



Azumah Resources SPECULATIVE BUY

Current Price: **\$0.61**
Valuation: **\$0.82**

Ticker: **AZM**
Sector: **Materials**

Shares on Issue (m): **275.2**
Market Cap (\$m): **166.5**
Cash (\$m): **26.1**
Enterprise Value (\$m): **140.4**

52 wk High/Low: **\$0.83** **\$0.28**
12m Av Daily Vol (m): **1.13**

Directors

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

Substantial shareholders

Macquarie 14.2%
JP Morgan Chase 8.4%
Goodman & Company 6.4%
Libra 5.2%

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

4 May 2011

1-2 combination

Initiation:

Azumah Resources (AZM) is set to become a West African gold producer in early 2013 at the Wa project in north west Ghana.

A Feasibility Study is underway for a multi-pit 1.0Mtpa operation. Potential production metrics include capex US\$125m, cash costs US\$575/oz, head grade 2.2g/t, strip ratio 4.8:1, recoveries 90-93%, and 80-100koz pa output. Despite a sparse population (no communities to locate) the area is infrastructure rich with sealed roads, ample water, grid power and scheduled flights to Wa.

The current Independent Resource is 1.2Moz @ 2.0g/t. The inventory resides in five deposits, including 516koz at Kunche, 350koz at Julie and 212koz at Bepkong. An indicated component of >50% and the application of a conservative 1.0g/t cut-off grade (except Bepkong 0.8g/t) de-risks the estimate. ~80% of the inventory is shallower than 100m.

The Fraser Institute ranks the investment climate (Policy Potential Index) in Ghana the third highest in West Africa.

Impact:

Positive

The Resource is expected to grow substantially with a \$15m / 5 rig / 250,000m drill budget (almost 80% is extensional work). >20 geologists have been recruited to cover the 90% of the 150km of prospective Birimian strike yet to be investigated.

Resource growth towards the 2Moz mark will underpin expansions in the production rate to >100koz pa and mine life to >10 years. The plant design will accommodate future increases in ore throughput.

View:

Positive

A growing gold inventory feeding an expandable production scenario is a "1-2 combination" that sets AZM apart from the West African gold peer group.

News flow over the next 12 months includes: Ongoing - Drill results, September Q 2011 – Resource upgrade, completion of Feasibility Study (maiden Reserve), and late 2011 – Project development decision / financing.

Recommendation:

Spec Buy

The EV/Resource oz is US\$144 v West African peer average US\$163 (despite AZM's relatively advanced status and low country risk).

Argonaut's valuation is \$0.82 per share.



Proven mining province

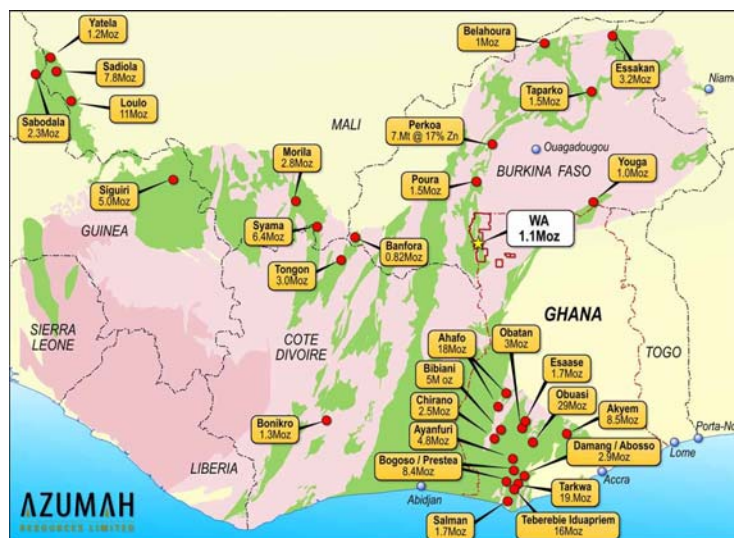
AZM owns 90% of the Wa Project...

Azumah (AZM) owns 100% of the Wa Project in north west Ghana. Ghana offers an established gold mining industry (>100 years of production) with annual production of >3.0Moz (10th largest in the world). Four international gold producers are currently active (AngloGold-Ashanti, Newmont, Gold Fields and Newcrest).

...located in the established gold mining country of Ghana...

Figure 1: West African setting

...proximal to AMX's 2.2Moz Batie West project over the border in Burkina Faso



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

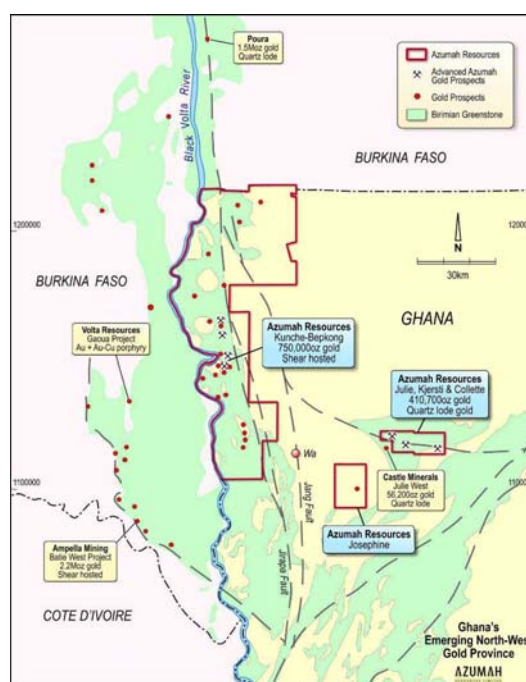
Wa is located on the Wa-Lawra greenstone belt, which marks the eastern side of the larger Proterozoic Boromo greenstone belt. The Boromo belt trends through southern and central Burkina Faso hosting a number of significant gold and base metal deposits including Ampella's (AMX) 2.2Moz Batie West Project and the now closed 70koz pa Poura mine.

AZM's 3,100 km² package includes 150km of prospective strike ...

AZM's 3,100km² land holding includes 150km strike of prospective Birimian greenstones with less than 10% explored.

Figure 2: Less than 10% of 150km prospective strike investigated

...with less than 10% even basically explored





Resource growth

Current Resource

Current Resource is 1.16Moz @ 2.0g/t...

The current Independent open pit Resource is 1.16Moz @ 2.0g/t. The inventory resides in five deposits, including 516koz at Kunche, 350koz at Julie and 212koz at Bepkong.

Table 1: Resource estimate

Resource estimate			
Deposit	Mt	g/t	koz
Kunche	8.5	1.9	516
Bepkong	3.0	2.2	212
Julie	4.9	2.2	350
Collete	0.9	2.1	61
Atikpi	0.4	1.4	16
Yagha	0.3	1.2	11
TOTAL	18.0	2.0	1,165

...including 516koz at Kunche, 350koz at Julie and 212koz at Bepkong

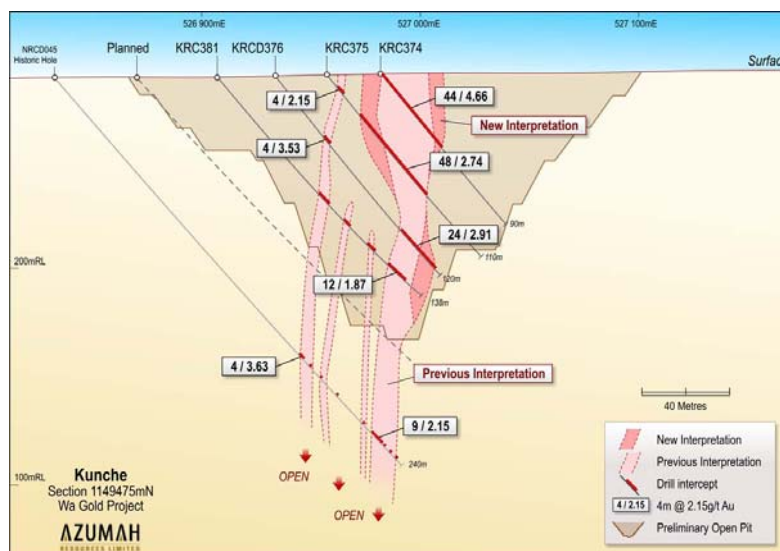
Source: AZM, Argonaut

>50% Indicated and conservative cut-off grades de-risk the estimate

An Indicated component of >50% and the application of a conservative 1.0g/t cut-off grade (except Bepkong 0.8g/t) de-risks the estimate.

~80% of the inventory is shallower than 100m.

Figure 3: Kunche cross-section showing the latest RC infill drilling results



>2Moz potential

>2Moz is considered possible...

The Resource is expected to grow substantially with a \$15m / 5 rig / 250,000m drill budget (almost 80% is extensional work). >20 geologists have been recruited to cover the 90% of the 150km of prospective Birimian strike yet to be investigated. >2Moz is considered possible with:

...with existing deposits open in most directions...

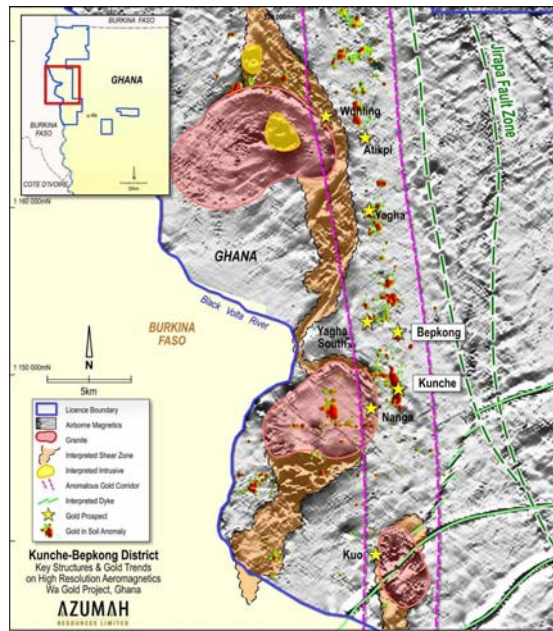
- Kunche and Julie deposits - Open in all directions
- Bepkong deposit - Open to the north and at depth
- Pipeline of regional targets – Growing with the identification of new mineralised trends and target zones highlighted in new high resolution airborne geophysics providing whole-of-project coverage

...and a growing pipeline of regional targets....



...highlighted in new high resolution airborne geophysics...

Figure 4: High resolution airborne magnetics with key gold prospects



...providing whole-of-project coverage

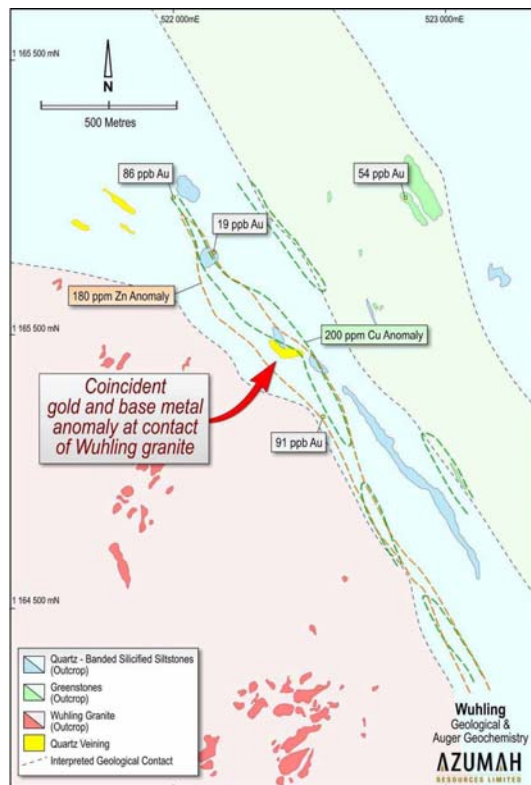
Copper-gold opportunities

The new Wuhling prospect...

The new Wuhling prospect may represent a copper-gold opportunity for AZM with coincident gold and base metal (copper and zinc) anomalies identified in power auger soil sampling. The anomalous zone, defined by >200ppm Cu and >180ppm Zn, is associated with the contact of quartz bearing siltstones and a large intrusive granite body – Wuhling granite.

Figure 5: Wuhling – Potential copper-gold deposit

...may represent a copper-gold opportunity



...in an area known for large tonnage Cu-Au porphyry deposits

The area is also known for large tonnage Cu-Au porphyry deposits. Volta (TSX:VTR) defined an Inferred Resource of 82Mt @ 0.4% Cu and 0.4 g/t Au for 724Mlb Cu and 1.1Moz Au at the 692 km² Gaoua project immediately adjacent to Wa on the Burkina Faso side of the border.



Gold production from 2013

Potential metrics

A Feasibility Study is underway for a multi-pit 1.0Mt pa operation

A Feasibility Study is underway for a multi-pit 1.0Mt pa mining and gravity / CIL operation at the Wa project in north west Ghana. Potential production metrics include:

- US\$125m initial capex
- US\$575/oz cash costs
- 2.2g/t head grade
- 4.8:1 strip ratio
- 90-93% metallurgical recoveries
- >100koz pa initial production (oxide ore), reducing to 80koz pa (primary ore)

Resource growth towards the 2Moz mark will underpin expansions

Resource growth towards the 2Moz mark will underpin expansions in the production rate to >100koz pa and mine life to >10 years. The plant design will accomodate future increases in ore throughput.

Infrastructure

The area is infrastructure rich

Despite a sparse population (no communities to locate) the area is infrastructure rich with sealed roads, ample water, grid power and scheduled flights to Wa.

Infrastructure Feasibility Study on-track

All key Feasibility Study inputs completed

All key Feasibility Study engineering, infrastructure, environmental and social impact inputs have been completed. A preliminary site layout is presented below.

Figure 6: Preliminary site configuration



The remaining critical path item is infill drilling

The remaining critical path item is infill drilling to confirm sufficient Reserves to support an initial seven-year life operation.



Valuation

100% of Wa is valued at \$129m...

Argonaut values 100% of the Wa project at \$129m using the gold price assumptions presented in Table 1, and the project parameters presented in Table 2.

Table 2: Argonaut's price assumptions

Assumptions		FY12	FY13	FY14	LT
Gold	US\$/oz	1,350	1,350	1,350	1,000

Source: Argonaut

Table 3: Argonaut's project parameters

Key Project Assumptions		
Wa Project		
Ownership	%	90
Ore milled	Mtpa	1.2
Gold grade*	g/t Au	2.2
Gold recovery	%	92
Gold production*	koz	80
Mine Life	yrs	10
Capex	US\$m	125
Sustaining capex	US\$m pa	1
Cash Costs - uninflated*	US\$/oz	575
Fiscal		
Government royalty	%	5
Tax Rate	%	25
Discount Rate	%	10

*Denotes average over life of mine

Source: Argonaut

...resulting in a summary valuation of \$0.82 per share

A total valuation of \$224m or \$0.82 per share is estimated, based on 90% ownership of Wa (the Ghanaian Government has the right to a free carried 10% interest).

Table 4: Total valuation

Summary Valuation		
Azumah Resources	A\$m	A\$ps
Wa	116	0.43
Unmined resources	42	0.15
Exploration	35	0.13
Investments	6	0.02
Forwards	0	0.00
Corporate	-5	-0.02
Unpaid Capital	2	0.01
Cash Estimate	26	0.10
Total @ 10% Discount Rate	224	0.82

Source: Argonaut



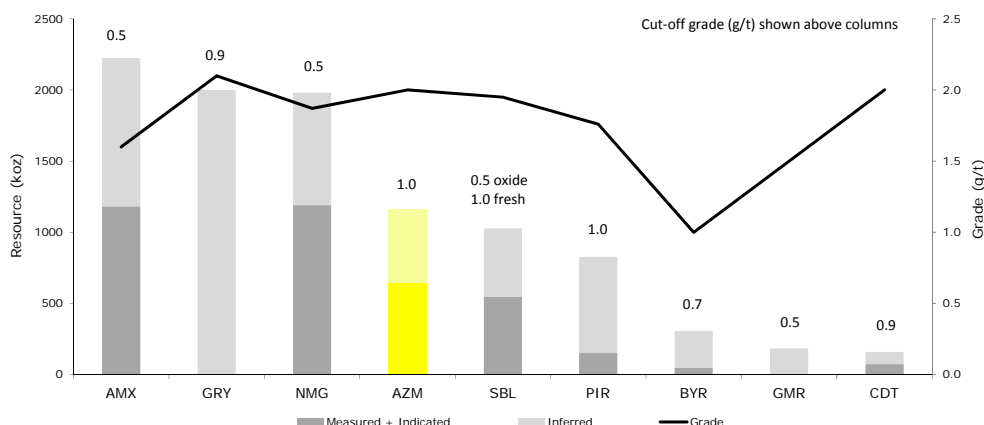
Peer comparison

West African explorers

AZM has the fourth largest Resource base...

AZM has the fourth largest Resource base in the Argonaut's West African peer group. The grade is an attractive 2.0g/t, above the 1.8g/t average and in line with "crowd favourite" Gryphon Minerals (GRY).

Figure 7: African peers – Resource size, grade (and cut-off grade)



...and an above average grade of 2.0g/t

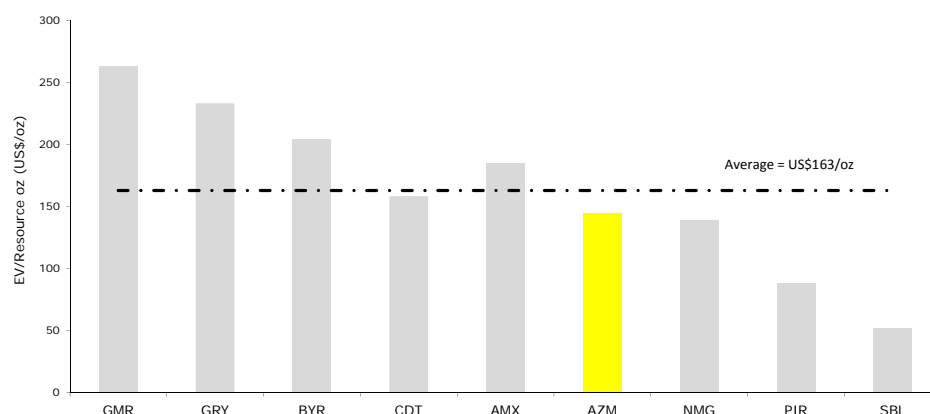
Source: Argonaut

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.

Despite the relatively advanced status and low country risk...

AZM's EV/Resource oz is US\$144 v West African peer average US\$163 (despite the Company's relatively advanced status and low country risk in Ghana).

Figure 8: African peers - EV / Resource oz



...AZM's EV/Resource oz is a below average US\$144

Source: Argonaut

New producer in Ghana - Adamus

AZM is trailing ADU by ~2 years...

Adamus (ADU) is a more advanced peer currently ramping up production at the 100koz pa Nzema Gold Project in Ghana. Over the past 2 years ADU's share price has risen from ~33c to a current level of 69c. The stock peaked at 89c in January 2011 coincident with the announcement of the first pour.

...and could potentially mimic ADU's growth trajectory

AZM is trailing ADU by ~2 years and could potentially mimic ADU's growth trajectory.



Risks

African country risk

Low exploration risk in Africa must be weighed up against high country risk

Low exploration risk in Africa must be weighed up against high country risk. The need for caution has been highlighted by recent developments in Tunisia, Côte d'Ivoire, Egypt, Yemen and Libya.

With ~17 elections scheduled across Africa in 2011, the most since the Era of Independence, 2011 looms as a big test for political stability. Of these, around half (the Central African Republic, the DRC, Niger, Madagascar, Zimbabwe, Cameroon, Liberia, Gabon and Zambia) are prominent mineral producers or prospective for foreign mining investment.

The Fraser Institute ranks the investment climate in Ghana the third highest in West Africa

Although generally higher than in traditional mining jurisdictions such as Australia and Canada, the type and level of risk varies substantially across Africa. The Fraser Institute's recent Policy Potential Index ranked the investment climate in 79 jurisdictions across the globe. Of the 13 African nations included, Ghana was sixth at 47th overall.

Financing

Financing risk is considered low

Financing risk is considered low given Ghana's track record as an established gold mining province, and the technical rigour underpinning AZM's Resource base and advancing development plans.

A recent precedent is ADU's project. This was financed with a US\$70m project debt package from Macquarie Bank in December 2009 and a \$40m equity raising in August 2009.

Licensing

Environmental and Social Scoping Study lodged with no major issues

In May 2010 AZM lodged an Environmental and Social Scoping Study (ESIA) with the Ghanaian Environmental Protection Authority (EPA). The report represents the culmination of ~18 months of environmental, socio-economic and community studies, and forms a key component of the documentation required to ultimately secure a mining licence for the Wa Project.

No major issues were raised by the EPA and the full ESIA remains on track for submission in the September Q 2011 (as an attachment to the Feasibility Study).

1-2 combination

A growing gold inventory feeding an expandable production scenario...

A growing gold inventory feeding an expandable production scenario is a "1-2 combination" that sets AZM apart from the West African gold peer group.

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...sets AZM apart from the West African gold peer group

Argonaut's valuation is \$0.82 per share.

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