



Azure Minerals Limited 21 Apr 10

AZS

AUD \$0.04



A deal with Oz Minerals changes the perspective

Azure is getting short of cash and has reduced its cash burn ahead of getting drilling approvals to begin drilling in Mexico. The company has a lot of good prospects in Mexico but has little funding to do justice to them. There has been a lack of good news flow until recently and the company's share price has fallen into an abyss. We think now is the time to BUY.

SHARE PRICE CHARTS AND COMMENTS:

Fat Prophets initially recommended Azure Minerals at 15.5 cents in June 2007 (Fat Mining 81). Our last review of this stock was in February (FAT-MIN-210).

Turning to the technicals, Azure Minerals is currently in a short term downtrend, which saw Azure reach a high of 7.5 cents in mid October 2009, to then drift to as low 3.4 cents in April. Firm support lies around the 3 cents region. Previously, this has resulted in Azure bouncing off this key level on a number of occasions.



Azure Minerals looks to be possibly forming a base, which could indicate a possible major low forming. The bearish moving average cross since January suggests momentum to favour the downside. The relative strength index (RSI) is tracking sideways without much

volatility. A break above 8 cents is still required to boost upward momentum and signal the emergence of an upward trend. In the near term, either move to the upside or downside will be slow coming.



STATE OF PLAY

The company recently increased its ownership in five properties in Mexico after a JV was dissolved. Executive Chairman Mr Tony Rovira says that owning 100% of the properties provides the company with an opportunity to accelerate the exploration effort.

The second largest of the five properties is El Tecolote with an area of 112 square kilometres. El Tecolote was mined by Grupo Mexico in the early 1980s but the mine was closed when the metal prices fell heavily during the double dip recession. Exploration potential is excellent for discovering more deposits. The company is waiting for approval to start drilling.

El Tecolote is a very attractive property. There is tension between larger corporations seeking to do a deal. Our money is on Oz Minerals.

The other projects are Estacion Llano which adjoins the million ounce San Francisco Gold Mine. The company plans to explore for an extension to the mineralisation on its tenement.

The largest project is El Llano Del Nogal with an area of 122 square kilometres. This project sits between two large porphyry copper mines, Cananea and La Caridad. There are old workings within a large area of alteration. Surface samples have been collected and have returned grades as high as 10.9 g/t gold and 2.25% copper. Zinc values up to 16.7% and lead up to 3.4% might signify the upper zone of porphyry copper deposit. This will have to be tested by drilling.

The Pozo De Nacho porphyry molybdenum mineralisation is interesting and so to are the high grade gold and silver bearing epithermal veins at the Tabisco prospect. The nearby Los Chinos prospect has interesting zinc grades to follow up.

The San Juan prospect is near the high grade Comobabl porphyry copper-molybdenum mine. San Juan has potential to discover an economic silver deposit.

Turning again to the JV with Oz Minerals, this is the deal. Oz Minerals can earn 51% by spending A\$3 million over three years with A\$300,000 spent in the first year. Oz Minerals can buy another 19% for A\$10 million.

Things were looking a little grim until Oz Minerals entered into the JV over Azure's 100% owned San Eduardo copper project. The deal is excellent for Azure and brings into focus the quality of the company's ground in Mexico.

Azure will manage the exploration project, which is sure to be seen by Oz Minerals as a test of Azure's technical competence.

Oz Minerals likes Mexico and if it likes what it sees will probably want much more. Oz Minerals has the cheque book to build a big footprint in Mexico. Azure could find itself the subject of a hostile bid. After all Azure's current market capitalisation of less than A\$10 million is petty cash for Oz Minerals these days.

Executive Chairman Mr Tony Rovira agrees that the company is short of cash and his first port of call is his three largest shareholders. The well known celebrity prospector Mark Creasy owns 7.2% of the company through Yandal Investments.

A Dundee Corporation subsidiary owns 6.7% of Azure. Dundee is a Canadian asset manager which is dedicated to private wealth management, real estate and resources. Dundee owns a copper smelter that is interested in taking concentrate from Azure's Promontorio project in Chihuahua, Mexico.

Investec of South Africa is also a shareholder with around 2.3% of the company.

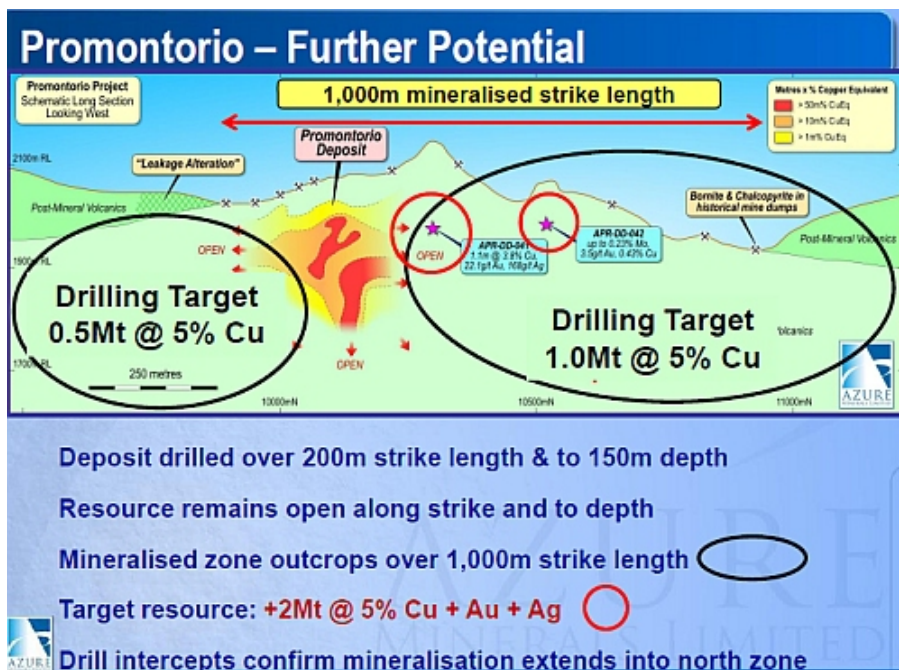
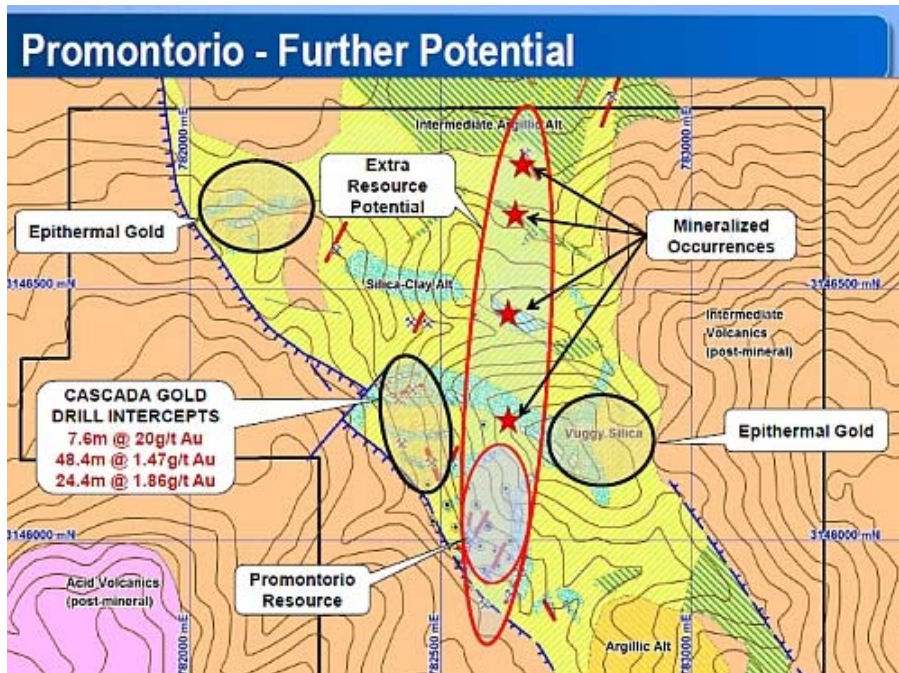
The company is seeking concentrate terms to gauge the economics of mining at Promontorio. Metallurgical tests have been excellent showing a concentrate grade of 39.5% copper with a recovery of 94%.

The copper mineral is enargite which is a copper and arsenic sulphide. The concentrate is only suitable for smelters with an arsenic removal circuit, of which there are many.

It would take about two years to permit and construct a facility at Promontorio. The economics are robust as shown in the following figure taken from a recent Azure presentation.

Promontorio – Positive Financial Scoping Study			
	Metals Prices Scoping Study (June 2009)	Metals Prices April 2010	Comments
Diluted mineable resource of 450,000 tonnes @ 5.5% Cu Eq			Value = US\$431 / tonne of ore
Copper	\$4,400 / tonne	\$7,800 / tonne	
Gold	\$875 / ounce	\$1,100 / ounce	
Silver	\$12.40 / ounce	\$17 / ounce	
CAPEX	\$27M	\$27M	150,000tpa plant + start-up costs
Operating Costs	\$96 / tonne	\$96 / tonne	Mining, treatment, admin, transport, TC's & RC's
Revenue	\$236 / tonne	\$356 / tonne	Produce 15,000tpa of concentrate @ 40% Cu, 773g/t Ag, 9.6g/t Au
NPV	\$17M	\$60M	
Increase Resource to 1,000,000 tonnes @ 5.5% Cu Eq			
NPV	\$65M	\$180M	

Promontorio has a resource of 500,000 tonnes grading 4% copper. However, the company believes that exploration along strike and at depth will increase the resource to at least one million tonnes. The next two figures show the exploration potential at Promontorio.



The area surrounding Promontorio is highly prospective for gold and silver. Veins carrying gold and silver at the Creston Colorado prospect are typical of mineralisation found on the flanks of a porphyry intrusion. There is probably a porphyry copper deposit at depth somewhere near Promontorio.

For this reason a large number of large mining companies have visited Promontorio and no doubt would like to enter into a JV with Azure. However, the business model is for Azure to focus on Promontorio in its own right. The company will seek more deals similar to the one with Oz Minerals to explore the other projects. All of which are highly prospective.

The next figure shows the location of Creston Colorado.



We do not think that the company will have a problem raising additional capital. On a risk reward basis there is not much to lose from the current share price of 3.5 cents and plenty to gain. The upside potential is a multiple of the current share price.

Azure is a high risk and highly speculative play, but nevertheless Azure is recommended as a BUY for all Members. A high risk play is not out of place in a diversified portfolio.

Snapshot AZS

Azure Minerals

Azure is an explorer and developer of precious and base metal projects in Mexico. The company is exploring in the richly-mineralised Sierra Madre Occidental mining province in northern Mexico, and is expanding its activities to other mining districts in northern Mexico. Azure currently holds nine 100%-owned projects and 13 projects in joint venture with TSX-V listed Geoinformatics Exploration Inc, in which Azure has earned an initial 51% interest. The entire project portfolio now covers an impressive area of 186,200 hectares (1,862 km²). Drilling has intersected promising mineralisation in copper, gold, silver, zinc, lead and molybdenum. The company's flagship project at present is the Promontorio Project in the state of Chihuahua, which has the potential for small-scale, high-grade mining.

Market Capitalisation	A\$8.51M
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