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Azure Minerals Limited 02 Jun 10

AZS

AUD \$0.05



Flotation tests hike up the value of concentrate from Promontorio

Azure has received good news with a hike in the grade of concentrate produced from the Promontorio project. Recent testwork was done at a commercial scale and the uplift in metal concentration was very significant in economic terms – in fact they were excellent. The timing is excellent because shareholders only have until 8 June 2010 to participate in the rights issue.

All Members that were shareholders on 20 May 2010 will have received the Prospectus and Entitlement and Acceptance Form. Action is required now because time is running out.

The closing date for acceptances is 8 June 2009.

We recommend Members increase their exposure by taking up their rights entitlement.

New shares will be quoted on a deferred settlement basis on 9 June 2010. The rights issue is two new shares for every five shares held at a price of A\$0.05 each, to raise A\$5.6 million. RFC Corporate Finance Ltd and Southern Cross Equities Ltd will undertake to place any shortfall from the rights issue on a best endeavours basis. We think any shortfall would be minimal.

In addition to the rights issue the company has placed 36.5 million shares to raise A\$1.8 million. Funds will be used for general working capital purposes and to advance the Promontorio project towards making a development decision.

The fall in the company's share price has almost mirrored the fall in the ASX 200. Small explorers have been dealt with severely. In the case of Azure the current price of around five cents is the same as its rights issue price. The advantage of taking up the rights is that investors do not have to pay brokerage fees.

The last time that we reviewed the company was in FAT-MIN-220 where we considered the very positive aspect of Oz Minerals entering into a JV with Azure to earn a 70% interest in the 100% owned San Eduardo copper prospect for US\$13 million.

At that time we recommended the company as a BUY for all Members at 4 cents. We are retaining a BUY recommendation because the stock might not see these depressed levels again. We expect the positive news flow to continue.

SHARE PRICE CHARTS AND COMMENTS:

Azure Minerals tested the 3 cents region in April. Previously, this region has resulted in

Azure bouncing off strongly, which has been the case on a number of occasions as highlighted by the orange ellipse on the daily chart. In effect, a very move higher resulted which saw a swift move higher towards the 11.5 cents on May 3. This represents a gain of 8.1 cents or 238.24%, which marks a substantial increase.

Azure has since corrected a vast portion of the upward move and has found support at the 50 day SMA (green line) at 4.5 cents. Overhead resistance is located at the 200 day SMA (red line) at 5.1 cents.



The weekly chart depicts the break of the downtrend in place since 2007, which is a bullish sign. Should Azure break above the 40 week SMA (green line) at 5.1 cents this would result in a boost of upward momentum and signal the emergence of an upward trend.



STATE OF PLAY

Azure has received good news with a hike in the grade of concentrate produced from the Promontorio project. Recent testwork was done at a commercial scale and the uplift in metal concentration was very significant in economic terms – in fact they were excellent.

The testwork was carried out by Coffey Mining and Ammtec Ltd, both companies being prominent consultants to the mining industry.

The copper grade increased to 39.5%, which was an uplift of 17%. The 39% increase in the gold grade to 9.6 g/t increases the gross value of the concentrate by around US\$105 per tonne. The incremental value in the copper grade was far more impressive adding 126.5 lbs of metal, providing another US\$390 per tonne at the current price of US\$3.10 per pound. There was also a massive 107% increase in the grade of silver to nearly 25 ounces per tonne, adding over US\$200 per tonne in gross value.

The results are excellent and the higher concentrate grade adds around US\$600 per tonne in gross value. The optimal processing route is via conventional grinding and flotation. Bulk samples of the concentrate have been sent to smelters for off-take evaluation. The company will receive terms and conditions relating to smelting and refining charges and payable metal values. The concentrate is high grade and will be keenly sought.

The next step at Promontorio is to mount an extensive drilling program to define the resource and will aim to extend the high grade deposit along strike to the north and south, and also test for depth extensions. This work will begin as soon as the Mexican authorities

approve the exploration program.

Members might recall that the Promontorio deposit has a JORC compliant resource. Indicated and inferred resources are 502,000 tonnes grading 4.7% copper, 2.1 g/t gold and 99 g/t silver. There is potential to at least double the size of the resource.

Azure only has a market capitalisation of A\$13.4 million. The company will soon have half of this in cash. Not only that, the deal with Oz minerals is worth around A\$4.7 million.

If the company had all the cash in the bank from the rights issue, the market is valuing Promontorio and other Mexican assets, excluding San Eduardo, at a measly A\$1.3 million.

Azure is a high risk exploration play with potential for very high rewards. We are retaining our BUY recommendation for all Members.

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\$14.26m

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