

ASX: AZS

2 DECEMBER 2010

## AZURE ENTERS INTO AGREEMENT TO ACQUIRE HIGH GRADE MANGANESE MINE

Azure Minerals Limited (“Azure” or “the Company”) (ASX: AZS) is pleased to announce that it has entered into a Heads of Agreement (“**Agreement**”) to purchase 100% ownership of the San Francisco Manganese Mine and surrounding exploration areas (“**Project**”) , located in the state of Jalisco, Mexico (see Figures 1 & 2).

### **HIGHLIGHTS**

- **High grade manganese mine acquisition, with recent production history, excellent location, and minimal work required to restart production.**
- **Extensive existing local Infrastructure already in place, with the project 2 hours drive on National Highway #80 from the modern deep water port of Manzanillo, which has loading facilities and spare capacity for bulk commodity cargo, and existing iron ore exports.**
- **Significant near mine exploration upside, with existing ore deposit remaining open in all directions and an estimated exploration target of a further 3.2 – 5.8 million tonnes at a grade of 35 – 42% Manganese<sup>1</sup>**
- **Second near term pathway to production secured, in addition to Promontorio, building towards Azure’s strategic objective of becoming an independent minerals producer in Mexico.**

The 1,610 hectare project area being acquired includes the high grade San Francisco Manganese Mine which is currently on care and maintenance. The mine has extensive underground development comprising 4,000 metres of horizontal ore drives (see Figure 4) with detailed channel sampling of the flat-lying mineralisation already undertaken.

In September 2009 mining consultants Reyna Mining and Engineering S.A. de C.V. (Reyna) of Mexico City, Mexico estimated the following non-JORC compliant Foreign Resource Estimate<sup>2</sup> for the San Francisco deposit of:

RESOURCE	TONNES	Manganese (%)
Measured	264,287	38.63
Indicated	270,798	40.46
Inferred	270,325	37.34
<b>TOTAL</b>	<b>805,410</b>	<b>38.81</b>

<sup>1</sup> The potential quantity and grade of the Target is conceptual in nature, and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

<sup>2</sup> ASX waiver granted for disclosure of non-JORC Code compliant resource. See Appendix A.

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Reyna also completed an assessment of the exploration potential of the area immediately surrounding the San Francisco deposit and, based on the geological setting, the ore deposit remaining open in all directions, and the area of tenure held, have estimated a target of a further **3.2 – 5.8 million tonnes at a grade of 35 – 42% Mn<sup>3</sup> (“Target”)** (see Figure 3).

Azure Executive Chairman, Mr Tony Rovira, said that this acquisition will deliver full ownership of a high grade and potentially very profitable manganese mining operation at a time when manganese is in a rising price cycle.

“This strategic acquisition meets our objective to secure a high quality, advanced stage project with significant cash flow potential in the short term, which will be complemented by the Promontorio copper-gold project and our existing portfolio of Mexican exploration assets,” said Mr Rovira.

“Containing a high grade resource, this near fully developed underground mine will enable Azure to become a mineral producer in the near term. With excellent potential to significantly expand the deposit, we believe that San Francisco has all the characteristics of a company-making mining operation,” he said.

The San Francisco manganese deposit is a flat lying body of high grade manganese oxide with very low impurities. Extensive underground mine development (4,000m of horizontal ore drives) and detailed channel sampling has defined the mineralisation over an area of at least 2,500m<sup>2</sup>.

Visible manganese mineralisation in artisanal mine workings and in outcrop is present in numerous locations throughout the surrounding project area, indicating considerable scope to expand the current mineral resources through further exploration.

The deposit forms the western extension of the original Autlan Manganese Mine operated by the mining company Minera Autlan S.A.B. de C.V. This mine produced approximately 4 million tonnes of manganese ore at an average grade of 38% Mn, before closing in the mid-1960’s due to low metals prices at that time. Minera Autlan carried out extensive underground mine development in preparation for mining in the area which now forms the San Francisco deposit. However, although mining blocks were prepared, operations ceased before this area was mined. This deposit forms the resource quoted above, and is available for mining in the near term.

After lying dormant for 40 years, in 2008 and 2009 a small scale mining operation was undertaken by the current owners from within the San Francisco deposit. A total of 7,524 tonnes at a manganese grade of 44.6% Mn was mined and shipped to China. The owners then decided to sell the project and approached Azure directly.

The San Francisco Project is ideally situated only 7km from the city of Autlan de Navarro, which has a population of 45,000, with extensive mining and industrial infrastructure located within the district. Autlan is approximately 2 hours drive on Mexican National Highway #80 from both the city of Guadalajara (population approximately 4.2 million) to the northeast and the modern deep water port of Manzanillo to the south.

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<sup>3</sup> The potential quantity and grade of the Target is conceptual in nature, and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

Manzanillo is located on the Pacific coast, is Mexico's largest container port, and has ship loading facilities for bulk mineral commodities with iron ore currently a major export. Spare capacity is available at the port for loading both containerised and bulk commodity cargoes.

### **Manzanillo Port – Bulk Loading Facility**



Pursuant to the Agreement Azure has negotiated a six month exclusivity period to carry out further investigations including:

- bringing the Foreign Resource Estimate to JORC Code compliance;
- exploration activities designed to increase the currently outlined mineral resources;
- development activities such as mine planning, metallurgical testwork, process and infrastructure design, and estimation of operating and capital costs; and
- advancement of shipping and product off-take sales agreements.

Azure has already commenced these activities and expects to undertake field work, including drilling, within the next month.

Given a positive outcome from these studies and Azure electing to proceed with the acquisition, Azure will pay the vendors a total of US\$15 million over a two year period for 100%-ownership of the project. Additional payments in the form of production and price based royalties will also be made to the vendors.

-ENDS-

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**Competent Person Statement:**

*Information in this document that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Tony Rovira, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Rovira is a full-time employee of Azure Minerals Limited. Mr Rovira has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Rovira consents to the inclusion in the documents of the matters based on his information in the form and context in which it appears.*

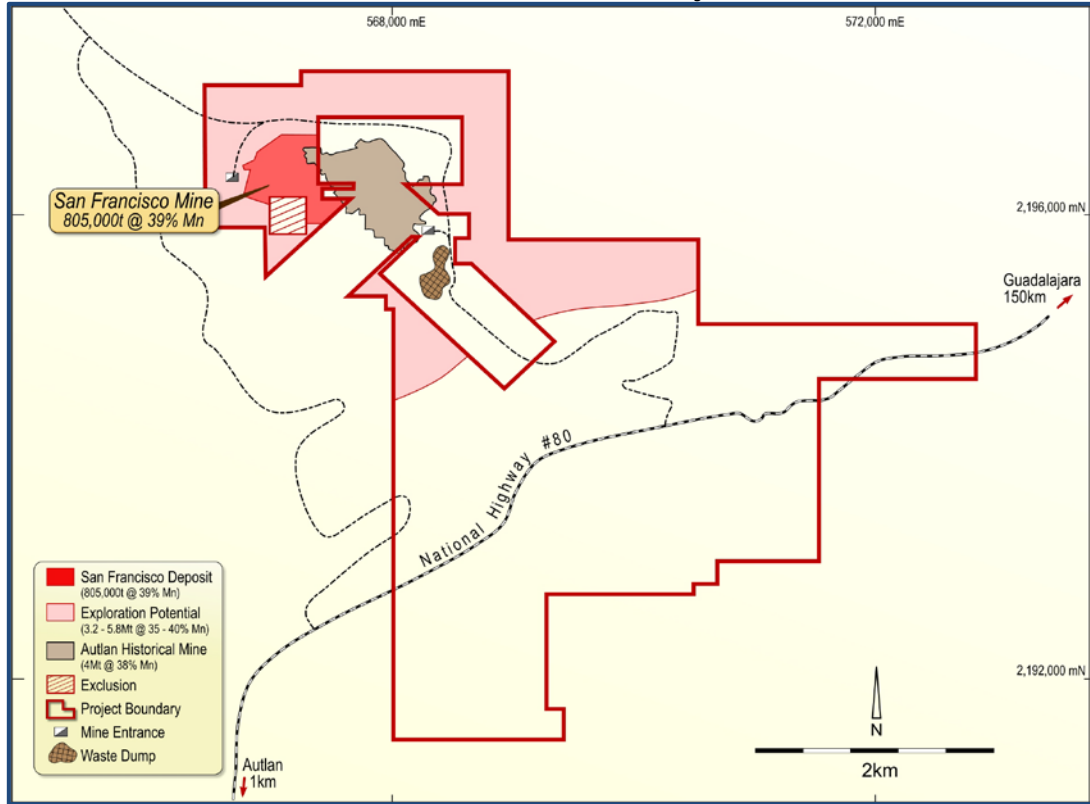
**FIGURE 1: Mexico**



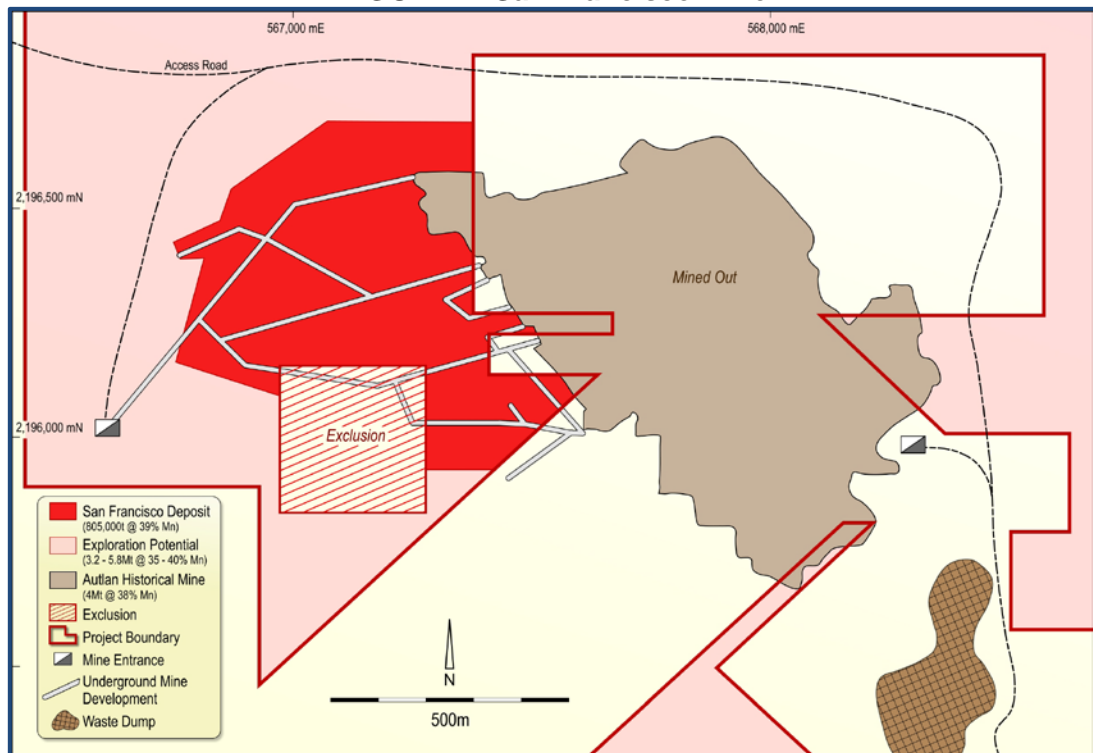
**FIGURE 2: San Francisco Mine Location**



**FIGURE 3: San Francisco Project Area**



**FIGURE 4: San Francisco Mine**



## **APPENDIX A**

### **San Francisco non-JORC Compliant Foreign Resource Estimate**

<b>RESOURCE</b>	<b>TONNES</b>	<b>Mn (%)</b>
<b>Measured</b>	<b>264,287</b>	<b>38.63</b>
<b>Indicated</b>	<b>270,798</b>	<b>40.46</b>
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### **IMPORTANT NOTICE REGARDING NON-JORC RESOURCES**

1. The foreign estimate of resources ("Foreign Resource Estimate") for the San Francisco deposit is not reported in accordance with the JORC Code. It is uncertain that following evaluation and/or further exploration the resource estimate will ever be able to be reported in accordance with the JORC Code.
2. The Foreign Resource Estimate is sourced from the report entitled:
  - "San Francisco Mine: Manganese Ore Resources Estimate, Autlan de Navarro, Jalisco, Mexico"; Technical Report to Minera Manganese San Francisco S.A. de C.V. prepared by Reyna Mining and Engineering S.A de C.V.; September 2009.
3. The Company believes the Foreign Resource Estimate is relevant to shareholders and the market generally as it is fundamental to an understanding of the mineralisation and potential value of the San Francisco Project. The Foreign Resource Estimate is disclosed in the interests of maintaining an informed market and compliance with continuous disclosure obligations.
4. Data for the Foreign Resource Estimate was collected by Reyna Mining and Engineering S.A de C.V., a mining and geological consultancy company based in Mexico City, Mexico. A total of 310 samples were collected from 288 channels distributed systematically throughout the San Francisco underground mine workings. The channels were cut along the drives at regular intervals of 10 metres, perpendicularly across the full width of exposed layers of manganese. All samples were assayed by ALS Chemex Laboratories in Vancouver, Canada. Thirty one samples representative of mineralised material and waste material were analysed for Specific Gravity.

Sample weight varied from 2 to 5 kg, depending on the width of the mineralised zone. All samples were closed inside separate plastic bags and despatched to ALS Chemex facilities in Vancouver, Canada for analysis. Supervision while the samples were taken, packaged, and transported from the mine site to ALS Chemex facilities was done by Reyna personnel. All 310 samples were assayed by the ME-ICP81 Method for Mn. A total of 58 samples were also assayed by the MN-ICP06 Method for SiO<sub>2</sub>, Al<sub>2</sub>O<sub>3</sub>, Fe<sub>2</sub>O<sub>3</sub>, CaO, MgO, Na<sub>2</sub>O, K<sub>2</sub>O, Cr<sub>2</sub>O<sub>3</sub>, TiO<sub>2</sub>, MnO, P<sub>2</sub>O<sub>5</sub>, SrO, BaO and LOI. A total of 6 samples were also assayed for all the elements by plasma, ME-ICP61 method and AU-ICP21 for gold. A total of 31 samples were analysed for specific gravity by the OA-GRA08b method. All industry standard Quality Assurance and Quality Control (QA/QC) procedures were undertaken by ALS Chemex Laboratories. ALS Chemex Laboratories are certified by the Standards Council of Canada and internationally under ISO 17025.

All underground mine workings within the San Francisco deposit and all 310 sample locations were accurately surveyed with a Total Station Model South NTS3455, using

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INEGI (Instituto Nacional de Estadística, Geografía e Informática) Official Point Numbers PC3049 and LB3050 to the mine entrance. Datum is NAD27 Mexico. A total of 187 survey control points were established within the underground mine workings.

The Company believes that the Foreign Resource Estimate is reliable for the above reasons, and also because it is similar to and consistent with historical production (see Dorr, J.V.N., II, Crittenden, M.D., Jr., Worl, R.G.; 1973, Manganese, Professional Paper 820, US Geological Survey) and recent production figures from the same deposit.

5. The Company believes the Foreign Resource Estimate is material because:
  - a. it provides an indication of the potential value of the mineralisation within the San Francisco deposit;
  - b. the Company will undertake the due diligence as outlined in point 8 of this notice;
  - c. the work required under the due diligence program will be funded from current cash resources; and
  - d. the work is not expected to affect any other work programs budgeted by the Company.
6. The Mineral Resource Classifications used in the Foreign Resource Estimate are according to the following definitions from National instrument 43-101 (Canada):

*Measured Mineral Resource:* A Measured Mineral Resource is that part of a Mineral Resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

*Indicated Mineral Resource:* An Indicated Mineral resource" is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters , to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

*Inferred Mineral Resource:* An inferred Mineral Resource is that part of a Mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes".

These Mineral Resource Classifications are substantially the same as the classifications used under the JORC code.

7. The Foreign Resource Estimate used a polygonal method where block grade and width were estimated by the weighted average method based upon the close-spaced sampling from within the underground mine workings. The grade results of the Foreign Resource Estimate are comparable with historical mining records.

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8. The Foreign Resource Estimate was completed in September 2009 and Azure Minerals Ltd is unaware of any further more recent estimates or material data that can be included in this announcement.
  9. The Company intends to bring the Foreign Resource Estimate into compliance with the JORC Code within six months of execution of the agreement detailed in this announcement, by immediately commencing:
    - a. a diamond drilling program within the boundaries of the Foreign Resource Estimate to confirm internal continuity of width and grade of mineralisation, and to test potential mineralised extensions of the deposit; and
    - b. an underground sampling program to confirm width, grade and density measurements, complete QA/QC protocols, and provide bulk samples for metallurgical testwork.
  10. This announcement is consistent with the guidance contained in the Companies Updates numbered 11/07 and 05/04.
  11. A competent person's statement accepting responsibility for the accuracy of the information contained within this announcement is included.
  12. The ASX has granted a waiver to Listing Rule 5.6 to allow the Company to disclose the Foreign Resource Estimate.