



INITIATION | COMMENT

AUGUST 24, 2011

Azumah Resources Limited (ASX: AZM)
Initiation: Moving quickly to establish the 100koz pa Wa Gold Project in Ghana

Outperform
Speculative Risk

Price:	0.44	Price Target:	0.75
Shares O/S (MM):	281.7	Implied All-In Return:	70%
Dividend:	0.00	Market Cap (MM):	124
NAVPS:	0.86	Yield:	0.0%
BVPS:	0.06	P/NAVPS:	0.5x
Float (MM):	281.7	P/BVPS:	7.3x
Debt to Cap:	0%	Enterprise Val. (MM):	111
Share price as at noon 23 August 2011		Avg. Daily Volume (MM):	1.00

Event

We initiate coverage of Azumah with an Outperform, Speculative Risk rating and A\$0.75 target

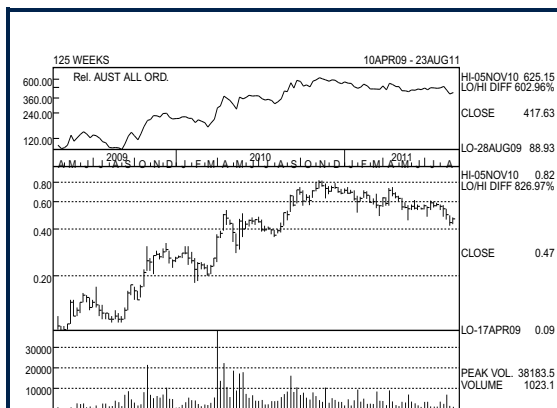
Investment Opinion

Azumah Resources is a small Perth based, ASX listed, West African gold explorer whose main asset is the Wa Gold project in northern Ghana. The company is taking a different approach and fast tracking development on adequate reserves while continuing its A\$15 million pa exploration push. Prospectivity is high and we do believe a 10 year mine life at up to 100koz pa will eventuate. Further good exploration results should continue to expand the resource and higher grades are a real positive. **We rate Azumah an Outperform, Speculative risk and target of A\$0.75; a 70% implied return.**

- **Wa Gold:** A 1.2moz resource over 3 deposits has outlined an 0.7moz pit shell to 175m depth. Indicative capex is US\$135m and cash costs ~US\$590/oz.
- **Timetable:** Maiden reserves late this year, followed by the full feasibility study in early 2012 should lead into equity and debt funding in 2012.
- **Modeling:** We assume a 1Mtpa mill costing A\$150 million expands to 1.5Mtpa at A\$30m and delivers ~100koz pa at US\$530-700/oz from early 2014. Head grade of 2.7 g/t initially, drops to ~2.4 g/t thereafter. We assume 1.2moz are mined over 10 years and equity of A\$80 million and debt of A\$75 million are arranged next year.
- **Earnings:** We forecast an npat of A\$57 million or A12c in FY2015, the first full year. This is a PER of 3.8x and CFM of 2.8x with the P/NAV at 0.5x, all appealing but to be delivered.
- **Catalysts:** Azumah trades on a discounted US\$106/oz EV/resource vs a sector average of US\$187. Exploration success is a key catalyst we believe and should continue to be very positive. An open register means M&A is possible.
- **Risks:** Resource growth, the timetable and gold price are key risks. Equity & debt markets must be receptive in 2012 and the economics need to be robust.
- **Valuation:** Our A\$0.75 target is based on a mix of 0.8x P/NAV and the average EV/oz resource for the West African explorer sector of US\$187/oz. Our NAV is A\$0.86 with the 0.8x multiple appropriate at this stage of development and is comparable to similar explorers.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 30.



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FY Jun	2012E	2013E	2014E	2015E
EPS (Op) - FD	(0.04)	(0.02)	0.02	0.12
P/E	NM	NM	22.0x	3.7x
CFPS - FD	(0.04)	(0.02)	0.03	0.15
P/CFPS	NM	NM	14.7x	2.9x
Prod.	0	0	36	113
DPS	0.00	0.00	0.00	0.00
Div. Yield	0.0%	0.0%	0.0%	0.0%

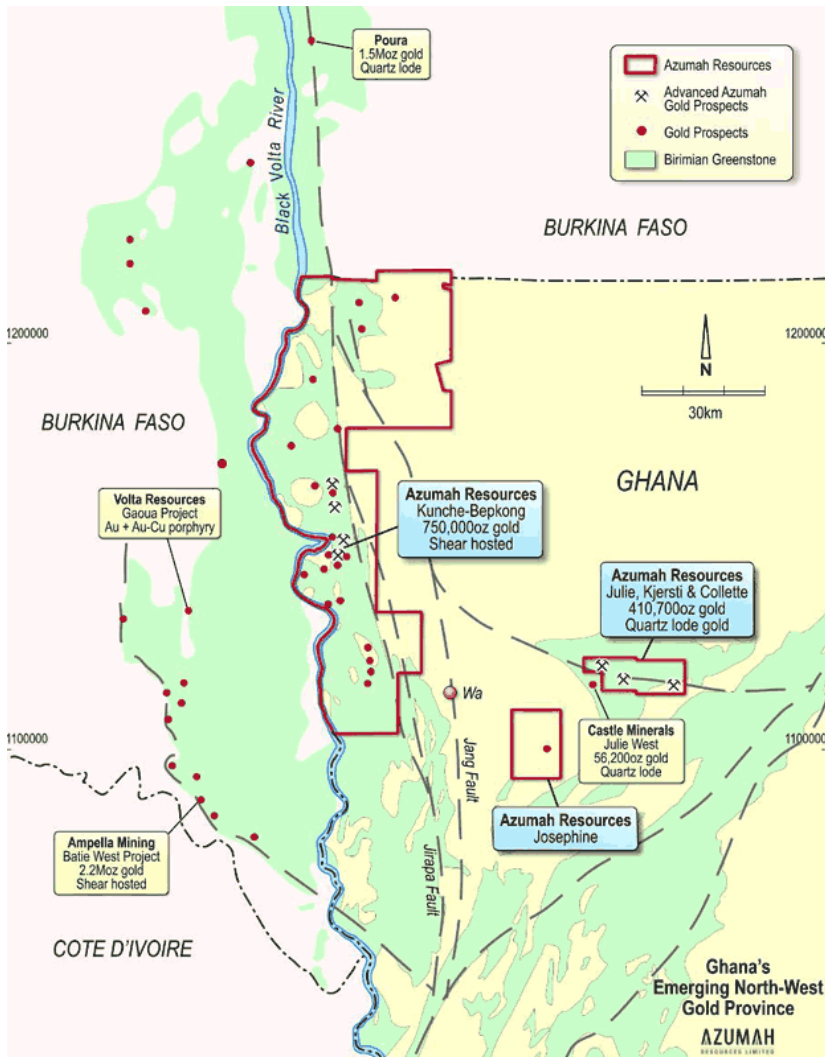
All values in AUD unless otherwise noted.

Targeting Production at Wa Gold in late 2013

Azumah Resources Ltd. is an approximately A\$120 million West African gold explorer based in Perth, Australia that listed on the ASX in 2006 to fund exploration at its Wa-Lawra gold project in Northern Ghana. Since the IPO, the project has expanded in size to now cover an area of 3,100km² with resources of 18Mt at 2.0g/t for ~1.2Moz and renamed the **Wa Gold Project**.

A full feasibility study is assessing a 1.0Mtpa plant to produce 100koz pa from soft oxide ores and then 70-80koz from harder primary ore for six years, with production targeted to start in late 2013. Details of this study are due to be released early next year. An alternative, higher 1.5Mtpa processing rate is being considered at this time. Wa Gold would be the first commercial scale gold mining operation in the emerging north west gold province of Ghana and Ampella's 2.2Moz Battie West deposit lies just south east of it, across the border in Burkina Faso.

Exhibit 1: Location of Azumah Properties in West Africa



Source: Company

Investment Recommendation

Our target price of A\$0.75 per share is based on a mix of P/NPV multiple of 0.8x, and the average EV/oz for the West African explorer sector of US\$187 in our database. The P/NAV multiple is in line with other small cap golds and explorers in our coverage. Azumah is currently priced at an Enterprise Value per resource oz of only US\$106 versus the sector average of US\$187/oz for comparable West African gold explorers. We rate Azumah **Outperform, Speculative risk** and our target implies a 70% return. Our Speculative Risk rating reflects the pre-feasibility stage in which there remains a degree of uncertainty with respect to project scope, permitting, timing and financing requirements.

Azumah is trading on an EV/oz of US\$106 using the current 1.2Moz resource. This figure is well below the average for the 22 companies in our data base, and if a further 0.8Moz can be added to resources medium term, then, on this criteria alone, our target for Azumah should be readily achievable. We believe a 2Moz resource would translate into a reserve of around 1.1Moz, as we assume in our model.

Our conclusion from above is that Azumah will justify our target price if resources grow to 2Moz and reserves of approximately 1.1Moz are delineated.

Potential Catalysts:

- **Reserve / Resource increases:** The prospectivity of the district and success rate to date gives us confidence that more quality ounces will be delineated and resources and reserves should grow.
- **Delivery timetable:** A Full Feasibility Study is due to be released **early next year** and should be a prime share price driver.
- **Exploration success:** A substantial and sustainable A\$15 million per annum program is likely to increase the endowment, in our view.
- **M&A:** The West African gold scene is dominated by multiple, modest-sized explorers and producers listed on the TSX and ASX and the sector is “ripe” for merger activity, in our opinion. Azumah has no controlling block on its register.

Risks:

- **Resource Expansion:** the market is anticipating a steady growth in resources and there is a risk that the share price may get ahead of itself and disappoint due to delays or lower than expected increases. Assay turnaround in Ghana is currently a frustrating six to eight weeks.
- **Political Risk:** West African nations have had volatile political landscapes and although Ghana is relatively settled, there are no guarantees regarding its future.
- **Delivery/Delays:** Delays in the Full Feasibility Study, construction program and ramp up to full production are all risks. In addition, other producers have found that the permitting process has tended to be a slow process in Ghana.
- **Funding:** We believe that Azumah may need to raise equity in the first half of next year and there is a risk that equity markets may be less receptive than at present.
- **Gold Price:** The gold price is currently very attractive for all producers but there is a risk that it could fall in the years ahead. With the economic turmoil in the US and Europe, we rate this chance as very low. Azumah’s share price is most leveraged to the gold price.

Fundamental Valuation

We summarise below our assumptions for modelling parameters at Wa Gold which we apply to our production and earnings forecasts, as well as our NPV. Our base case is the 1.0Mtpa processing rate but we increase plant capacity by 50% to 1.5Mtpa from year three.

We believe that the assumptions are reasonable at this time and delivery of increased resources followed by a ‘solid’ gold reserve would be a key, relatively near term, catalyst for the share price.

Exhibit 2: RBC Assumptions for Wa Gold Project

Wa Gold Project		
Start up		MarQ 2014
Capex - Initial for 1.0 Mtpa	A\$m	150
Capex - Expansion to 1.5 Mtpa	A\$m	30
Mining Method		Open pit
Processing Method		Gravity / CIL
Throughput	Mtpa	1.0 -1.5
Head Grade	g/t	2.4
Recovery	%	90 - 93
Gold Production	koz pa	up to 114
Strip	x	4.8
Cash Cost ex Royalties	US\$/oz	530 - 700
Cash Cost incl. Royalties	US\$/oz	600 - 770
Gold Produced LOM	koz	1,190
Mine Life	years	10

Source: Company, RBC Capital Markets estimates

Initial indications are that the metallurgy will be straightforward and the ore is non refractory. Azumah forecasts that up to 30-40% of gold will be recovered in the gravity circuit, a nice cost saving.

Key modelling assumptions:

- **Mill Throughput:** The base case for Azumah is a nominal 1.0Mtpa plant capacity with the processing of soft oxide ore in the early years allowing throughput to reach 1.4Mtpa and approximately 100koz pa. Harder ore would yield a lesser 70-80koz pa. Azumah is also investigating a higher throughput of 1.5Mtpa. We have decided to commence at the 1Mtpa rate and expand to 1.5Mtpa from year three at a cost of A\$30 million.
- **Head grade:** We are confident that the pit shell grade of 2.16g/t for the life of the mine will rise and we include a grade of 2.7g/t in year one from the starter pit and a life-of-mine grade of 2.4 g/t. Recent drill results have been very encouraging at higher grades and within the outlined pit shell. We discuss this assumption in more detail later in this report.
- **Strip Ratio:** The pit shell assumes a strip ratio of 4.8 to 1 but this figure could drop, as we expect, if there is exploration success high in the orebody sequence. i.e., more ore at higher grade and thus less waste within the pit limits.
- **Cash Costs:** We assume cash costs of approximately US\$40-43 per tonne or approximately US\$530-700/oz pre royalties, a little higher than the US\$590/oz that Azumah forecasts for the pit shell. From our experience and using comparable producers, we believe that these costs are reasonable for this style and size of gold mine in West Africa. Open pit gold mines in West Africa are often 100-200koz pa open pits grading around 2 g/t with moderate cash costs.
- **Mine Life:** the current 18Mt or 1.2Moz resource has been shown to become a reserve of around 600koz based on the company's initial **Pit Optimisation Study**, thus implying a mine life of six years. We believe that management will only proceed with project development if reserves support a mine life of at least six to seven years. Furthermore, bank funding would probably be conditional on such a mine life anyway. The company has published a US\$1,000/oz pit shell containing 569koz at 2.2 g/t which we include elsewhere in this report. A revised pit shell with a higher gold price would no doubt have a higher gold inventory. We use a reserve of 1.2Moz in our financial modelling.
- **Capital Cost:** Azumah forecasts an initial indicative capital cost of US\$135 million, inclusive of owners' costs. Infrastructure at Wa Gold is very good with roads, water and power close by – and the terrain is friendly for construction, roads and dams. We assume an initial capex of A\$150 million for the 1Mtpa plant with a further A\$30 million spent on an expansion to 1.5Mtpa.
- **Tax expense** is at the rate of 25%, the corporate rate in Ghana, but all capital is recoverable before cash tax is payable. On our forecasts, cash tax is deferred for three to four years and first cash tax paid in FY2017. We do, however, include tax expense in the P&L from day one of the operation.

Exhibit 3: Wa Gold Development Timeline

	2011				2012				2013				2014			
	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Development Studies	█				█											
Design & Engineering					█				█							
Financing					█				█							
Permitting & Approvals									█							
Contracts & Construction									█				█			
Commissioning & Production													█			

Source: Company

The timetable for the development of Wa Gold as published by Azumah is shown in the exhibit above, beginning with delivery of what we term the Full Feasibility Study (“Development Studies”) in early 2012, through to contracts and construction from mid 2012 to late 2013 when production commences. These targets are those forecast by Azumah and we comment on our timetable and assumptions elsewhere.

In the Exhibit below, we summarise **our valuation of Azumah**. Our fundamental valuation of Azumah is based on a DCF using a discount rate of 10%, or 8% real, and a gold price ranging from US\$1,700-1,300/oz from FY2014-FY2016 and US\$1,200/oz long term from FY2017. The long-term exchange rate for the A\$US\$ is 0.80. Based on our assumptions, we derive a NAV for Azumah of A\$243 million or A\$0.86 per share.

Exhibit 4: RBC Valuation of Azumah

SHARE VALUATION			
Projects	Ownership	A\$MM	A\$/Shr
Wa Gold	90%	238	0.84
Exploration		50	0.18
Debt		0	0.00
Cash		18	0.06
Investments		1	0.00
Corporate & Unallocated		(64)	(0.23)
Net Asset Value		243	0.86
			P/NPV
			0.51

Source: Company, RBC Capital Markets

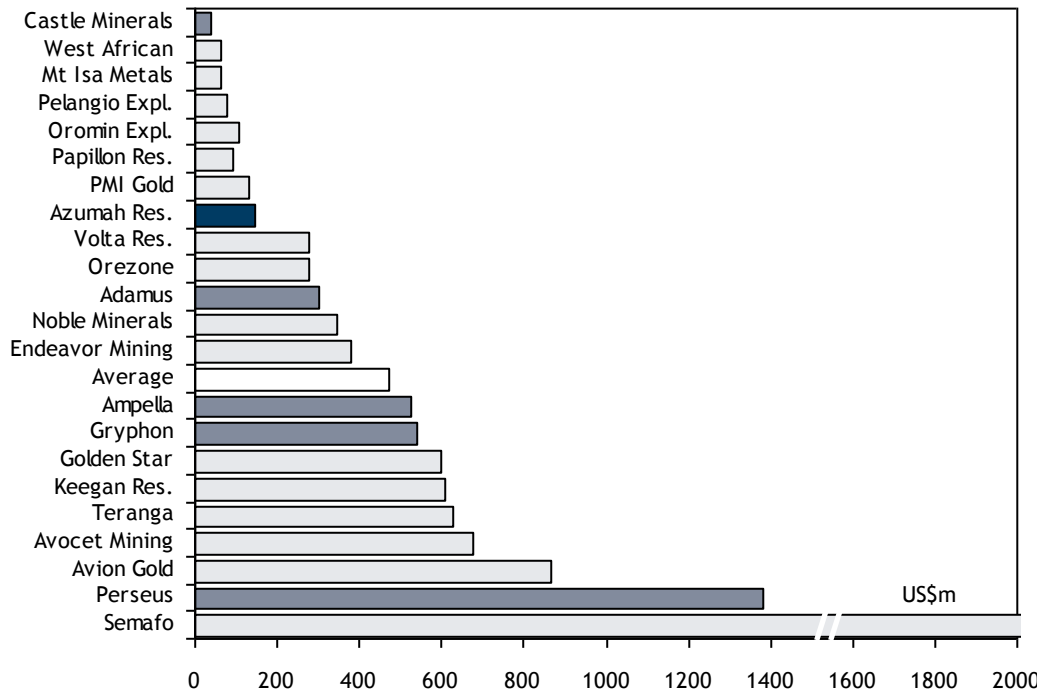
Relative Valuation

We benchmark Azumah against comparable West African and global gold explorers and producers, as well as RBC’s coverage of global exploration companies. We begin with our West African group of 24 companies but omit IAMGOLD (US\$7.2 billion) and Randgold (US\$8.4 billion) in some exhibits due to their relative size as major producers.

The market capitalisation of the group, inclusive of the two majors, is US\$26 billion and the group holds US\$2.3 billion in cash, offset by only US\$0.4 billion in debt. It is obvious that exploration/mining companies in West Africa are largely equity funded.

Group resources total a substantial 113Moz grading on average 1.8g/t. The subset of reserves total 48Moz, grading 1.9g/t. Azumah’s Wa Gold deposit has a resource of 1.2Moz grading 2.0g/t which is marginally above the West African average. We begin our comparatives with **market capitalisation and highlight Azumah** and comparable ASX golds and Castle Minerals.

Exhibit 5: West African Gold Miners and Explorers - Market Cap (US\$m)

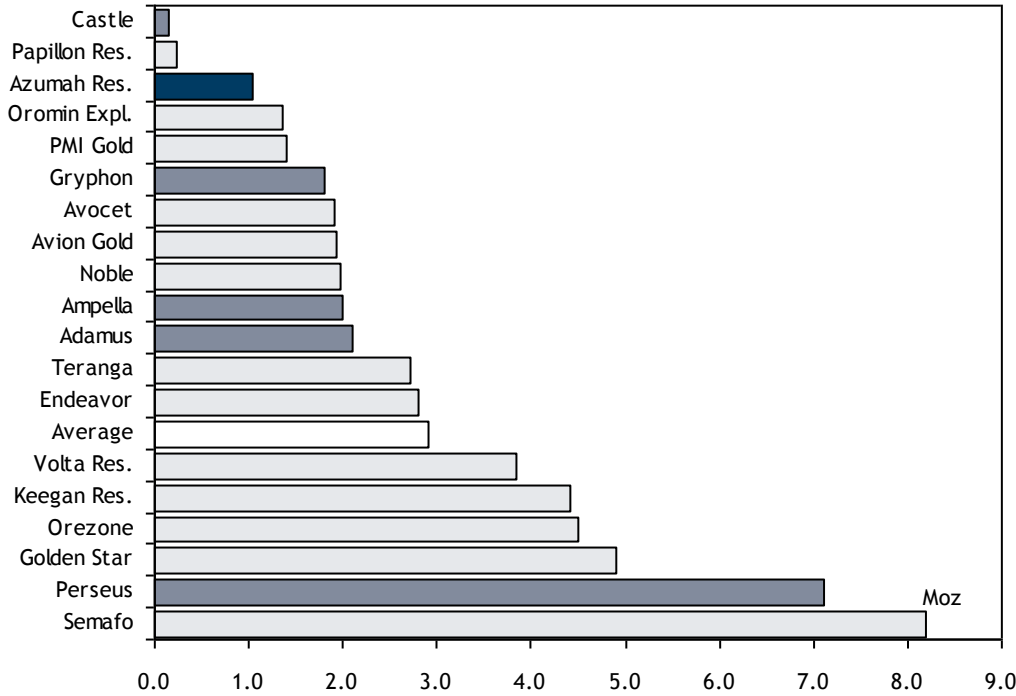


- Azumah’s market cap of ~A\$120m is well below the average for the group.
- SEMAFO at US\$2.2bn is by far the largest West African gold producer outside of IAMGOLD and Randgold.
- The 24 companies have a combined market cap of US\$26bn and IAMGOLD and Randgold are each capitalised between US\$7-9bn.

Source: Bloomberg, Companies, RBC Capital Markets (as at 23 August 2011)

The next Exhibit looks at **total gold resources** defined as measured and indicated plus inferred.

Exhibit 6: West African Gold Miners and Explorers - Resource (M+I+I) (Moz)



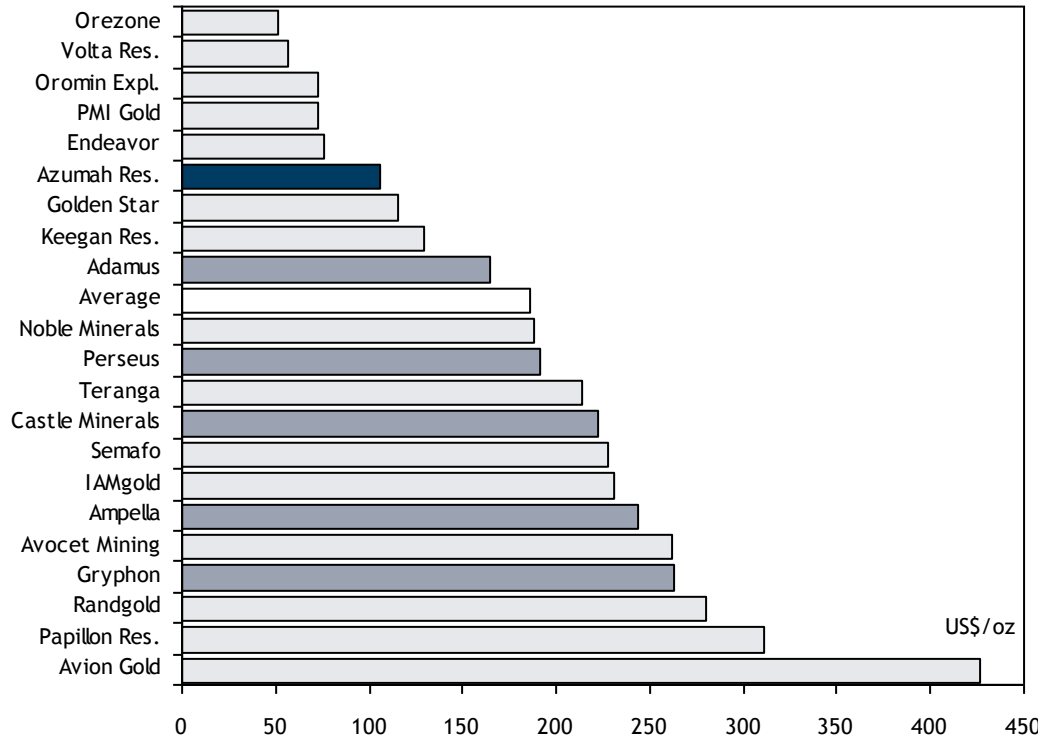
- Azumah’s current 1.2Moz resource is relatively small but an A\$15m exploration program should ensure it grows in time.
- The 22 companies have resources totalling 57.5Moz, with a further 58.2Moz in the hands of IAMGOLD and Randgold.
- On average, the 22 companies (ex IAMGold and Randgold) have 2.5Moz in resources, double that of Azumah.

Source: Bloomberg, Companies, RBC Capital Markets

Our final Exhibit looks at **Enterprise Value per oz of resource**. This valuation tool is the one most commonly used for West African explorers at the pre-production stage.

The EV/oz for Azumah of US\$106/oz based on the current 1.2Moz resource is much lower than the group average of US\$187/oz. We believe that Azumah has a very good chance of discovering at least 2Moz on its tenements which would positively impact its rating.

Exhibit 7: West African Gold Miners and Explorers - EV/Resource (US\$/oz)



- Azumah’s US\$106/oz is at the cheaper end of the spectrum.
- ASX listed comparative companies, Gryphon, Perseus, Ampella and Adamus have multiples ranging from US\$165/oz for Adamus up to US\$263/oz for Gryphon.
- For the majors, Randgold is rated at US\$280/oz and IAMgold at US\$230/oz.

Source: Bloomberg, Companies, RBC Capital Markets (as at 23 August 2011)

In the Exhibit below, we compare Azumah to the various tier groups in **RBC's global gold database**. In our view, the company's valuation is discounted due to its early stage development and size of its resource but is broadly in line with 'emerging producers' on the basis of P/NAV and EV/oz criteria.

It is notable that the very large Tier 1 golds, producing in excess of 1Moz pa, are rated at a modest US\$208/oz of resource, lower than Tier 2 and 3 producers. Size isn't everything.

Exhibit 8: West African Gold Miners and Explorers Comparison

	P/NAV	EV/Rsv US\$/oz	EV/Rsc US\$/oz	Rsc/Rsv x
Tier 1s (>1Moz)	1.64	338	208	1.86
Tier 2s (250koz-1Moz)	1.70	457	348	1.30
Tier 3s (<250koz)	1.11	646	307	3.34
Emerging	0.73	184	122	1.40
Azumah	0.51	195	106	2.05

Source: Bloomberg, Companies, RBC Capital Markets estimates (as at 23 August 2011)

- Azumah's US\$106/oz is at the cheaper end of the spectrum.
- Emerging producers are rated, on average, at US\$122/oz but there is a very wide range.
- Azumah is trading on a P/NAV of 0.51, a slight discount to the emerging group and probably due to the modest size of the resource.
- Assuming a pit reserve of 0.6Moz, Azumah is on an EV/oz of US\$195, again a small premium to the explorer group.

Financials Statements

Azumah is an advanced exploration company at the pre-feasibility stage at Wa Gold and as such, we believe its accounts are very straightforward and not especially relevant to an investment decision today. Cash and investments as at June 30, 2011, were A\$25.3 million and there is no debt. **Azumah has a June year end** and accounts are denominated in A\$, even though the US\$ is the operating currency in Ghana.

Profit & Loss Account

Azumah reported an accounting loss of A\$10.8 million for the six months to 31 Dec 2010 after a similar loss in FY2010. There are no special features in the P&L accounts other than A\$8 million of exploration written off in the first half of FY2011 and a similar figure in FY2010.

As an exploration company in the pre-production phase, we continue to forecast accounting losses through FY2013 until production from Wa Gold gets underway. We forecast a maiden profit of A\$11 million or A2.3¢/share in FY2014 assuming a gold price of US\$1,700/oz.

Exhibit 9: Commodity Assumptions

ASSUMPTIONS		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Exchange Rate	A\$/US\$	0.88	0.99	1.02	0.98	0.94	0.91
Gold Price	US\$/oz	1,092	1,373	1,778	1,800	1,700	1,500
Spot Gold Price	A\$/oz	1,236	1,385	1,748	1,838	1,807	1,647
Realised Gold Price	A\$/oz	1,236	1,385	1,748	1,838	1,807	1,647
Realised Gold Price	US\$/oz	1,092	1,373	1,778	1,800	1,600	1,501

Source: Company, RBC Capital Markets estimates

The corporate tax rate in Ghana is 25% while a royalty of 5% of revenue is payable to the government on gross sales. No royalties are payable to other parties. Production is assumed to commence in January CY2014 i.e., halfway through the FY2014 year and thus the FY2015 net profit of A\$57 million is the first full year's profit.

Exhibit 10: Azumah Profit & Loss Statement

PROFIT & LOSS		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Revenue	A\$MM	0	0	0	0	63	187
Operating costs	"	0	0	0	0	(21)	(65)
Mine Operating Surplus	"	0	0	0	0	42	122
Royalties	"	0	0	0	0	(3)	(10)
Exploration Expense	"	(8)	(17)	(8)	(5)	(4)	(3)
Corporate and Other	"	(3)	(5)	(5)	(5)	(8)	(10)
EBITDA	"	(11)	(22)	(13)	(10)	27	98
D&A	"	(0)	(0)	0	0	(6)	(19)
Operating Income (EBIT)	A\$MM	(11)	(22)	(13)	(10)	21	80
Net Interest (Expense) / Gain	"	0	0	0	1	(4)	(3)
Pre Tax Profit	"	(10)	(22)	(12)	(9)	17	76
Tax Expense	"	0	0	0	0	(6)	(19)
Minorities	"	0	0	0	0	0	0
Underlying Net Profit	A\$MM	(10)	(22)	(12)	(9)	11	57

Source: Company, RBC Capital Markets estimates

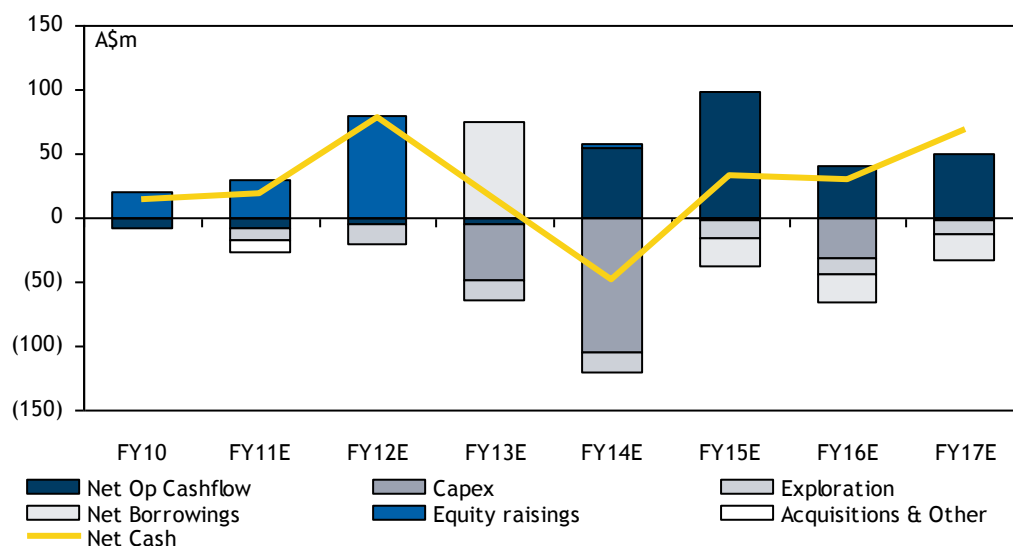
Cash Flow

As with all explorers, cash burn is the crucial factor to watch at present. In the 12 months to June 2011, Azumah spent A\$14 million on exploration, A\$2 million on fixed assets and A\$2 million on administration costs with no taxes paid. A further A\$9 million was spent on equity investments. Over the year, A\$30 million of new equity was raised at A60¢/share, up from A\$20 million raised in FY2010.

The Cash Flow Exhibit below graphically shows **our forecast equity raisings of A\$80 million late in FY2012**. The capital raising, representing approximately 65% of the current market cap, is forecast to occur later in the first half of 2012 once the Full Feasibility Study is completed. We assume that equity is raised at a 10% discount to the current price and 200 million new shares issued.

A\$150 million of capex is spent in the 24 months beginning late calendar 2012 and initial operating cash flow begins early in CY2014. We assume that the **A\$75 million of debt** is drawn down in late FY2013 and repaid over a three-year period beginning in the December 2014 half year. Azumah moves from a net debt position in FY2014 to a net cash position thereafter. The company has provided no detailed guidance or timing on funding options at this time.

Exhibit 11: Azumah Cash Flow to FY2017E



Source: Company, RBC Capital Markets estimates

Exploration spend is forecast by the company to rise to a healthy A\$15 million this year as it gears up to complete infill drilling for its full feasibility study on the Wa Gold project, due early 2012. Exploration spending at new project areas such as **Josephine** is increasing. We assume a similar annual spend through FY2015.

No **cash tax** is projected to be paid prior to FY17, the fourth year of production. Taxes will then be payable at the statutory rate of 25%, but we provide full tax expense at 25% in the P&L from day 1.

Exhibit 12: Azumah Cash Flow Statement

CASH FLOWS		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Operating Cash Flow	A\$MM	(8)	(8)	(5)	(5)	31	101
Net Interest Expense & Other	"	0	0	0	1	(4)	(3)
Tax Paid	"	0	0	0	0	0	0
Retained Op. Cash Flow	A\$MM	(8)	(8)	(5)	(4)	55	98
Capex	"	(0)	(1)	0	(45)	(105)	(1)
Exploration	"	0	(9)	(15)	(15)	(15)	(15)
Acquisitions & Other	"	0	(9)	0	0	0	0
Funding Surplus/(Deficit)	A\$MM	(8)	(26)	(20)	(64)	(65)	82
Dividends Paid	"	0	0	0	0	0	0
Borrowings	"	0	0	0	75	0	0
Loan Repayments	"	0	0	0	0	0	(21)
Equity Issues	"	20	30	80	0	3	0
Other	"	0	0	0	0	0	0
Total Funds Provided	A\$MM	20	30	80	75	3	(21)
Net change in cash	"	12	4	60	11	(62)	61
Cash at start of year	"	2	14	18	78	89	26
Exchange Rate Adjustments	"	(0)	(0)	(0)	(0)	(0)	(0)
Cash at end of year	A\$MM	14	18	78	89	26	87

Source: Company, RBC Capital Markets estimates

Balance Sheet

At 30 June 2011, Azumah had cash of A\$18 million, down from A\$32 million at December 2010. Receivables and plant & equipment are minor amounts and there are no tax losses or deferred tax assets on the balance sheet. We assume a working capital build of A\$20 million in early CY2014 when commissioning commences.

Total equity at December 2010 was A\$36 million comprising A\$70 million of equity, A\$4 million of reserves and A\$38 million in accumulated losses.

Azumah has had a handful of capital raisings over the past two years, including:

- **Oct 2010:** A\$30million raised at A60¢ per share to fund an aggressive exploration drive at Wa Gold
- **May 2010:** A\$11.6 million at A40¢ per share
- **Nov 2009:** A\$4 million at A20¢ per share
- **May 2009:** A\$5 million at A9¢ per share

Azumah has no debt and there are no significant **liabilities** or provisions on the balance sheet.

Exhibit 13: Azumah Balance Sheet

BALANCE SHEET		FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Cash & equivalents	A\$MM	14	18	78	89	26	87
Other current assets	"	0	0	0	0	20	20
PP&E & Other Mining Assets	"	0	1	1	46	145	127
Capitalised Exploration	"	0	0	8	17	29	41
Other Non Current Assets	"	0	10	10	10	10	10
Total assets	A\$MM	14	29	96	162	229	284
Total liabilities	"	2	2	2	77	91	89
Total Net Assets	A\$MM	13	27	94	85	138	195
Total Debt	"	0	0	0	75	75	54
Net Debt (Cash)	A\$MM	(14)	(18)	(78)	(14)	49	(33)
Gearing (net debt:nd+ equity)	%				(19%)	33%	(27%)
Gearing (net debt:equity)	%				(16%)	49%	(21%)

Source: Company, RBC Capital Markets estimates

Share Register

Azumah is listed on the Australian Stock Exchange only and has 281.65 million ordinary shares outstanding. There are also almost 10 million options outstanding, exercisable between A\$0.14 and A\$0.92, with expiry dates running from January 2012 through to December 2013.

Management holds about 2% of the issued capital and there are four institutions with more than 5% each. The top 20 shareholders own some 64% of the shares outstanding. Share volumes have averaged almost one million shares per day over the past 12 months; this is equivalent to the company's current market cap over this period. The share price has ranged from a low of A\$0.38 to a high of A\$0.82 over the past 52 weeks.

Exhibit 14: Azumah Production & Earnings forecasts

Azumah Resources																												
ASX: AZM	281.7	Share Price: (A\$)	0.44	Stock Rating: Outperform	Return 10%	Price Target: A\$0.75																						
Issued Shares (m)		Market Cap: (A\$M)	123.9	Risk Qualifier: Speculative		NAV:	A\$0.86																					
Fiscal Year Ended June																												
ASSUMPTIONS																												
Exchange Rate	AS/US\$	0.88	0.99	1.02	0.98	0.94	0.91	ATTRIBUTABLE MINE STATS								FY10	FY11E	FY12E	FY13E	FY14E	FY15E							
Gold Price	US\$/oz	1,092	1,373	1,778	1,800	1,700	1,500	Wa Gold (100%)																				
Spot Gold Price	AS/oz	1,236	1,385	1,748	1,838	1,807	1,647	Ore milled								Mt						0.5	1.4					
Realised Gold Price	AS/oz	1,236	1,385	1,748	1,838	1,807	1,647	Head grade								g/t							2.7	2.6				
Realised Gold Price	US\$/oz	1,092	1,373	1,778	1,800	1,600	1,501	Recovery								%							0.9	93%				
RATIO ANALYSIS																												
Shares - period end (DE)	MM	227	291	491	491	491	491	Gold produced (100%)								koz							36	113				
Net profit (pre 1-offs)	A\$MM	(10)	(22)	(12)	(9)	11	57	Gold produced (90% attributable)								koz								33	102			
EPS - fully diluted	A¢	(5.7)	(8.0)	(3.7)	(1.9)	2.3	11.7	Group																				
P/E	x	n.m.	n.m.	n.m.	n.m.	19.4x	3.8x	Gold produced (100%)								koz								36	113			
CFPS	A¢	(5.7)	(8.0)	(3.7)	(1.9)	3.5	15.5	Cash costs ex royalty								US\$/oz								533	524			
P/CF	x	n.m.	n.m.	n.m.	n.m.	12.7x	2.8x	Cash costs incl royalty								US\$/oz								620	606			
Dividend per share	A¢	0.0	0.0	0.0	0.0	0.0	0.0	Cash Margin								US\$/oz								980	895			
Franking	%	100%	0%	0%	0%	0%	0%	Reserves & Resources																				
Dividend yield	%	0%	0%	0%	0%	0%	0%									M+I Resources				Inferred								
Payout Ratio	%	0%	0%	0%	0%	0%	0%									Mt	g/t	koz	Mt	g/t	koz							
Effective Tax Rate	%	0%	0%	0%	0%	36%	25%									9.4	2.1	646	8.6	1.9	519							
Book value per share	A¢	5.6	9.3	19.1	17.3	28.1	39.7									Wa Gold (100%)						(Azumah interest 90%)						
P/Book value	x	7.8x	4.7x	2.3x	2.5x	1.6x	1.1x									Group Totals						Total including inferred						
R.O.E.	%	n.m.	n.m.	n.m.	n.m.	8%	29%																					
R.O.A.	%	n.m.	n.m.	n.m.	n.m.	5%	20%																					
EBITDA per share	A\$	(0.06)	(0.08)	(0.04)	(0.02)	0.06	0.20																					
EV/EBITDA	x	n.m.	n.m.	n.m.	n.m.	4.1	1.1																					
PROFIT & LOSS																												
Revenue	A\$MM	0	0	0	0	63	187	EV / oz Total Resource									US\$/oz	106	(90% interest)									
Operating costs	"	0	0	0	0	(21)	(65)	EARNINGS SENSITIVITY (NPAT)																				
Mine Operating Surplus	"	0	0	0	0	42	122									A\$m				%								
Royalties	"	0	0	0	0	(3)	(10)									FY14	FY15	FY14	FY15									
Exploration Expense	"	(8)	(17)	(8)	(5)	(4)	(3)									Gold Price US\$/oz	+10%	9.8	56.7	(12%)	(1%)							
Corporate and Other	"	(3)	(5)	(5)	(5)	(8)	(10)									Exchange Rate	+10%	4.3	39.9	(61%)	(30%)							
EBITDA	"	(11)	(22)	(13)	(10)	27	98	ANNUAL PRODUCTION & CASH COSTS																				
D&A	"	(0)	(0)	0	0	(6)	(19)																					
Operating Income (EBIT)	A\$MM	(11)	(22)	(13)	(10)	21	80	CASH FLOW																				
Net Interest (Expense) / Gain	"	0	0	0	1	(4)	(3)																					
Pre Tax Profit	"	(10)	(22)	(12)	(9)	17	76	SHARE VALUATION																				
Tax Expense	"	0	0	0	0	(6)	(19)									Projects				Ownership				A\$MM		A\$/Shr		
Minorities	"	0	0	0	0	0	0									Wa Gold				90%				238		0.84		
Underlying Net Profit	A\$MM	(10)	(22)	(12)	(9)	11	57									Exploration								50		0.18		
Sign Items after tax	"	0	0	0	0	0	0									Debt								0		0.00		
Reported Net Profit	A\$MM	(10)	(22)	(12)	(9)	11	57									Cash								18		0.06		
EPS	A¢	(6.1)	(8.4)	(3.8)	(2.0)	2.3	11.7									Investments								1		0.00		
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0									Corporate & Unallocated								(64)		(0.23)		P/NPV
CASH FLOWS																												
Operating Cash Flow	A\$MM	(8)	(8)	(5)	(5)	31	101	Net Asset Value									243		0.86		0.51							
Net Interest Expense & Other	"	0	0	0	1	(4)	(3)																					
Tax Paid	"	0	0	0	0	0	0																					
Retained Op. Cash Flow	A\$MM	(8)	(8)	(5)	(4)	55	98																					
Capex	"	(0)	(1)	0	(45)	(105)	(1)																					
Exploration	"	0	(9)	(15)	(15)	(15)	(15)																					
Acquisitions & Other	"	0	(9)	0	0	0	0																					
Funding Surplus/(Deficit)	A\$MM	(8)	(26)	(20)	(64)	(65)	82																					
Dividends Paid	"	0	0	0	0	0	0																					
Borrowings	"	0	0	0	75	0	0																					
Loan Repayments	"	0	0	0	0	0	(21)																					
Equity Issues	"	20	30	80	0	3	0																					
Other	"	0	0	0	0	0	0																					
Total Funds Provided	A\$MM	20	30	80	75	3	(21)																					
Net change in cash	"	12	4	60	11	(62)	61																					
Cash at start of year	"	2	14	18	78	89	26																					
Exchange Rate Adjustments	"	(0)	(0)	(0)	(0)	(0)	(0)																					
Cash at end of year	A\$MM	14	18	78	89	26	87																					
Net Op. CFPS	A¢	(5)	(3)	(1)	(1)	11	20																					
BALANCE SHEET																												
Cash & equivalents	A\$MM	14	18	78	89	26	87																					
Other current assets	"	0	0	0	0	20	20																					
PP&E & Other Mining Assets	"	0	1	1	46	145	127																					
Capitalised Exploration	"	0	0	8	17	29	41																					
Other Non Current Assets	"	0	10	10	10	10	10																					
Total assets	A\$MM	14	29	96	162	229	284																					
Total liabilities	"	2	2	2	77	91	89																					
Total Net Assets	A\$MM	13	27	94	85	138	195																					
Total Debt	"	0	0	0	75	75	54																					
Net Debt (Cash)	A\$MM	(14)	(18)	(78)	(14)	49	(33)																					
Gearing (net debt:nd+ equity)	%				(19%)	33%	(27%)																					
Gearing (net debt:equity)	%				(16%)	49%	(21%)																					

Source: Company reports, RBC Capital Markets estimates



Principal M&A transactions in West Africa

The West African gold sector is characterised by an abundance of relatively modest-sized explorers and producers and thus is ripe for corporate activity.

There have been a reasonable number of M&A transactions over the past few years, the most high profile being last year's US\$7 billion takeover of Canada's Red Back Mining by Kinross Gold. Through that takeover, Kinross acquired the world scale Tasiast project in Mauritania for US\$723/oz, based on the (then) resource of approximately 9Moz. Subsequently, the resource has doubled thus reducing the acquisition multiple significantly. Relatively recent notable M&A transactions are summarised:

1. Kinross acquisition of Redback Mining

In August 2010, Kinross Gold Corp undertook a US\$7.1 billion merger with Red Back Mining, and paid US\$723/oz resource - at the time the RBC average for transactions was US\$239/oz. The sum was seen as very full, but the Tasiast resource grew to 18.3Moz which we believe went a long way to verifying the Kinross premium.

2. Avocet acquisition of Wega Mining

In April 2009, UK's Avocet Mining took over Wega Mining of Norway, 90% owner of the 120kozpa Inata gold project in Burkina Faso valued at US\$78 million.

3. IAMGOLD takeover of Orezone

Canadian gold major, IAMGOLD, acquired explorer Orezone in a US\$139 million deal in December 2008, a substantial 91% premium. The transaction's all-in acquisition cost was US\$490 per recoverable oz.

4. Newcrest acquisition of Lihir, including Bonikro

When Newcrest paid A\$10.5 billion for Lihir Gold in September 2010, it acquired the Bonikro mine and a very substantial suite of exploration tenements throughout Cote D'Ivoire. Bonikro had a resource of 2Moz with production, approximately 120koz pa, and was valued at approximately US\$625 million in the Expert's valuation.

5. Endeavor merger with Adamus

A merger of equals was proposed on 22 August, 2011 between the US\$281 million Endeavour (TSX:EDV, not rated, C\$) and US\$315 million Adamus (ASX:ADU, not rated, A\$) to form a 172koz pa producer at approximately US\$600/oz building to 250koz pa by late 2013. Endeavour has US\$195 million in cash and securities and owns the Youga mine in Burkina Faso and the Agbaou project in Cote d'Ivoire which is targeted for 2014. Adamus recently commissioned the Nzema gold mine in Ghana and has 276koz hedged at US\$1,075/oz plus debt.

Company History since Listing in 2006

Azumah Resources was listed on the ASX in January 2006, raising A\$6 million at A20¢ per share to fund exploration at its **Wa-Lawra** gold project in Ghana, West Africa. At the time of the IPO, the Wa-Lawra project covered 2,177km² in north western Ghana, and had an inferred resource of 225koz at the **Kunche** deposit.

Limited and mostly early stage exploration had been undertaken over the project area by prior owners during the 1990's and it was the aim of Azumah following the IPO to aggressively explore its tenement package and ultimately develop a gold project. Prior explorers include a Russian group in the 60s and 70s and BHP Billiton in the 80s. In the 2000s, Newmont undertook early stage exploration in the region including into Burkina Faso.

Soon after the IPO, Azumah's acreage expanded by 680km² with the acquisition of Phoenix Resources, a Ghanaian registered company. In September 2006, exploration proved fruitful with the project's resource at Kunche increasing 129% to 8.5Mt at 1.9g/t for 516koz.

Two years later, in September 2008, a maiden resource was declared for the nearby **Bepkong** deposit at Wa-Lawra of 2.97Mt at 2.2g/t for **212koz**. This resource, along with smaller delineations at two other deposits, brought total project resources to 12Mt at 1.9g/t for **754koz**, all within 175m of surface.

In March 2009, Azumah acquired the nearby **Wa Project** from TSX listed Crew Gold Corp. (now not listed) for an initial 6 million shares and a 1% royalty. These shares were subsequently placed into the market by Crew.

The Wa Gold Project now comprised 300km² across three prospecting licences, **Julie**, **Collette** and **Josephine**, and lies 75km east of Azumah's Wa-Lawra project. The acquisition boosted Azumah's acreage to approximately 3,100km² and Azumah's project was then renamed the **Wa Gold Project**.

Exhibit 15: Azumah Resources price history - Time line since July 2007



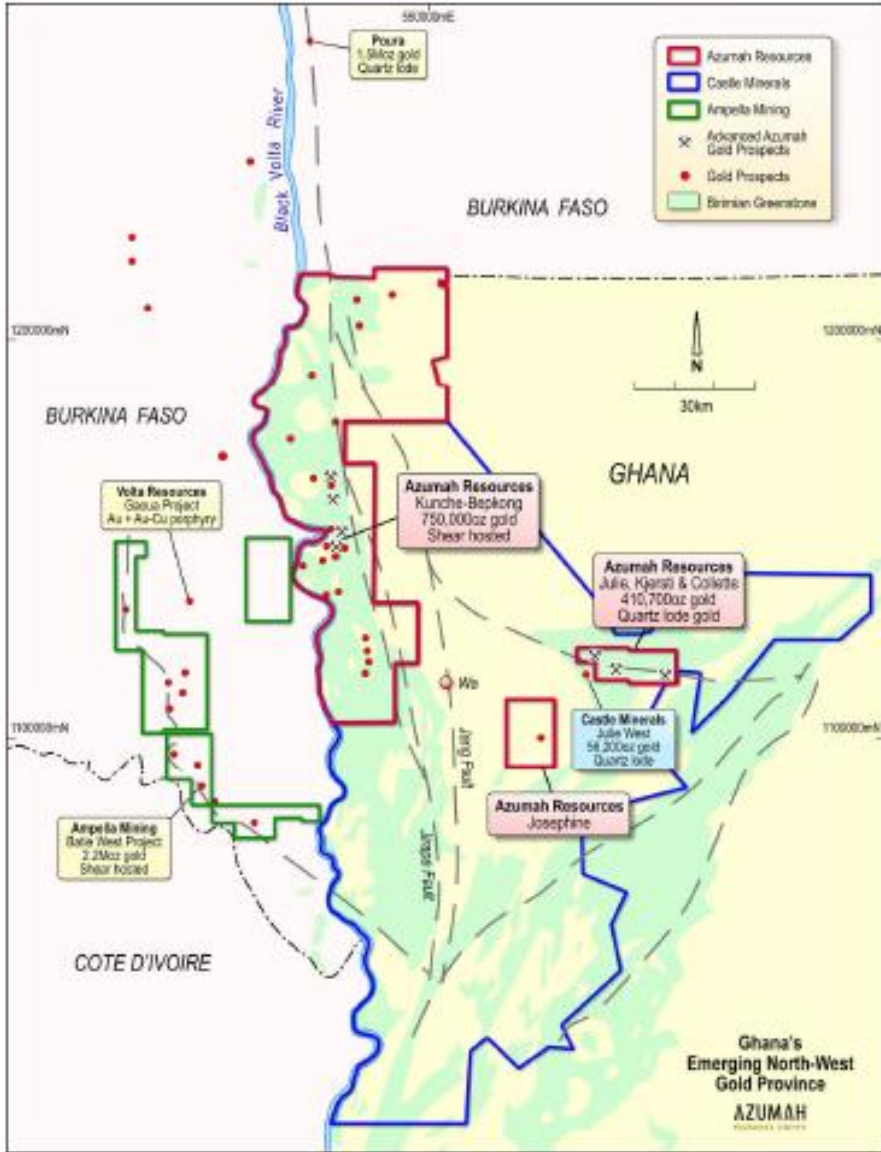
Source: IRESS

By early 2010, the total resource at Wa Gold increased to over 1.1Moz after a maiden resource of 350koz was delineated at **Julie**. Project resources have since increased to their current level of **18Mt at 2.0g/t for 1.165Moz**.

In May this year, Azumah bought a strategic 11% stake in ASX listed Ghanaian gold explorer **Castle Minerals** (ASX: CDT, A\$0.33, not rated). Castle has tenements throughout Ghana but its main project is the 12,000km² Wa project in northwest Ghana (the same name) which borders Azumah’s Wa Gold project. Castle’s structure runs into the Azumah tenements. The stake was subsequently increased in June to 15.23% but then diluted back to 13.4%. Azumah views its stake in Castle as an option on any consolidation in the West African gold sector.

Azumah Managing Director Stephen Stone said “the Company viewed the holding as a strategic investment that would increase Azumah’s options should any of the growing market-based speculation about consolidation in the West African gold sector unfold”.

Exhibit 16: Azumah tenement package (red border) & Castle tenement package (blue border)



Source: Company

Ghana, the Country



Ghana is a **former British colony** in West Africa that achieved independence in 1957. The country covers an area of **approximately 239,000km²** and is bordered by Burkina Faso to its north, Cote d'Ivoire to the east and Togo to its west. The country is relatively flat with more than half the country less than 200m above sea level.

Ghana's **population** exceeds 24 million with over four million in the nation's capital, Accra. Ghana is a republic and executive power lies with the elected President for a four-year term. Legislative power is vested in a single chamber of parliament that is also elected for a four-year term. It is a former British colony, and English is the official language.

A defining feature of the country is **Lake Volta, the world's largest artificial lake**. The lake was created in 1964 by the construction of the Akosombo Dam and provides electricity for industrial and domestic uses. The climate is tropical and the **wet seasons** are March to July and September to October.

Ghana's **GDP was estimated to be US\$31 billion in 2010**. Services is the most important sector, accounting for 40% of GDP but agriculture is also very important, providing roughly one third of the nation's income and employing more than half of the workforce. Industry, including **mining**, manufacturing, construction and electricity, accounts for approximately 30% of GDP.

The country's **main exports are gold**, cocoa, timber, bauxite, manganese, salt and diamonds. **Gold accounted for 42% of all exports in 2009** while cocoa typically provides about one third of all exports. Ghana's gold exports rose to US\$2.9 billion in 2009 and production was 90 tonnes that year, rising to US\$3.6bn and 2.97Moz in 2010.

Exhibit 17: West Africa and Ghana



Source: Magellan Geographix

Gold Mining in Ghana:

Ghana has had a long history of mining, especially for gold. Gold from West Africa was traded to Europe as early as the 10th century. Most of this gold came by Sahara caravan, the original sources being the kingdoms of Ghana, Mali and Songhai. In the 15th century, the Portuguese came to Ghana and found so much gold that they named the place Mina - meaning mine.

Nowadays, Ghana has a well established mining sector and is home to some of the largest mines in Africa, outside of South Africa. Gold is by far the most important mineral export for the country and the focus of most exploration. Almost all of the gold mining takes place in the southwest of the country and the largest and better known mines include:

1. **Obuasi (AngloGold):** One of the oldest mines in the world, with mining taking place for over 110 years, beginning in 1897. Nowadays, underground mining is down to a depth of 1.5km, though some surface mining still takes place. Production has been between 500-580koz pa since 2008, while cash costs were relatively high at US\$744/oz last year. Despite its age, the mine still

has a very large gold endowment with remaining gold resources being a substantial 30Moz. AngloGold also operates the Iduapriem open-cut mine in Ghana which produced 185koz at a cash cost of US\$666/oz in 2010.

2. **Tarkwa (Gold Fields):** Currently Ghana's largest gold mine, this is a multiple open-pit operation which produced 720koz in FY2010 at a cash cost of US\$536/oz. The ore body consists of a series of sedimentary blanket quartz reef units of the Tarkwain System that are similar to those mined in the Witwatersrand Basin of South Africa. Currently, ore is mined from open pits and there is potential for underground mining in the future. Tarkwa has a large resource of 15.3Moz with reserves of 9.9Moz.
3. **Ahafo (Newmont):** Newmont acquired this property when it took over ASX listed Normandy Mining Ltd in 2002. The multiple open-pit operation began producing in 2006 and by 2010, production reached 545koz at US\$450/oz with reserves a still significant 10Moz. Newmont's **Akyem** project has the potential to produce 8-9Moz of gold over its life and a construction decision is pending with production targeted for 2013-14.
4. **Bibiani (Noble Minerals):** This is an old mine with a long history. While the current open pit was commissioned in 1998 by Ashanti Goldfields, operations began way back in 1902. Noble acquired Bibiani from Central African Gold Ghana in mid 2010 and production is set to recommence later this year, ramping up to +150koz pa. It has a resource of 2.0Moz including 605koz of reserves with a 10-year mine life based on current mining parameters.
5. **Bogoso/Prestea (Golden Star Resources):** The mine has a very long and productive history dating back to 1873 when Prestea was mined. Mining has been in existence at Bogosa since the early 20th century and to date, over 13Moz of gold have been mined from both properties. In 2010, the mine produced 171koz of gold at a cash cost of US\$863/oz with reserves of 3.8Moz.
6. **Nzema (Adamus):** Production began in January this year at one of the newest gold mines in Ghana. It produced 26koz at US\$544/oz in its first quarter. Going forward, Nzema is expected to produce 100koz pa for over ten years.
7. **Other nearby Projects:** **Ampella** has a proposed open pit project in nearby Burkino Faso and **Gryphon** has its proposed Banfora Project in Eastern Burkino Faso.

The Birimian Greenstone Belt

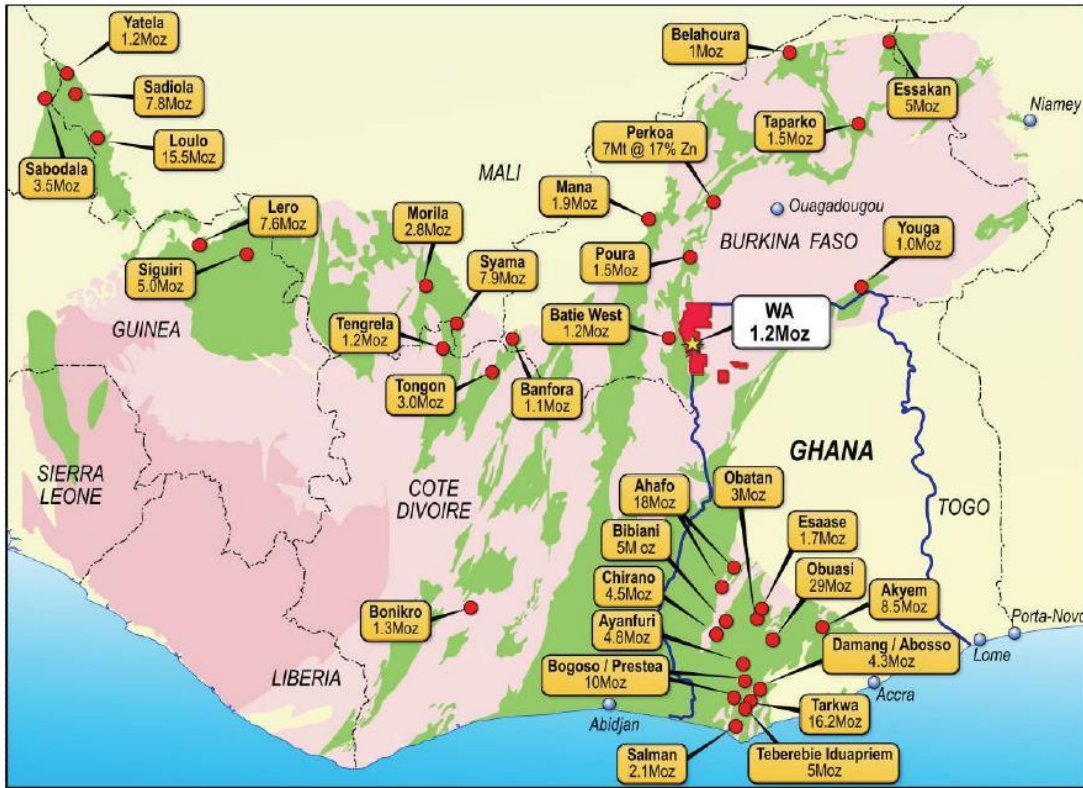
The Birimian Volcanic Greenstone Belt is a major gold province in the world and this massive geological formation spans from Central to West Africa. It has a prolific history of gold mineralisation and straddles many countries, ranging from Ghana in the east through Senegal and Liberia in the west.

The Belt contains multiple open pit orebodies and underground mines and it has a long history, dating back to mining in Ghana at the end of the 19th century. The modern era began in the 1980's with the discovery of previously unknown very fine gold.

The belt is the home to many prominent major projects owned by the world's largest producers:

- **Newmont** has 17 million oz at its Akyem and Ahafo deposits in Ghana – some 20% of group total. The company is very positive on its West African “growth story” and forecasts that its current approximately 500-600koz pa production rate in Africa will double to about approximately 1-1.2Moz pa by 2017.
- **AngloGold Ashanti** has a very substantial approximately 52 million oz resource in West Africa mainly at Obuasi, Siguiri and Iduapriem, contributing approximately 22% of group production.

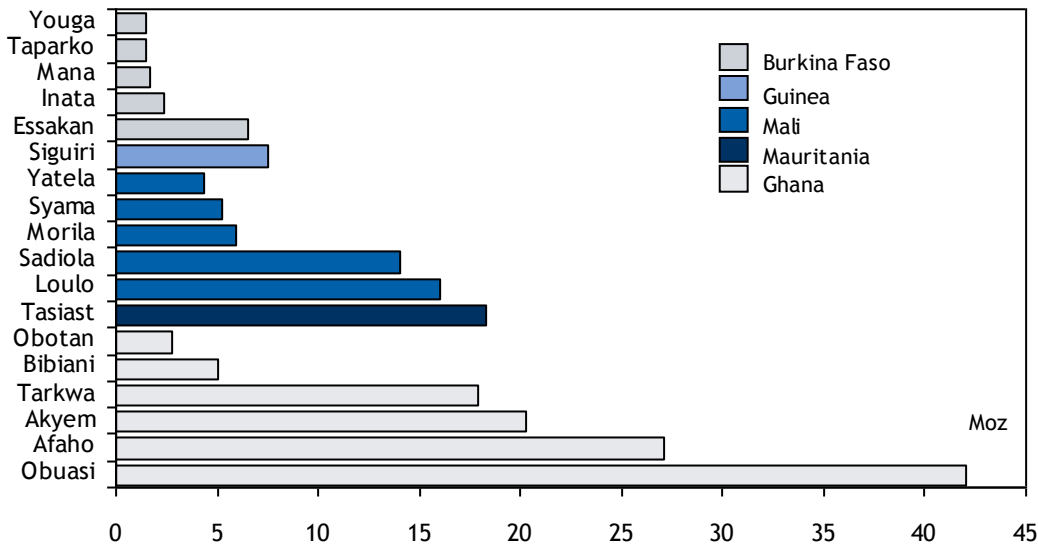
Exhibit 18: Major Gold Mines in West Africa



Source: Company

Key world class deposits in West Africa are shown in the above Exhibit. Grade in a typical open-pit mine in West Africa generally is around 1-2 g/t but does go up to +7g/t at the world class Obuasi underground mine owned by AngloGold Ashanti. Deposits often occur in corridors that are 10-15km wide in transition zones between volcanic belts and sedimentary basins.

Exhibit 19: Total Endowment of Selected Major West African Gold Deposits



Source: Company Reports

Ghana is far and away the largest West African gold producing country and unlike many other African nations, it has an established democracy and is widely regarded as being one of the most stable countries. An absence of civil wars is a major plus and other West African countries such as Burkina Faso are therefore playing catch up.

Exhibit 20: Birimian Greenstone Belt vs. Gold Deposits by Country

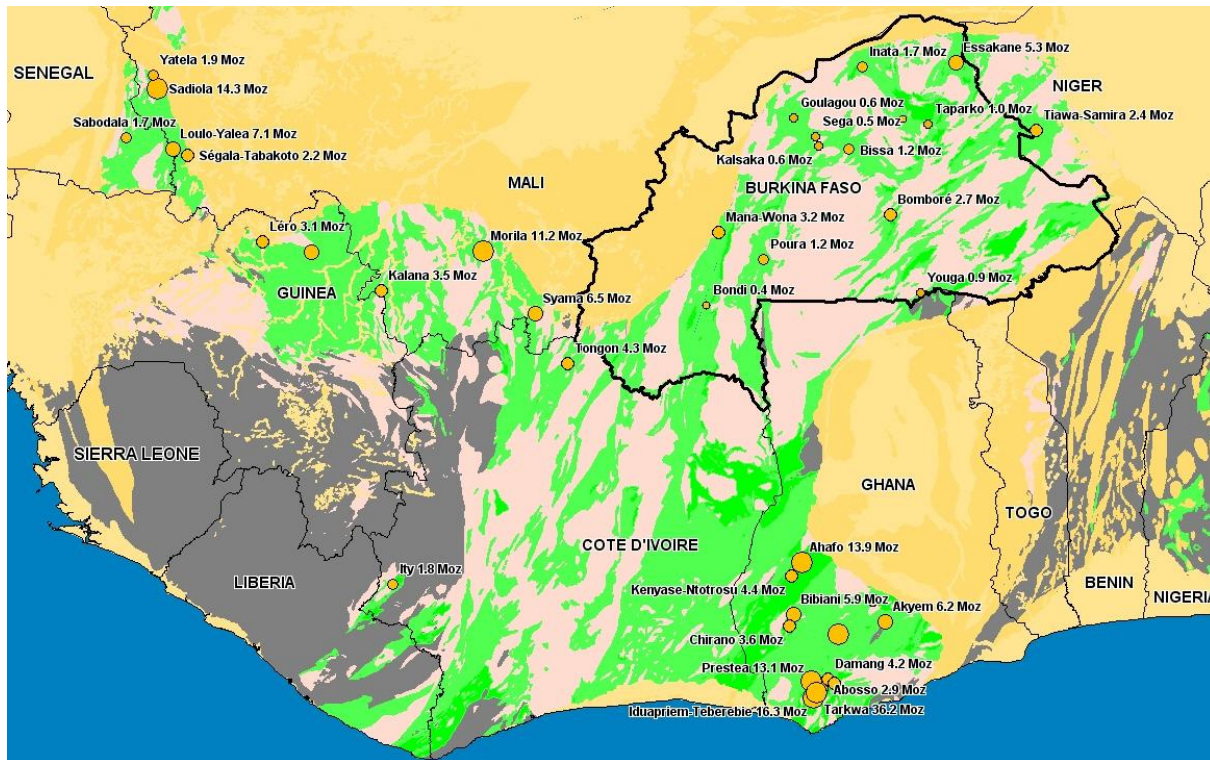
Country	% Greenstone Belt	+1Moz Gold Deposits	% of Gold oz (+1Moz Deposits)
Cote d'Ivoire	35%	8	4%
Burkina Faso	22%	12	7%
Ghana	20%	110	62%
Mali	10%	33	19%
Guinea	10%	12	7%
Senegal	3%	3	2%
Total		178	

Source: USGS, Ampella Mining Limited, Azumah Minerals

The ubiquitous table above comparing percent of the Birimian Greenstone Belt in a country with that country's gold production strongly reinforces this particular point. Ghana has 20% of the Belt but a disproportionately high 62% of West African gold production. Burkina Faso has a slightly superior 22% of the Belt but a mere 7% of the output based on +1Moz deposits.

There is little doubt in our minds that West Africa is a preferred mining destination and aside from the geology, is due in a large part, to a more stable political environment and the willingness of governments to create a mining friendly regulatory environment.

Exhibit 21: Major West African Gold Deposits Highlighting the Birimian Greenstone Belt (in green!)



Source: Company

Mining Law in Ghana

In Ghana, the basic law governing the mining industry is the Minerals and Mining Act of 2006. This Act and associated legislation combines regulation of the mining industry with fiscal incentives for investors. The more significant features of the legislation are:

- **All minerals are owned by the State:** The Minister of Lands and Natural Resources grants exclusive mineral rights and transfers need the approval of the Ministry.
- **Legislation is applied equally to Ghanaians and foreigners,** except for provisions relating to small-scale mining of minerals reserved for Ghanaians. However, foreigners can participate in the exploration and exploitation of industrial minerals where the proposed investment is not less than US\$10 million.
- **Government participation:** The Government is entitled to a **10% free-carried interest** in mineral ventures and of course this right applies to Azumah's Wa Gold Project.
- **Royalties:** The rate, according to the law, varies from 3-6% of the gross value of minerals produced but Azumah advises that it will pay the levied rate of 5%.
- **Mining Lease:** A person, not necessarily a holder of a Reconnaissance / Prospecting License may apply for a mining lease.
- **Stability Agreement** seeks to protect the holder of a mineral right for a period of up to 15 years, from any adverse effects of future changes in law that are capable of imposing a huge financial burden on the holder. The agreement is subject to parliamentary approval.
- **Development Agreement:** The Ministry may enter into a Development Agreement (DA) with the holder of /applicant for a mining lease if the investment exceeds US\$500 million. The DA may contain terms of a stability agreement, in addition to terms that may vary the mining law (especially the fiscal regime). An example is Newmont which under its Investment Agreement pays a 3% royalty on most its production but with other commitments.

A summary of the fiscal regime applied in Ghana is shown in the table below:

Exhibit 22: Summary of Ghanaian Fiscal Regime

Imposts/Benefits	Provision
Royalties	3-6%. Based on gross market value of minerals sold
Application Fees	As prescribed in the regulations
Annual Ground Rent	Payable to landowner as prescribed
Annual Mineral Rights Fees	Payable to Minerals Commission as prescribed
Income Tax:	
Tax Rate	25% now, prescribed in the law and 22.5% for listed companies on the GSE
Capital Allowances	Generous allowances
Allowable Losses	5 years carry forward
Dividend Withholding Tax	8%
Import Duty	Plant, machinery, equipment specifically and exclusively for mining operations exempted
VAT	Mining stage - Refundable Exploration stage - Capitalised on making find

Source: Mining Journal

The main mineral rights conferred under the Minerals and Mining Act of 2006 includes:

- **Reconnaissance Licence:** Confers the right to search for a specific mineral or commodity. The licence is normally granted for up to one year and may be renewed by the Minister for periods up to one year at a time.
- **Prospecting Licence:** Confers the right to search for specific minerals or commodities. The initial grant of the licence is limited to three years.
- **Mining Lease:** This Lease gives one the right to extract specified minerals or commodities and is issued for up to 30 years subject to renewal for a further 30 year term.

A summary of taxes and rates are tabulated in the Exhibit below.

Exhibit 23: Summary of Ghanaian Mineral Rights

	Reconnaissance Licence	Prospecting Licence	Mining Lease	Restricted Lease	Small-scale mining
Purpose	Regional exploration not including drilling and excavation	Search for minerals and evaluation	Extraction of minerals	Building and industrial minerals	Extraction of minerals on small-scale basis
Area	Blocks of 21ha, not exceeding 5,000 contiguous blocks	Not exceeding 750 contiguous blocks	Not exceeding 300 contiguous blocks	Provisions relating to mineral rights apply	In accordance with the number of blocks prescribed
Maximum Duration	12 months, renewable	3 years, renewable with reduction of area to not less than half	30years or less depending on mine life. Renewable	15 years or less depending on mine life. Renewable	5 years, renewable

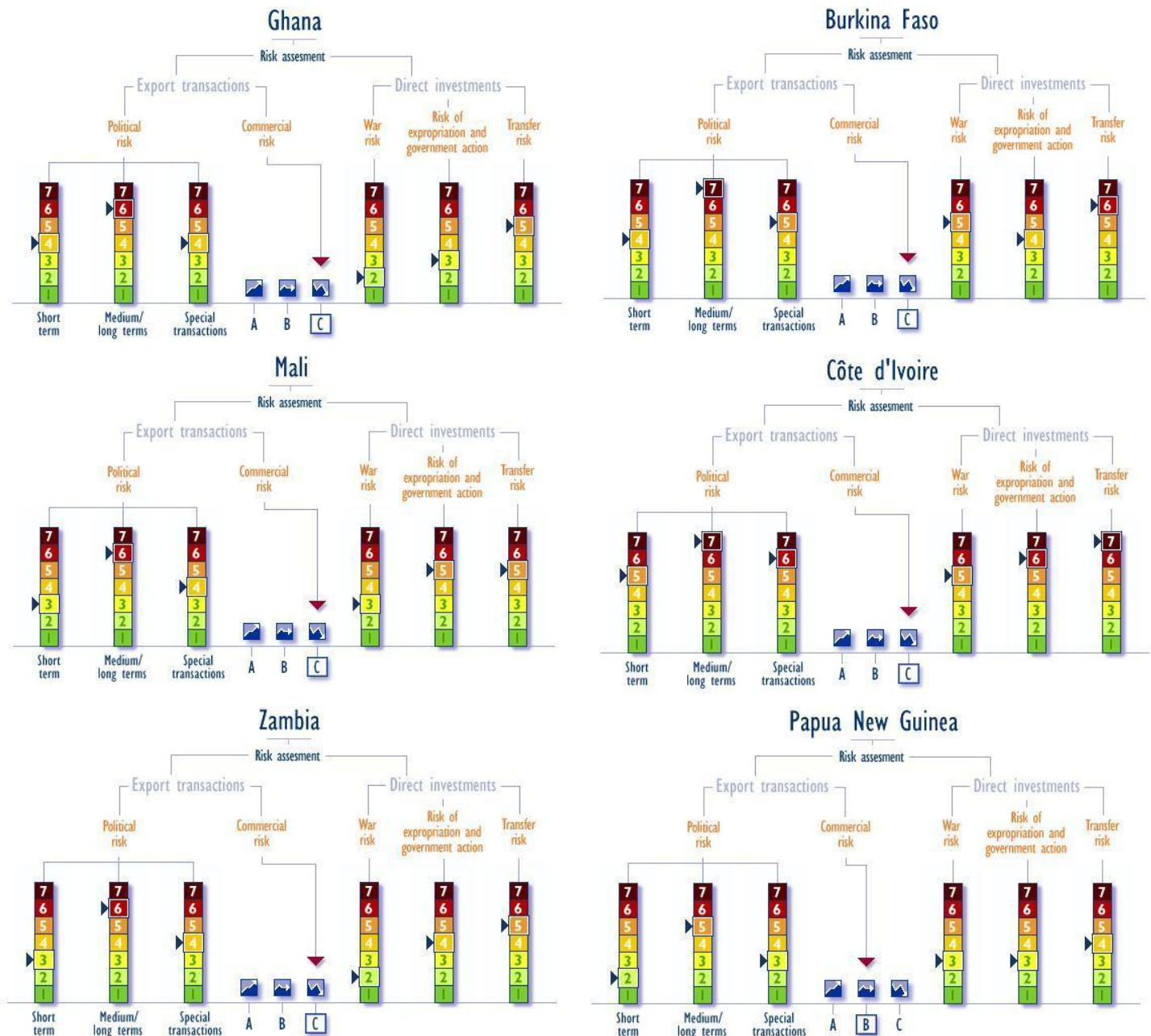
Source: Mining Journal

Ghana: Country Risk in Perspective

The Exhibit below provides a comparison of risk assessment for selected mining countries which is sourced from the Belgian Export Credit Agency (ONDD). We compare Ghana with other major mining countries in West Africa, namely Burkina Faso, Mali and Cote d'Ivoire, as well as Zambia and Papua New Guinea.

- **Ghana is considered to have moderate overall risk in the short term** but higher political risk in the medium to long term. Risk to direct investment is regarded as very low, especially the risk of war and expropriation. These latter two points are important to shareholders of Azumah.
- **Burkina Faso**, Ghana's northern neighbour, mostly has a higher level of overall risk and the risk profile for **Mali** is similar. **Cote d'Ivoire** has much higher overall risk which is not surprising given the very recent political disturbance.

Exhibit 24: Risk Assessment Breakdown by Country - Ghana vs. Other Mining Countries



Source: The Belgian Export Credit Agency, www.ondd.be, updated July 11, 2011

According to the ONDD, Ghana generally has similar political risk to other major gold producing countries in West Africa, as well as the major African copper producer Zambia, but higher than Papua New Guinea. The conclusions are similar for direct investments.

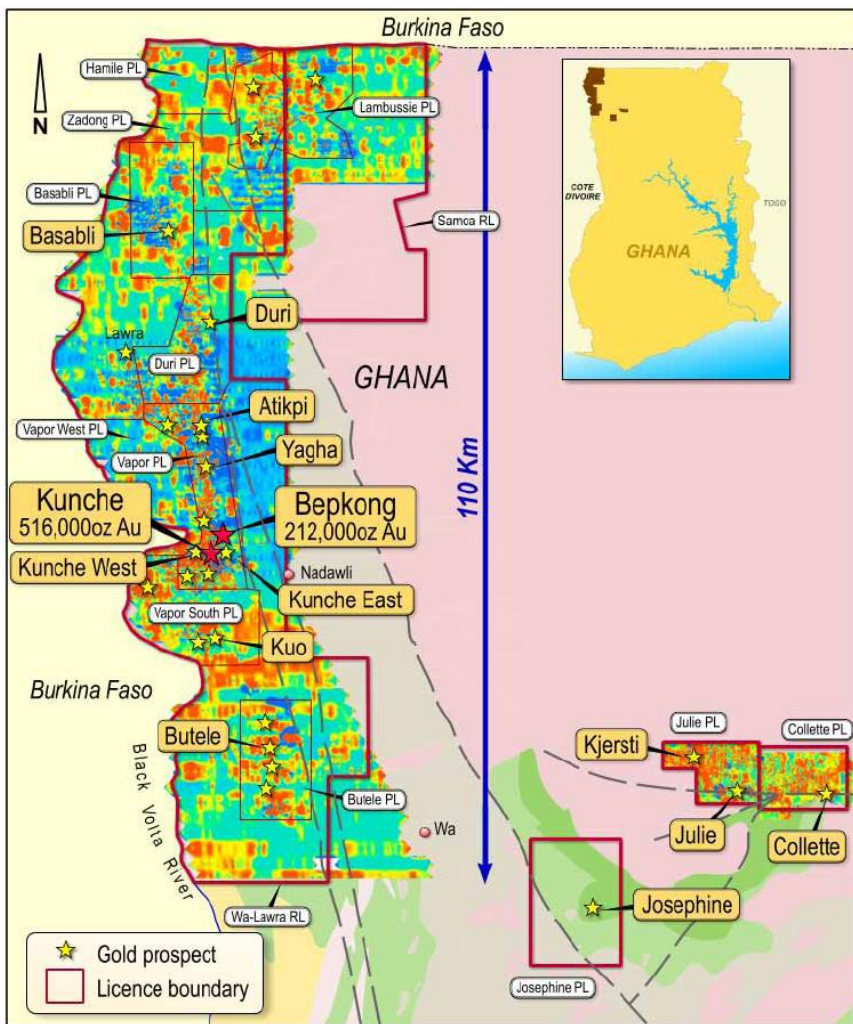
The Wa Gold Project (100%, reducing to 90%)

Azumah’s gold tenements are in the relatively dry and little explored north eastern Ghana. Most of the gold production in Ghana has come from what is referred to as the *Golden Triangle* in the south-west of the country which boasts an endowment of some 168Moz of gold.

The region is undulating and savannah-like and not dissimilar to the West Australian landscape and unlike southern Ghana, is not intensively farmed.

The **Wa Gold Project** comprises several deposits and **Kunche, Bepkong and Julie** are subject to a full feasibility study with plans for them to be mined from 2013. A preliminary study has been completed and the full study is due to be released in early 2012. An ore reserve statement should proceed the study and be issued late this year. Current resources at these three deposits total **18Mt grading 2.0 g/t for 1.2Moz of gold** and “Pit Shell Reserves” at US\$1,000 per oz gold contain **8.2Mt at 2.16 g/t for 569koz**.

Exhibit 25: Wa Gold Project Aeromagnetics



Source: Company

Azumah’s tenements are very large and less than 10% of the 150km of prospective Birimian strike, extending over 110km, as shown in the exhibit below, has been investigated. Furthermore, most drilling is down to a maximum of approximately 175m and there is a very good pipeline of targets to be tested. The prospectivity of Azumah’s tenements is similar to many other West African explorers in our view and simply needs time and hard work to bear fruit.

For example, management is excited by initial but recent drill results at the **Josephine** and **Josephine South** deposits where some artesian miners are working at present. Azumah has undertaken initial mapping and some RC and auger holes at this newly recognised target. **The Julie deposit** has more complex geology but there are higher grade zones at the intersection of the sub-vertical and flat-dip structures. Ore from this pit is intended to be trucked to the plant near Kunche.

The **Kunche** deposit has only been drilled to 120m depth and ongoing drilling is adding gold mineralisation both within the pit limits and at depth.

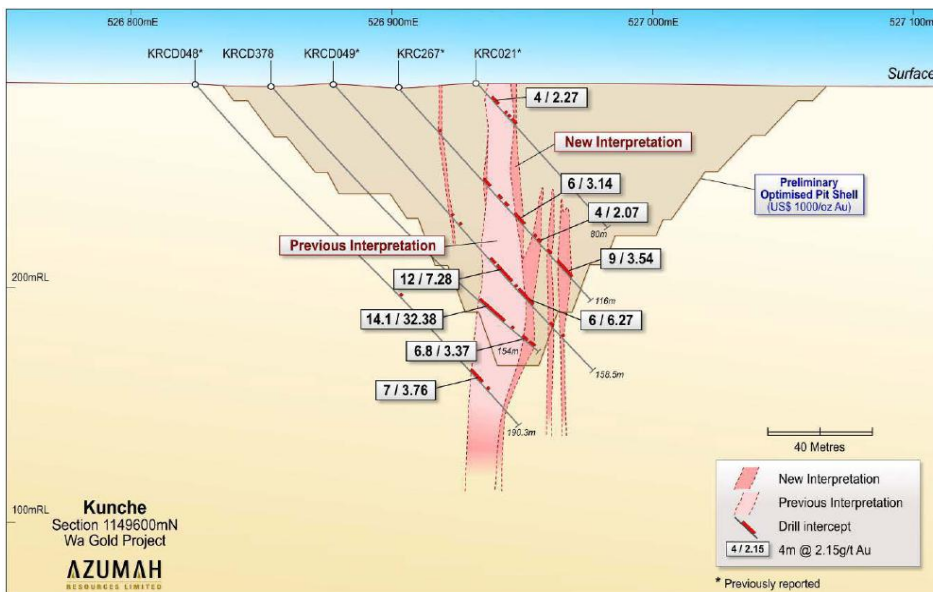
The mineralisation is structurally hosted and mostly sub-vertical and hosted in a package of Birimian sediments. Widths range from 5-30m with minimal transported cover ranging from almost nothing up to 10-20m. There are only a few outcrops of mineralisation and Bepkong was a blind discovery from an auger soil sample. Gold is associated with pyrite and pyrrhotite, is non-refractory and 10-40% occurs as free gold. Thus, the recovery of gravity gold is forecast to be relatively high at 30-40%.

The 2011 exploration budget is A\$15 million and 250,000m of drilling using five drill rigs is planned as follows:

- 50km of RC drilling of new targets
- 50km of RC drilling for the resource to reserve upgrade
- 5km of diamond core drilling for the geology and pit and site geotechnics.
- 145km of aircore or auger drilling which is rapid reconnaissance and new target testing.

Kunche was an existing outcrop gold prospect exhibiting quartz veins at surface and all of this deposit has been drilled out for reserve estimation but only approximately 70% of Bepkong and approximately 25% of Julie have been in-fill drilled. This drilling is therefore one of the priorities in order to update resources from the current **Inferred & Indicated** to the **Measured & Indicated** categories. The latter categories are necessary for the estimation of reserves. Unfortunately, the turnaround for assay results is some six to eight weeks at present in the area. **The maiden reserve due late in 2011** may only comprise Kunche and Bepkong for this reason.

Exhibit 26: Kunche Cross section



Source: Company

Preliminary Study Results

Azumah has completed a preliminary study which showed the following features:

- A US\$1,000/oz pit shell resource of 8.2Mt grading 2.16 g/t for 569koz
- LOM strip ratio of 4.8 to 1.
- Production rate of 1Mtpa to produce 100koz pa from softer oxide ores and 70-80koz from harder primary ores.
- Mine life of six years from Kunche, Bepkong and Julie.
- Capital cost of US\$135 million including owners' costs
- Life-of-mine cash costs average US\$590/oz
- Recoveries of approximately 93% for oxides and 90-93% for primary ores which are non refractory.
- A conventional gravity and carbon-in-leach processing facility.
- 20-30% of gold recovered by gravity.

The SAG mill is likely to be pre-ordered once the throughput rate has been decided. The 1Mtpa option will include a single SAG mill whereas the 1.5Mtpa option will incorporate a SAG and Ball mill combination.

Exhibit 27: Preliminary Study Pit Shell Resource (US\$1,000/oz gold shell)

	Tonnes (Mt)	Grade (g/t gold)	Contained (oz gold)	Strip Ratio
Kunche	4.6	1.91	280,459	5.1
Bepkong	1.8	2.20	128,767	4.6
Julie	1.8	2.77	160,232	4.7
Total	8.2	2.16	569,458	4.8

Source: Company

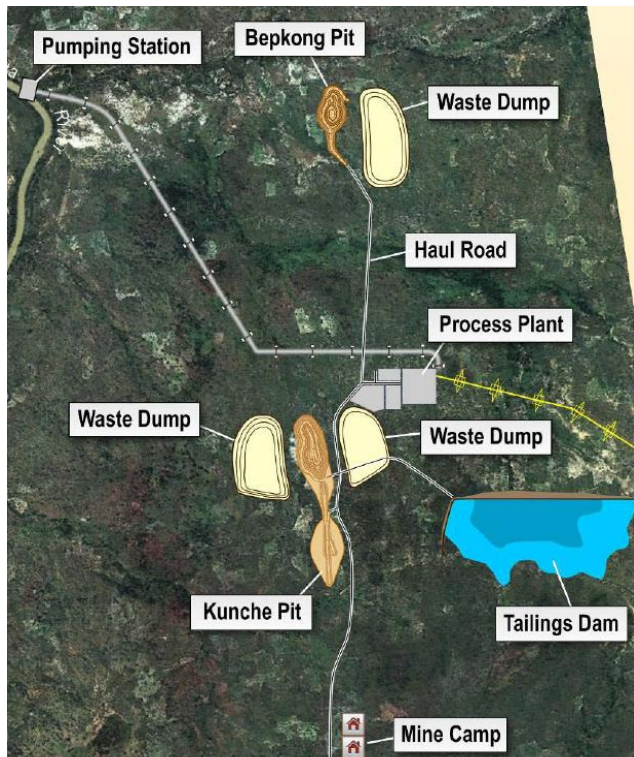
Higher current gold prices will enable a pit shell to be run at higher gold prices with the expectation that contained gold will rise as the pit is enlarged and deepened. This is one of assumptions when setting modelling criteria.

There are many positives for the development of a mine at the Wa Gold project and site logistics are considered to be excellent:

- No communities need to be relocated
- There are few artisanal or illegal miners to be moved (the Josephine deposit is an exception)
- Local roads are well maintained and there is a sealed airstrip in the nearby town of Wa
- Good mobile and satellite coverage is in place
- Grid power is nearby and to be upgraded to a 161KV line by GridCo.
- Water is available from the Black Volta River, as well as groundwater.

Sterilisation drilling on site has been completed as has site geotechnics for pits, plant and tailings dam.

Exhibit 28: Kunche & Bepkong Site Layout



Source: Company

Consultant Groups being used by Azumah include well-known names such as **Lycopodium Minerals** for process engineering, **Mining Solutions Consultancy** for mining engineering, **George Orr & Associates** for geotechnics and others.

Castle Minerals

(Azumah 13%)

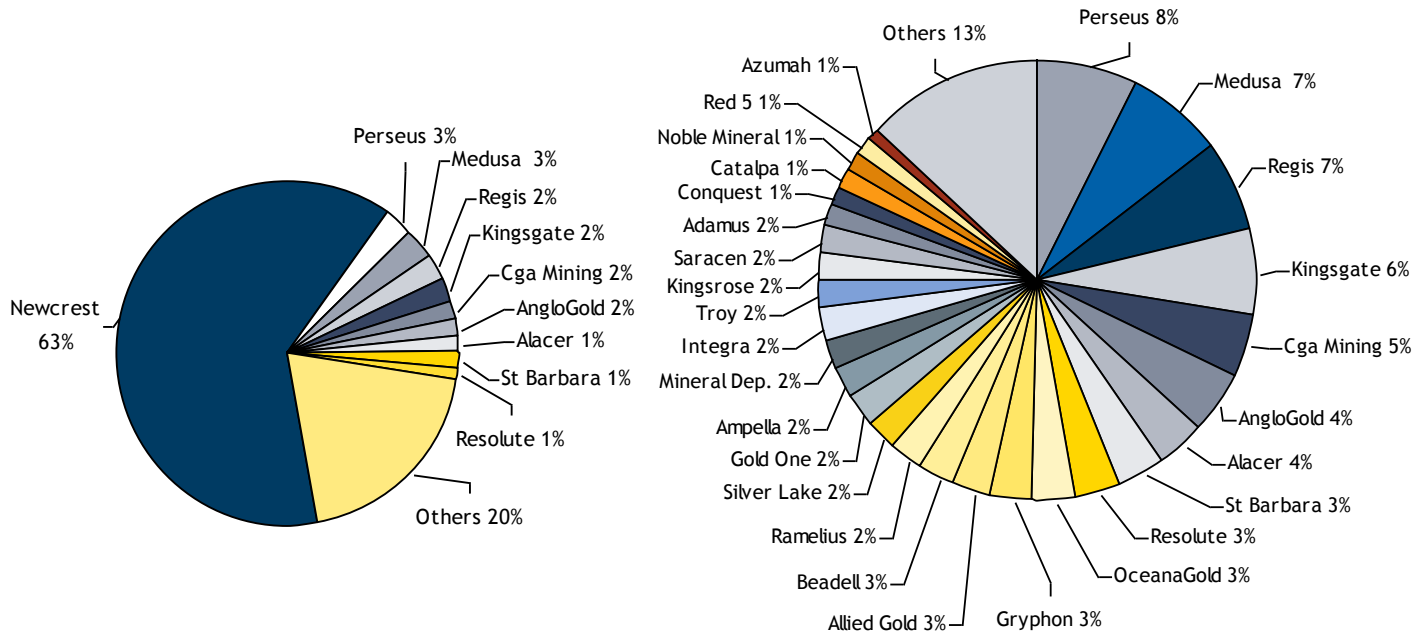
Castle Minerals (ASX: CDT, not covered by RBC) is a small approximately A\$40 million ASX listed explorer that has tenements that border and surround those of Azumah. The two companies have a common history in that the same vendor group supported their formation. The small Australian gold mining producer, Croesus Mining NL (not listed), helped list Azumah by sponsoring its IPO. Mike Ivey was a Non Executive Director of Azumah and is the founding Executive Chairman of Castle.

Castle has early stage exploration that has delineated only 56koz to date - but it is on structures that run into the Azumah tenements. We believe that Azumah is making a well considered risk by taking a modest strategic equity interest in Castle in case the junior strikes it rich. We do not expect Azumah to make an offer to buy Castle medium term and it now holds a 13% equity interest.

The ASX Gold Sector

The ASX-listed Australian gold sector is dominated by one major producer, Newcrest, which has a capitalisation of about A\$30 billion, ranking it No. 3 or 4 globally. The next largest two companies are Perseus and Medusa, each capped at A\$1.3 billion. There are about 34 smaller companies valued between approximately A\$100 million and A\$1.1 billion totalling a little under A\$46 billion of capitalisation. Azumah, at approximately A\$120 million, ranks as the 32nd largest gold company.

Exhibit 29: Composition of ASX Gold Sector dominated by Newcrest Mining



Source: IRESS, RBC Capital Markets estimates (as at 23 August 2011)

Australian gold production reached 266 tonnes or 8.5Moz in CY2010 - the highest level since 2003 - and an increase of 38 tonnes on the previous year. China was again the number one global producer with output of 341 tonnes with the US at number three with approximately 240 tonnes.

The local gold industry has changed very significantly over the past several years and we estimate that about 2/3rds of production is in the hands of major foreign corporations such as Barrick, Newmont and AngloGold, with Newcrest accounting for much of the remainder. Note the dominance of overseas producers on ASX as shown above.

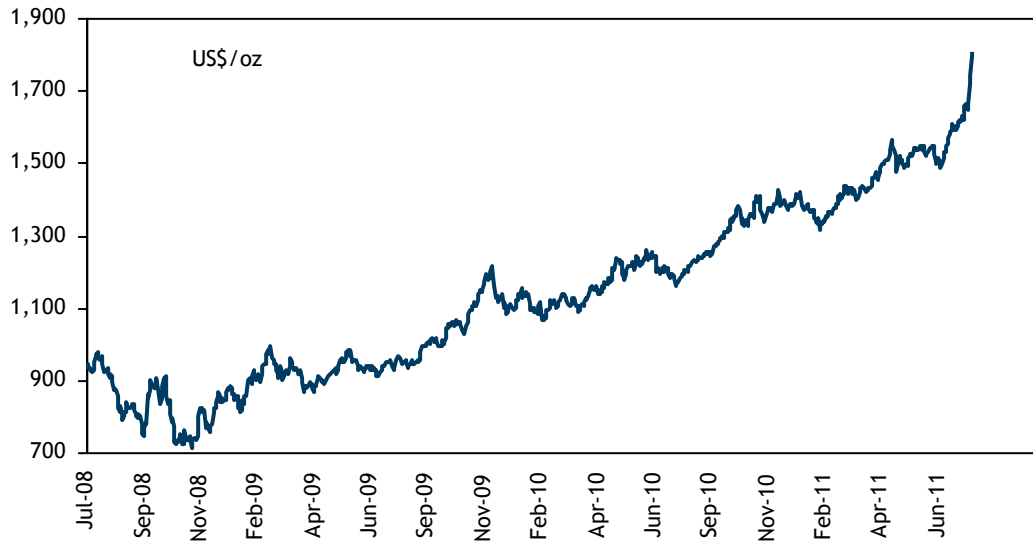
The Gold Price - Up & Away

The gold price is the biggest share price driver for Azumah and its performance has been rather stellar, to say the least, over the past few weeks. The price rose more than US\$300/oz in a mere six weeks to mid August, peaking well over US\$1,800. This is an excellent price for any gold producer even as operating costs trend higher globally.

RBC forecasts assume US\$1,700 in FY2014, when Wa Gold is due to be commissioned, and US\$1,500 the following year, before reverting to our long term price of US\$1,200 from FY2016.

We expect the gold price strength to continue with many tailwinds helping drive positive sentiment towards it. However, given the speed of the increase in price, we would not be surprised to see a pull-back near term. Global debt crises are paramount to gold as is the Fed's desire to keep US\$ interest rates at "exceptionally low rates" till mid 2013. Very low or negative real US interest rates are very bullish for the gold price.

Exhibit 30: The US\$ Gold Price, mid 2008 to current



Source: IRESS

Board Members

Michael Atkins, Non-Executive Chairman

Michael is presently Director – Corporate Finance at Australian financial services and stockbroking firm, Patersons Securities Limited, and provides corporate advisory services covering mergers and acquisitions, capital raising and debt financing. He is also currently Non-Executive Chairman of ASX-listed gold companies Westgold Resources NL and Legend Mining Limited, and a Non-Executive Director of Matsa Resources Ltd.

He has been involved with many emerging ASX-listed Australian companies with operations in SE Asia, Africa, North America and Australia. This list includes founding Executive Chairman of ASX listed Gallery Gold Ltd (since taken over by IAMGold Corporation) that discovered and operated the 100koz pa Mupane gold mine in Botswana.

Geoff M Jones, Non-Executive Director

Geoff is an engineer with over 25 years hands-on experience in the evaluation, design, development, commissioning and operation of major resource projects in Australia and overseas, especially in Central and West Africa, including Ghana.

He was Group Project Engineer for ASX-listed Resolute Limited with responsibility for the successful development of its Obotan Gold Project in Ghana, Golden Pride Gold Project in Tanzania, as well as the Chalice and Bullabulling Gold Projects in Western Australia. His involvement ranged from feasibility study preparation through to development, commissioning and operations.

Dennis Wilkins, Company Secretary

Dennis is the principal of DWCorporate, a specialist provider of corporate services to the resources sector. Mr Wilkins has been a director and company secretary of, or acted in a corporate consulting capacity to, listed resource companies for over 20 years. He also spent five years working for a private merchant bank in the United Kingdom, together with resource postings to Indonesia, South Africa and New Zealand in managerial roles. Mr Wilkins was appointed Company Secretary on 19 July 2005.

Senior Management

Stephen Stone, Managing Director

Stephen graduated with honours in Mining Geology from the University of Wales, Cardiff College and has 30 years operating, management and corporate experience in the international mining and exploration industry, including several years in central Africa and 20 years as chief executive of several Australian publicly listed exploration companies. Stephen is a non-executive director of Avalon Minerals NL.

Alan Thompson, Feasibility Study Manager

Alan is a metallurgical engineer and was previously General Manager Operations of the Damang Gold Mine Ghana owned by South African major, Gold Fields Ltd. Alan is a study management specialist.

Cheryl Morton, Site-based Country Manager

Cheryl is an exploration geologist and has experience in Ghana, South America and Western Australia goldfields.

Hector Nyinaku, Accra based Administrative Manager

Paul Amoako-Atta, Licencing, Government & Community

Azumah has a 17-man team of geologists in Ghana backed up with 20 technicians and support staff and employs many casual assistants from the local region.

Valuation

Our A\$0.75 target is based on a mix of 0.8x P/NAV and the average EV/oz resource for the West African explorer sector of US\$187/oz in our database. Our NAV is A\$0.84 with the 0.8x multiple appropriate at this stage of development and is comparable to similar global explorers.

Price Target Impediment

- A material and sustained fall in the gold price or equity markets.
- Disappointing exploration results and delays in study timing.
- Resources and Reserves not increasing to levels projected in our model
- There is no guarantee equity markets will be receptive to the expected fund raising in 2012.
- Ghana has been stable for a number of years, but political risk remains.

Company Description

Azumah Resources Ltd. is an approximately US\$150 million West African gold explorer based in Perth, Australia that listed on the ASX in 2006 to fund exploration at its **Wa Gold project** in Northern Ghana. Since the IPO, the project has expanded in size to now cover an area of 3,100km² with resources of 18Mt at 2.0g/t for ~1.2Moz. A full feasibility study is assessing a 1.0Mtpa plant to produce 100koz pa from soft oxide ores and then 70-80koz from harder primary ore for six years, with production targeted to start in late 2013. Details of this study are due to be released early next year. An alternative, higher 1.5Mtpa processing rate is being considered at this time. Wa Gold would be the first commercial scale gold mining operation in the emerging north west gold province of Ghana. Azumah currently has A\$18 million in cash and is spending A\$15 million pa on exploration.

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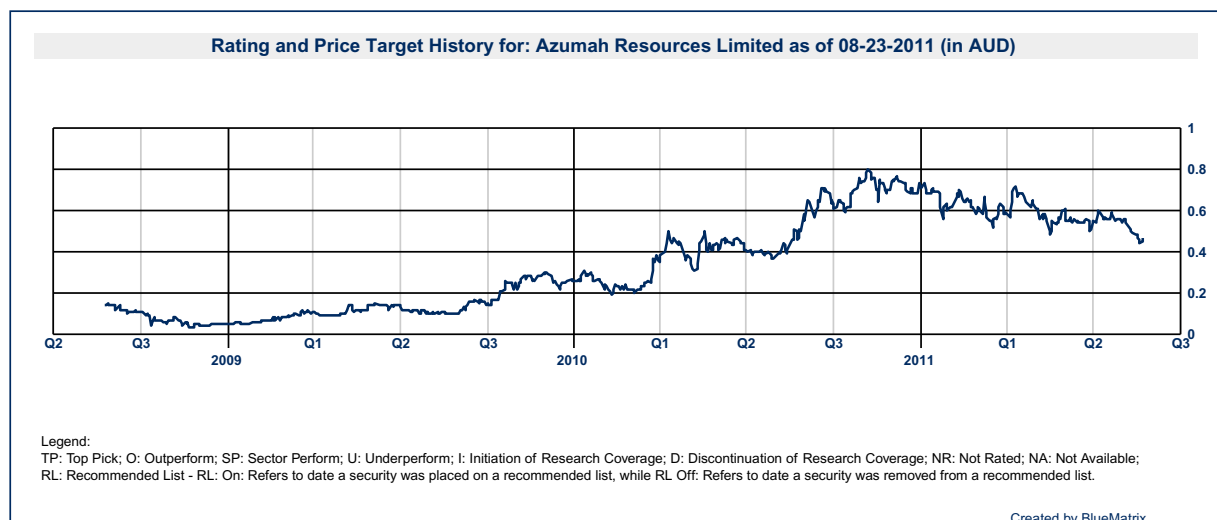
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