

AUGUSTA RESOURCE CORPORATION (TSX/AMEX: AZC; FRANKFURT: A5R)

Recommendation

Maintained:
Speculative Buy

Risk

High

Target Price

Raised to: \$3.85

Price (June 21)

\$3.30

52-Week Range

\$3.50 - \$1.86

Potential Return

17%

% Below High

6%

% Above Low

77%

Shares O/S

76.6 million

Market Cap

\$252.8 million

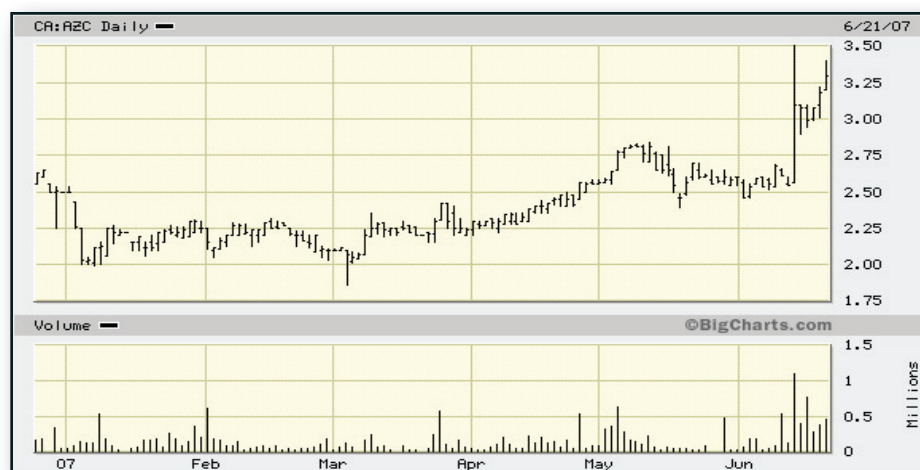
Average Daily Volume

20 day: 264,600

150 day: 166,800

Year-End

December 31



Data Source: www.BigCharts.com

RECOMMENDATION

We continue to recommend the shares of Augusta Resource Corp. as a Speculative Buy for high risk-tolerant accounts. As explained below, we are raising our 12-month Target Price for the shares to \$3.85.

RECENT SIGNIFICANT EVENT

Sumitomo to Acquire 8.7% of Augusta in \$37.5 Million Financing

Sumitomo Corp. is one of the largest Japanese conglomerate corporations with a wide range of international business interests, including metals trading.

We view Sumitomo's investment in Augusta as highly significant:

- It is an initial step for having a relationship with Augusta to secure a steady supply of copper, silver and molybdenum at competitive prices for their trading purposes;
- There will likely be further investments in Augusta by Sumitomo as the Rosemont project enters its bankable feasibility, permitting, and project financing stage;
- Sumitomo's willingness to pay \$3.50 per share at a time when the Company's shares were trading in the \$2.50 range is a clear revaluation of the Company.

C\$.	BVPS	EPS
2005a	\$0.33	\$(0.17)
2006a	\$0.73	\$(0.11)
2007e	\$0.66	\$(0.06)

BVPS: Book Value Per Share

EPS: Earnings Per Share

Analysts

Amy Stephenson, MBA, CFA

Bob Weir, B.Sc., B.Comm., CFA

The \$37.5 million financing should take Augusta to the permitting stage ready for project financing. The preliminary assessment completed by the Company last year indicated that the capital cost to bring the Rosemont deposit into production is between US\$ 636 – 806 million. We consider this financing opens up additional venue for the Company's project financing plan.

COMMENT: *Augusta continues to eliminate uncertainties that are generally associated with development stage projects.*

Our revised 12 month Target Price is \$3.85 per share, based on:

- Recent increase in reserves;
- Reduction of financing risk; and
- Sumitomo's commitment

Our Target Price is supported by the following value determined by calculating the "per attributable resource ounce":

Table 1: Matrix of Values Per Attributable Resource Ounce

Per Attributable					
Copper Resource Pounds	US\$0.02	US\$0.03	US\$0.04	US\$0.05	US\$0.06
Market Cap (C\$ @C\$1=US\$0.87)					
Using 8,400,000,000 Resource Pounds	\$186,666,667	\$280,000,000	\$373,333,333	\$466,666,667	\$560,000,000
Value Per Fully Diluted Share					
Using 96,562,834 Shares	\$1.93	\$2.90	\$3.87	\$4.84	\$5.80

Source: eResearch

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eResearch analysts on this report: Amy Stephenson, MBA, CFA : Amy is a generalist Research Analyst responsible for special situations. She is an experienced corporate finance professional who has been involved both as principal and consultant in corporate reorganizations, mergers and acquisitions, RTO and project financing.

Bob Weir, B.Sc., CFA, B.Comm, Director of Research. Bob Weir has been involved in an analytical capacity since 1966, with both the securities and the real estate industries. Initially with Wood Gundy Limited in London, England, he spent nine years with that firm in a securities research capacity. He spent the next twenty years in the real estate business as analyst, consultant, and broker before joining Dominion Bond Rating Service Limited in 1994. He eventually became Executive Vice-President of DBRS and was responsible for supervising the firm's 34 analysts and for running the company on a day-to-day basis. He joined eResearch in September 2004.

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eResearch Recommendation System

Strong Buy:	Expected total return within the next 12 months is at least 40%.
Buy:	Expected total return within the next 12 months is between 10% and 40%.
Speculative Buy:	Expected total return within the next 12 months is substantial, but Risk is High (see below).
Hold:	Expected total return within the next 12 months is between 0% and 10%.
Sell:	Expected total return within the next 12 months is negative.

eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk:	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
Medium Risk:	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
Low Risk:	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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