

AUGUSTA RESOURCE CORPORATION (2.36 TSX/AMEX: AZC; FRANKFURT: A5R)

Recommendation

Under Review

Risk

na

Target Price

Under Review

Price (Sept 4)

\$2.36

52-Week Range

\$3.81 - \$1.86

% Below High

38%

% Above Low

27%

Shares O/S

72.8 million

Market Cap

\$204.6 million

Average Daily Volume

20 day: 132,700

150 day: 179,800

Year-End

December 31

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



Data Source: www.BigCharts.com

RECENT NEWS RELEASES

Augusta's recent announcements put mixed emotions into the market:

(1) On Friday, August 24 the Company announced that ASARCO LLC served a complaint against Augusta in the United States Bankruptcy Court with regard to the Rosemont property. ASARCO LLC alleged that the initial purchasers failed to pay "reasonably equivalent value" for the Rosemont Property in 2004. Augusta purchased the property in June 2005.

(2) On August 27, the next trading day, the Company held its conference call to present the long-awaited results of the Rosemont Copper Bankable Feasibility Study. The bankable feasibility study indicated that the project is economically viable. The total capital cost is estimated at \$797.8 million. Based on metal prices of \$2.61 per pound of copper, \$31.06 per pound of molybdenum and \$11.37 per ounce of silver, the NVP (5%) is approximately \$2.54 billion with an IRR of 30.2% and a payback of 2.9 years on an after-tax basis. The result of the bankable feasibility study comes with no surprises as it essentially reflects and confirms the results of the pre-feasibility study and previous drilling results.

COMMENT: The share price of Augusta dropped from \$3.05 on August 27 to close at \$2.36 on September 4 with higher than average volume during the period. From the behavior of the share price from August 27 to date, it seems that the feasibility study failed to restore investor confidence.

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Potential litigation in a U.S. court on title issues will undoubtedly be costly both in dollar terms and executive time. It also comes at a time when Augusta will be looking for project financing of approximately \$800 million. This could limit the Company's financing flexibility and bargaining power.

eResearch is putting Augusta under review with regards to its Target Price and Recommendation and will be updating our report shortly.

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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 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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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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