19 July 2011

Buy

Azumah Resources

Initiation – Near-term Production

Upcoming Events:

Exploration Drilling Results - Ongoing
Feasibility Study - Late 2011
Reserve Estimate - Late 2011
Decision on Project Development - End 2011

Price (A$)	**0.56**
Price Target (A$)	**0.73**
Ticker	AZM.AX
Market cap (A$m)	161.9
Estimated cash (A$m)	19
Investments (A$m)**	6
Debt (A$m)	0
Attr Reserve (Moz Au)	0
Attr Resource (Moz Au)	1.2
EV/Reserve (US$/oz Au)	0
EV/Resource (US$/oz Au)	122

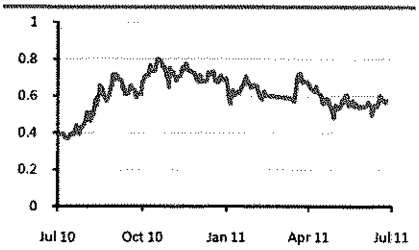
52-week (A¢)	
High	80
Low	36.5
3M-avg daily vol (000)	580.2
3M-avg daily val (A$000)	328.7

Shares	
Basic (m)	282
Fully diluted (m)	291

Top shareholders (%)	
Macquarie	11.2
JP Morgan Asset Mgmt	7.7
Goodman & Co	6.2
Passport Capital	5.2
Libra Advisors	5.0

***In June 2011 Azumah acquired 15.23% of stock in neighbouring Castle Minerals*

Share Price Performance (A$)



Source: Fidessa

Azumah Mining is an ASX-listed gold explorer focused on 3,100km² of Birimian Greenstone in the Wa district of Ghana. *Azumah is fast advancing its projects towards production.*

Main Assets

Asset	Country	Attributable Resource	Interest	CY11E Production
Kunche-Bepkong	Ghana	755,000oz @ 1.95 g/t Au	100%*	N/A
Julie	Ghana	410,000oz @ 2.2 g/t Au	100%*	N/A

*Government 10% free carried on production; Source: Company data

Azumah has defined a 1.2Moz gold resource at its Wa Gold Project in Ghana. The resources are shallow and open in all directions.

Azumah is close to production. A feasibility study on an estimated 100,000oz pa operation is due for completion within six months. The company plans to make a decision on production scenarios by the end of 2011.

Azumah intends to fast track to production whilst continuing a >A$10m annual exploration spend on its still relatively untested exploration tenure.

Azumah has huge exploration potential, with 150km strike of Birimian Greenstone to explore in the same belt as Ampella's Batie West Project. Much of the project is overlain with a thin veneer of river sediments, masking any mineralisation from previous explorers and artisanal miners.

An aggressive A$15m exploration drilling programme is planned for 2011. Infill drilling has already returned impressive results from the Kunche resource, including 44m @ 4.7 g/t Au and 32m @ 3.9 g/t Au. We expect significant newsflow to continue throughout the year.

Azumah recently acquired 15% of neighbouring Castle Minerals. This may not be the last piece of consolidation we see in the region.

Recommendation – BUY; Target Price A$0.73

Using our median EV/Resource ounce valuation across the West African gold exploration sector of US$160/oz, Azumah looks undervalued at US$122/oz. We believe Azumah should, in fact, attract a premium for the quality of its resource, the advanced nature of its feasibility study and impressive results from the infill drilling at Kunche. As a consequence, we are extremely comfortable valuing Azumah on an average sector valuation for its existing resources plus cash and investments at A$206m, or **A¢73/share.** This represents a 31% premium to the current market valuation.

Thus, we initiate on Azumah with a BUY rating, with an initial fair value price target of A¢73. We expect to modify this target upwards on the completion of the feasibility study and growing resources in Ghana.

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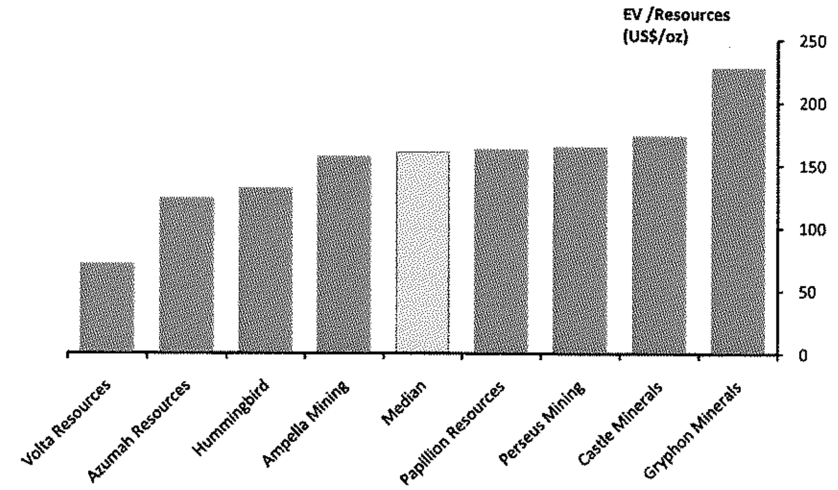
Investment Case and Valuation

Azumah looks undervalued on an EV/Resource oz basis

On completion of a review of the West African Exploration sector we have determined a group of credible peers to compare with Azumah. Our analysis has determined a median EV/Resource ounce of US$160/oz for the sector. Azumah is valued below average for the sector at just US$122/oz. We believe Azumah should attract a premium from the market when we take into account the quality of its resources, the advanced nature of the project and potential of its under-explored exploration ground. We believe the company should expect a re-rating on the back of a development decision later this year.

EV/Resource Ounce (US$) Comparisons of West African Explorers



Source: Ambrian

We believe it is too early to value Azumah accurately on a NPV basis and intend to wait until the feasibility study results are released and there is more of a resource/reserve base to support a longer-term operation.

Azumah intends to take advantage of current gold prices through near-term production

Azumah's decision to commence early construction at Wa is designed to take advantage of record high gold prices. Azumah provides an opportunity to invest in exploration upside and an expected re-rating on the commissioning of near-term production. While current valuations on a relatively short-term, moderate tonnage operation at Wa may not suit every investor, we would stress that it is important to keep sight of the big picture of near-term production in conjunction with strong exploration upside.

Azumah is well placed to grow resources through systematic exploration

We believe Azumah is well placed to grow resources on prospective exploration ground in Ghana. The project is on a greenstone belt known to host a lot of gold mineralisation on both sides of the Black Volta River. The systematic exploration approach of auger through the shallow cover in conjunction with geophysics and followed by drilling looks set to discover many more ounces of gold. The company has sufficient cash to continue its aggressive exploration programme. We expect positive newsflow in the form of drilling results over the remainder of 2011.

We may see more consolidation in the sector

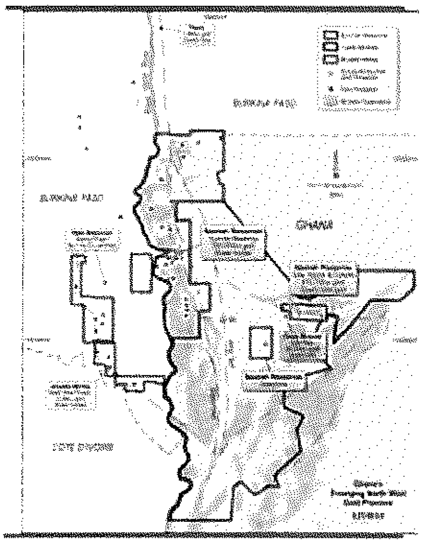
Management has indicated that it believes there is an opportunity for consolidation in the sector through its recent acquisition of 15% of neighbouring Castle Minerals. We would not be surprised to see further consolidation in this part of the world.

Company Strategy

Azumah will fast track production whilst maintaining a strong exploration programme

Azumah has stated that it wants to fast track production to take advantage of prevailing gold prices. Azumah is confident that it can grow resources whilst developing an operation at Kunche. The operation will commence as a 1Mtpa plant (possibly 1.5Mtpa) with the ability to add on capacity as resources grow.

Project Location



Source: Company

Kunche-Bepkong Project (100%)

The Kunche-Bepkong Project is located directly across the Black Volta River from Ampella Mining's Batie West Gold Project. The Wa Project is hosted in the same greenstone belt that hosts the 2.2Moz Konkera resources and the current 'gold rush' of artisanal miners at Batie West. The major difference between the two projects is that the bulk of Azumah's land is covered by a thin layer of river sediment, as the Black Volta floods during the rainy season. This less than 2m thick layer of alluvial clay is just thick enough to mask mineralisation from artisanal miners and soil sampling. As a result, the area is only just now being effectively explored through auger drilling and follow-up drilling through this thin layer of clay.

Whilst the project's location has made it harder to explore, it has a number of genuine infrastructure advantages from being in Ghana. The project is well linked by good roads, a nearby all-weather airstrip, power lines and abundant water. Ghana also has the added advantage of a British-based political system, low political risk and a long history of mining.

The geology consists of a sequence of sediments and granite intrusions caught up in a major crustal shear zone: the Kunche Shear. Gold mineralisation is centred on areas of dilation at structural flexures along this shear zone. Mineralisation is associated with pyrite and arsenopyrite mineralisation.

Kunche – Bepkong Resource

The resource is shallow at less than 100m...

... and it remains open in all directions

The resource represents the combined Kunche and Bepkong deposits, with minor inferred resources at the Atikpi and Yagha prospects. Some 80% of the current resource is confined to less than 100m depth. The resource is open in all directions and looks set to grow. We estimate that up to 25% of the resource is oxide.

Current JORC-indicated resource at Kunche-Bepkong is 754koz

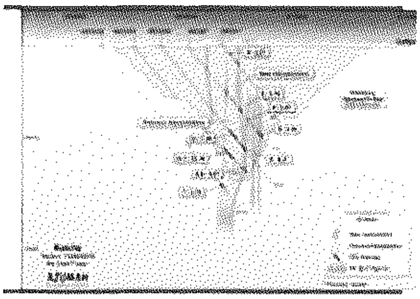
Kunche-Bepkong Combined JORC Resource Statement

Classification (1.0/t cut-off)*	Tonnes (000t)	Grade (g/t)	Gold (000oz)
Indicated Resources	6,00	2.1	400
Inferred Resources	6,200	1.8	354
Total Resources	**12,200**	**1.95**	**754**

*Bepkong, Atikpi and Yagha used 0.8 g/t lower cut; Source: Company

The above resource is reported at a conservative 1.0 g/t Au lower cut-off grade. Recent 25m x 25m infill drilling at Kunche has returned impressive intersections, including 44m @ 4.7 g/t Au, 48m @ 2.7 g/t Au and 36m @ 3.7 g/t Au. These results give us confidence that much of the current resource will convert to reserves later this year. Over 50% of the resource already reports as indicated.

Kunche Cross Section

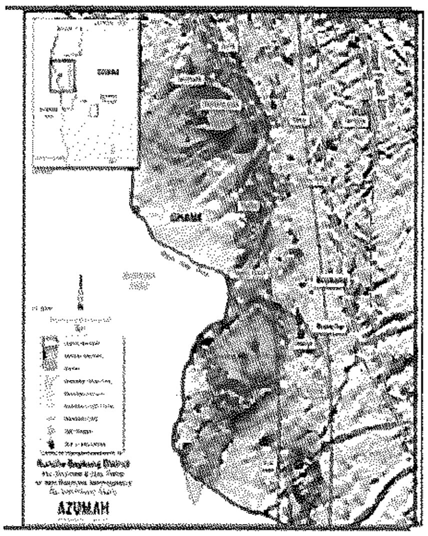


Source: Company

Exploration Upside

Azumah has commenced an aggressive drilling programme (100km of RC, 5km of diamond, and 145km of aircore and auger) designed to unlock the exploration potential at the Wa Project. The strategy of auger and aircore drilling through the river sediments is generating a number of geochemical anomalies previously masked by the clays. The recent high resolution aeromagnetics and Induced Polarisation surveys have defined a number of targets along the Kunche trend and around a number of granite intrusions, such as the Wuhling granite. The Wuhling and Tanchera prospects look exciting. Here, auger anomalism is associated with the intersection of a ductile shear with a brittle granite body which is likely to provide a favourable trap for gold mineralisation. Azumah is currently drilling these targets.

Wa Project: Exploration Targets 2011



Source: Company

Julie Project (100%)

The Julie Project is located 75km to the east of the Wa Project. The Julie mineralisation is hosted within a brittle shear zone, within granite basement. The Collette mineralisation is also shear hosted, but within sediments. Both deposits are open along strike. The gold is quite coarse and occurs as free gold.

The resource represents the combined Julie and Collette deposits; the bulk of the current resource is confined to less than 80m depth. The resource is open in all directions and looks set to grow. The gold is higher grade than at Kunche-Bepkong, and nearly all in fresh rock. Some 60% of the resource already reports as indicated.

Julie-Collette Combined JORC Resource Statement

Classification (1.0/t cut off)	Tonnes (000t)	Grade (g/t)	Gold (000oz)
Indicated Resources	3,400	2.2	245
Inferred Resources	2,400	2.2	165
Total Resources	**5,800**	**2.2**	**410**

Source: Company

Exploration Upside

The Josephine Prospect looks promising, with drilling intersections of 37m @ 3.1 g/t Au

Azumah recently acquired 15.23% of neighbouring Castle Minerals, which owns the nearby 50,000oz Julie deposit. This deposit would make an attractive satellite pit supporting Azumah's larger Julie operation.

The Josephine Project is a recently discovered trend associated with over 2km of artisanal workings. Recent drilling includes 37m @ 3.1 g/t Au from 4m and 14m @ 3.0 g/t Au from surface. Josephine is looking very prospective and we look forward to further drilling results.

Feasibility Study

A definitive feasibility study has commenced at Wa, with capex estimated at US$135m

Azumah has commenced a definitive feasibility study at Wa, which is due for completion by the end of the year. The study is designed around a base case 1Mtpa (could be expanded to 1.5Mtpa) operation capable of processing up to 100,000oz pa. Azumah expects capex in the region of US$135m (+15% for 1.5Mtpa), with cash costs below US$600/oz. Production is due to commence in 2013.

Pit optimisations were completed at a conservative US$1,000/oz gold price

The current mine life, using pit optimisations based on what we consider a conservative US$1,000oz gold price, is six years from the Kunche, Bepkong and Julie pits. We are confident that the resource base will continue to grow as exploration proceeds at the Wa project.

Recoveries estimated at 92.5%

Metallurgical test-work to date has indicated that the gold is non-refractory, with recoveries in the region of 92.5%. Head grade is estimated at 2.2 g/t Au and strip ratios a moderate 4.8:1.