

Azure Minerals Limited 31 Aug 11

AZS

AUD \$0.05



Price falls as value improves; bizarre isn't it

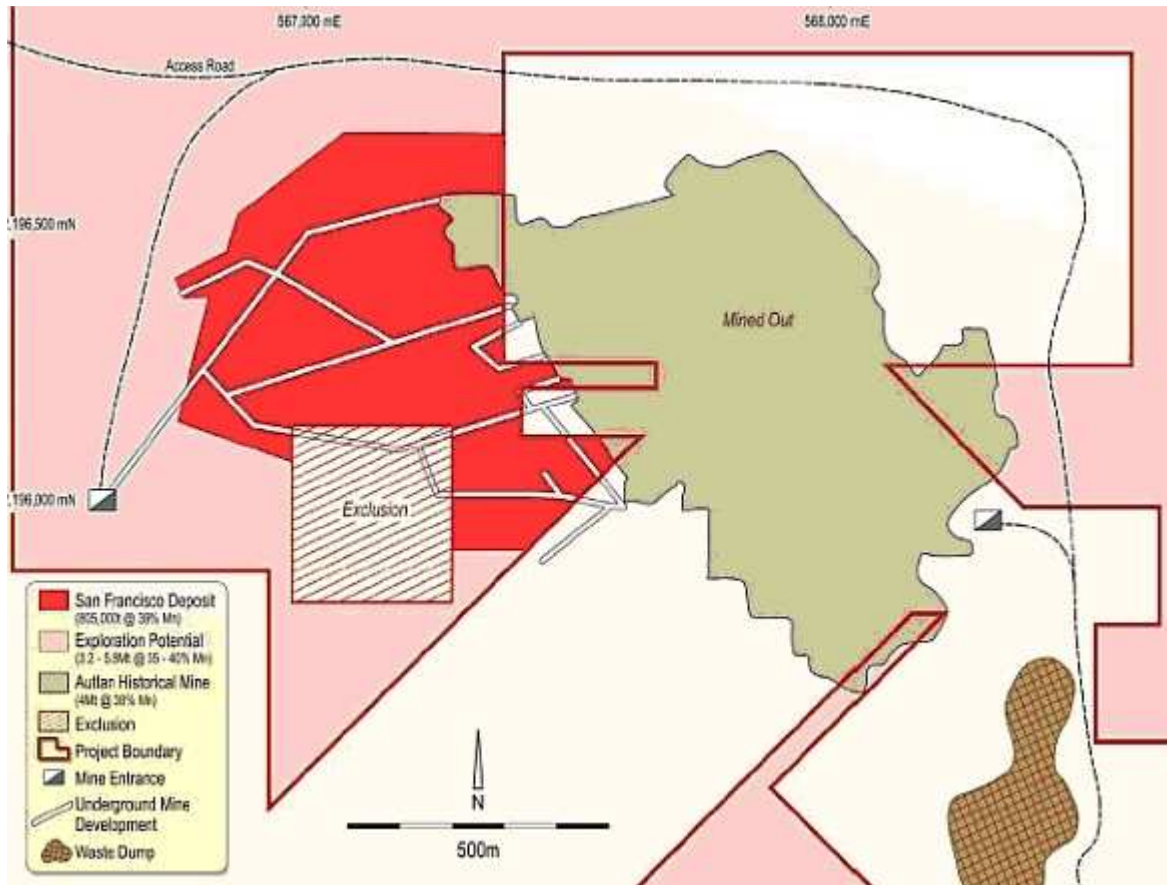
The June 2011 Quarter, for Azure Minerals, was very lively as it carried out activities across three of its key projects. San Francisco now has a maiden joint ore reserve code (JORC) resource and gets the technical due diligence signed off. While rigs hit San Francisco and Promontorio drilling and JOGMEG is not idling at El Tecolote. The following figure shows the location of the company's assets.



Following the completion of a ten hole drill programme of some 1,966 metres in the June 2011 Quarter. A maiden joint ore reserve code resource estimate at San Francisco (Azure has a right to purchase a 100% interest) was signed off.

"San Francisco JORC resource estimate is 1.05 million tonnes of ore showing 30% manganese with contained manganese of 312,000 tonnes."

Further exploration of the San Francisco tenement, with a rig onsite and already drilling a 5,000 metre programme, is targeting an upgrade to the resource estimate. The programme will drill-out on a 150 metre by 150 metre grid along the mineralised trend to the north and northwest. The follow schematic shows the San Francisco tenement.



The aim of the programme will be to upgrade the maiden JORC resource estimate for San Francisco. An additional two to four million tonnes of ore showing a manganese grade in the range 30% to 40% is anticipated. **The manganese range expected is very high grade and we are of the view an upgraded resource number is very likely.** We look forward to the results from the drill programme as these come to hand.

Feasibility activities are now underway at San Francisco. These activities include mine development including mine design and permitting, metallurgical test work and process design engineering. Drilling to convert the mineral resource to ore reserves will also be part of the feasibility activities and will commence on completion of the current drill programme.

A preliminary scoping study shows a mine operating cost of US\$20 per tonne and processing costs of US\$2.60 per tonne. Total operating costs are expected to be in the US\$100 per tonne region.

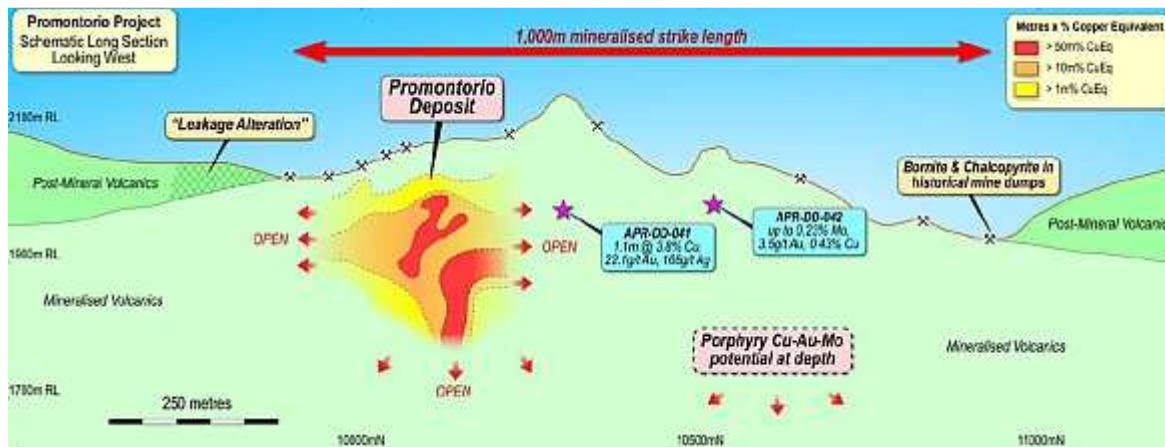
In FAT-MIN-257 we reviewed the purchase of the San Francisco manganese mine. A schedule of payments to the vendors has been negotiated and is shown the following table.

KEY DATES	PAYMENTS
15 December 2011	\$1,500,000
Transfer of mining titles to Azure	\$1,500,000
15 December 2012	\$2,000,000
15 June 2013	\$2,000,000
15 December 2013	\$4,000,000
15 December 2014	\$4,000,000
Total Payments	\$15,000,000

With Production anticipated to commence in 2012, some 80% (US\$12 million) of the consideration will be paid to the vendors once cashflow has commenced from mining. Of this amount 66% (US\$8 million) is due when the mine will be fully operational. Cashflow planning will likely meet a significant portion of the consideration as each falls due. **This is a great outcome for the company.**

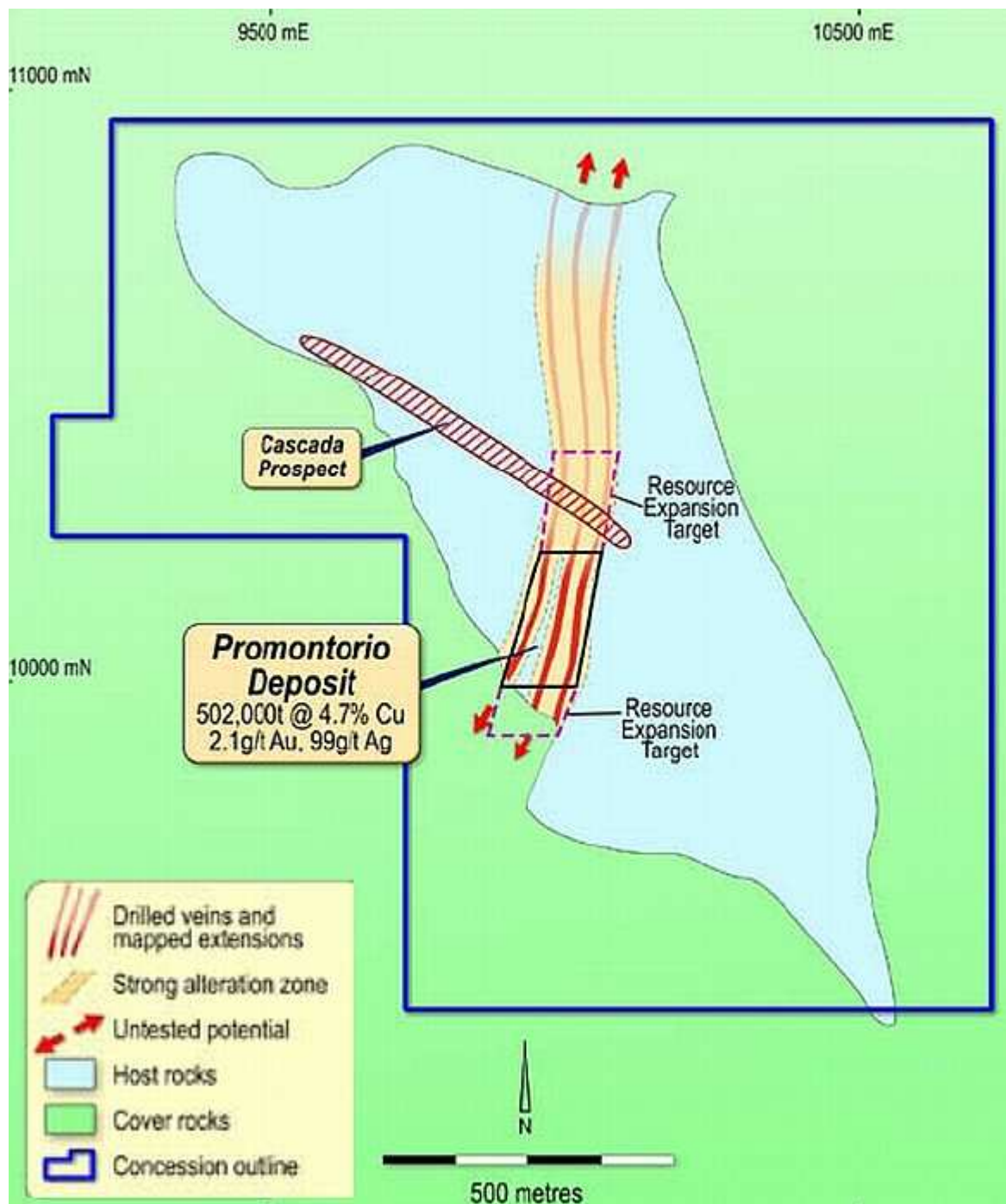
“Azure will progress to purchase San Francisco.”

Promontorio is the company’s flagship copper-gold-silver project. The following figure is a schematic of the Promontorio deposit.



In the June 2011 Quarter series of 12 holes were drilled at Promontorio, for a total of 2,746 metres. Eight of the holes were to test the north/south extensions of the strike. Two deeper holes the depth extension and two were drilled at Cascada.

The Cascada prospect is a new zone of interest where drilling has intercepted copper-gold, with the site shown in the following schematic.



The two holes intercepted mineralised ore that are particularly encouraging. The better intercept hole was 137.3 metres showing 0.42 grams per tonne (g/t) gold and 6g/t silver from 48.3 metres deep. The hole finished in mineralised ore. The grade is not significant; seam thickness and location to Promontorio are major positive factors.

"The company consider Cascada warrants significant further exploration". We concur, and look forward to news flow on the coming exploration activities at Cascada.

Fresh from signing a 70% farm-in agreement, JOGMEG has hit the El Tecolote tenement at full tilt. JOGMEG has commenced exploration activities at El Tecolote a copper-zinc deposit in Mexico. The activities are part of a US\$1.5 million exploration budget to be spent on the tenement in the coming 12 months.

JOGMEG has already completed an airborne magnetic and electromagnetic survey and is currently following this up with an induced polarisation (IP) survey, part one of which has been completed. Part two of the IP survey will be completed later in this calendar year.

Geological mapping and surface sampling have been on going at El Tecolote, with a drill programme scheduled for later in 2011. The drill programme will target mineralised anomalies that have been identified through exploration

efforts to date. Early results such as those intercepted at the Reyna del Cobre prospect have been very encouraging.

“The exploration activities at El Tecolote could generate major positive news flow for the company”.

At 30 June 2011 cash on hand was A\$4.7 million. The company has sufficient cash resources to complete its current undertakings. Funding will be required over the course of 2011/12 to bring San Francisco into production. The funding is likely to be project funding and have a significant portion of debt.

Over the coming months there is going further positive news flow from Azure. With major exploration activities underway on a number of it projects and development work at San Francisco progressing. The outlook for shareholder value looks positive.



After finding solid support at the 3 cents region, prices has since lifted to test resistance at the 50 day moving average. A sustained break above this indicator would likely result in a strong boost of upward momentum. Resistance is indicated at the previous breakdown level of 6.5 cents in the near term.



The weekly chart depicts the breakout from the downtrend line in place since 2007, which is bullish. Initial resistance is located at the 39 week moving average at 7.5 cents, followed by the January high of 12 cents.

With exploration still in its early stages at a number of its projects the risk to reward ratio in our view looks excellent. We therefore continue to recommend the stock as a speculative buy for Members without exposure.