical anomalies returned promising intersections including:
 - ⇒ 1m @ 7.8g/t gold in drill hole NAAC004,
 - ⇒ 3m @ 7.84g/t gold in drill hole NAAC021, incl. 1m @ 13.5g/t gold from 16m
- **Field reconnaissance and sampling** over 1,000m x 700m containing extensive artisanal workings returned up to 18.0g/t gold, 3.6g/t gold and 3.54g/t gold. This area has had no previous drill testing. Taruga believes the artisanal workings in the Sotian concession are targeting a gravel horizon interpreted to be at the base of transported cover. Some workings have also targeted bedrock mineralisation via a zone of small shafts. Mining in the shafts is focussing on residual saprolite that may indicate a bedrock source for the mineralisation and requires follow up investigation by the Company.

Follow up drilling planned for the end of the wet season

High grades in historic geochem sampling

Figure 4: SLAM Project concessions and location of geochemical anomalies.

(Source: Taruga Gold Limited Quarterly Report – June 2014, 1st August 2014)

Planned work

Drilling is planned to follow-up the high grade gold intersections from the previous regional drilling that remains open both along strike and at depth. First pass reconnaissance is also planned to test the extensive artisanal workings and high grade surface geochemical samples. In addition, Taruga plans to drill the geological structures identified in the surface mapping and trenching that outlined the large scale structure associated with the gold anomalism

Aside from the drilling, ongoing geological mapping and geochemical sampling is aimed at identifying other targets for drill testing.

SLAM Project, Mali

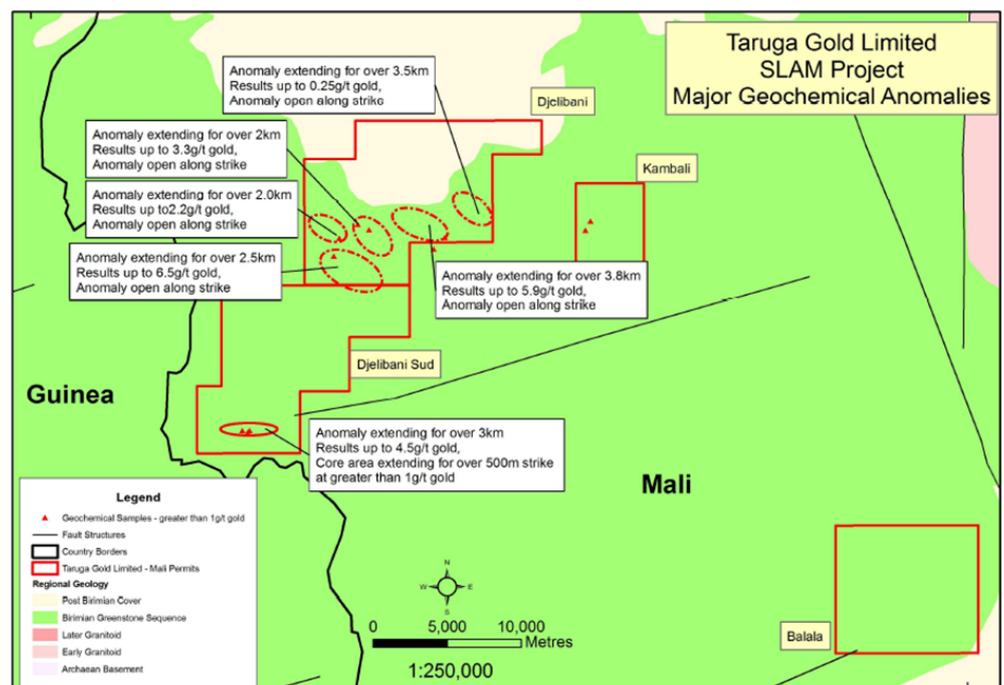
Taruga acquired 100% of the SLAM Project in November 2013 from Newmont Ventures Limited (“Newmont”). The project is located in southern Mali and covers +350km² and consists of option agreements with local landowners providing access over four granted concessions, Djelibani, Djelibani Sud, Balala and Kambali.

The agreements give Taruga exclusive exploration access with payment of an annual fee. In addition, Taruga has the right to purchase 100% of the concession for an agreed amount.

Whilst the project is at a relatively early stage of exploration, Taruga considers the project to be highly prospective. Initial geochemical sampling by Newmont defined a number of highly anomalous gold zones that require drill testing. The anomalies had up to 6.4g/t gold with multiple +1g/t gold samples.

There is also artisanal mining in the area, highlighting the good prospective nature of the geology and gold mineralisation in structures.

Geologically, the project is located in the highly prospective margin of the Siguiri Basin which hosts a number of major gold deposits including the 5.2Moz Siguiri (AngloGold Ashanti), the 7.8Moz Lefa (NordGold) and 4Moz Tri-K (Avocet).



Work planned

The Company has ongoing geological mapping and field reconnaissance on the project. In addition, the analysis and interpretation of the geochemical anomalies generated by Newmont continues.

Other work planned for the SLAM project includes first pass reconnaissance drilling focussing in and around the artisanal workings and geochemical anomalies.

Diendo Project

The Diendo project consists of four exploration licences that cover 206km². The project is situated c.30km south of the 0.59Moz gold Tiekoumala resource, owned by TSX-V listed Legend Gold Corp.

The project is at a significantly earlier stage than Nangalasso, with no aircore drilling completed to date.

Work has primarily involved surface geochemical sampling and 819 auger holes that have identified a number of gold anomalies.

These anomalies appear to be coincident with a 15km structural corridor interpreted by Taruga.

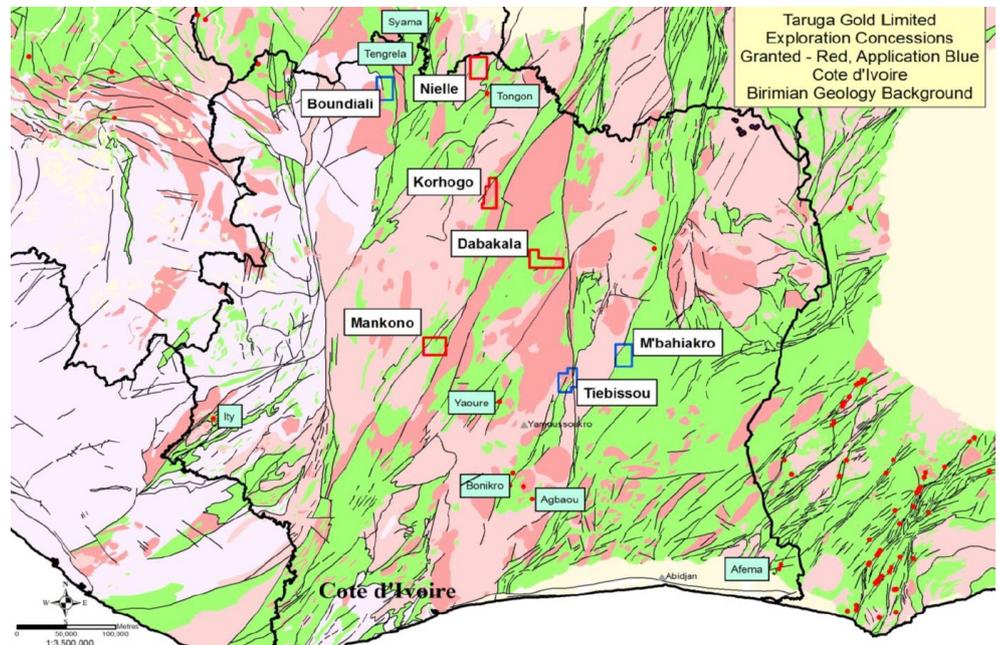
Whilst Taruga recognises the requirements for follow up work, Diendo currently ranks behind the other projects, and is therefore lower priority.

Cote d'Ivoire

In the Cote D'Ivoire, Taruga has four granted concessions, and three licence applications. The granted concession are Mangkono, Dabakala, Korhogo, and Nielle. All concessions cover 400km² each, and overlay Birimian greenstone with major geological structures and have extensive artisanal workings

Figure 5: Côte d'Ivoire Project locations with geology

(Source: Company Presentation, September 2014)



The Company considers the Mangkono project to be highly prospective for gold mineralisation given the geology, structures, and presence of artisanal workings. The +2Moz Bonikro gold mine operated by Newcrest, is located 70km to the south of Mangkono. Taruga believes that the geological setting of the Bonikro mineralisation is of similar nature to the Mangkono geology.

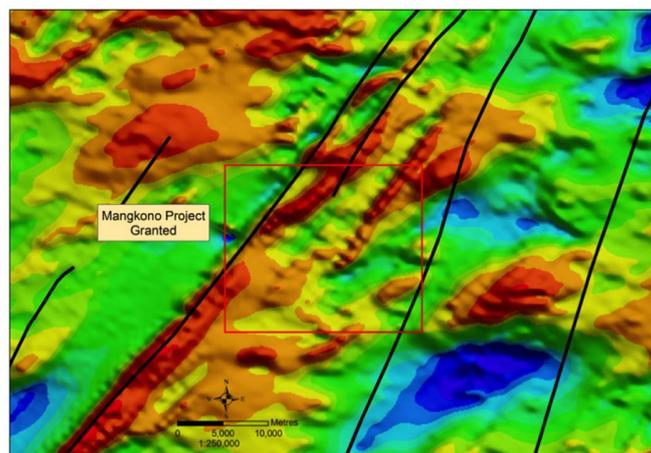
However, the project is at a very early stage with minimal previous work. Consequently, work planned includes first pass exploration of geological mapping, rock-chip and soil sampling over the entire concession with a view to delineating priority areas for follow up drilling. Work is due to commence at the end of the wet season.

We understand that due to good in-country management with strong local relationships, has enabled the consistent granting of licences in a timely manner. The company has indicated that it is currently assessing opportunities for Joint Ventures on some of these concessions to accelerate exploration, as well as continuing work on 100% owned licences.

Promising geology, though no groundwork undertaken to date

Figure 6: Mangkono Project, with aeromagnetics and major structures.

(Source: Taruga Gold Website).



Kossa interpreted to be the same geology as the nearby 5Moz Essakane deposit

Good early stage drill results

Kossa Project, Niger

The Kossa Project is located in northwest Niger, adjacent to the Burkina Faso border, and covers 970km². The project consists of two granted licences that are located on the prospective Goroul Belt of Birimian Greenstone rocks. Kossa is c.15km east of IAMGOLD's 5Moz Essakane Gold Mine and is considered to have the same geological sequence and structural setting as Essakane.

Large gold anomalies

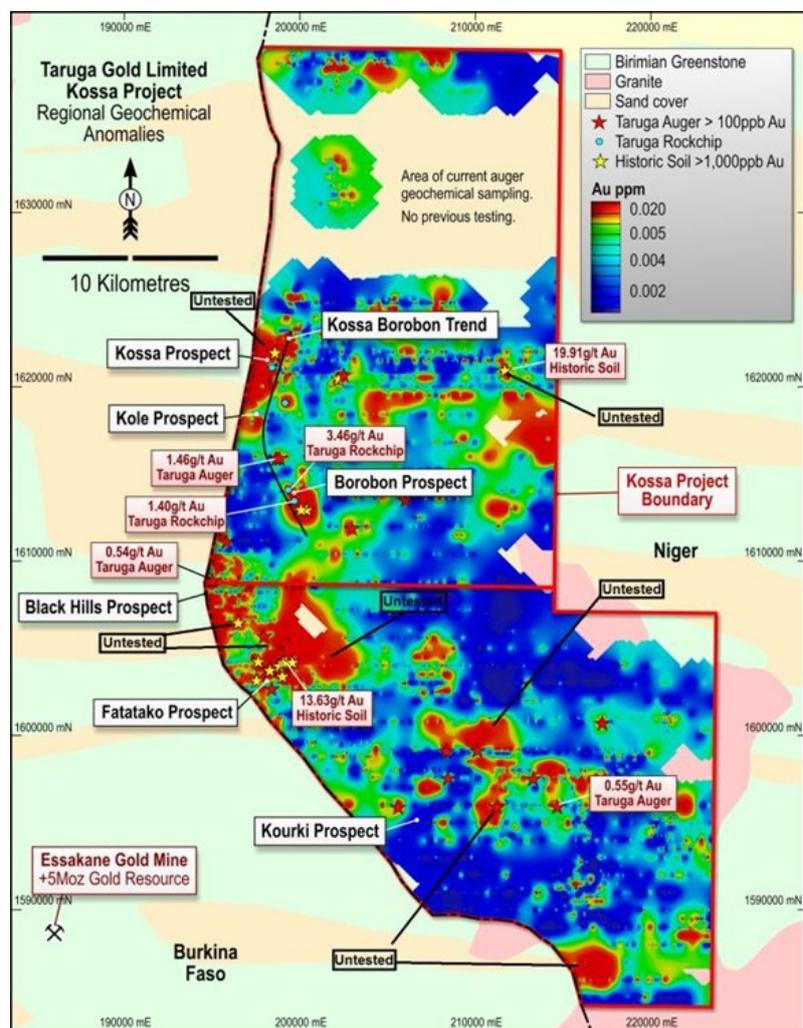
Historical work by TSX listed Orezone Gold Corporation defined a number of high priority prospects. Drilling by Orezone identified primary gold mineralisation that underlay surface geochemical anomalies.

Work completed by both Orezone and Taruga has identified encouraging gold grades such as:

- surface geochemical anomalies up to 19.91g/t gold,
- auger geochemical anomalies of up to 1.46g/t gold.
- At the Borobon prospect, drilling intersected:
 - ⇒ 22m @ 2.0g/t gold from 108m (TKRC108)
 - ⇒ 12m @ 3.35g/t gold from 9m (TKRC005)
 - ⇒ 12m @ 2.23g/t gold from 15m & 9m at 1.47g/t gold from 41m (TKRC010)
 - ⇒ 2m @ 19.97g/t gold from 84m (TKRC017)

Figure 7: Kossa Prospect Geochemical Anomalies and Exploration highlights

(Source: Company Presentation, June 2014)



In the near term, Taruga plans to focus on the more advanced prospects of Kossa and Fatatako where work will include reverse circulation (RC) and diamond drilling in sufficient density to potentially enable the estimation of a maiden JORC compliant resource.

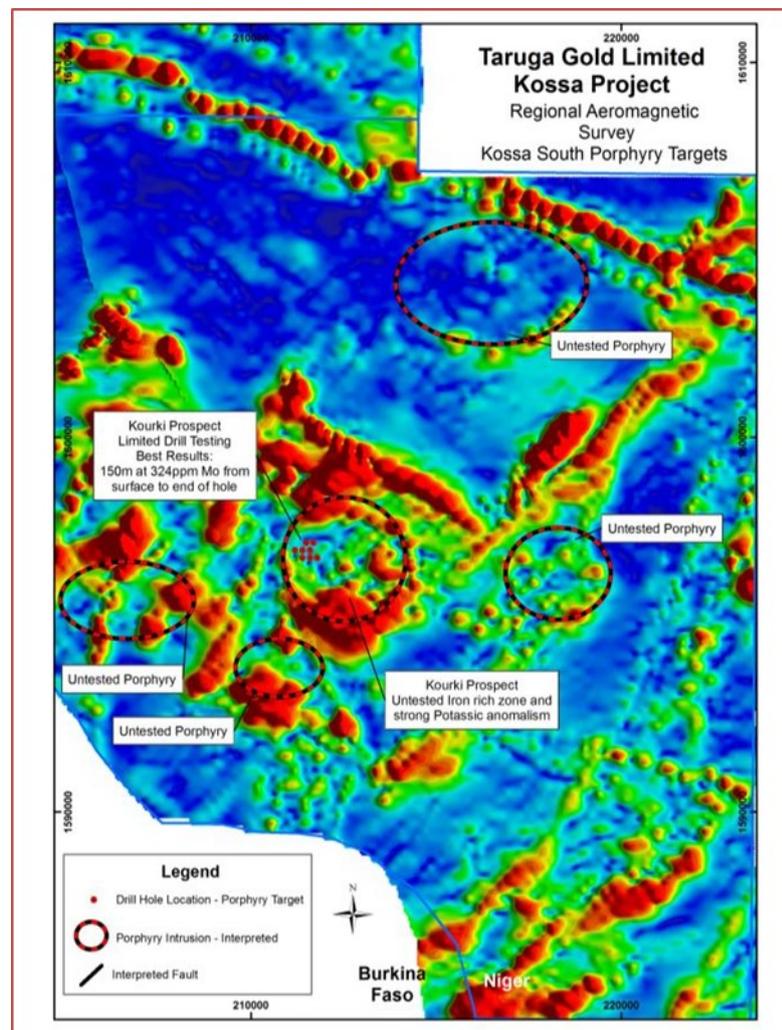
The company also plans to undertake mapping and sampling of outcrops and artisanal working, auger geochemistry, regional aircore drilling and detailed aeromagnetics to generate additional targets.

Porphyry Targets

In addition to the structural related gold anomalies, the project also contains a number of porphyry related targets towards the south, identified from aeromagnetics and mapping.

Figure 8: Kossa Prospect Porphyry Targets

(Source: Company Presentation, June 2014)



Previous drilling by Orezone only tested a small part of target area and returned a best result of 150m at 324ppm Molybdenum (from surface to end of hole) with associated anomalous copper and gold.

Taruga has identified a potassic alteration system associated with the porphyry intrusions as well as major iron-rich zones, however these are yet to be tested by drilling.

Recent exploration includes field mapping and geological reconnaissance of the Kouriki Porphyry targets as well as auger drilling across the interpreted porphyry intrusions. We understand malachite and azurite, both copper carbonates, have been identified on surface and associated with the porphyry alteration.

Initial indications on porphyry targets are positive, though significantly more work needs doing

Recent Placement and SPP boosted cash

Figure 9: Capital structure.

(Source: Company reports)

Figure 10: Substantial Shareholders .

(Source: Company reports)

Figure 11: Directors Holdings (as at 30 June 2014).

(Source: Company reports)

Corporate

As at June 30 2014, Taruga had \$0.24m in cash and no debt. However, post the June quarter end, the Company completed a Placement and Shareholder Purchase Plan (SPP) to raise \$0.925m and \$0.067m respectively.

We estimate that post Raising and SPP, Taruga has c.A\$1m in cash.

Post the Raising and SPP, Taruga had 358.26m shares on issue with 61.25m unlisted options exercisable at various dates and prices.

Security	Number	Exercise Date	Exercise Price	Listed/ Unlisted
Ordinary Shares	358,257,502	-	-	Listed
Options	46,250,000	1/12/2016	A\$0.02	Unlisted
Options	10,000,000	31/1/2016	A\$0.20	Unlisted
Options	5,000,000	3/2/2016	A\$0.20	Unlisted

Substantial Shareholders	Number of Shares	%
N&J Mitchell Holdings	56,316,709	15.7%
Tietto Minerals	50,000,000	14.0%
Mr Bernard Aylward	43,665,188	12.2%
Ascent Capital Holdings	24,150,021	6.7%
Redstar Resources Ltd (est.)	20,000,000	5.6%

Director	Number of Shares	Number of Options	Option Ex. Date	Option Ex. Price
Mr Bernard Aylward	43,665,188	5,000,000	3/2/2016	\$0.20
		4,250,000	1/12/2016	\$0.02
Myles Champion	-	-	-	-
Frank Terranova	7,160,000	1,540,000	1/12/2016	\$0.02
Daniel Smith	-	-	-	-
Total Board Shareholding	50,825,188			
% of Total Shares on Issue	14.2%			

RISK ANALYSIS

Exploration Risk: Mineral exploration is inherently high risk and there is the potential that TAR's exploration programs may fail to define the proposed mineralisation style and/or any potentially economic mineralisation.

Financial Position: At the time of this report, we estimate Taruga has c.\$1.0m cash. This is sufficient to complete all short to medium term exploration plans. Beyond this, the company will need to raise further funds or we see exploration being scaled back.

Peer Performance: Given the West African location of the Taruga projects, we note that gold exploration assets in this location have been somewhat unloved by investors in recent times for a number of reasons including: a preference for yield stocks, a desire for lower risk jurisdictions, and the fall in the gold price. Consequently, Taruga, like a lot of West African peers, appears somewhat out-of-favour at the moment. However, we expect that if the gold price fall reverses or the risk appetite for exploration companies improves, we can see Taruga being well positioned.

Commodity Risks: Whilst Taruga is not financially exposed to movements in the gold price as it does not have any production at this stage, movements in the gold price are likely to impact sentiment towards the company and its projects.

Market Risks: Further declines in equity markets may continue to put pressure on junior resource companies as investors switch out of risk into safe haven investments.

Sovereign Risk: Whilst Taruga is operating in a number of different West African jurisdictions, most of which have a moderate to strong mining culture, West African exploration carries a typical suite of risks. These are present to a greater or lesser extent in each country, typically relating to social, political and economic issues, security of tenure, as well as graft and corruption.

CONCLUSION

RM Research is favourably disposed to the quality of Taruga's projects. The company's ground holding is all located in the prospective Birimian greenstone belts, with favourable structural settings, with most already having good geochemical gold indications, if not drill results. Whilst early stage, we see considerable exploration upside across all projects. In addition, all the jurisdictions are pro-mining with a moderate to strong mining history.

However, we do recognise that the jurisdictions the company is operating in will attract somewhat of a discount due to perceived sovereign risk concerns. Having said that, with a market capitalisation of just c.\$2.1m and an enterprise value of c.\$1.1m, we see the risk/return trade-off as very favourable.

With the company actively progressing exploration on a range of fronts, including pending drilling programs at Nangalasso and the SLAM project, **RM Research** expects that any positive results should lead to share price appreciation. Consequently, we initiate coverage of Taruga Gold Limited as a **Speculative Buy**.

DIRECTORS AND MANAGEMENT

Bernard Aylward

Managing Director BSc (Hons.), MAusIMM

Mr Aylward is a geologist with over 20 years experience as a manager and exploration geologist in the mining and exploration industry in a variety of commodities. Mr Aylward's experience includes serving as the Chief Operating Officer of International Goldfields Ltd, General Manager of Azumah Resources Ltd (Ghana), and Exploration Manager for Croesus Mining NL. Mr Aylward has been involved in the discoveries and management of the Bepkong, Julie, Collette and Kunche deposits in Ghana, as well as the Deep South gold deposit, Gladstone North deposit, St Patrick's, Norseman Reef, and the Safari Bore gold deposit. Mr Aylward brings considerable relevant skills and experience to the Board. He is a Member of the Australasian Institute of Mining and Metallurgy.

Frank Terranova

Non-Executive Chairman

Mr. Terranova is a senior executive with extensive experience in corporate finance and company management across sectors including mining, agriculture and manufacturing. Mr. Terranova is a Chartered Accountant and his most recent position has been as Managing Director and CEO of Polymetals Mining Limited ("Polymetals") (ASX:PLY) where he has been instrumental in the successful merger of Polymetals and Southern Cross Goldfields Limited (ASX: SXG) and remains on its board as a Non Executive Director.

In addition, Mr. Terranova was formerly the Managing Director and CEO of Allied Gold Mining PLC, where he presided over its successful +\$500 million M & A transaction with St Barbara Mines (ASX:SBM). Mr. Terranova had a major role in the strategic and operational development of Allied Gold.

Myles Campion

Non-Executive Director

Mr Campion is a geologist with a BSc. (Hons.) from University of Wales College Cardiff and a MSc.(MinEx) from the Royal School of Mines in London and is an Associate of the Royal School of Mines. Mr Campion has also completed a Graduate Diploma of Business (Finance). Mr Campion has over 24 years' experience in the natural resources sector, including Resource analyst, Fund Manager, equities research and project and debt financing. Mr Campion has over 10 years as a field geologist that includes success at the Emily Ann Nickel Sulphide Mine.

Dan Smith

Non-Executive Director & Joint Company Secretary

Mr Smith is a member of the Governance Institute of Australia with a strong background in finance. Mr Smith's previous career was in the securities industry but more recently in a corporate finance role inclusive of negotiations, technical due diligence and business development. Mr Smith has primary and secondary capital markets expertise, having been involved in a number of IPOs and capital raisings. Mr Smith is currently a director of ASX listed Fraser Range Metals Group Limited and Minerals Corporation Limited and is also a director of Minerva Corporate, a private corporate consulting firm.

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RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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