



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
Three and six months ended September 30, 2011 and 2010  
(Unaudited)

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# KEEGAN RESOURCES INC.

Condensed Consolidated Interim Statements of Financial Position - Unaudited  
As at September 30, 2011 and March 31, 2011

Expressed in United States Dollars

	September 30, 2011	March 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 213,556,989	\$ 236,329,452
Receivables (note 10)	463,116	252,557
Prepaid expenses and deposits	501,401	150,930
	214,521,506	236,732,939
Non-current assets:		
Plant and equipment (Note 4)	2,260,506	1,484,007
Mineral interests (Note 5)	10,851,292	10,581,692
	13,111,798	12,065,699
<b>Total assets</b>	<b>\$ 227,633,304</b>	<b>\$ 248,798,638</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 2,796,859	\$ 5,236,343
	2,796,859	5,236,343
Non-current Liabilities:		
Asset retirement provision (note 7)	7,364,938	7,242,082
Share purchase warrants (note 14)	182,070	852,070
	7,547,008	8,094,152
<b>Total liabilities</b>	<b>10,343,867</b>	<b>13,330,495</b>
<b>Shareholders' Equity</b>		
Share capital (note 8)	313,344,850	310,493,855
Equity reserves (note 9)	21,661,232	15,210,047
Accumulated deficit	(117,716,645)	(90,235,759)
<b>Total shareholders' equity</b>	<b>217,289,437</b>	<b>235,468,143</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 227,633,304</b>	<b>\$ 248,798,638</b>

Commitments (note 11)  
Contingencies (note 12)  
First-time adoption of IFRS (note 16)

Approved by the Board of Directors:

"Shawn Wallace"

Director

"Marcel de Groot"

Director

SEE ACCOMPANYING NOTES

# KEEGAN RESOURCES INC.

Condensed Consolidated Interim Statements of Loss - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

	Three months ended		Six months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Administration expenses:				
Amortization	\$ 64,397	\$ 23,694	\$ 114,784	\$ 42,331
Bank charges and interest	20,183	6,899	36,674	13,161
Consulting fees, directors' fees and wages and benefits (note 10)	725,812	513,760	1,382,324	1,093,369
Office, rent and administration	293,755	206,114	557,028	371,035
Professional fees (note 10)	153,594	283,776	252,679	337,127
Regulatory fees, transfer agent and shareholder information	76,044	30,495	152,079	67,866
Share-based compensation (note 9(a))	2,053,520	1,350,277	4,833,585	3,283,890
Travel, promotion and investor relations	369,542	199,691	603,315	481,101
	<u>3,756,847</u>	<u>2,614,706</u>	<u>7,932,468</u>	<u>5,689,880</u>
Exploration and evaluation expenditures (note 6)	7,184,547	5,119,119	16,456,883	10,124,639
Other expenses (income):				
Interest and other income	(392,092)	(66,047)	(1,018,923)	(129,433)
Accretion expense	61,428	-	122,856	-
Revaluation of share purchase warrants (note 14)	(286,740)	452,205	(670,000)	331,180
Foreign exchange loss (gain)	4,885,783	(942,943)	4,657,602	677,804
	<u>4,268,379</u>	<u>(556,785)</u>	<u>3,091,535</u>	<u>879,551</u>
Loss before future income tax expense	15,209,773	7,177,040	27,480,886	16,694,070
Future income tax expense (recovery)	-	(22,455)	-	(22,455)
Loss for the period	<u>15,209,773</u>	<u>7,154,585</u>	<u>27,480,886</u>	<u>16,671,615</u>
Adjustment for fair value of marketable securities	-	(157,183)	-	(157,183)
Comprehensive loss for the period	<u>\$ 15,209,773</u>	<u>\$ 6,997,402</u>	<u>\$ 27,480,886</u>	<u>\$ 16,514,432</u>
Loss per share – basic and diluted	\$ 0.20	\$ 0.16	\$ 0.37	\$ 0.37
Weighted average number of shares outstanding	<u>75,318,726</u>	<u>45,680,323</u>	<u>75,217,831</u>	<u>45,510,061</u>

SEE ACCOMPANYING NOTES

## KEEGAN RESOURCES INC.

Condensed Consolidated Interim Statement of Changes in Equity - Unaudited  
Six months ended September 30, 2011 and 2010, and the year ended March 31, 2011

*Expressed in United States Dollars*

	Number	Share capital	Equity reserves	Accumulated deficit	Accumulated OCI	Total Equity
Balance as at March 31, 2010:	45,047,123	\$ 97,409,895	\$ 6,869,684	\$ (54,864,719)	\$ -	\$ 49,414,860
Issuance of common shares for:						
Exercise of share-based options	634,098	2,951,270	(1,217,302)	-	-	1,733,968
Exercise of broker warrants	53,333	366,651	-	-	-	366,651
Marketable securities	-	-	-	-	157,183	157,183
Share-based compensation	-	-	4,287,942	-	-	4,287,942
Net loss for the period	-	-	-	(16,671,615)	-	(16,671,615)
Balance as at September 30, 2010	45,734,554	100,727,816	9,940,324	(71,536,334)	157,183	39,288,989
Issuance of common shares for:						
Exercise of share-based options	561,034	3,081,182	(1,197,776)	-	-	1,883,406
Exercise of broker warrants	184,000	1,406,504	-	-	-	1,406,504
Bought-deal prospectus financing	28,405,000	205,278,353	-	-	-	205,278,353
Marketable securities	-	-	-	-	(157,183)	(157,183)
Share-based compensation	-	-	6,467,499	-	-	6,467,499
Net loss for the period	-	-	-	(18,699,425)	-	(18,699,425)
Balance as at March 31, 2011	74,884,588	310,493,855	15,210,047	(90,235,759)	-	235,468,143
Issuance of common shares for:						
Exercise of share options	436,250	2,850,995	(1,055,442)	-	-	1,795,553
Share-based compensation	-	-	7,506,627	-	-	7,506,627
Net loss for the period	-	-	-	(27,480,886)	-	(27,480,886)
Balance as at September 30, 2011	75,320,838	\$ 313,344,850	\$ 21,661,232	\$ (117,716,645)	\$ -	\$ 217,289,437

SEE ACCOMPANYING NOTES

# KEEGAN RESOURCES INC.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Cash Flows - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

	Three months ended		Six months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (15,209,773)	\$ (7,154,585)	\$ (27,480,886)	\$ (16,671,615)
Items not involving cash:				
Amortization	155,338	80,693	275,425	99,330
Accretion expense	61,428	-	122,856	-
Interest income	(336,246)	(66,047)	(941,777)	(129,433)
Future income tax recovery	-	(22,455)	-	(22,455)
Share-based compensation (note 9(a))	2,053,520	1,350,277	4,833,585	3,283,890
Share-based compensation included in exploration and evaluation expenditures	1,343,536	411,728	2,673,042	1,004,052
Revaluation of share purchase warrants	(286,740)	452,205	(670,000)	331,180
Unrealized foreign exchange gain (loss)	6,321,222	(1,803,481)	5,495,985	(207,060)
Changes in non-cash working capital:				
Accounts payable and accrued liabilities	(1,189,748)	449,079	(2,013,351)	227,320
Prepaid expenses and deposits	(74,889)	85,155	(366,135)	59,943
Receivables	28,487	57,481	88,683	13,085
	(7,133,865)	(6,159,950)	(17,982,573)	(12,011,763)
Investing activities:				
Purchase of plant and equipment	(488,846)	(607,516)	(1,051,924)	(658,762)
Purchase of marketable securities	-	(143,636)	-	(143,636)
Acquisition of mineral interests	-	(32,182)	(610,000)	(35,874)
Interest received	179,915	66,047	603,758	129,433
	(308,931)	(717,287)	(1,058,166)	(708,839)
Financing activities:				
Shares issued for cash, net of share issuance costs (note 8(b))	109,424	218,445	1,795,553	1,896,457
Impact of foreign exchange on cash and cash equivalents	(6,367,125)	1,808,843	(5,527,277)	204,395
Decrease in cash and cash equivalents	(13,700,497)	(4,849,949)	(22,772,463)	(10,619,750)
Cash and cash equivalents, beginning of period	227,257,486	42,184,888	236,329,452	47,954,689
Cash and cash equivalents, end of period	\$ 213,556,989	\$ 37,334,939	\$ 213,556,989	\$ 37,334,939
Supplemental disclosure of cash flow information:				
Non-cash investing and financing activities:				
Reclassification of equity reserves on exercise of share options	\$ 78,467	\$ 64,990	\$ 1,055,441	\$ 1,217,302

SEE ACCOMPANYING NOTES

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

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## 1. Nature of operations:

Keegan Resources Inc. ("Keegan" or the "Company") was incorporated on September 23, 1999 under the laws of British Columbia. The Company is in the exploration and development stage and is focused on advancing its principal property, the Esaase Gold Project to commercial production. In addition to its principal project, the Company holds a portfolio of other Ghanaian gold concessions in various stages of exploration.

The head office, principal address and registered and records office of the Company are located at 1199 West Hastings Street, Suite 700, Vancouver, British Columbia, V6E 3T5.

Management has estimated that the Company will have adequate funds from existing working capital to meet corporate, development, administrative and property obligations for the coming year, including a feasibility study for the Esaase property. The Company will require additional financing from time to time, and while the Company has been successful in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

## 2. Basis of presentation and adoption of IFRS

### (a) Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

### (b) Basis of presentation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 3 to the condensed consolidated interim financial statements for the three months ended June 30, 2011 and 2010. The comparative figures presented in these condensed consolidated interim financial statements are in accordance with IFRS and have not been audited.

All amounts are expressed in US dollars, unless otherwise stated. References to C\$ are to Canadian dollars.

The preparation of financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within the framework of the significant accounting policies summarized below.

### (c) Adoption of IFRS

These condensed consolidated interim financial statements have been prepared on the basis of IFRS standards that are effective on April 1, 2011. The standards that will be effective in the annual financial statements for the year ending March 31, 2012 are subject to change and may be affected by additional interpretations. Accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated interim financial statements will be determined only when the first annual IFRS financial statements are prepared for the year ended March 31, 2012.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

Expressed in United States Dollars

## 2. Basis of presentation and adoption of IFRS (continued)

### (c) Adoption of IFRS (continued)

The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies used have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at April 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1 - *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in note 16.

## 3. Significant accounting policies

Refer to the condensed consolidated interim financial statements for the three months ended June 30, 2011 and 2010 for the significant accounting policies of the Company.

## 4. Plant and equipment

September 30, 2011	Cost	Accumulated depreciation	Net book value
Furniture and equipment	\$ 141,526	\$ (29,463)	\$ 112,063
Computers	574,134	(132,149)	441,985
Construction in progress	216,030	-	216,030
Leasehold improvements	258,500	(46,089)	212,411
Buildings	416,489	(549)	415,940
Machinery and equipment	200,421	(77,755)	122,666
Motor vehicles	1,077,546	(338,135)	739,411
	\$ 2,884,646	\$ (624,140)	\$ 2,260,506

March 31, 2011	Cost	Accumulated depreciation	Net book value
Furniture and equipment	\$ 149,876	\$ (57,588)	\$ 92,288
Computers	334,955	(103,751)	231,204
Leasehold improvements	188,761	(40,441)	148,320
Buildings	408,394	(549)	407,845
Machinery and equipment	103,971	(45,981)	57,990
Motor vehicles	772,374	(226,014)	546,360
	\$ 1,958,331	\$ (474,324)	\$ 1,484,007

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 5. Mineral interests

September 30, 2011	Cost	Accumulated depreciation	Net book value
Acquisition costs, Asumura	\$ 170,043	\$ -	\$ 170,043
Acquisition costs, Esaase	3,466,099	-	3,466,099
Asset retirement obligation	7,215,150	-	7,215,150
	<u>\$ 10,851,292</u>	<u>\$ -</u>	<u>\$ 10,851,292</u>

March 31, 2011	Cost	Accumulated depreciation	Net book value
Acquisition costs, Asumura	\$ 170,043	\$ -	\$ 170,043
Acquisition costs, Esaase	3,196,499	-	3,196,499
Asset retirement obligation	7,215,150	-	7,215,150
	<u>\$ 10,581,692</u>	<u>\$ -</u>	<u>\$ 10,581,692</u>

### Reconciliation of mineral interests

Esaase development project	Six months ended September 30, 2011	Year ended March 31, 2011
Opening balance	\$ 10,581,692	\$ 2,234,420
Additions:		
Acquisition costs, Esaase	269,600	1,181,982
Asset retirement obligation	-	7,165,290
	<u>269,600</u>	<u>8,397,132</u>
Closing balance	<u>\$ 10,851,292</u>	<u>\$ 10,581,692</u>

#### (a) Essase gold project

On May 3, 2006, the Company entered into an option agreement with Sametro Co. Ltd. ("Sametro") to purchase a 100% interest in the Esaase Gold property in the southwest part of the Republic of Ghana ("Ghana"), West Africa. The property is a subject to the underlying 10% interest and 5% royalty (see note 12(a)) to the Ghanaian government and a 0.5% royalty payable to the Bonte Liquidation Committee. Under the terms of the option agreement, the Company was to make a series of cash payments totaling \$890,000, issue 780,000 common shares and incur minimum exploration expenditures of \$2,250,000 over a three year period.

During the year ended March 31, 2008, after having already made cash payments of \$500,000, issued 40,000 common shares and completed the full exploration expenditure requirement, the Company renegotiated the option agreement so that all further cash and share payments were no longer owed. In lieu of these payments, the Company paid \$850,000 to a creditor of Sametro and issued 40,000 additional common shares to Sametro.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 5. Mineral interests (continued)

### (a) Essase gold project (continued)

Subsequent to these payments, the Company was granted the full Esaase Mining Lease by the Ghanaian Minerals Commission and Minister of Mines, Lands and Forestry with no further obligation to any party aside from the royalties and government commitments.

During the year ended March 31, 2008, the Company purchased 100% private ownership of the Jeni Concession mining lease and exploration rights. The Jeni Concession lies directly to the southwest and contiguous to the Esaase Gold property. In consideration for the acquisition of the mining lease, Keegan paid \$50,000 to the Bonte Liquidation Committee and \$50,000 to the Minerals Commission of Ghana for the title transfer. The Ghanaian government retains a standard 10% carried interest and 3% royalty based on the existing mining lease and the Bonte Liquidation Committee retains a 0.5% royalty.

Subsequent to the granting of the Esaase and Jeni mining leases, the Ghanaian government amended the royalty scheme in Ghana to a 5% royalty for all mining projects and uncertainty now exists as to the final royalty rate applicable to the property (see note 12(a)).

### **Acquisitions during the six months ended September 30, 2011 and the year ended March 31, 2011**

During the six months ended September 30, 2011, the Company paid \$110,000 pursuant to an option agreement with Sky Gold Mines Limited ("SGM") whereby the Company was granted the exclusive option by SGM to acquire 100% interest in the four-part concession adjacent to the Esaase Gold property. The concession is subject to a 2% net smelter returns royalty ("NSR") payable to SGM. Pursuant to the agreement the Company is required to make staged payments totaling \$260,000 in addition to the total of \$140,000 already paid, and issue in stages a total of 40,000 shares of the Company in addition to the 10,000 shares already issued. During July 2011, the Company received Ministerial approval of the option agreement and accrued for the issuance of 20,000 shares of the Company at a cost of \$159,600. The remaining 20,000 shares will be issued at the Company's option, in 10,000 share tranches on the second and third anniversary of this option agreement.

During the year ended March 31, 2011, the Company made a payment of \$600,000 plus certain acquisition costs to acquire a 100% interest in the Dawohodo prospecting concession, an adjacent mineral concession to the Esaase Gold property, and accrued a further \$500,000 payable pursuant to this agreement. The \$500,000 was paid during the three months ended June 30, 2011.

### **Free carried interest to the Ghanaian government**

Pursuant to the provisions of the Ghanaian Minerals and Mining Act of 2006, as at March 31, 2011, the Ghanaian government acquired, for zero proceeds, a 10% free carried interest in the rights and obligations of the mineral operations of the Esaase Gold property through an interest in Keegan Resources Ghana Limited ("Keegan Ghana").

Keegan Ghana reserved 10% of its common shares for issuance to the Ghanaian government, and one government representative was appointed to the Board of Directors of Keegan Ghana. The Ghanaian government is entitled to 10% of declared dividends from the net profit of Keegan Ghana at the end of a financial year. As the free carried interest does not result in an obligation on behalf of the Ghanaian government to contribute to the capital of Keegan Ghana nor share in the entity's losses, a non-controlling interest is not recognized while Keegan Ghana is in a net liability position.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 5. Mineral interests (continued)

### (b) Asumura gold project

The Company entered into an option agreement with GTE Ventures Limited ("GTE") dated February 18, 2005 and subsequently amended, through which it acquired an undivided 100% private interest in the Asumura Reconnaissance Concession ("Asumura property") located in the Republic of Ghana, West Africa.

The Asumura property is subject to a 3.5% NSR royalty, 50% of which may be purchased for \$2,000,000 from GTE and the remaining 50% may be purchased for an additional \$4,000,000. If the property is converted to a Mining License, in accordance with Ghanaian law, it will become subject to a 5% gross revenue royalty and 10% ownership by the Ghanaian government.

## 6. Exploration and evaluation expenditures

Exploration and evaluation expenditures are comprised of expenditures incurred on mineral interests in areas where the technical feasibility and economic recoverability has not yet been established.

### Summary of exploration and evaluation expenditures

	3 months ended September 30		6 months ended September 30	
	2011	2010	2011	2010
<b>Esaase:</b>				
Camp operations	\$ 711,173	\$ 155,590	\$ 1,203,311	\$ 288,383
Development support costs	504,275	253,387	886,681	622,027
Equipment and infrastructure	452,310	(151,474)	796,701	293,715
Engineering studies	1,549,330	301,515	2,989,459	514,776
Exploration drilling	254,864	2,240,222	1,477,285	3,444,185
Exploration support costs	447,704	857,445	1,262,384	1,855,924
Health and environmental	561,307	282,778	1,203,192	452,562
Technical and in-fill drilling	1,360,048	276,644	3,964,828	929,238
Share-based compensation	1,343,536	468,783	2,673,042	1,004,052
	7,184,547	4,684,890	16,456,883	9,404,862
<b>Asumura:</b>	-	434,229	-	719,777
<b>Total project expenditures for the period</b>	<b>\$ 7,184,547</b>	<b>\$ 5,119,119</b>	<b>\$ 16,456,883</b>	<b>\$ 10,124,639</b>

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 7. Asset retirement provision

The asset retirement provision relates to current and historical disturbance caused to the mineral concessions within the area of interest of the Esaase development project. Management has determined that these areas will be included as part of the project's life-of-mine rehabilitation program. The present value of this constructive obligation has been recorded as a non-current provision.

<b>Esaase development project</b>	Six months ended September 30, 2011	Year ended March 31, 2011
Opening balance	\$ 7,242,082	\$ 49,084
Additions	-	7,192,998
Accretion	122,856	-
<b>Closing balance</b>	<b>\$ 7,364,938</b>	<b>\$ 7,242,082</b>
Undiscounted and uninflated estimated future cash obligation	\$ 8,186,463	\$ 8,186,463
Expected term until settlement	13 years	13 years
Discount rate	3.46%	3.46%

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 8. Share capital

- (a) Authorized  
     Unlimited common shares without par value; and  
     Unlimited preferred shares without par value
- (b) Issued and outstanding common shares

	Number of shares	Amount
Balance, March 31, 2010	45,047,123	\$ 97,409,895
Issued for cash:		
Pursuant to a bought deal financing at C\$7.50	28,405,000	216,296,974
Share issuance costs, cash	-	(10,356,041)
Share issuance costs, fair value of warrants granted to underwriters	-	(662,580)
Pursuant to the exercise of warrants - at C\$3.10	237,333	724,703
Pursuant to the exercise of options		
- at C\$1.12	37,500	41,156
- at C\$1.16	200,000	227,783
- at C\$2.44	349,507	820,951
- at C\$2.48	40,000	100,232
- at C\$3.31	50,000	164,901
- at C\$3.60	75,000	265,869
- at C\$4.01	65,625	262,876
- at C\$4.20	280,000	1,138,519
- at C\$6.19	97,500	595,089
Transferred from equity reserves on the exercise of options	-	2,415,078
Transferred from foreign currency warrant liability on the revaluation and exercise of warrants	-	1,048,450
Balance, March 31, 2011	74,884,588	310,493,855
Issued for cash:		
Pursuant to the exercise of options		
- at C\$2.44	125,000	314,052
- at C\$3.31	50,000	172,666
- at C\$3.60	25,000	91,764
- at C\$4.01	71,250	297,958
- at C\$4.20	75,000	321,363
- at C\$6.19	80,000	515,488
- at C\$7.83	10,000	82,262
Transferred from equity reserves on the exercise of options	-	1,055,442
Balance, September 30, 2011	75,320,838	\$ 313,344,850

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 8. Share capital (continued)

### Six months ended September 30, 2011

During the six months ended September 30, 2011, an aggregate of 436,250 common shares were issued for gross proceeds of \$1,795,553 on exercise of options. In addition, a reclassification of \$1,055,442 from equity reserves to share capital was recorded on the exercise of these options.

### Year ended March 31, 2011

On February 17, 2011, the Company completed a bought deal share offering pursuant to an underwriting agreement, under which the underwriters purchased an aggregate of 24,700,000 common shares of the Company at a price of C\$7.50 per common share for gross proceeds of \$188,084,325. The underwriters exercised an over-allotment option to purchase an additional 3,705,000 common shares at C\$7.50, bringing the total gross proceeds from the bought deal financing to \$216,296,974. Pursuant to the underwriting agreement, the Company paid a commission to the underwriters equivalent to 4.5% of the gross proceeds raised or \$9,733,364 and incurred other cash share issuance costs totaling \$622,677. In addition, the Company granted 284,050 share purchase warrants to the underwriters entitling them to purchase common shares of the Company at a price of C\$7.50 per share until February 17, 2013. The Company recorded share issuance costs of \$662,580 related to the warrants granted to underwriters, representing the fair value of the warrants calculated using the Black-Scholes option-pricing method (note 9(b)).

During the year ended March 31, 2011, an aggregate of 1,195,132 common shares were issued for gross proceeds of \$3,617,374 on exercise of options. In addition, a reclassification of \$2,415,078 from equity reserves to share capital was recorded on the exercise of these options.

During the year ended March 31, 2011, an aggregate of 237,333 common shares were issued for gross proceeds of \$724,703 on exercise of broker's warrants. In addition, a reclassification of \$1,048,450 from foreign currency warrant liability to share capital was recorded on the revaluation and exercise of the broker's warrants.

## 9. Equity reserves

### (a) Share-based options

The Company maintains a rolling share-based option plan providing for the issuance of share-based options for up to 10% of the Company's issued and outstanding common shares. The Company may grant from time to time options to its directors, officers, employees and other service providers. The options vest 25% on the date of the grant and 12 ½ % every three months thereafter for a total vesting period of 18 months.

	Number of shares	Weighted average exercise price
Balance, March 31, 2011	6,213,750	C\$6.37
Granted	375,000	C\$7.59
Exercised	(436,250)	C\$3.98
Forfeited	(62,500)	C\$7.64
Balance, September 30, 2011	6,090,000	C\$6.61

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 9. Equity reserves (continued)

### (a) Share-based options (continued)

The following table summarizes the share-based options outstanding and exercisable at September 30, 2011:

Exercise price	Number outstanding at September 30, 2011	Expiry date	Number exercisable at September 30, 2011
C\$2.44	180,000	November 10, 2011	180,000
C\$4.20	365,000	February 5, 2013	365,000
C\$1.12	12,500	January 15, 2014	12,500
C\$3.31	70,000	June 2, 2014	70,000
C\$3.10	225,000	July 2, 2014	225,000
C\$3.10	75,000	July 17, 2014	75,000
C\$4.01	345,000	October 6, 2014	345,000
C\$6.50	220,000	December 14, 2014	220,000
C\$6.19	1,412,500	May 26, 2015	1,209,375
C\$7.83	105,000	October 20, 2015	61,875
C\$9.00	225,000	November 30, 2015	140,625
C\$8.00	2,480,000	March 17, 2016	1,215,000
C\$7.55	235,000	July 8, 2016	58,750
C\$7.66	140,000	August 2, 2016	35,000
	6,090,000		4,213,125
Weighted average contractual life life remaining at September 30, 2011 (years)	3.73		3.43

During the six months ended September 30, 2011, under the Black-Scholes option pricing model, \$7,506,627 (September 30, 2010 - \$4,287,942) in share-based compensation expense was recorded in the statement of comprehensive loss of which \$2,673,042 (September 30, 2010 - \$1,004,052) was included in exploration and evaluation expenses.

The fair value of share-based options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six months ended September 30, 2011	Six months ended September 30, 2010
Risk free interest rate	2.18%	2.30%
Expected dividend yield	0%	0%
Stock price volatility	88%	91%
Forfeiture rate	1.28%	1.28%
Expected life of options	3.73 years	3.69 years

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 9. Equity reserves (continued)

### (b) Warrants

The continuity of share purchase warrants for the six months ended September 30, 2011 is as follows:

Exercise price	Expiry date	March 31, 2011	Issued	Exercised	Expired	September 30, 2011
C\$ 7.50	February 17, 2013	284,050	-	-	-	284,050
		284,050	-	-	-	284,050

The continuity of share purchase warrants for the year ended March 31, 2011 is as follows:

Exercise price	Expiry date	March 31, 2010	Issued	Exercised	Expired	March 31, 2011
C\$ 7.50	February 17, 2013	-	284,050	-	-	284,050
C\$ 3.10	November 26, 2010	237,333	-	(237,333)	-	-
		237,333	284,050	(237,333)	-	284,050

The fair value of \$662,580 of the 284,050 brokers' warrants issued during the year ended March 31, 2011 was included in share issuance costs (note 8 (b)).

The fair value of the 284,050 broker warrants has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	February 17, 2011
Risk free interest rate	1.79%
Expected dividend yield	0%
Stock price volatility	55%
Share price on date of valuation	C\$ 7.50
Expected life of warrants	2.0 years

### (c) Shareholder rights plan

During the year ended March 31, 2009, the Directors of the Company approved the adoption of a shareholder rights plan (the "Rights Plan"). The objective of the Board of Directors in adopting this Plan is to achieve full and fair value for the Company's shareholders in the event of an unsolicited take-over bid for the Company.

The rights become exercisable only when a person or party acquires or announces its intention to acquire 20% or more of the outstanding shares of the Company without complying with certain provisions of the Rights Plan. Each right would entitle each holder of common shares (other than the acquiring person or party) to purchase additional common shares of the Company at a 50% discount to the market price at the time.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 10. Related party transactions

The Company has a geological consulting agreement with Rock-on Exploration Ltd., a company controlled by a director of the Company, under which the Company pays \$10,000 per month plus benefits. During the six months ended September 30, 2011, the Company paid consulting fees and benefits of \$70,740 (2010 - \$91,337). Included in accounts payable and accrued liabilities as at September 30, 2011 is \$35,370 (March 31, 2011 - \$99,386) owing to this company.

During the six months ended September 30, 2011, the Company paid/accrued professional fees of \$nil (2010 - \$15,414) for accounting fees to a company controlled by an officer of the Company.

During the six months ended September 30, 2011, the Company recovered on a cost recovery basis \$533,569 (2010 - \$nil) from companies with directors and officers in common, which is included in administration expenses in the statement of comprehensive income. Included in receivables as at June 30, 2011 is an aggregate amount of \$29,638 (March 31, 2011 - \$26,401) due from companies with directors and officers in common.

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by the management. All amounts are unsecured, non-interest bearing and have no specific terms of settlement.

### Key management compensation

	3 months ended September 30		6 months ended September 30	
	2011	2010	2011	2010
Salaries	\$ 573,511	\$ 99,610	\$ 766,249	\$ 201,419
Share-based payments	1,381,217	1,045,998	3,662,630	2,545,437
Other compensation	8,930	-	53,002	101,629
	<u>\$ 1,963,854</u>	<u>\$ 1,145,608</u>	<u>\$ 4,481,881</u>	<u>\$ 2,848,485</u>

## 11. Commitments

As at September 30, 2011, the Company has contractual commitments with certain service providers in Canada and Ghana. The amounts due under these contracts and their payment terms are as follows:

Fiscal year:	
2012	\$ 497,087
2013	647,241
2014	542,299
2015	542,299
2016	90,383
	<u>\$ 2,848,485</u>

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 12. Contingencies

### (a) Ghanaian mining royalties

On March 19, 2010, the government of Ghana amended section 25 of the Minerals and Mining Act of 2006 (Act 703) which stipulates the royalty rates on mineral extraction payable by mining companies in Ghana. The Act now states that a holder of a mining lease, restricted mining lease, or small scale mining license shall pay a royalty in respect of minerals obtained from its mining operations to Ghana at the rate of 5% of the total revenue earned from minerals obtained by the holder. Currently, uncertainty exists on how this amendment will affect the Esaase gold property's existing mining lease and whether this rate will change as the Company goes through negotiations with the government with respect to a stability agreement on the project.

### (b) Esaase option agreement suit

Keegan Ghana was named jointly with the Ghana Minerals Commission as a co-defendant in a legal suit by the company that had originally optioned the Esaase gold property to the Company. The Plaintiff is alleging certain irregularities in connection with the closing of the option resulting in Keegan Ghana's acquisition of the Esaase gold property and the issuing of the requisite regulatory approvals under Ghanaian law. Keegan Ghana has refuted the allegations on grounds that it had at all material times acted legally and in good faith and has therefore filed a defense and counter-claim against the Plaintiff. The Company is of the view after discussion with Ghanaian counsel that the allegations are totally without legal merit and will be vigorously defended. The Ghana Minerals Commission has also denied the allegations and filed a defense to the suit. The Company's potential liability for damages, if any, is currently not determinable.

## 13. Segmented information

### Geographic Information

The Company operates in one reportable operating segment, being the exploration and development of resource properties.

### **Geographic allocation of non-current assets**

<b>September 30, 2011</b>	<b>Canada</b>	<b>Ghana</b>	<b>Total</b>
Plant and equipment	\$ 689,328	\$ 1,571,178	\$ 2,260,506
Mineral interests	-	10,851,292	10,851,292
	<b>\$ 689,328</b>	<b>\$ 12,422,470</b>	<b>\$ 13,111,798</b>

<b>March 31, 2011</b>	<b>Canada</b>	<b>Ghana</b>	<b>Total</b>
Plant and equipment	\$ 389,483	\$ 1,094,524	\$ 1,484,007
Mineral interests	-	10,581,692	10,581,692
	<b>\$ 389,483</b>	<b>\$ 11,676,216</b>	<b>\$ 12,065,699</b>

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 13. Segmented information (continued)

### Geographic allocation of loss

	Canada	Ghana	Total
Three months ended September 30, 2011	\$ 7,607,847	\$ 7,601,926	\$ 15,209,773
Three months ended September 30, 2010	\$ 820,806	\$ 6,333,779	\$ 7,154,585
Six months ended September 30, 2011	\$ 10,288,638	\$ 17,192,248	\$ 27,480,886
Six months ended September 30, 2010	\$ 5,121,217	\$ 11,550,398	\$ 16,671,615

## 14. Financial instruments

As at September 30, 2011, the Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and share purchase warrants denominated in a currency different from the Company's functional currency.

The following table summarizes the designation and fair value hierarchy under which the Company's financial instruments are valued:

- Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

	Category	Carrying value	September 30, 2011	
			Amount	Fair value hierarchy
<b>Financial assets</b>				
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 213,556,989	Level 1
Receivables, excluding sales taxes refundable	Loans and receivables	Amortized cost	378,257	N/A
			\$ 213,935,246	
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 2,796,859	N/A
Share purchase warrants	Fair-value-through profit and loss	Fair Value	182,070	Level 2
			\$ 2,913,429	

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

Expressed in United States Dollars

## 14. Financial instruments (continued)

	Category	Carrying value	March 31, 2011	
			Amount	Fair value hierarchy
<b>Financial assets</b>				
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 236,329,452	Level 1
Receivables, excluding sales taxes refundable	Loans and receivables	Amortized cost	95,816	N/A
			<b>\$ 236,425,268</b>	
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 5,236,343	N/A
Share purchase warrants	Fair-value-through profit and loss	Fair Value	852,070	Level 2
			<b>\$ 6,088,413</b>	

The fair value of share purchase warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2011	March 31, 2011
Risk free interest rate	0.91%	1.77%
Expected dividend yield	0%	0%
Stock price volatility	61%	74%
Share price on date of valuation	C\$5.28	C\$8.45
Expected life of warrants	1.39 years	1.89 years

The risk exposure arising from these financial instruments is summarized as follows:

### (a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash and cash equivalent balances at banks in each of Canada and Ghana. The majority of the Company's cash is held in Canadian based banking institutions, authorized under the Bank Act (Canada) to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. As at September 30, 2011, the receivables consist primarily of interest receivable of \$338,019 (March 31, 2011 - \$72,423) and other receivables of \$125,097 (March 31, 2011 - \$180,134), neither of which are considered past due.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 14. Financial instruments (continued)

### (b) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at September 30, 2011, the Company had a cash and cash equivalents balance of \$213,556,989 (March 31, 2011 – \$236,329,452) to settle current liabilities of \$2,796,859 (March 31, 2011 - \$5,236,343) that mainly consist of accounts payable that are considered short term and expected to be settled within 30 days.

### (c) Market risk

#### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash and cash equivalents attract interest at floating rates and have maturities of 90 days or less or maturity over ninety days but redeemable on demand without penalty. The interest is typical of Canadian banking rates, which are at present low, however the conservative investment strategy mitigates the risk of deterioration to the investment. A sensitivity analysis suggests that a change of 100 basis points in the interest rates would result in a corresponding increase or decrease in loss for the period of approximately \$2,135,569 as at September 30, 2011 (March 31, 2011 - \$2,363,294).

#### (ii) Foreign currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has offices in Canada and Ghana and holds cash in Canadian, United States and Ghanaian Cedi currencies in line with forecasted expenditures. In addition, the Company has share purchase warrants denominated in Canadian dollars.

A significant change in the currency exchange rates between the US dollar relative to Canadian dollar ("CAD"), Ghanaian Cedi and the Australian dollar ("AUS") could have an effect on the Company's results of operations, financial position or cash flows. At September 30, 2011 and March 31, 2011, the Company had no hedging agreements in place with respect to foreign exchange rates.

The Company is exposed to currency risk through the following financial assets and liabilities denominated in foreign currencies. Expressed below in US dollar equivalents:

	September 30, 2011			March 31, 2011		
	CAD	Ghana Cedis	AUD	CAD	Ghana Cedis	AUD
Cash and cash equivalents	\$ 62,889,470	110,844	-	\$171,881,945	348,177	-
Accounts payable	(422,319)	(303,338)	(260,855)	(238,338)	(3,699,374)	(25,985)
Share purchase warrants	(182,070)	-	-	(852,070)	-	-
<b>Net exposure</b>	<b>62,285,081</b>	<b>(192,494)</b>	<b>(260,855)</b>	<b>170,791,537</b>	<b>(3,351,197)</b>	<b>(25,985)</b>

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

## 14. Financial instruments (continued)

### (c) Market risk

#### (ii) Foreign currency risk

A 10% appreciation or depreciation of the above mentioned currencies compared with the US dollar would result in a corresponding increase or decrease in net assets of approximately \$6,183,173 as at September 30, 2011 (March 31, 2011 - \$16,741,435).

#### (iii) Other price risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from currency risk or interest rate risk. As at September 30, 2011 and March 31, 2011, the Company was not exposed to other price risk.

### (d) Fair value

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments.

### (e) Items of income, expense, gains or losses arising from financial instruments

	Six months ended September 30,	
	2011	2010
Interest income from loans and receivable	\$ 995,777	\$ 129,433
Unrealized gain (loss) on revaluation of share purchase warrants	\$ 652,347	\$ (331,180)

## 15. Capital management

The Company considers items included in shareholders' equity to be capital.

	September 30, 2011	March 31, 2011
Shareholders' equity	\$ 217,363,426	\$ 235,468,143

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties and to maintain the Company in good standing with the various regulatory authorities. The Company has no debt and is not subject to externally imposed capital requirements.

The properties in which the Company currently has interests in are in the exploration and development stage, as such, the Company does not currently generate revenue. The Company's historical sources of capital have consisted of the sale of equity securities and interest income. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and raise additional amounts externally as needed.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

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## 15. Capital management (continued)

The Company has policies and procedures in place for employee and officer expenditure authorization limits and capital expenditure authorization. Capital expenditures of \$1,500,000 or more require approval by the Board of Directors. Management reviews its capital management approach on an ongoing basis and believes this approach is reasonable.

There were no changes in the Company's management of capital during the six months ended September 30, 2011.

## 16. First-time adoption of IFRS

The accounting policies in Note 3 of the condensed consolidated interim financial statements for the three months ended June 30, 2011 and 2010 have been applied in preparing the condensed consolidated interim financial statements for the three and six months ended September 30, 2011, the comparative information for the three and six months ended September 30, 2010, the financial statements for the year ended March 31, 2011 and the preparation of an opening IFRS statement of financial position on the Transition Date, April 1, 2010.

The guidance for the first time adoption of IFRS are set out in IFRS 1 – *First-time adoption of International Financial Reporting Standards* ("IFRS 1"). IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- *IFRS 2- Share-Based Payments* - The Company will take the election and only reassess the fair value of options that were granted after Nov 7, 2002 and that have not vested at the date of transition, April 1, 2010.
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets* – The Company will take the election and calculate its opening asset retirement obligation under IFRS as at April 1, 2010.

The Company applied the following IFRS 1 mandatory exceptions:

- *IAS 27 – Consolidated and Separate Financial Statements and IAS 28 – Investments in Associates* – The Company will take the election and upon adoption of IFRS and measure the assets and liabilities of its subsidiary, Keegan Ghana, at the same carrying amounts as in the financial statements of the subsidiary after adjusting for consolidation and equity accounting adjustments.

In preparing its opening IFRS statement of financial position, comparative information for the three and six months ended September 30, 2010 and financial statements for the year ended March 31, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP, accompanied by an explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, statements of comprehensive loss, deficit and cash flows. The reconciliations and explanations on translation adjustments are as follows:

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

Reconciliation of Assets, Liabilities & Equity  
As at September 30, 2010

	GAAP Expressed in Canadian dollars	GAAP expressed in US dollars note a	effect of transition to IFRS notes b,c,d	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 38,418,335	\$ 37,334,940	\$ -	\$ 37,334,940
Marketable securities	332,655	323,274	-	323,274
Receivables	110,799	107,675	-	107,675
Prepaid assets	198,897	193,289	-	193,289
	39,060,686	37,959,178	-	37,959,178
Non-current assets:				
Plant and equipment	462,720	430,360	830,085	1,260,445
Mineral interests	52,124,707	48,596,508	(46,326,214)	2,270,294
	52,587,427	49,026,868	(45,496,129)	3,530,739
<b>Total assets</b>	<b>\$ 91,648,113</b>	<b>\$ 86,986,046</b>	<b>\$ (45,496,129)</b>	<b>\$ 41,489,917</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,341,328	\$ 1,305,208	\$ -	\$ 1,305,209
	1,341,328	1,305,208	-	1,305,209
Non-current liabilities:				
Asset retirement obligation	52,249	49,084	-	49,084
Share purchase warrants	-	-	846,635	846,635
	52,249	49,084	846,635	895,719
<b>Total liabilities</b>	<b>1,393,577</b>	<b>1,354,292</b>	<b>846,635</b>	<b>2,200,928</b>
<b>Shareholders' Equity</b>				
Common shares	108,087,956	100,095,927	631,889	100,727,816
Equity reserves	11,577,145	10,717,154	(776,829)	9,940,324
Accumulated other comprehensive income	163,392	157,183	-	157,183
Accumulated deficit	(29,573,957)	(25,338,510)	(46,197,824)	(71,536,334)
	90,254,536	85,631,754	(46,342,764)	39,288,989
<b>Total shareholders' equity and liabilities</b>	<b>\$ 91,648,113</b>	<b>\$ 86,986,046</b>	<b>\$ (45,496,129)</b>	<b>\$ 41,489,917</b>

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

Reconciliation of Assets, Liabilities & Equity  
As at March 31, 2011

	GAAP Expressed in Canadian dollars	GAAP expressed in US dollars note a	effect of transition to IFRS notes b,c,d,e	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 229,144,989	\$ 236,329,452	\$ -	\$ 236,329,452
Receivables	244,880	252,557	-	252,557
Prepaid expenses and deposits	146,084	150,930	-	150,930
	229,535,953	236,732,939	-	236,732,939
Non-current assets:				
Plant and equipment	537,111	506,273	977,734	1,484,007
Mineral interests	74,843,010	70,792,389	(60,210,697)	10,581,692
	75,380,121	71,298,662	(59,232,963)	12,065,699
<b>Total assets</b>	<b>\$ 304,916,074</b>	<b>\$ 308,031,601</b>	<b>\$ (59,232,963)</b>	<b>\$ 248,798,638</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 5,076,974	\$ 5,236,343	\$ -	\$ 5,236,343
	5,076,974	5,236,343	-	5,236,343
Non-current liabilities:				
Asset retirement obligation	4,762,009	4,911,313	2,330,769	7,242,082
Share purchase warrants	-	-	852,070	852,070
	4,762,009	4,911,313	3,182,839	8,094,152
<b>Total liabilities</b>	<b>9,838,983</b>	<b>10,147,656</b>	<b>3,182,839</b>	<b>13,330,495</b>
<b>Shareholders' Equity</b>				
Common shares	314,407,860	309,475,894	1,017,961	310,493,855
Equity reserves	17,163,323	16,364,296	(1,154,249)	15,210,047
Accumulated deficit	(36,494,092)	(27,956,245)	(62,279,514)	(90,235,759)
	295,077,091	297,893,945	(62,415,802)	235,468,143
<b>Total shareholders' equity and liabilities</b>	<b>\$ 304,916,074</b>	<b>\$ 308,031,601</b>	<b>\$ (59,232,963)</b>	<b>\$ 248,798,638</b>

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

Reconciliation of loss and comprehensive loss  
Three months ended September 30, 2010

	GAAP Expressed in Canadian dollars	GAAP expressed in US dollars note a	effect of transition to IFRS notes b,c,d	IFRS
<b>Administration expenses</b>				
Expenses:				
Amortization	\$ 24,627	\$ 23,694	\$ -	\$ 23,694
Bank charges and interest	7,169	6,899	-	6,899
Consulting fees, directors' fees and wages and benefits	534,005	513,760	-	513,760
Office, rent and administration	213,227	206,144	-	206,144
Professional fees	294,976	283,776	-	283,776
Regulatory fees, transfer agent and shareholder information	31,700	30,495	-	30,495
Stock-based compensation	1,535,264	1,476,996	(126,719)	1,350,277
Travel, promotion and investor relations	208,568	199,691	-	199,691
	2,849,536	2,741,425	(126,719)	2,614,706
Exploration and evaluation expenditures	-	-	5,119,119	5,119,119
Other expenses (income):				
Interest and other income	(68,654)	(66,047)	-	(66,047)
Revaluation of share purchase warrants	-	-	452,205	452,205
Foreign exchange (gain) loss	448,126	(942,943)	-	(942,943)
Future income tax recovery	(23,342)	(22,455)	-	(22,455)
	356,130	(1,031,445)	452,205	(579,240)
Loss for the period	3,205,666	1,709,980	5,444,605	7,154,585
Adjustment for fair value of investment	(163,392)	(157,183)	-	(157,183)
Comprehensive loss for the period	\$ 3,042,274	\$ 1,552,797	\$ 5,444,605	\$ 6,997,402

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

Reconciliation of loss and comprehensive loss  
Six months ended September 30, 2010

	GAAP Expressed in Canadian dollars	GAAP expressed in US dollars note a	effect of transition to IFRS notes b,c,d	IFRS
<b>Administration expenses</b>				
Expenses:				
Amortization	\$ 43,787	\$ 42,331	\$ -	\$ 42,331
Bank charges and interest	13,606	13,161	-	13,161
Consulting fees, directors' fees and wages and benefits	1,129,908	1,093,369	-	1,093,369
Office, rent and administration	382,798	371,035	-	371,035
Professional fees	349,824	337,127	-	337,127
Regulatory fees, transfer agent and shareholder information	70,128	67,866	-	67,866
Stock-based compensation	3,623,001	3,507,292	(223,402)	3,283,890
Travel, promotion and investor relations	497,932	481,101	-	481,101
	6,110,984	5,913,282	(223,402)	5,689,880
Exploration and evaluation expenditures	-	-	10,124,639	10,124,639
Other expenses (income):				
Interest and other income	(133,829)	(129,433)	-	(129,433)
Revaluation of share purchase warrants	-	-	331,180	331,180
Foreign exchange (gain) loss	36,302	677,804	-	677,804
Future income tax recovery	(23,342)	(22,455)	-	(22,455)
	(120,869)	525,916	331,180	857,096
Loss for the period	5,990,115	6,439,198	10,232,417	16,671,615
Adjustment for fair value of investment	(163,392)	(157,183)	-	(157,183)
Comprehensive loss for the period	\$ 5,826,723	\$ 6,282,015	\$ 10,232,417	\$ 16,514,432

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

Reconciliation of loss and comprehensive loss  
Year ended March 31, 2011

	GAAP Expressed in Canadian dollars	GAAP expressed in US dollars note a	effect of transition to IFRS notes b,c,d	IFRS
<b>Administration expenses</b>				
Expenses:				
Amortization	\$ 101,974	\$ 100,281	\$ -	\$ 100,281
Bank charges and interest	36,232	35,627	-	35,627
Consulting fees, directors' fees and wages and benefits	2,415,249	2,375,162	-	2,375,162
Office, rent and administration	754,874	753,452	-	753,452
Professional fees	660,918	645,632	-	645,632
Regulatory fees, transfer agent and shareholder information	185,783	182,713	-	182,713
Stock-based compensation	7,799,995	7,777,371	(318,863)	7,458,508
Travel, promotion and investor relations	970,548	950,989	-	950,989
	12,925,573	12,821,227	(318,863)	12,502,364
Exploration and evaluation expenditures	-	-	26,114,646	26,114,646
Other expenses (income):				
Interest and other income	(490,851)	(482,735)	-	(482,735)
Donations	82,000	80,644	-	80,644
Gain on sale of investments	(215,666)	(212,103)	-	(212,103)
Revaluation of share purchase warrants	-	-	518,325	518,325
Foreign exchange (gain) loss	609,194	(3,150,101)	-	(3,150,101)
	(97,323)	(3,764,295)	518,325	(3,245,970)
<b>Loss and comprehensive loss for the year</b>	<b>\$ 12,910,250</b>	<b>\$ 9,056,932</b>	<b>\$ 26,314,108</b>	<b>\$ 35,371,040</b>

(a) Functional currency and the effect of changes in foreign exchange rates

IFRS requires that the functional currency of each entity of the Company be determined separately. The Company has determined that as at the Transition Date, the United States dollar was the functional currency of all entities in the Company.

Under GAAP, the Company's parent company, Keegan Resources Inc. was deemed to have a measurement currency of the Canadian dollar and each of its subsidiaries were considered to integrated foreign subsidiaries. Under this accounting policy, monetary assets and liabilities, not denominated in Canadian dollars were translated to their Canadian dollar equivalents using foreign exchange rates which prevailed at the date of each balance sheet. Non-monetary items are translated at exchange rates prevailing when the assets were acquired or the obligations incurred. Foreign currency denominated expense items were translated at exchange rates prevailing at the transaction date.

Under IFRS, non-monetary assets, liabilities and the company's equity account have been recalculated using the US dollar based exchange rates prevailing when the assets were acquired, the obligations incurred or the expense was incurred. As at April 1, 2010, under GAAP, the Company had reported net assets of C\$89,386,161 and under IFRS, the Company reports net assets of \$85,443,758 prior to the effect of any of the other IFRS opening balance sheet adjustments.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

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## (b) Share-based payments

Under GAAP, the Company measured share-based compensation related to share purchase options at the fair value of the options granted using the Black-Scholes model and recognized this expense over the vesting period of the options. The fair value takes into account a number of variables, including the exercise price of the award, the expected dividend rate, the expected life of the options and the risk free interest rate. The expense is recorded on a straight-line basis over the graded vesting period of the award. The forfeiture rate is assumed to be nil and the expense is adjusted prospectively as forfeitures occur. Compensation expense attributable to awards that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period.

For the purpose of accounting for share based payment transactions an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the options granted to employees is measured on the date of grant. The fair value of options granted to contractors and consultants are measured on the date the services are completed. Forfeitures are recognized as they occur.

IFRS 2, similar to GAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. IFRS does, however, require the fair value determination to account for the anticipated forfeiture rate of the options. The Company has now incorporated this rate in the fair value of all grants that were granted after Nov 7, 2002 and that have not vested at the date of transition, April 1, 2010.

For the purpose of accounting for share based payment transactions an individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. This definition of an employee is broader than that applied under GAAP and resulted in certain contractors and consultants being classified as employees under IFRS.

As at the Date of Transition, the Company recorded an adjustment to option reserves of \$171,753 of which, \$123,634 related to previous share-based compensation recorded to the statement of operations under GAAP and \$48,119 that was recorded to mineral interest.

During the six months ended September 30, 2010, share-based compensation was reduced by \$223,402 and mineral interests by \$40,331.

During the year ended March 31, 2011, share-based compensation was reduced by \$318,863 and mineral interests by \$139,804.

## (c) Share purchase warrants

Under IAS 32, a contract that gives a counterparty a right to buy a fixed number of the Company's shares for a fixed price is treated as an equity instrument and recorded in equity at fair value at the time of initial recognition. If a contract gives a counterparty a right to buy a fixed number of the Company's shares where the price is variable, this contract is treated as a financial liability and subsequent to initial recognition, changes in fair value are recorded into income.

As at the Date of Transition, the Company had outstanding, 237,333 broker warrants which were exercisable into one common share at a fixed conversion price of C\$3.10. As this Canadian denominated conversion price results in variable proceeds in the entity's functional currency of United states dollars depending on the prevailing exchange rate, these warrants are classified as a financial liability. Under GAAP, the Company's functional currency was the Canadian dollar therefore the warrants were classified as equity instruments.

# KEEGAN RESOURCES INC.

Notes to Condensed Consolidated Interim Financial Statements - Unaudited  
Three and six months ended September 30, 2011 and 2010

*Expressed in United States Dollars*

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(c) Foreign currency warrant liability (continued)

As at the Date of Transition, the Company recorded the fair value, \$719,616 of the outstanding Canadian dollar denominated warrants as a financial liability. The difference between the fair value at the time of issuance and the fair value at the Date of Transition, net of reclassification to share capital on exercise of warrants, of \$827,878 was charged to retained earnings.

The fair value of the financial liability as at September 30, 2010 and March 31, 2011 was \$846,635 and \$852,070, respectively.

(d) Exploration and evaluation expenditures

Under IFRS 6, the Company can determine an accounting policy specifying which expenditures are recognized as exploration and evaluation assets and apply the policy consistently. In making this determination, the Company must consider the degree to which the expenditure can be associated with finding specific mineral resources.

As described in Note 3(g) of the condensed consolidated interim financial statements for June 30, 2011 and 2010, the Company has selected an accounting policy under IFRS 6 where all exploration and evaluation expenditures are expensed until properties are determined to contain economically recoverable mineral resources. Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, further cost incurred for the development of that project are capitalized as mineral interests.

Under GAAP, the Company's accounting policy was that exploration and development costs are capitalized until properties are brought into production, when costs are amortized on a unit-of-production basis over economically recoverable reserves, abandoned or the interest is sold.

As at the Date of Transition, the Company recorded to retained earnings \$35,309,282 in exploration and evaluation costs, during six months ended September 30, 2010 \$10,124,639 and during the year ended March 31, 2011 \$26,114,646.

(e) Asset retirement obligation

Under IFRS, asset retirement obligations are discounted using a current discount rate specific to the related liability or a risk-free interest rate if risks are incorporated into the related cash flows. Under GAAP, a credit adjusted risk-free rate was used. As a result, the asset retirement obligation recorded at April 1, 2010 and March 31, 2011 has been re-measured and an adjustment has been recorded to mineral interest. This resulted in an increase in mineral interests and an increase in asset retirement obligation of \$2,330,769 as at March 31, 2011. No material adjustment was required as at April 1, 2010.



MANAGEMENT DISCUSSION AND ANALYSIS  
Three and six months ended September 30, 2011 and 2010

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# KEEGAN RESOURCES INC.

## Management Discussion & Analysis Three and six months ended September 30, 2011 and 2010

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This Management's Discussion and Analysis ("MD&A") of Keegan Resources Inc. ("Keegan" or the "Company") has been prepared by management as of November 10, 2011 and should be read in conjunction with the Company's consolidated interim financial statements for the three months ended June 30, 2011 and the three and six months ended September 30, 2011 and the related notes thereto. Beginning April 1, 2011, Keegan commenced reporting under International Financial Reporting Standards ("IFRS"). The unaudited condensed consolidated interim financial statements for the three and six months ended September 30, 2011 have been prepared in accordance with IFRS with comparative information for 2010 restated under IFRS (see note 16 in the unaudited interim financial statements for reconciliations from Canadian generally accepted accounting principals ("GAAP") to IFRS). All dollar amounts herein are expressed in United States dollars unless stated otherwise.

**This MD&A contains Forward Looking Information. Please read the Cautionary Statements on page 24 carefully.**

### Highlights for the six months ended September 30, 2011 and subsequent period to November 10, 2011

- On September 22, 2011, the Company announced the results of its Pre-Feasibility Study ("PFS" or "Study") for its Esaase Gold Project ("the Project") located near Kumasi, in southwestern Ghana, West Africa. Highlights of the PFS are as follows:
  - 2.6 million ounces of gold produced over a 10.2 year mine life.
  - Plant capacity of 7.5 million tonnes per annum, with capacity to treat 9.0 million tonnes per year in early years of production when processing 100% oxide ore.
  - 330,000 oz gold produced in Year 1, with a Life of Mine ("LOM") average of 258,000 oz/yr.
  - \$639 million after-tax Net Present Value ("NPV") discounted at 5% and an Internal Rate of Return ("IRR") of 32% (100% equity basis at \$1,500/oz gold revenue applied to a \$1,150/oz gold pit shell).
  - Capital cost of \$506 million, utilizing a leased mining fleet. Cash costs of \$693/oz gold produced including leasing costs for mining equipment (approximately \$55/oz).

Infill drilling completed in conjunction with the PFS was used to prepare an updated Mineral Resource estimate with highlights as follows:

- Measured and Indicated Resources of 98.7 million tonnes grading 1.1 g/t gold and containing 3.64 million ounces of gold (lower cutoff grade of 0.4 g/t gold).
- Inferred Resources of 45.9 million tonnes grading 1.1 g/t gold and containing 1.55 million ounces of gold (lower cutoff grade of 0.4 g/t gold).

Based on the positive results of the PFS, a portion of the Measured and Indicated Mineral Resources were converted to Proven and Probable ("P&P") Mineral Reserves with highlights as follows:

- Total P&P Reserves of 79.4 million tonnes grading 1.1 g/t gold and containing 2.88 million ounces of gold (based on \$1,150/oz gold pit shell).
- On August 3, 2011, the Company announced that it had entered into an option agreement with Sky Gold Mines Limited ("SGM"), a private Ghanaian company, to acquire 100% interest in a four-part concession (hereinafter described as the "Sky Gold Concession") within the Asankrangwa gold belt.
- On June 2, 2011, the Company announced the latest assay results from its Esaase Project drilling programs in five distinct areas of the project. **1)** In its Main Zone resource infill program, the Company encountered significant, consistent gold intercepts including 138 m of 1.63 g/t Au, 116 m of 1.4 g/t Au, 85 m of 1.4 g/t Au, and 43 m of 1.89 g/t Au. **2)** In its Main Zone resource expansion program, Keegan continues to encounter significant gold bearing intercepts in down dip step-out holes, including 100.9 meters of 1.64 g/t Au, 48 meters of 1.83 g/t Au, 155 meters of 0.64 g/t Au and 10 meters of 6.01 g/t Au. **3)** At the D-1 Abuabo Zone, Keegan drilled 38 meters of 1.79 g/t Au (KGDD038) down dip from the current resource. **4)** At the E zone to west of southern most resource area, recently discovered under alluvial cover, Keegan intercepted 26 meters of 1.23 g/t Au. **5)** In a hole drilled 400 m to the north of the current extent of the Main Zone resource, Keegan intercepted 6 meters of 5.55 g/t.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## **Description of the Business**

The Company was incorporated on September 23, 1999 under the laws of British Columbia. The Company is in the exploration and development stage and is focused on advancing its principal property, the Esaase Gold Project to commercial production through the completion of pre-feasibility and feasibility studies. In addition to its principal project, the Company holds a portfolio of other Ghanaian gold concessions in various stages of exploration. The Company's shares trade on the Toronto Stock Exchange ("TSX") and American Stock Exchange ("AMEX") under the symbol "KGN".

The Company continues to be well financed with cash and cash equivalents at September 30, 2011 of \$213.6 million. Though, the Company expects to have to raise additional capital, management has estimated that the Company will have adequate funds from existing working capital to meet corporate, development, administrative and property obligations for the coming 24 months, including the completion of the feasibility study on the Esaase property.

The Company has been judicious in its protection of the capital it has on hand by investing only in Guaranteed Investment Certificates and has no investments in asset-backed commercial paper.

The Company's material properties consist of the Esaase Project and the Asumura Project as follows:

### **Esaase Gold Property**

The Esaase Gold Property is located in the Amansi East District of Ghana, approximately 35km south west of the regional capital Kumasi. The property consists of several mining concessions, the three largest are the Esaase Concession, Jeni River Concession and Sky Gold Concession. The Esaase Concession is approximately 10km in a northeast direction by 4km in a northwest direction covering 42.32 square kilometers.

The property was acquired through an option agreement with Sametro Co. Ltd. ("Sametro") dated May 3, 2006. Under the terms of the agreement, the Company was to make a series of cash payments totaling \$0.89 million, issue 780,000 common shares and incur minimum exploration expenditures of \$2.25 million over a three year period.

During the year ended March 31, 2008, after having already made cash payments of \$0.5 million, issued 40,000 common shares and completed the full exploration expenditure requirement, the Company renegotiated the option agreement so that all further cash and share payments were no longer owed. In lieu of these payments, the Company paid \$0.85 million to a creditor of Sametro and issued 40,000 additional common shares to Sametro. Subsequent to these payments, the Company was granted the full Esaase Mining Lease by the Minerals Commission and Minister of Mines, Lands and Forestry with no further obligation to any party aside from the royalty and government commitments.

During the year ended March 31, 2008, the Company purchased 100% private ownership of the Jeni Concession mining lease and exploration rights. The Jeni Concession lies directly to the southwest and contiguous to the Esaase Gold property. In consideration for the acquisition of the mining lease, Keegan paid \$50,000 to the Bonte Liquidation Committee and \$50,000 to the Minerals Commission of Ghana for the title transfer.

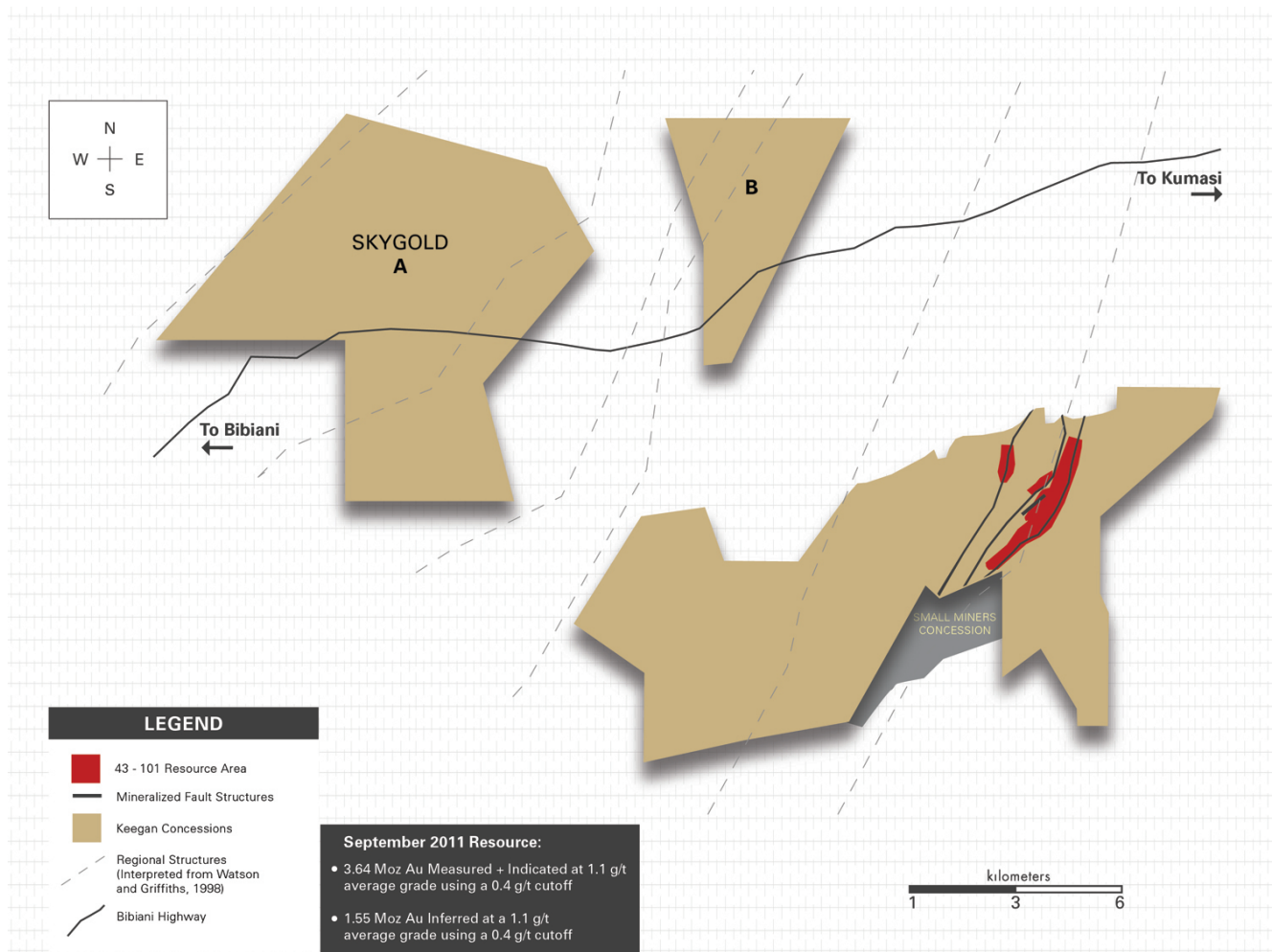
Both are governed by mining leases that grant the Ghanaian government a standard 10% carried interest and a 5% royalty and the Bonte Liquidation Committee a 0.5% royalty. Subsequent to the granting of these mining leases, the Ghanaian government amended the royalty scheme in Ghana. (See "Ghanaian mining royalties" in this section).

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
 Three and six months ended September 30, 2011 and 2010

## Acquisitions during the six months ended September 30, 2011

On August 3, 2011, the Company announced that it had entered into an option agreement with Sky Gold Mines Limited ("SGM"), a private Ghanaian company, to acquire 100% interest in a four-part concession (hereinafter described as the "Sky Gold Concession") within the Asankrangwa gold belt, where its flagship Esaase Deposit occurs. The cumulative land position of the Sky Gold Concession is over 118 sq km, which, when added to the existing property, brings Keegan's total land position to more than 216 sq. km. The Agreement requires Keegan to make cash payments of \$0.4 million and to issue 50,000 KGN shares on or before the third anniversary of signing. Of these amounts \$0.14 million has been paid and 20,000 shares are outstanding as issuable; the remaining cash and share payments are optional. SGM retains a 2% NSR of which Keegan has an option to buy half (1% of 2%) for \$5 million and has a first right of refusal to purchase the remainder.



Keegan's Esaase Project: Current property position.

For the six months ended September 30, 2011, the Company incurred \$16.5 million of exploration and evaluation expenditures on its Esaase Gold Property. These costs were spent on continuing the exploration and evaluation drill program, further defining the existing resource through infill and exploration drilling and engineering, geotechnical and metallurgical drill programs and development and engineering studies in support of the Company's pre-feasibility and feasibility studies. In addition, the Company incurred \$0.11 million in acquisition costs related to the acquisition of a 100%

# KEEGAN RESOURCES INC.

## Management Discussion & Analysis

Three and six months ended September 30, 2011 and 2010

interest in the Dawohodo prospecting concession, an adjacent mineral concession to the Esaase Gold property and accrued \$0.16 million for 20,000 shares outstanding to SGM.

	3 months ended September 30		6 months ended September 30	
	2011	2010	2011	2010
<b>Esaase:</b>				
Camp operations	\$ 711,173	\$ 155,590	\$ 1,203,311	\$ 288,383
Development support costs	504,275	253,387	886,681	622,027
Equipment and infrastructure	452,310	(151,474)	796,701	293,715
Engineering studies	1,549,330	301,515	2,989,459	514,776
Exploration drilling	254,864	2,240,222	1,477,285	3,444,185
Exploration support costs	447,704	857,445	1,262,384	1,855,924
Health and environmental	561,307	282,778	1,203,192	452,562
Technical and in-fill drilling	1,360,048	276,644	3,964,828	929,238
Share-based compensation	1,343,536	468,783	2,673,042	1,004,052
	7,184,547	4,684,890	16,456,883	9,404,862
<b>Asumura:</b>				
	-	434,229	-	719,777
<b>Total project expenditures for</b>				
<b>the period</b>	<b>\$ 7,184,547</b>	<b>\$ 5,119,119</b>	<b>\$ 16,456,883</b>	<b>\$ 10,124,639</b>

### **Mineral resource update**

On November 4, 2011, the Company released an updated resource estimate for the Esaase Gold Project. The updated resource includes 3.64 million ounces of gold (an increase of 13%) in a Measured and Indicated Resource category with an average grade of 1.1 g/t Au at a 0.4 g/t Au cutoff and 1.55 million ounces of gold in an Inferred Resource category at an average grade of 1.1 g/t Au applying a 0.4 g/t Au cut-off for a total Measured, Indicated and Inferred Resource of 5.19 million ounces of gold. A total of 1,201 drillholes (237,260 meters drilled) have been completed, of which 915 of these drillholes were used for the resource estimation study.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

<b>Esaase Gold Project – Global Resource Estimate</b> (See 43-101 technical report available on SEDAR.com) <b>Multiple Indicator Kriging Estimate (8mE x 10mN x 5mRL Selective Mining Unit), with with Ordinary Kriging Estimate (20mE x 20mN x 10mRL and 20mE x 40mN x 10mRL Parent Cells)</b>				
	Lower Cutoff Grade (g/t Au)	Tonnes (Mt)	Average Grade (g/t Au)	Ounces (Kozs)
<b>Measured</b>	0.3	5.34	1.2	200
	<b>0.4</b>	<b>5.03</b>	<b>1.2</b>	<b>196</b>
	0.5	4.66	1.3	191
	0.6	4.21	1.4	183
	0.7	3.73	1.4	173
	0.8	3.26	1.5	162
	0.9	2.83	1.7	150
<b>Indicated</b>	1	2.44	1.8	139
	0.3	102.90	1.1	3,543
	<b>0.4</b>	<b>93.71</b>	<b>1.1</b>	<b>3,441</b>
	0.5	83.03	1.2	3,288
	0.6	72.04	1.3	3,096
	0.7	61.67	1.5	2,882
	0.8	52.51	1.6	2,663
<b>Inferred</b>	0.9	44.72	1.7	2,451
	1.0	38.14	1.8	2,251
	0.3	50.04	1.0	1,598
	<b>0.4</b>	<b>45.90</b>	<b>1.1</b>	<b>1,553</b>
	0.5	40.54	1.1	1,476
	0.6	34.82	1.2	1,375
	0.7	29.39	1.3	1,262
0.8	24.79	1.4	1,153	
0.9	20.61	1.6	1,039	
1.0	17.12	1.7	932	

Note: appropriate rounding has been applied

Resource estimates for the Project were generated by Coffey Mining on the basis of analytical results available up to June 13, 2011. The resource model was derived via geological interpretation and modelling of the mineralized zones.

Multiple Indicator Kriging ('MIK') estimation with indirect lognormal change of support to emulate mining selectivity was selected as an appropriate estimation method based on the quantity and spacing of available data, and the interpreted controls on, and styles of, mineralization under review. Various satellite-mineralized bodies to the main body of mineralization also exist and have been estimated via Ordinary Kriging ('OK').

Coffey Mining also completed a detailed assessment of all analytical quality control data applied in resource estimation. At the time of resource estimation, no material bias had been identified, and the analytical precision for both field duplicate and re-assay data generally lie within accepted industry limits.

This summarized Resource Statement was determined as at 1st August 2011 and has been prepared and reported in

# KEEGAN RESOURCES INC.

## Management Discussion & Analysis Three and six months ended September 30, 2011 and 2010

accordance with Canadian National Instrument 43-101, Standards of Disclosure for Mineral Projects of June 2011 and the classifications adopted by CIM Council on November 27th 2010. The resource estimate has been classified as a Measured, Indicated and Inferred Resource based on the confidence of the input data, geological interpretation, and grade estimation. It should be noted that mineral resources that are not mineral reserves do not have demonstrated economic viability.

All of the zones remain open along strike and down dip and the Company continues to drill the concession to continue to expand the resources, particularly at depth on the main zone and along strike on the B and D zone, where Keegan is continuing to intercept mineralization.

The Company continues to advance its project development studies with the goal to begin mine construction in the calendar year 2012. The Company has initiated field and development work to support a full Feasibility Study to be undertaken with completion targeted for the first half of the calendar year 2012.

### **Prefeasibility study**

A PFS of the Project was completed in September 2011. The PFS was based on a gold price of \$1,150 per ounce and a mill throughput rate of 9.0Mtpa for oxide material and 7.5Mtpa for fresh material.

Development of the Project, with an estimated initial capital expenditure of \$506M, will take an estimated 33 months from full project go-ahead to first gold production, followed by just over 10 years of process plant operations and one to two years of closure and rehabilitation activities. The Project is anticipated to recover 2.6Moz of gold at an average cash cost, inclusive of refining costs and royalties, of \$772/oz.

A cashflow financial model developed for the Project as part of the PFS indicates after tax economics of:

An IRR of 13%,  
A NPV, discounted at 5%, of \$171 million, and  
A capital payback period of 4.7 years.

Engineering and estimating undertaken to define the project scope and develop cost estimates is sufficient to support a PFS level of accuracy ( $\pm 25\%$ ).

### **Mineral reserves**

Based on the positive outcome of the PFS the following Mineral Reserves were reported in accordance with Canadian National Instrument 43-101, 'Standards of Disclosure for Mineral Projects' of June 2011 and the classifications adopted by CIM Council in November 2010.

The Mineral Reserve was based on a cutoff of 0.4g/t Au and was determined as of September 1, 2011.

All stated Mineral Reserves are completely included within the Resources as shown in the "Mineral Resource Update" section above.

Deposit	Mineral Reserves								
	Proven			Probable			Total		
	Tonnes (Mt)	Grade (g/t)	Insitu Au (koz)	Tonnes (Mt)	Grade (g/t)	Insitu Au (koz)	Tonnes (Mt)	Grade (g/t)	Insitu Au (koz)
Esaase	5.1	1.2	199	74.3	1.1	2,685	79.4	1.1	2,884

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## ***Continued exploration***

On June 2, 2011, the Company announced additional assay results from its Esaase Project drilling programs in five distinct areas of the project: 1) In its Main Zone resource infill program, the Company encountered significant, consistent gold intercepts including 138 m of 1.63 g/t Au, 116 m of 1.4 g/t Au, 85 m of 1.4 g/t Au, and 43 m of 1.89 g/t Au. 2) In its Main Zone resource expansion program, Keegan continues to encounter significant gold bearing intercepts in down dip step-out holes, including 100.9 meters of 1.64 g/t Au, 48 meters of 1.83 g/t Au, 155 meters of 0.64 g/t Au and 10 meters of 6.01 g/t Au. 3) At the D-1 Abuabo Zone, Keegan drilled 38 meters of 1.79 g/t Au (KGDD038) down dip from the current resource. 4) At the E zone to west of southern most resource area, recently discovered under alluvial cover, Keegan intercepted 26 meters of 1.23 g/t Au. 5) In a hole drilled 400 m to the north of the current extent of the Main Zone resource, Keegan intercepted 6 meters of 5.55 g/t.

The most recent drill results on the Esaase Gold Property may be found at [www.keeganresources.com](http://www.keeganresources.com).

## ***Free carried interest to the Ghanaian government***

Pursuant to the provisions of the Ghanaian Minerals and Mining Act of 2006, effective in the fourth quarter of the fiscal year 2011, the Ghanaian government acquired, for zero proceeds, a 10% free carried interest in the rights and obligations of the mineral operations of both Esaase Gold Property and Keegan Resources Ghana Limited ("Keegan Ghana"). Keegan Ghana has reserved for issue 10% of its common shares to the Ghanaian government, and one government representative was appointed to its Board of Directors. The 10% ownership stake represents a non-participating interest where the Ghanaian Government is entitled to 10% of declared dividends from the net profit of Keegan Ghana at the end of a financial year but does not have to contribute to its capital investment.

## ***Ghanaian mining royalties***

On March 19th, 2010, the government of Ghana amended section 25 of the Minerals and Mining Act of 2006 (Act 703), which stipulates the royalty rates on mineral extraction payable by mining companies in Ghana. The section now states that a holder of a mining lease, restricted mining lease, or small-scale mining license shall pay royalty in respect of minerals obtained from its mining operations to the Republic of Ghana at the rate of 5% of the total revenue earned from minerals obtained by the holder. Currently, uncertainty exists on how this amendment will affect the Esaase gold property's existing mining lease and whether this rate will change as the Company goes through negotiations with the government with respect to a stability or development agreement for the project.

## ***Esaase option agreement suit***

Keegan Ghana was named jointly with the Ghana Minerals Commission as a co-defendant in a legal suit by the company that had originally optioned the Esaase gold property to the Company. The Plaintiff is alleging certain irregularities in connection with the closing of the option resulting in Keegan Ghana's acquisition of the Esaase gold property and the issuing of the requisite regulatory approvals under Ghanaian law. Keegan Ghana has refuted the allegations on grounds that it had at all material times acted legally and in good faith and has therefore filed a defense and counter-claim against the Plaintiff. The Company is of the view after discussion with Ghanaian counsel that the allegations are totally without legal merit and will be vigorously defended. The Ghana Minerals Commission has also denied the allegations and filed a defense to the suit. The Company's potential liability for damages, if any, is currently not determinable.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## **Asumura Gold Property**

The Company entered into an option agreement with GTE Ventures Limited ("GTE") dated February 18, 2005 and subsequently amended, through which it acquired an undivided 100% private interest in the Asumura Reconnaissance Concession ("Asumura property") located in the Republic of Ghana, West Africa.

The Asumura property is subject to a 3.5% NSR royalty; 50% of which may be purchased for US\$2,000,000 from GTE and the remaining 50% may be purchased for an additional US\$4,000,000. If the property is converted to a Mining License, in accordance with Ghanaian law, it will become subject to a further 5% royalty and 10% carried interest by the Ghanaian government.

During the second quarter of the fiscal year ending March 31, 2011, the Company initiated its drill program on the Asumura Gold Property. With the completion of the field program in March 2011, management is in the process of reviewing its technical data to determine the next phase for the project. The Company did not incur any exploration and evaluation expenditures on the Asumura property during the six months ended September 30, 2011.

## **Exploration and Mineral Resources**

In 2008, Keegan released an intercept of 14m of 4.48 g/t Au from the NW target at Asumura, with additional results confirming bedrock mineralization over a two-kilometer strike length. Surface sampling on the Asumura property continued and Keegan completed a 5,000-meter drill program consisting of core holes focusing on five primary target areas.

## **Qualified Person**

The revised resource estimate issued under the Company's most recent NI 43-101 technical report dated September 22, 2011 was prepared by Coffey Mining and provides a summary of the PFS that was completed in September 2011, which is available at [www.sedar.com](http://www.sedar.com). The independent Qualified Persons, under the standards set forth by National Instrument 43-101, for this report are Mr. Brian Wolfe, Mr. Harry Warries and Mr. Christopher Waller, all members of the AusIMM. This technical report supersedes other technical disclosures previously made by Keegan, namely the previous resource estimate (February 2011) and the Preliminary Economic Analysis (May 2010).

Ms. Andrea Zaradic, P. Eng., a registered professional engineer, is the Company's designated Qualified Person for the purposes of the PFS.

RC samples were taken at one-meter intervals under dry drilling conditions by geologic and resource consultant Coffey Mining Pty Ltd, utilizing drilling and sampling techniques widely accepted in resource definition studies of other West African gold deposits. All reverse circulation drill samples are weighed on site. Core portions of the drill holes consist predominantly of HQ core. They were logged and sawn on site with half samples sent to the lab. All samples are analyzed for gold using standard 50 gram fire assay with atomic absorption finish by Transworld Laboratories (GH) Ltd. In Tarkwa, Ghana, SGS Labs in Tarkwa, Ghana, and ALS Chemex Labs in Kumasi, Ghana. QA/QC programs emplaced by Keegan and Coffey Mining show industry acceptable precision and accuracy limits on both Certified Standards and duplicate samples. Coffey Mining Pty Ltd, under the direction of Brian Wolfe, who is a Qualified Person with respect to NI 43-101, validated the database and QA/QC programs, supervised the wireframing of the grade shells, and performed the variography, block modeling, multiple indicator and ordinary kriging and resource estimate.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

## Results of Operations

	Three months ended September 30,		Six months ended September 30,	
	2011	2010	2011	2010
Administration expenses:				
Amortization	\$ 64,397	\$ 23,694	\$ 114,784	\$ 42,331
Bank charges and interest	20,183	6,899	36,674	13,161
Consulting fees, directors' fees and wages and benefits	725,812	513,760	1,382,324	1,093,369
Office, rent and administration	293,755	206,114	557,028	371,035
Professional fees	153,594	283,776	252,679	337,127
Regulatory fees, transfer agent and shareholder information	76,044	30,495	152,079	67,866
Share-based compensation	2,053,520	1,350,277	4,833,585	3,283,890
Travel, promotion and investor relations	369,542	199,691	603,315	481,101
	<b>3,756,847</b>	<b>2,614,706</b>	<b>7,932,468</b>	<b>5,689,880</b>
Exploration and evaluation expenditures	7,184,547	5,119,119	16,456,883	10,124,639
Other expenses (income):				
Interest and other income	(392,092)	(66,047)	(1,018,923)	(129,433)
Accretion expense	61,428	-	122,856	-
Foreign currency warrant revaluation	(286,740)	452,205	(670,000)	331,180
Foreign exchange (gain) loss	4,885,783	(942,943)	4,657,602	677,804
	<b>4,268,379</b>	<b>(556,785)</b>	<b>3,091,535</b>	<b>879,551</b>
Loss before future income tax expense	15,209,773	7,177,040	27,480,886	16,694,070
Future income tax expense	-	(22,455)	-	(22,455)
Loss for the period	15,209,773	7,154,585	27,480,886	16,671,615
Adjustment for fair value of marketable securities	-	(157,183)	-	(157,183)
Comprehensive loss for the period	\$ 15,209,773	\$ 6,997,402	\$ 27,480,886	\$ 16,514,432
<b>Loss per share – basic and diluted</b>	<b>\$ 0.20</b>	<b>\$ 0.16</b>	<b>\$ 0.37</b>	<b>\$ 0.37</b>
<b>Weighted average number of shares outstanding</b>	<b>75,318,726</b>	<b>45,680,323</b>	<b>75,217,831</b>	<b>45,510,061</b>

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## **Three months ended September 30, 2011 and 2010**

During the three months ended September 30, 2011, Keegan incurred a net loss of \$15.2 million or \$0.20 per share compared to a net loss of \$7.2 million or \$0.16 per share during the same period in the previous year, an increase of \$7.9 million or approximately 113%.

Exploration and evaluation expenditures were \$7.2 million during the three months ended September 30, 2011 as compared to \$5.2 million in the same period of the previous year, an increase of \$2.0 million or 40%. The increase relates to the acceleration of the Company's development program in connection with the recently completed PFS and the continuation of its Feasibility Study and exploration programs.

Administration expenses incurred during the three months ended September 30, 2011 increased by \$1.1 million or approximately 44% as compared to the same period in the previous year. The main reason for this increase was an increase in Share-based compensation expense of \$0.7 million. The total expense in the current quarter was \$2.1 million as compared to \$1.4 million in the same quarter of the previous year. The increase resulted from the granting of 2.5 million stock options at an exercise price of \$8.00 during the last quarter of fiscal year 2011 and that have continued to vest during the three months ended September 30, 2011. In addition during the quarter the Company also granted two tranches of share-based options, including 235,000 at C\$7.55 per share and 140,000 at \$7.66 per share. These share-based option grants relate to the expansion of the executive and technical teams as the Company moves forward with its development of the Esaase property.

Other significant increases in administration include the following:

- consulting fees, directors' fees and wages (by \$0.2 million or 41%) as a result of additional employees added in both the Canadian and Ghanaian administration offices to support the Company as it moves forward with its development plans for the Esaase property;
- office, rent and administrative costs (by \$0.1 million or 43%), consistent with the expansion of the Company's administrative infrastructure and operations.
- Travel, promotion and investor relations (by \$0.1 million or 85%)

Other expense for the three months ended September 30, 2011 was \$4.3 million as compared to other income of \$0.6 million in the same period in the previous year, an increase of \$4.9 million (868%). This change is mostly related to foreign exchange loss of \$4.9 million on Canadian dollar monetary assets and created by a weakening Canadian dollar. The Company holds approximately \$65 million dollars in Canadian cash and cash equivalents. This loss was offset by an increase in investment income (by \$0.3 million or 457%) from the invested proceeds from the Company's \$213 million bought deal financing in the second half of the fiscal year 2011.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## ***Six months ended September 30, 2011 and 2010***

During the six months ended September 30, 2011, Keegan incurred a net loss of \$27.5 million or \$0.37 per share compared to a net loss of \$16.7 million or \$0.37 per share during the same period in the previous year, an increase of \$10.8 million or approximately 65%.

Exploration and evaluation expenditures were \$16.5 million during the six months ended September 30, 2011 as compared to \$10.1 million in the same period of the previous year, an increase of \$6.4 million or 63%. The increase relates to the acceleration of the Company's development program in connection with the recently completed PFS and the continuation of its Feasibility Study and exploration programs.

Administration expenses incurred during the six months ended September 30, 2011 increased by \$2.2 million or approximately 39% as compared to the same period in the previous year. The main reason for this increase was an increase in Share-based compensation expense of \$1.5 million. The total expense in the period was \$4.8 million as compared to \$3.3 million in the same quarter of the previous year. The increase resulted from the granting of 2.5 million stock options at an exercise price of \$8.00 during the last quarter of fiscal year 2011 and that have continued to vest during the six months ended September 30, 2011. In addition during the period the Company also granted two tranches of share-based options, including 235,000 at C\$7.55 per share and 140,000 at \$7.66 per share. These share-based option grants relate to the expansion of the executive and technical teams as the Company moves forward with its development of the Esaase property.

Other significant increases in administration include the following:

- consulting fees, directors' fees and wages (by \$0.3 million or 26%) as a result of additional employees added in both the Canadian and Ghanaian administration offices to support the Company as it moves forward with its development plans for the Esaase property;
- office, rent and administrative costs (by \$0.2 million or 50%), consistent with the expansion of the Company's administrative infrastructure and operations.
- Travel, promotion and investor relations (by \$0.1 million or 25%)

Other expense for the six months ended September 30, 2011 was \$3.1 million as compared to \$0.9 million in the same period in the previous year, an increase of \$2.2 million (253%). This change is mostly related to foreign exchange loss on Canadian dollar monetary assets of \$4.6 million and created by a weakening Canadian dollar. This loss was offset by an increase in investment income (by \$0.8 million or 669%) from the invested proceeds from the Company's \$213 million bought deal financing in the second half of the fiscal year 2011. The other offset to other losses was a gain related to the revaluation of the foreign currency warrant of \$0.7 million.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## Summary of Quarterly Results

The Company's current period financial results varied from the last eight reporting periods due to fluctuations in the level of activity of the exploration, project development, administration and investor relations project groups. As the Company has further developed its technical and geological understanding of the Esaase deposit, an increased focus has been placed on bringing the project through the feasibility process and into commercial production. The rate at which the Company's treasury has been spent has steadily increased period over period and is expected to continue to do so as long as management views the development of the Esaase project as favorable.

The following table is a summary of certain consolidated financial information concerning the Company for each of the last eight reported quarters:

Quarter ended	Interest and other income	Loss	Comprehensive loss	Loss per share
September 30, 2011	\$392,092	\$15,209,773	\$15,209,773	\$ 0.20
June 30, 2011	\$626,831	\$12,271,113	\$12,271,113	\$ 0.16
March 31, 2011	\$280,720	\$11,119,519	\$11,119,519	\$ 0.19
December 31, 2010	\$ 72,582	\$ 7,577,325	\$ 7,577,325	\$ 0.16
September 30, 2010	\$ 66,047	\$ 7,154,585	\$ 6,997,402	\$ 0.16
June 30, 2010	\$ 63,386	\$ 9,517,030	\$ 9,517,030	\$ 0.21
March 31, 2010 <sup>(1)</sup>	C\$ 26,031	C\$ 1,590,680	C\$ 1,590,680	C\$ 0.04
December 31, 2009 <sup>(1)</sup>	C\$ 52,269	C\$ 2,270,596	C\$ 2,270,596	C\$ 0.06

*(1) Information for fiscal year 2010 is presented in Canadian dollars and in accordance with Canadian GAAP and has not been restated in accordance with IFRS.*

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## Liquidity and Capital Resources

The Company had working capital of \$211.7 million at September 30, 2011 compared to \$231.5 million at March 31, 2011, representing a decrease in working capital of \$19.8 million. As at September 30, 2011, the Company had cash and cash equivalents of \$213.6 million compared to cash and cash equivalents of \$236.3 million as at March 31, 2011.

During the six months ended September 30, 2011, an aggregate of 436,250 common shares were issued for gross proceeds of \$1.8 million on exercise of share based options.

During the six months ended September 30, 2011, Keegan expended \$13.8 million in exploration and evaluation expenditures and \$2.5 million in administrative expenses (net of items not involving cash and changes in working capital) and \$0.7 million for the acquisition of mineral concessions and plant and equipment. Keegan has budgeted \$5.7 million for general and administrative expenses and \$29.8 million for property development, exploration and acquisition costs for the fiscal year 2012.

Keegan's plan of operations for fiscal 2012 are:

- (a) complete the feasibility study for the Esaase Gold project;
- (b) continue exploration at Esaase to add to the existing resource estimates and convert additional resources to an indicated resources category. Exploration will consist of reverse circulation and core drilling of current exploration and resource extension targets including down dip on the deposit, with-in the Dawohodo concession and along the B and D zones to the north east of the deposit;
- (c) commence detailed engineering studies for the ultimate design and operation of facilities at Esaase and review potential purchases for long-lead capital purchases;
- (d) continue working with local communities, the Ghanaian government and the EPA to both advance community relations and the permitting of the Esaase project.

The Company believes it currently has sufficient working capital on hand to meet its expected capital requirements for fiscal 2012 and 2013. Additional funds may be received through the exercise of outstanding common stock warrants and options or through the sale of additional common shares either as a private placement or common stock offering. The Company may also consider other forms of project financing that may include but won't be limited to debt.

# KEEGAN RESOURCES INC.

## Management Discussion & Analysis Three and six months ended September 30, 2011 and 2010

As at September 30, 2011, the other sources of funds potentially available to the Company are through the exercise of 284,050 broker warrants with an exercise price of \$7.50 and of the outstanding share-based options with terms as follows:

Exercise price	Number outstanding at September 30, 2011	Expiry date	Number exercisable at September 30, 2011
C\$2.44	180,000	November 10, 2011	180,000
C\$4.20	365,000	February 5, 2013	365,000
C\$1.12	12,500	January 15, 2014	12,500
C\$3.31	70,000	June 2, 2014	70,000
C\$3.10	225,000	July 2, 2014	225,000
C\$3.10	75,000	July 17, 2014	75,000
C\$4.01	345,000	October 6, 2014	345,000
C\$6.50	220,000	December 14, 2014	220,000
C\$6.19	1,412,500	May 26, 2015	1,209,375
C\$7.83	105,000	October 20, 2015	61,875
C\$9.00	225,000	November 30, 2015	140,625
C\$8.00	2,480,000	March 17, 2016	1,215,000
C\$7.55	235,000	July 8, 2016	58,750
C\$7.66	140,000	August 2, 2016	35,000
	6,090,000		4,213,125
Weighted average contractual life remaining at September 30, 2011	3.73		3.43

There can be no assurance, whatsoever, that any of these outstanding securities will be exercised.

During the years, financing for the Company's operations has been funded primarily from share issuances through private placements and the exercise of warrants and share-based options. The Company has and may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund its future operations, the Company may be required to seek additional financing.

Although the Company has been successful in raising capital, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

The Company is in the process of acquiring and exploring its interests in resource properties and has not yet determined whether these properties contain mineral deposits that are economically recoverable. The continued operations of the Company and the recoverability of expenditures incurred to earn an interest in its resource properties are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, and upon future profitable production or proceeds from disposition of the resource properties.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## Commitments

As at September 30, 2011, the Company has contractual commitments with certain service providers in Ghana and Canada. The amounts due under these contracts are as follows and are payable in the corresponding:

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Fiscal year:		
2012	\$	497,087
2013		647,241
2014		542,299
2015		542,299
2016		90,383
	\$	2,848,485

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# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

## Reconciliation of previous financings

Reconciliation of Use of Proceeds from February 2011 Offering

Esaase Property Costs			Budget (\$ 000s)	Actual (\$ 000s)
Phase 1	Exploration	Drilling	11,200	1,477
		Assaying	1,680	1,262
	Development	Drilling	5,750	3,964
		Technical Drilling (Hydrogeo & Percussion)	500	-
		Assaying	862	-
		Metallurgy	500	-
		Engineering Studies	2,250	2,989
Wages and Overhead-Owners Development Team	2,000	1,162		
Health Safety Environment and Community (HSEC)		1,750	1,203	
Contingency (15%)		3,973	1,727	
Sub-Total:		30,466	13,784	
Phase 2 (First 12 Months Only)	Engineering, Procurement, Construction Management		18,000	-
	Pre-Production excavation		3,750	-
	Infrastructure		7,000	-
	Mining Equipment Fleet		24,000	-
	Long Lead Process Plant Items		9,000	-
	Health Safety Environment and Community (HSEC)		1,750	-
	Camp Costs	Camp Operational Costs	9,472	-
		Camp Construction & Vehicles	5,000	-
	Wages and Overhead-Owners Development Team		4,000	-
	Contingency (15%)		12,295	-
Sub-Total:		94,268	-	
<b>Total 24 month budget for Esaase Property</b>			<b>124,735</b>	<b>13,784</b>
Corporate development and overhead (estimated at \$500,000 per month)			12,000	2,918
Unallocated working capital and potential acquisitions			72,865	1,148
<b>Total Use of Proceeds</b>			<b>\$209,600</b>	<b>\$17,850</b>

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

## Transactions with Related Parties

The Company has a consulting agreement with "Rock-on Exploration Ltd.", a private company controlled by a director of the Company in the amount of \$ 10,000 per month plus benefits. During the six months ended September 30, 2011, the Company paid consulting fees and benefits of \$70,740 (2010 - \$91,337) under this agreement.

Included in professional fees is \$nil (2010 - \$15,414) for accounting fees to "Tony M. Ricci, Inc.", a private company controlled by an officer of the Company during the six months ended September 30, 2011.

During the six months ended September 30, 2011, the Company charged a total of \$533,569 (2010 - \$nil) for the recovery of shared administrative costs to Cayden Resources Inc., Stratton Resources Inc. and Georgetown Capital Corp. – publicly listed companies with directors and officers in common.

These transactions were conducted in the normal course of operations and were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Included in accounts payable and accrued liabilities, as at September 30, 2011, is \$35,370 (March 31, 2010 - \$99,386) owing to "Rock-on Exploration Ltd."

Included in accounts receivable, as at September 30, 2011, is a total of \$29,638 (March 31, 2010 - \$26,401) due from Cayden Resources Inc., Stratton Resources Inc. and Georgetown Capital Corp. for reimbursable expenses.

## Subsequent Events

None

## Proposed Transactions

None

## Critical Accounting Estimates

The presentation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Significant areas requiring the use of estimates include the assessment of impairment of long-lived assets including mineral properties, amortization of furniture, equipment and leasehold improvements and the valuation of stock-based compensation. Actual results could differ from those estimates.

The accounting policies described below are considered by management to be essential to the understanding and reasoning used in the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results.

**Asset retirement obligations:** The fair value of a liability for an asset retirement obligation, such as site reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of the fair value of the costs to be incurred can be

# KEEGAN RESOURCES INC.

## Management Discussion & Analysis Three and six months ended September 30, 2011 and 2010

made. The Company records the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred. The discount used to calculate the present value is the Company's estimated cost of capital. Future costs are calculated using an estimated inflation rate in the country that the third party costs are expected to be incurred. At the end of each reporting period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs).

The assumptions used to determine the Company's asset retirement obligation are as follows:

<b>Esaase development project</b>	Six months ended September 30, 2011	Six months ended September 30, 2010
Undiscounted and uninflated estimated future cash obligation	\$ 8,186,463	\$ 49,860
Expected term until settlement	13 years	1 years
Discount rate	3.46%	-

**Stock-based compensation:** The Company accounts for all stock-based payments and awards made to employees and non-employees under the fair value based method. Fair value is estimated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly subjective assumptions including the expected price volatility and the period in which the option will be exercised or the expected life of the options. The estimates concerning volatility are made with reference to historical volatility, which is not necessarily an accurate indicator of future volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

### Changes in Accounting Policies including Initial Adoption

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that IFRS, as issued by the International Accounting Standards Board ("IASB"), will replace Canadian GAAP for publicly accountable enterprises and must be adopted for fiscal years beginning on or after January 1, 2011.

As a result, Keegan now reports under IFRS for interim and annual periods beginning April 1, 2011, with comparative information for the prior fiscal year restated under IFRS. Adoption of IFRS requires the Company to make certain accounting policy choices. Refer to notes 2, 3 and 16 in the unaudited consolidated interim financial statements for the period ended September 30, 2011 for details on the adoption of IFRS, including the significant accounting policies, IFRS exemptions applied and for reconciliations from Canadian generally accepted accounting principles to IFRS.

### Financial Instruments and Other Instruments

As at September 30, 2011, the Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and share purchase warrants denominated in a currency different from the Company's functional currency.

The following table summarizes the designation and fair value hierarchy under which the Company's financial instruments are valued:

Level 1 – fair values based on unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – fair values based on inputs that are observable for the asset or liability, either directly or indirectly; and

Level 3 – fair values based on inputs for the asset or liability that are not based on observable market data.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
 Three and six months ended September 30, 2011 and 2010

The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

	Category	Carrying Value	September 30, 2011	
			Amount	Fair value hierarchy
<b>Financial assets</b>				
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 213,556,989	Level 1
Receivables, excluding sales taxes refundable	Loans and receivables	Amortized cost	378,257	N/A
			<b>\$ 213,935,246</b>	
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 2,796,859	N/A
Share purchase warrants	Fair-value-through profit and loss	Fair Value	182,070	Level 2
			<b>\$ 2,978,929</b>	
			March 31, 2011	
	Category	Carrying Value	Amount	Fair value hierarchy
<b>Financial assets</b>				
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 236,329,452	Level 1
Receivables, excluding sales taxes refundable	Loans and receivables	Amortized cost	95,816	N/A
			<b>\$ 236,425,268</b>	
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	\$ 5,236,343	N/A
Share purchase warrants	Fair-value-through profit and loss	Fair Value	852,070	Level 2
			<b>\$ 6,088,413</b>	

# KEEGAN RESOURCES INC.

## Management Discussion & Analysis Three and six months ended September 30, 2011 and 2010

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The fair value of share purchase warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2011	March 31, 2011
Risk free interest rate	0.91%	1.77%
Expected dividend yield	0%	0%
Stock price volatility	61%	74%
Expected life of warrants	1.39 years	1.89 years

The risk exposure arising from these financial instruments is summarized as follows:

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash and cash equivalent balances at banks in each of Canada and Ghana. The majority of the Company's cash is held in Canadian based banking institutions, authorized under the Bank Act (Canada) to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. As at September 30, 2011, the receivables consist primarily of interest receivable of \$338,019 (March 31, 2011 - \$70,218) and other receivables of \$125,097 (March 31, 2011 - \$25,598), neither of which are considered past due.

(b) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at September 30, 2011, the Company had a cash and cash equivalents balance of \$213,556,989 (March 31, 2011 - \$236,329,452) to settle current liabilities of \$2,796,859 (March 31, 2011 - \$5,236,343) that mainly consist of accounts payable that are considered short term and expected to be settled within 30 days.

(c) Market risk

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash and cash equivalents attract interest at floating rates and have maturities of 90 days or less or maturity over ninety days but redeemable on demand without penalty. The interest is typical of Canadian banking rates, which are at present low, however the conservative investment strategy mitigates the risk of deterioration to the investment. A sensitivity analysis suggests that a change of 100 basis points in the interest rates would result in a corresponding increase or decrease in net loss of approximately \$2,135,569 as at September 30, 2011 (March 31, 2011 - \$2,363,294).

ii. Foreign currency risk

# KEEGAN RESOURCES INC.

## Management Discussion & Analysis

Three and six months ended September 30, 2011 and 2010

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has offices in Canada and Ghana and holds cash in Canadian, United States and Ghanaian Cedi currencies in line with forecasted expenditures. In addition, the Company has share purchase warrants denominated in Canadian dollars.

A significant change in the currency exchange rates between the US dollar relative to Canadian dollar ("CAD"), Ghanaian Cedi and the Australian dollar ("AUS") could have an effect on the Company's results of operations, financial position or cash flows. At September 30, 2011 and March 31, 2011, the Company had no hedging agreements in place with respect to foreign exchange rates.

The Company is exposed to currency risk through the following financial assets and liabilities denominated in foreign currencies. Expressed below in US dollar equivalents:

	September 30, 2011			March 31, 2011		
	CAD	Ghana Cedis	AUD	CAD	Ghana Cedis	AUD
Cash and cash equivalents	62,889,470	110,844	-	171,881,945	348,177	-
Accounts payable	(422,319)	(303,338)	(260,855)	(238,338)	(3,699,374)	(25,985)
Share purchase warrants	(182,070)	-	-	(852,070)	-	-
<b>Net exposure</b>	<b>62,285,081</b>	<b>192,494</b>	<b>(260,855)</b>	<b>170,791,537</b>	<b>(3,351,197)</b>	<b>(25,985)</b>

A 10% appreciation or depreciation of the above mentioned currencies compared with the US dollar would result in a corresponding increase or decrease in net assets of approximately \$6,221,672 as at September 30, 2011 (March 31, 2011 - \$16,741,435).

iii. Other price risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from currency risk or interest rate risk. As at September 30, 2011 and March 31, 2011, the Company was not exposed to other price risk.

(d) Fair value

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments.

(e) Items of income, expense, gains or losses

	Six months ended September 30,	
	2011	2010
Interest income from loans and receivable	\$ 995,777	\$ 129,433
Unrealized gain (loss) on revaluation of share purchase warrants	\$ 670,000	\$ (331,180)

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## **Internal Control over Financial Reporting**

Management is responsible for the establishment and maintenance of a system of internal control over financial reporting. This system has been designed to provide reasonable assurance that assets are safeguarded and that the financial reporting is accurate and reliable. The consolidated financial statements have been prepared by management in accordance with IFRS and in accordance with accounting policies set out in the notes to the consolidated financial statements for the period ended September 30, 2011.

There has been no material change in the Company's internal control over financial reporting during the six months ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Evaluation and Effectiveness of Disclosure Controls and Procedures**

Evaluation of Disclosure Controls and Procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, have evaluated the design and effectiveness of the Company's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting as at September 30, 2011, as required by Canadian securities laws, and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in public filings.

There are inherent limitations in all control systems and no disclosure controls and procedures can provide complete assurance that no future errors or fraud will occur. An economically feasible control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## Summary of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value and unlimited preferred shares without par value. As at the date of this MD&A, there were 75,500,838 common shares issued and outstanding.

The following stock options were outstanding as at the date of this MD&A:

Exercise price	Number outstanding at November 10, 2011	Expiry date	Number exercisable at November 10, 2011
C\$4.20	365,000	February 5, 2013	365,000
C\$1.12	12,500	January 15, 2014	12,500
C\$3.31	70,000	June 2, 2014	70,000
C\$3.10	225,000	July 2, 2014	225,000
C\$3.10	75,000	July 17, 2014	75,000
C\$4.01	345,000	October 6, 2014	345,000
C\$6.50	220,000	December 14, 2014	220,000
C\$6.19	1,412,500	May 26, 2015	1,209,375
C\$7.83	105,000	October 20, 2015	76,250
C\$9.00	225,000	November 30, 2015	168,750
C\$8.00	2,480,000	March 17, 2016	1,215,000
C\$7.55	235,000	July 8, 2016	88,125
C\$7.66	140,000	August 2, 2016	52,500
	5,910,000		4,122,500
Weighted average contractual life remaining at November 10, 2011	3.73		3.48

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Other sources of funding potentially available to the Company are through the exercise of 284,050 broker warrants with an exercise price of \$7.50.

Additional disclosures pertaining to the Company's filing statement, technical report, management information circulars, material change reports, press releases and other information are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

# KEEGAN RESOURCES INC.

Management Discussion & Analysis  
Three and six months ended September 30, 2011 and 2010

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## **Forward-looking statements**

This MD&A may contain “forward-looking statements” which reflect the Company’s current expectations regarding the future results of operations, performance and achievements of the Company, including but not limited to statements with respect to the Company’s plans or future financial or operating performance, the estimation of mineral reserves and resources, conclusions of economic assessments of projects, the timing and amount of estimated future production, costs of future production, future capital expenditures, costs and timing of the development of deposits, success of exploration activities, permitting time lines, requirements for additional capital, sources and timing of additional financing, realization of unused tax benefits and future outcome of legal and tax matters.

The Company has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as “anticipate,” “believe,” “estimate,” “expect”, “budget”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”.

The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Issuer to differ materially from those expressed in, or implied by, these statements. These uncertainties are factors that include but are not limited to risks related to international operations; risks related to general economic conditions and credit availability, uncertainty related to the resolution of legal disputes and lawsuits; actual results of current exploration activities, unanticipated reclamation expenses; fluctuations in prices of gold; fluctuations in foreign currency exchange rates, increases in market prices of mining consumables, possible variations in mineral resources, grade or recovery rates; accidents, labour disputes, title disputes, claims and limitations on insurance coverage and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, changes in national and local government regulation of mining operations, tax rules and regulations, and political and economic developments in countries in which the Company operates, as well as those factors discussed in the 20-F filing for the year ended March 31, 2011, available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company’s management reviews periodically information reflected in forward-looking statements. The Company has and continues to disclose in its Management’s Discussion and Analysis and other publicly filed documents, changes to material factors or assumptions underlying the forward-looking statements and to the validity of the statements themselves, in the period the changes occur.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.