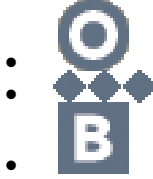


## Azure Minerals Limited 19 Jan 11

AZS

- AUD \$0.09



### Buy San Francisco! What a great way to spend the cash

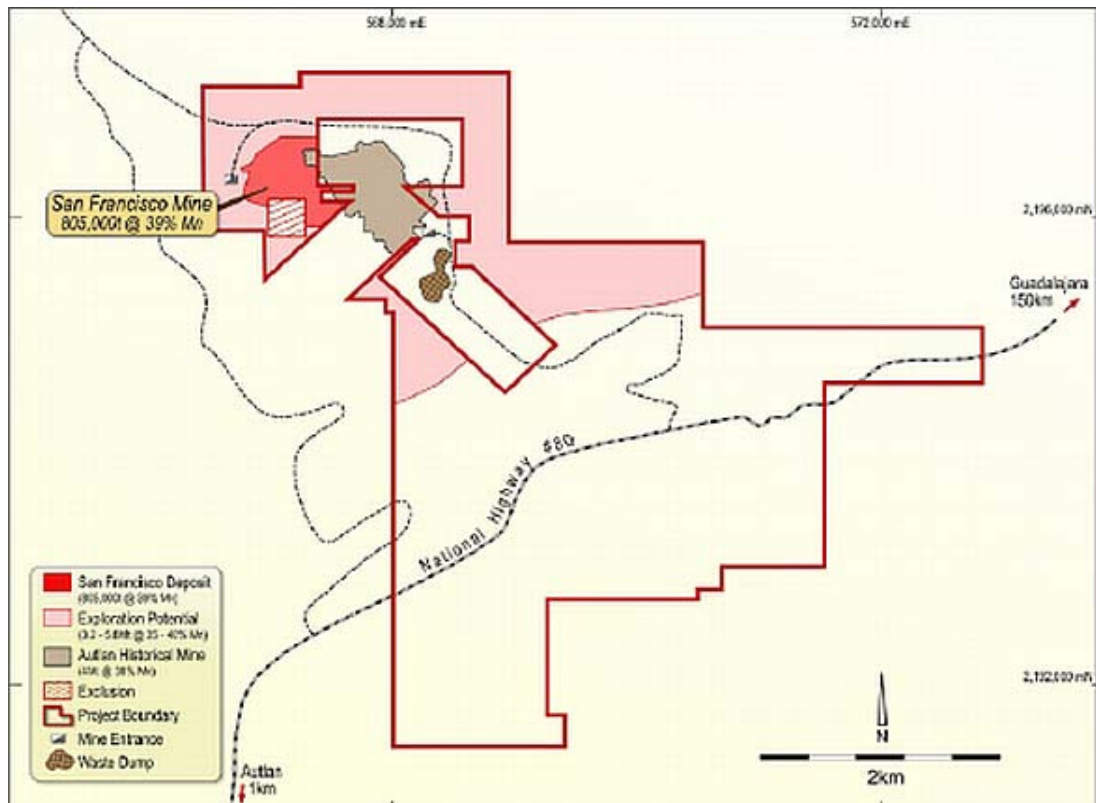
Azure Minerals (Azure) has purchased the San Francisco manganese mine and surrounding exploration tenements located in the state of Jalisco in Mexico. The San Francisco project has a number of features that attracted Azure to the project. Important in Azure's considerations were the high grade of the deposit and the minimal work required to restart production. San Francisco is close to major infrastructure, including a deep port with bulk loading facilities. The purchase included surrounding exploration tenements which, according to the company, the underlying manganese deposit is open in all directions. Finally, Azure views the San Francisco project as a second project with near term production capability.

Azure paid a total of US\$15 million to secure a 100% interest in the San Francisco site. The consideration will be paid to the vendors over a two year period, with ongoing payments including production and price based royalties. The following figure shows a schematic of the San Francisco project location.



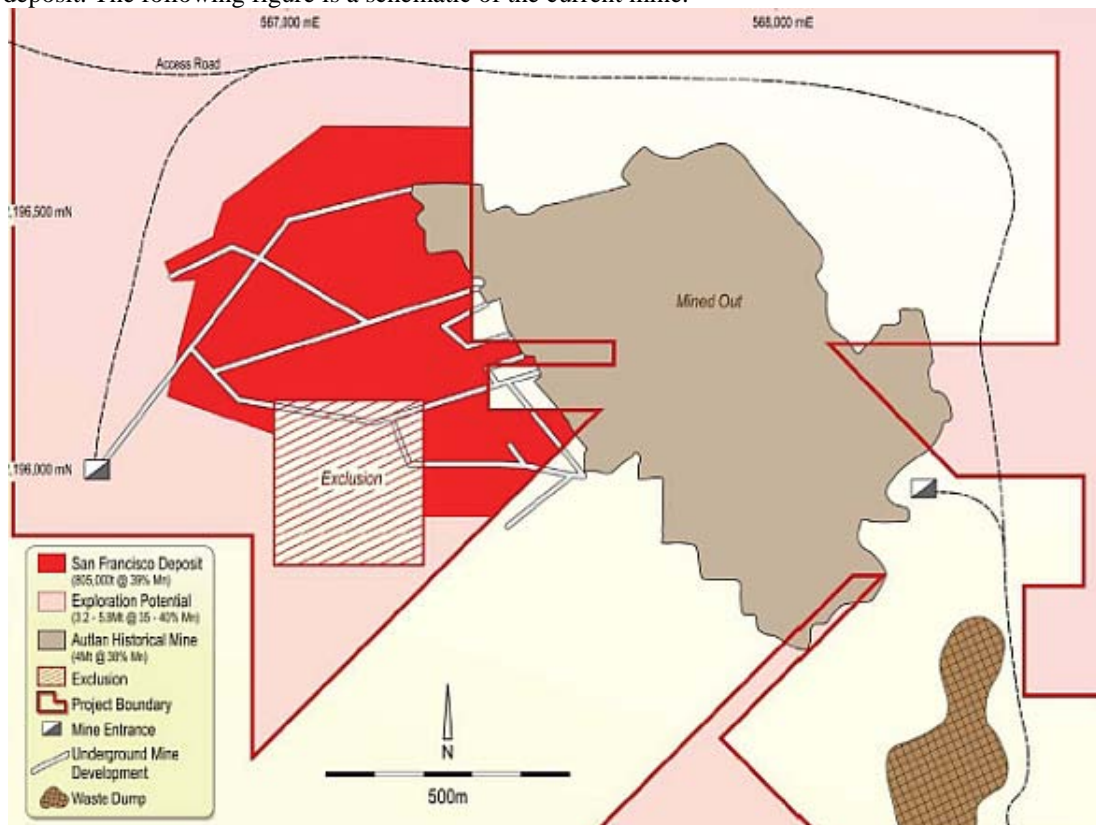
The project has a resource of 805,410 tonnes of ore, categorised into measured of 264,287 tonnes showing 38.63% manganese, indicated of 270,798 showing 40.46% manganese and inferred showing 37.34% manganese. The resource is not joint ore reserve code (JORC) compliant. **The manganese grades are very high and may indicate an extensive ore body larger than the current known deposit.**

During the six months exclusivity period Azure intends to complete a development study on San Francisco. The study will include bringing the resource to JORC compliancy, drilling to increase the resource size and undertake development activities including metallurgical testing, mine planning, process and infrastructure design and operating and capital costing. The following figure shows a schematic of the San Francisco tenement.



The San Francisco tenement has the potential to contain a further 3.2 to 5.8 million tonnes of ore with manganese grades ranging from 35% to 42%. **In our opinion the visible manganese mineralisation in the mining works and in outcropping surrounding the project area, indicates considerable scope to expand the current mineralisation resource through further exploration.**

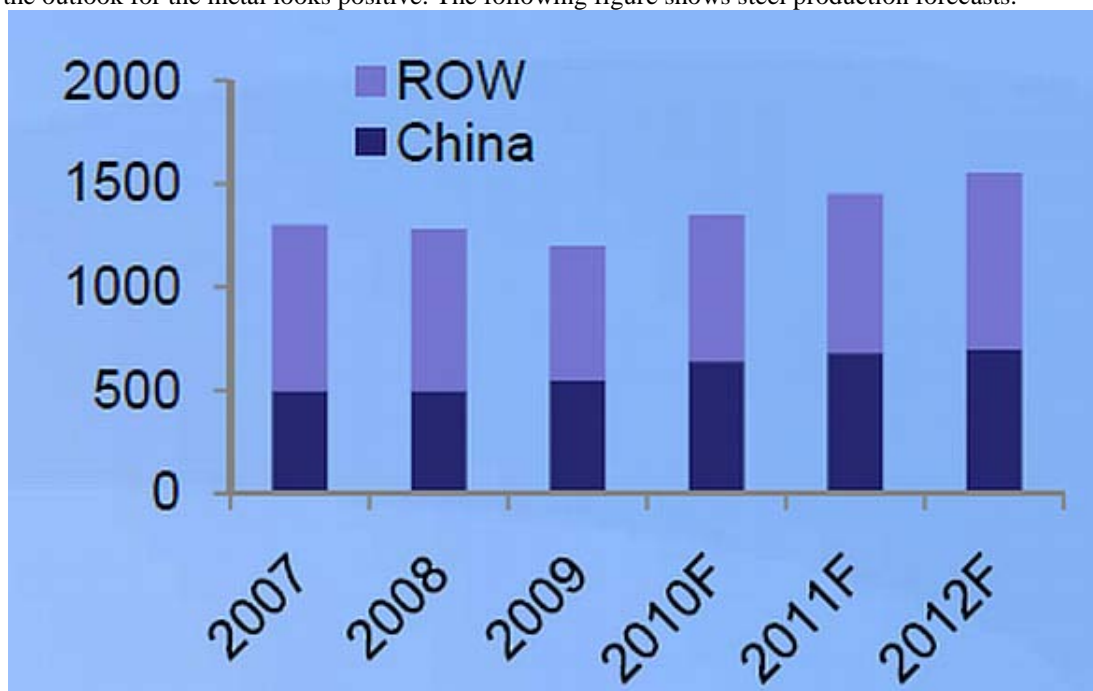
The San Francisco mine has four kilometres of underground development that is currently in care and maintenance. Extensive tunnelling has already been completed through the known mineralisation deposit. The following figure is a schematic of the current mine.



This existing development work in the deposit will shorten the time required to access the deposit and bring it into production and will certainly have a major impact on reducing capital costs. At this stage the company has not provided a capital estimate to bring San Francisco back into production; a capital estimate will be provided in the development study to be completed by May 2011. **The company does however expect to recommence manganese production in 2012.**

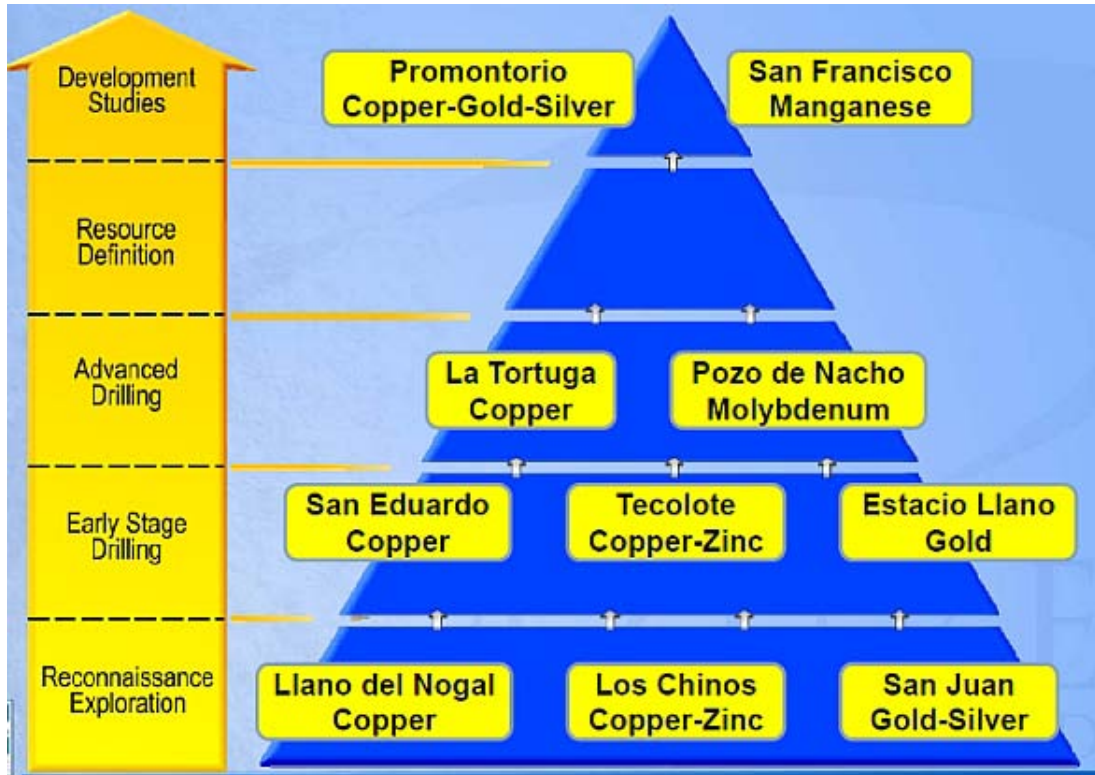
Importantly, San Francisco is only three hours drive time on Mexican National Highway 80 from the deep water port of Manzanillo. The Port of Manzanillo is Mexico's largest Pacific Coast port. The port has the capacity to handle vessels ranging from 15,000 to 35,000 tonnes deadweight (Handysize), up to vessels with higher deadweight tonnage that can pass through the Panama Canal (Panamax size). The port currently loads around 3.3 million tonnes of iron ore per annum through a bulk loader with a 2,000 tonnes per hour loading capacity. The loader is currently underutilised by some 40%. The port facility has the capacity and experience in loading resource cargoes.

The outlook for manganese pricing appears to be very robust. The steel industry is a heavy user of manganese, which acts as a strengthening agent, allowing steel manufacturers to produce stronger and lighter steel. The steel industry consumes around 90% of current manganese production. With steel production forecast to rise in the coming years and manganese usage in the steel industry intensifying the outlook for the metal looks positive. The following figure shows steel production forecasts.



We remain positive on the pricing outlook for manganese with steel demand rising, driven by the high demand from the automakers and the construction industry.

This review is focussed on Azure's San Francisco manganese mine purchase. The company is also progressing its other projects, best summarised by the following figure.



In our opinion the San Francisco purchase provides Azure with a second major project behind its Promontorio copper and gold project in the state of Chihuahua in Mexico. The San Francisco project also delivers diversity as Azure's future near term revenue sources will be generated by copper, gold and silver sales from Promontorio and also manganese sales from San Francisco. Revenue generation is not expected to commence until 2012 with San Francisco likely to be the first project off the rank.



After finding solid support at the 3 cents region on a number of occasions, AZS managed to surge higher, reaching a high of 11.5 cents in May 2010. Since then, AZS has slowly peeled off once more, however is currently looking more promising. A successful break above the 50 period moving average (green line) at 8.6 cents would likely result in a retest of the 11.5 cents resistance level.



The weekly chart depicts the break of the downtrend line in place since 2007, which is bullish. AZS has respected support at the 39 week moving average (green line) and looks set to trade higher over the broader term.

**Over the next 6-9 months there is going to be a lot of news flow from Azure. With major exploration activity on four fronts and development work at San Francisco as it progresses to production; the outlook for shareholders looks positive. With exploration still in its early stages at a number of sites the risk to reward ratio is excellent and we are recommending the stock as a speculative BUY for Members without exposure.**