Research

ARGONAUT

Azumah Resources
SPECULATIVE BUY

Current Price:	**$0.50**
Valuation:	**$0.90**

Ticker:		**AZM**
Sector:		**Materials**
Shares on Issue (m):		**281.7**
Market Cap ($m):		**140.8**
Cash ($m):		**18.1**
Enterprise Value ($m):		**122.7**
52 wk High/Low:	**$0.83**	**$0.42**
12m Av Daily Vol (m):		**0.81**

Directors

Michael Atkins	Non-Executive Chairman
Stephen Stone	Managing Director
Geoff Jones	Non-Executive Director

Substantial shareholders

Macquarie	11.3%
Passport Capital	8.4%
JP Morgan Chase	8.4%
Goodman & Company	6.4%
Libra	5.2%

Share Price Graph

Analysts:
Troy Irvin
Tim Serjeant
Patrick Chang

12 September 2011

Set apart

First gold from 2013:

Azumah Resources (ASX:AZM, TSX:AZR) is set to become a West African gold producer from 2013 at its Wa project in north west Ghana. A Feasibility Study is nearing completion for a US$135m, <100koz pa open pit gold mine with a potential 50% increase in throughput (15% additional capex for an extra ball mill and tankage).

In parallel with the Feasibility work, AZM is continuing its accelerated exploration program ($15m / 5 rig / 250,000m drill budget). With <10% of 150km of prospective Birimian strike investigated, the aggressive effort is justified and is likely to yield step-changes in the existing 1.2Moz Resource over time.

The current program is expected to be completed by March 2012 with ~190,000m already drilled. The Company is planning for another high intensity effort in 2012, already securing three drill rigs at attractive fixed rates. Key brownfields targets include between Kunche / Bepkong, north and south of Kunche / Bepkong, and depth extensions.

News flow over the next 3 months includes: Ongoing – Infill and exploration drill results (~20,000 samples or 50,000m in the labs), November – Kunche / Bepkong maiden Reserve, and December – Julie maiden Reserve.

AZM recently listed on the main board of the TSX. No capital raising was associated with the listing.

Impact: Positive

Argonaut's valuation is $0.90 assuming US$1,100/oz long term gold, and an expanded throughput case - 1.5Mtpa, 2.2g/t average head grade, >100koz pa production, US$160m capital expenditure, US$575/oz cash costs and commissioning in June Q 2013.

View: Positive

A reduced risk profile sets AZM apart from its African gold peer group:

- Low sovereign risk location in Ghana
- Conservative Resource estimate
- Proximity to the first gold pour
- Value - EV/Resource oz US$116 v peer average US$150

Recommendation: Spec Buy

The stock is likely to command a re-rating as production plans firm over the next 3-6 months. SPECULATIVE BUY recommendation maintained.

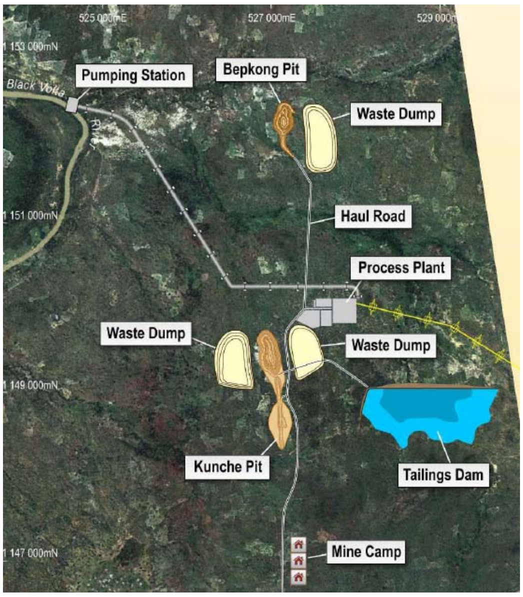
Gold production from 2013

Set to become a West African gold producer from 2013…

AZM is set to become a West African gold producer from 2013 at its Wa project in north west Ghana. A Feasibility Study is nearing completion for a US$135m, <100kozpa gold mine with a potential 50% increase in throughput (15% additional capex).

…advancing a Feasibility Study…

Figure 1: Planned site layout



Source: All figures and tables are source from AZM unless stated otherwise

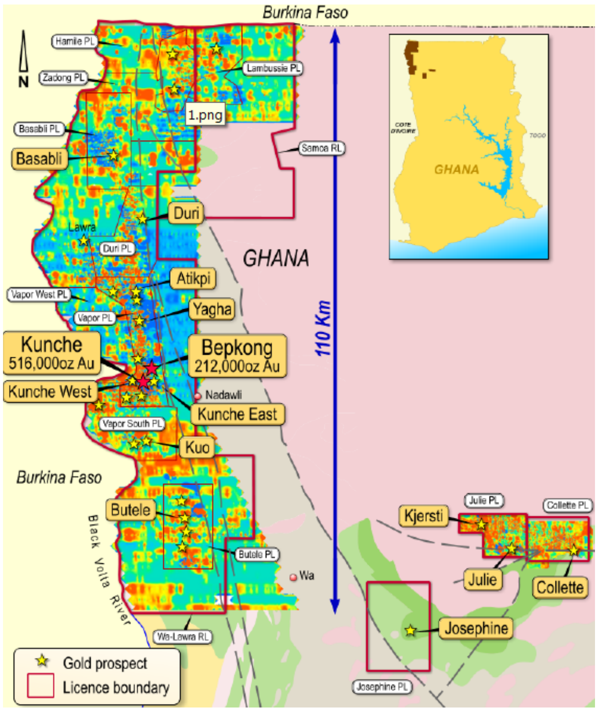
Accelerated exploration continues

…in parallel with accelerated exploration…

In parallel with the Feasibility work, AZM is continuing its accelerated exploration program ($15m / 5 rig / 250,000m drill budget). With <10% of 150km of prospective Birimian strike investigated, the aggressive effort is justified and is likely to yield step-changes in the current 1.2Moz Resource over time.

…over a 3,100 km² package…

Figure 2: <10% of 150km prospective strike investigated



…with <10% of 150km of prospective strike explored

Planning for another high intensity effort in 2012

The current program is expected to be completed by March 2012 with ~190,000m already drilled. The Company is planning for another high intensity effort in 2012, already securing three drill rigs at attractive fixed rates.

>2Moz potential

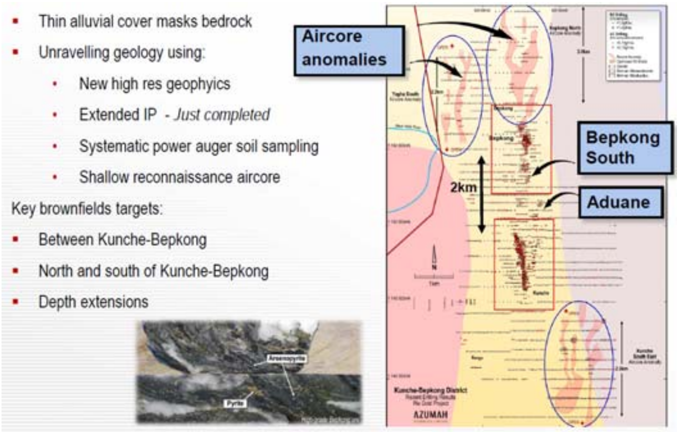
>2Moz is possible due to…

>2Moz is likely due to a plethora of brownfields and greenfields targets at the Wa project.

Key brownfields opportunities include between Kunche / Bepkong, north and south of Kunche / Bepkong, and depth extensions.

…a plethora of brownfields…

Figure 3: Kunche / Bepkong - Still very open

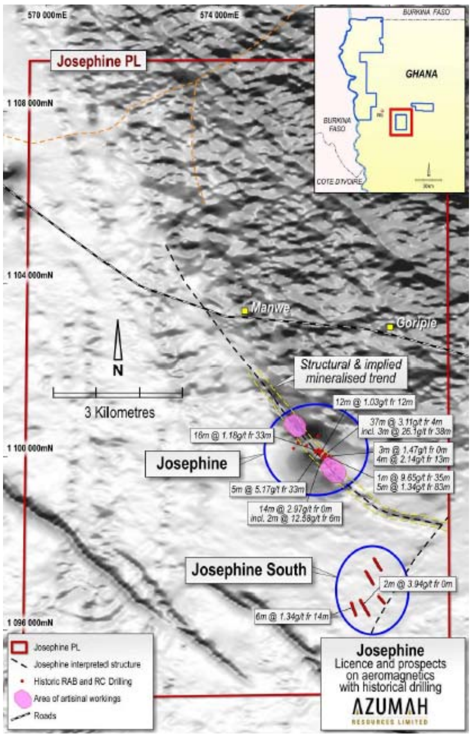


…and greenfields targets…

AZM also has a pipeline of regional targets. One example, Josephine, is a new Resource target 65km east of Kunche. Extensive artisanal mining has highlighted a >2km mineralised trend, coincident with a >6km geophysical feature. Historical drill intercepts include 37m @ 3.1g/t from 4m, 14m @ 3.0g/t from surface and 5m @ 5.2g/t from 33m. At Josephine South, historical intercepts include 2m @ 3.9g/t from surface and 6m @ 1.3g/t from 14m.

…including Josephine / Josephine South…

Figure 4: Josephine - Historical drilling, recent artisanal workings and aeromag



…and Wuhling, Yagha, Tampoe and Kuo

Other promising targets across AZM's substantial 3,100km² licenses include Wuhling / Tanchara, Yagha, Tampoe and Kuo.

Valuation

90% of Wa is valued at $160m…

Argonaut values 90% of the Wa project at $160m using the gold price assumptions presented in Table 1, and the project parameters presented in Table 2. The Ghanaian Government has the right to a free carried 10% interest.

Table 1: Argonaut's price assumptions

Assumptions					
		FY12	FY13	FY14	LT
Gold	US$/oz	1,550	1,550	1,550	1,100
fx	A$:US$	1.00	1.00	1.00	0.80

Source: Argonaut

Table 2: Argonaut's project parameters, and valuation

Key Project Assumptions		
Wa Project		
Ownership	%	90
Ore milled	Mtpa	1.5
Gold grade*	g/t Au	2.2
Gold recovery	%	92
Gold production*	koz	>100
Mine Life	yrs	10
Capex	US$m	160
Sustaining capex	US$m pa	10
Cash Costs - uninflated*	US$/oz	575
Fiscal		
Government royalty	%	5
Tax Rate	%	25
Discount Rate	%	10
*Denotes average over life of mine		

Summary Valuation		
Azumah Resources	A$m	A$ps
Wa	160	0.57
Unmined resources	19	0.07
Exploration	50	0.18
Investments	7	0.03
Forwards	0	0.00
Corporate	-4	-0.02
Unpaid Capital	2	0.01
Cash at 30 June	18	0.06
Total @ 10% Discount Rate	**252**	**0.90**

Source: Argonaut

…resulting in a summary valuation of $0.90

A total valuation of $252m or $0.90 per share is estimated, assuming $100/oz for unmined resources and a nominal $50m for exploration upside.

Set apart

A reduced risk profile sets AZM apart from its African gold peer group.

Low sovereign risk location

A relatively low sovereign risk location…

Ghana is one of Argonaut's preferred resources investment destinations globally given its mature mining code / industry.

Significant gold mines include Tarkwa (Gold Fields, 750koz pa), Ahafo (Newmont, >500koz pa), Obuasi (AngloGold Ashanti, 400koz pa), Damang (Gold Fields, 240koz pa), Iduapriem (AngloGold Ashanti, 200koz pa), Bogoso/Prestea (Golden Star, 200koz pa).

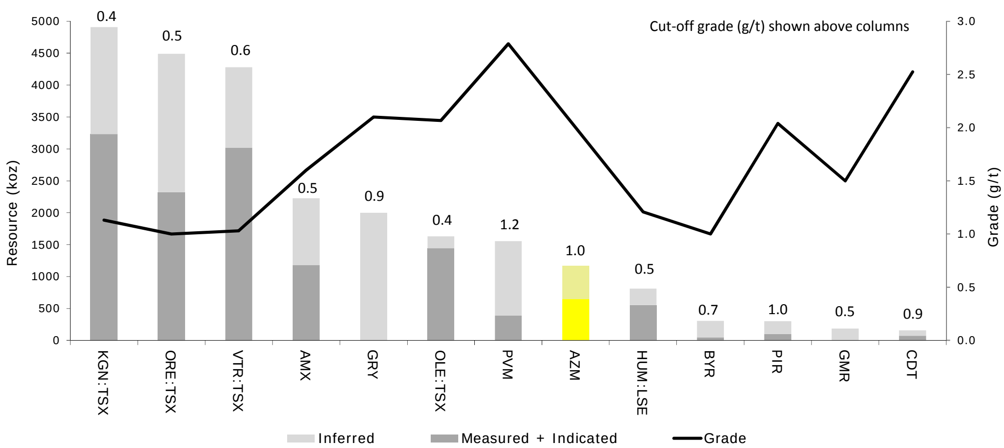
Figure 5: West African gold deposits

Conservative Resource estimate

…conservative Resource estimate…

A Measured + Indicated component of >50% and the application of a conservative 1.0g/t cut-off grade (except Bepkong 0.8g/t) de-risks AZM's estimate.

Figure 6: West African peers – Resource size, grade (and cut-off grade)



Source: Argonaut

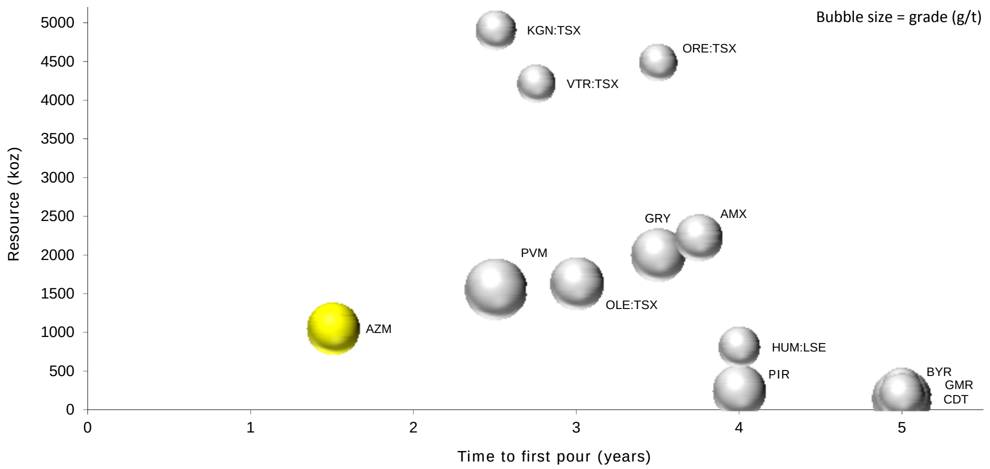
~80% of AZM's inventory is shallower than 100m.

Proximity to first gold

…proximity to first gold…

AZM's advanced stage of mining studies should enable construction in 2012 and first gold to be poured in 2013.

Figure 7: West African peers – Production countdown



Source: Argonaut

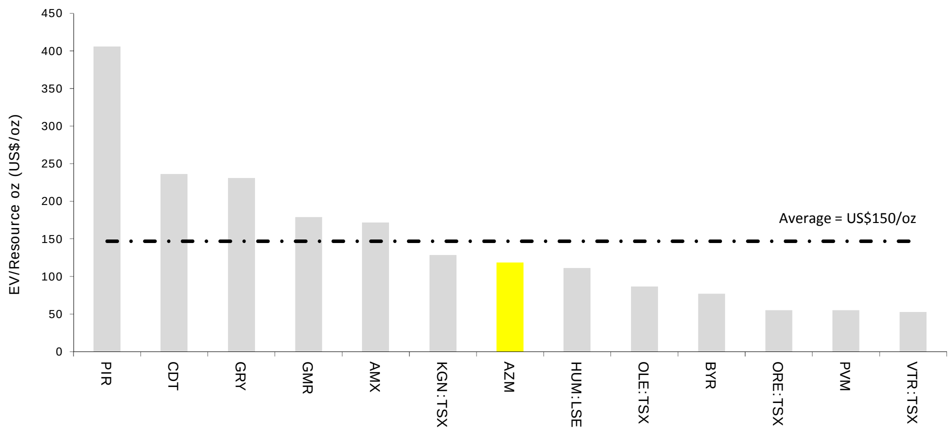
Value

…and value…

AZM is cheap in terms of relative and absolute valuation.

On the EV/Resource oz metric AZM is trading at US$116 v a West African peer average of US$150.

Figure 8: West African peers - EV / Resource oz



Source: Argonaut

…set AZM apart from its African gold peer group

The stock is trading at 0.55x NAV.

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Contact Details

Research:

Ian Christie
Director Research
+61 8 9224 6872

Troy Irvin
Director Research
+61 8 9224 6871

Tim Serjeant
Associate Director, Research
+61 8 9224 6806

Patrick Chang
Analyst
+61 8 9224 6835

Institutional Sales:

Paul Carter
Executive Director
+61 8 9224 6864

Chris Wippl
Executive Director
Head of Research & Sales
+61 8 9224 6875

John Santul
Consultant, Sales & Research
+61 8 9224 6859

Damian Rooney
Senior Institutional Dealer
+61 8 9224 6862

Ben Willoughby
Institutional Dealer
+61 8 9224 6876

Bryan Johnson
Institutional Dealer
+61 8 9224 6834

Corporate and Retail Sales:

Kevin Johnson
Executive Director
+61 8 9224 6880

Glen Colgan
Executive Director
+61 8 9224 6874

James McGlew
Director, Corporate Stockbroking
+61 8 9224 6866

Simon Lyons
Director, Retail Stockbroking
+61 8 9224 6881

Geoff Barnesby-Johnson
Senior Dealer
+61 8 9224 6854

Andrew Venn
Senior Dealer
+61 8 9224 6865

Melaney Brans
Dealer
+61 8 9224 6873

Cameron Fraser
Dealer
+61 8 9224 6851

Important Disclosure

The analyst(s) own AZM shares.

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