

### Azure Minerals (AZS) Experienced Mexican Silver and Gold Explorer

17 March 2017

Andrew Shearer  
ashearer@pacpartners.com.au  
(03) 8633 9862

#### Key Points

- Azure Minerals (ASX:AZS) has been successful in defining silver and gold resources in Mexico, with 4 significant discoveries in 6 years. This success has attracted the attention of major miners to JV into their projects.
- We view the recent move by Kennecott to exit a JV as reflecting the strategy of a major miner not the prospectivity of the project. Now with control of the project and ~\$12m cash AZS is in a good position not only advance this asset but secure new projects.
- Based on an EV/resource oz comparison AZS is trading at a discount to peers and remains leveraged to; movement in the silver price, exploration success and project acquisitions.

Azure is a silver focussed junior explorer that has been operating in Mexico for a number of years, over which time the AZS team has built up considerable in country experience.

This experience has enabled AZS to rapidly define silver and gold resources at their **Alacran Project**, located in what is historically a copper area. The good work completed by AZS has triggered the global major miner, Teck Resources, to buy back into the project.

The **Promontorio Project**, AZS's second flagship asset, was until recently in Joint Venture with Kennecott Exploration (Rio Tinto). In early CY17 Rio elected not to continue with the JV, handing the project back to AZS. This has now given AZS a quality project that they can focus on delineating an appropriate sized asset. Since then several other major mining companies have expressed interest in the project.

**Value add:** At both the Promontorio and Alacran Projects the AZS team has been able to add considerable value to the projects in a short space of time by using their in country and geological experience. In both instances AZS has defined shallow, smaller, higher grade deposits that could be indicative of larger, lower grade mineralisation at depth. It is the potential for a larger system that have attracted the major miners. AZS are now leveraged to benefit on external funding and exploration expertise at Alacran and in control of their own destiny at Promontorio.

**Why Mexico:** Mexico is the leading silver producer, having held this position for the last 4 years, with 190Moz silver produced, which is ~21% of global production. In addition to silver Mexico is a large producer of gold and also copper.

**New Opportunities:** In addition AZS has a pipeline of early stage projects within Mexico that they continue to progress. AZS are also conducting due diligence on a number of projects in Mexico.

**Cash Position:** A raising completed in mid-2016 of \$15m (@\$0.038/sh) has AZS well-funded with \$12m available as of 31 December 2016.

#### Recommendation

#### Speculative Buy

Previous Recommendation	Initiation
Risk Rating	Very High
Current Share Price	\$0.015
12 Month High	\$0.053
12 Month Low	\$0.015
Cash (31/12/2016)	\$12m
Shares on Issue (m)	1,673
Options (m)	297.5
Market capitalisation	\$26m

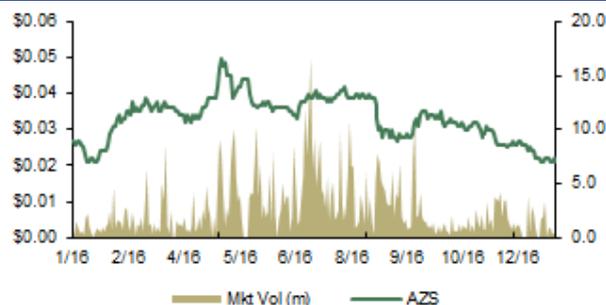
#### Investment Summary

AZS's key strengths are; identifying, acquiring and then value adding to highly prospective projects. This strategy has them now in the position of a major buying back into one project and regaining control of another project after 2 years of exploration funded by another major. Add to this a strong pipeline of opportunities. The recent weakness in the share price is likely due to the uncertainty surrounding the immediate path forward for AZS. Given the track record of the AZS team in finding prospective assets and then adding value to them an investment into AZS at this stage would be backing management to repeat the process.

On a peer comparison basis AZS is trading at a discount to a number of similar scale silver companies. On an EV/resource ounce silver basis AZS is trading at A\$0.72/oz versus the peer average of \$2.46/oz, a 72% discount. This assumes that AZS retains 100% of their current resources. If Teck and Rio earn their respective 51% and 80% of the assets then the figure is \$1.56/oz, or a 37% discount to the average.

AZS is a junior exploration company with no revenue and therefore is subject to high risk exploration success.

#### AZS share price performance



Source: Iress

Disclaimer: PAC Partners will be paid a fee by the ASX under the ASX Equity Research Scheme for this research. Please refer to full disclaimer information on page 4.

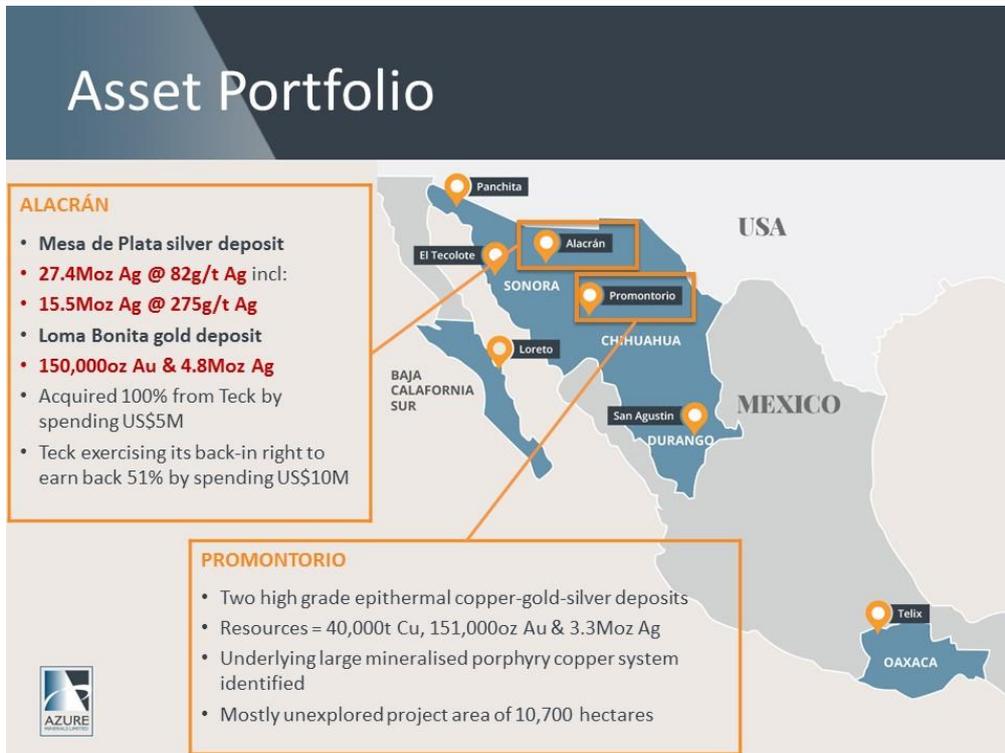
# Projects

**AZS has rapidly advanced two projects in northern Mexico.**

AZS has a number of projects in Mexico that are prospective for a range of commodities including gold, silver, copper, zinc and graphite. The exploration success of AZS has attracted major mining companies to into their cornerstone projects located in northern Mexico.

Currently the Canadian company Teck Resources is buying back into the Alacran Project (silver-gold-copper). At the Promontorio Project (copper-gold-silver) Kennecott Exploration, a member of the Rio Tinto Group, recently relinquished interest in the project after funding exploration for 2 years.

## Azurre's Mexican Project Locations



Source: Company Presentation

Both projects are located in the Sierra Madre Occidental Mineral Province of northern Mexico. A majority of Mexico's silver and gold production comes from the Province and historically has produced more than 40Moz of gold and 2Boz of silver.

# Alacran Project

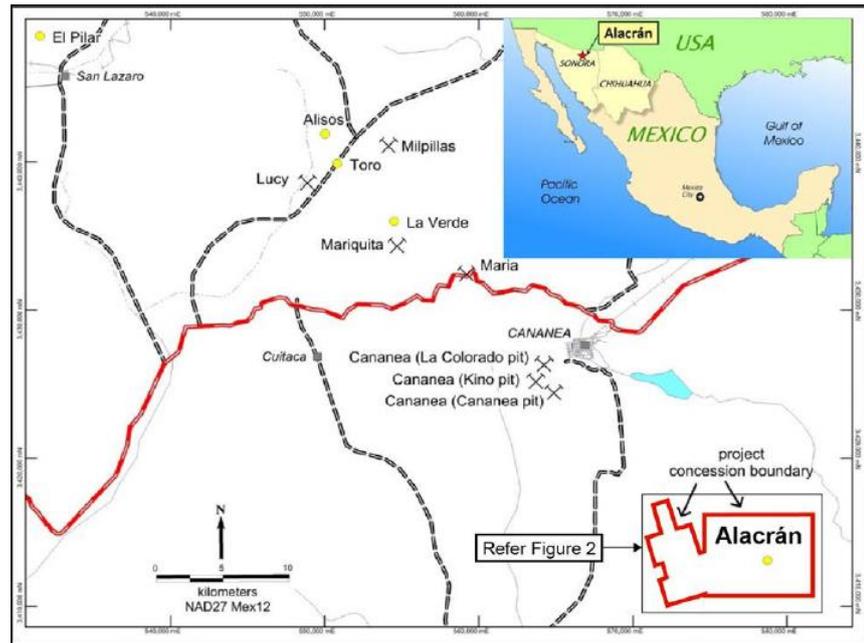
The Alacran Project is located in northern Mexico, ~50km from the USA border and ~12km from the mining centre of Cananea. The city supports the Cananea Copper Mine, which is operated by Grupo Mexico and is the 2<sup>nd</sup> largest copper mine in North America. Cananea has a population is 33,000 and as a mining town provides support for mining activity in the region.

Historically the Alacran Project was acquired in 2013 by the major Canadian company, Teck Resources Limited, from Grupo Mexico. Teck undertook limited exploration for copper on the project before entering into an agreement with AZS in January 2015. AZS acquired 100% of the project by meeting the minimum expenditure requirements and issuing shares to Teck.

Under the terms of the agreement between Teck and AZS, Teck retained a back-in right, which they exercised in late 2016. Teck is now earning 51% by sole funding US\$10 million of expenditure, including a US\$0.5 million cash reimbursement to Azure. In addition Teck may increase its interest to 65% by sole funding a further US\$5 million of expenditure, including a US\$1.5 million cash reimbursement to Azure.

Grupo Mexico, owner of the adjoining Cananea Copper Mine, retains a 2% Net Smelter Royalty over future mineral production from Alacrán.

**Alcaran Project Locality**



Source: Company Report

**Mesa de Plata Deposit**

**27Moz Silver Deposit**

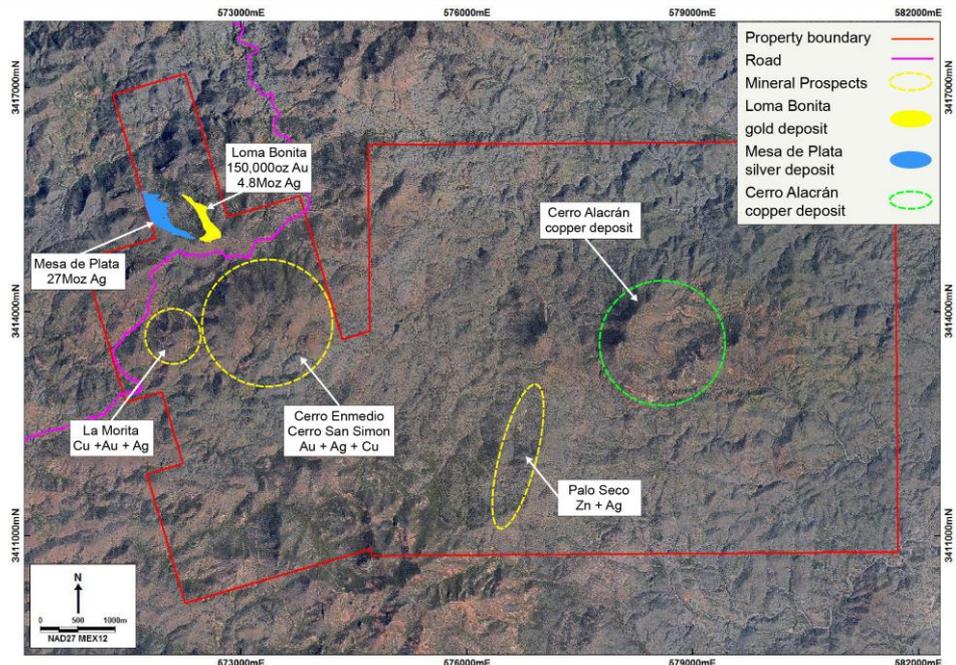
Within the Alcaran Project AZS's initial focus was on copper with a number of promising surface samples reported including assays of up to 14.9% zinc, 309g/t silver and 1.5g/t gold. The identification of silver was reported in late 2015 and the first assays from the Mesa de Plata prospect at the same time. Since then AZS has completed resource definition drilling and reported a maiden JORC Resource, with a headline number of 27Moz silver and a number of extensions possible.

Scale, grade and shallowness supportive for small scale mining.

The position of the silver mineralisation on a hilltop, could be beneficial as a potential open pit mining method would have a low strip ratio and a relatively reduced mine development timeframe. Prior to Teck exercising the buyback AZS was targeting near term production and had commenced feasibility studies. Given that Teck is likely to be targeting larger scale deposits it is likely that the feasibility studies will be placed on hold.

**Alcaran Project – Deposit and Prospect locations**

Alcaran Project highlighting the Mesade Plata and Loma Bonita deposits and other prospects, prospective for copper, zinc, silver and gold



Source: Company Report

### Mesa de Plata Mineral Resource

Zone	Mt	Silver Grade (Ag g/t)	Contained Silver (Moz)
High Grade Zone (Ind & Inf)	1.75	274.7	15.5
Mid- Grade Zone (Ind & Inf)	8.71	42.8	12
<b>Total</b>	<b>10.46</b>	<b>81.6</b>	<b>27.4</b>

Source: Company report

### Loma Bonita Deposit - Gold-Silver

The Loma Bonita Deposit is located ~500m west of the Mesa de Plata Deposit and is also a shallow deposit with mineralisation starting at the surface.

The gold silver mineralisation is hosted in sub horizontal layers altered volcanic rocks, which are up to tens of meters thick. Within Lomoa Bonita there are silicified breccias up to 170m thick that could represent the feeder structures to lithocaps such as the Mesa de Plata deposit.

Initial metallurgical testing undertaken by AZS showed gold recoveries of between 88% and 97%, silver recoveries were low.

### Loma Bonita Mineral Resource (0.2g/t Au Cut-Off)

Classification	Mt	Gold		Silver	
		Grade (g/t)	(koz)	Grade (g/t)	(Moz)
Indicated	4.2	0.95	128.5	30.1	4.07
Inferred	1.2	0.6	22	18	0.7
<b>Total</b>	<b>5.4</b>	<b>0.9</b>	<b>150</b>	<b>28</b>	<b>4.8</b>

Source: Company Report

## Promontorio Project – Copper-Gold-Silver (AZS 100%)

AZS has been exploring the Promontorio Project since 2008 and has made a number of discoveries including the **Promontorio Deposit and the Cascada copper and gold prospect**. The shallow high grade nature of these prospects and the potential for a deeper larger scale porphyry system attracted the attention of a major mining company and in late 2014 Kennecott Exploration Mexico S.A. de C. V, part of the Rio Tinto Group, entered into a JV on the project.

At the Promontorio Project three mineralisation styles have been identified by AZS including; high sulphidation epithermal, hydrothermal breccia and porphyry copper systems.

After funding exploration for 2 years targeting large porphyry systems at depth Kennecott elected in early 2017 to not continue with the Promontorio Agreement. This has allowed AZS to resume operational control of the project and possibly focus on the higher grade epithermal mineralisation already identified. Since regaining control AZS has received expressions of interest from several major mining companies. Discussions are progressing, with a number of parties currently conducting due diligence.

At the **Promontorio Deposit** a small scale, high grade copper, gold silver resource has been defined of 840,000t @ 2.5% copper, 1.6g/t gold and 56g/t silver.

A PFS study released in mid-2012 was based on a small scale underground mining operation, producing 19,400t copper, 14,900oz gold and 1.22Moz of silver over a 4.5 year mine life. The PFS was based on US\$3.42/lb copper, US\$1,600/oz gold and US\$430/oz silver. All prices that are above current spot prices

**The Cascada copper and gold Deposit** is located only 200m from the Promontorio copper deposit and has reported a number of promising drilling intercepts, Highlights of the drilling include:

153m @ 1.5g/t gold, 114m @ 2.4g/t gold, 36m @ 2.9% copper and 19m @ 6.8% copper

A maiden resource for Cascada was released in mid-2015 of 2.9Mt @ 1.4% copper, 1.6g/t gold and 35g/t silver

### Promontorio Project Resource Summary

	Tonnes (Mt)	Cu (%)	Grade		Contained Metal		
			Au (g/t)	Ag (g/t)	Copper (t)	Gold (oz)	Silver (Moz)
Promontorio	0.84	2.5	1.6	56	20,800	43,800	1.50
Cascada	2.06	0.9	1.6	27	18,800	107,200	1.76
<b>Total</b>	<b>2.9</b>	<b>1.4</b>	<b>1.6</b>	<b>35</b>	<b>39,600</b>	<b>151,000</b>	<b>3.26</b>

Source: Company Report

Located close to Mesa de Plata, providing a potential satellite ore body to a central processing plant.

Interest in the project, with several potential partners conducting due diligence.

Outside of the two deposits the wider Promontorio project area is recognised as having potential for hosting more precious and base metal occurrences.

#### Drilling completed

Under the JV a total of 9 drill holes for ~8,800m were completed in 2016, with assays pending for a number of the holes. The drilling was designed to test copper-gold porphyritic mineralisation positioned underneath the high sulphidation vein system.

The drilling confirmed the presence of a mineralised porphyry system with well-developed stockwork zones and prominent breccia phases along with copper sulphide minerals chalcopyrite and bornite present in disseminated veins.

## San Agustin gold-silver project (AZS 100%)

#### Prospective jurisdiction

In May 2016 AZS announced acquisition of the San Agustin project, which is located in southern Mexico and is within the Mexican silver belt. The region hosts a number of producing silver and gold mines.

No prior exploration has been undertaken on the project. Azure commenced reconnaissance exploration in late 2016.

Terms of the acquisition include \$10,000 cash and a 1% Net Smelter Royalty on future production.

## Peer Comparison

In looking at relevant peers for AZS we have compiled a list of ASX listed silver companies and also other listed silver company's active in Mexico, these include TSX and AIM listed stocks.

In determining an EV/Resource ounce comparison we have compiled data for silver only resources and also silver equivalent values including other metals found in the polymetallic deposits. In determining equivalence numbers 100% of the metal value is assumed and no recovery assumptions are made.

Based on the following comparisons AZS is trading at a discount relative to their peers.

#### EV/resource ounce comparison – assumes AZS retain 100% of projects

	Azure	Peers	Discount (%)
EV/oz silver (A\$/oz)	\$0.54	\$2.88	-81%
EV/oz eq silver (A\$/oz)	\$0.27	\$1.46	-82%

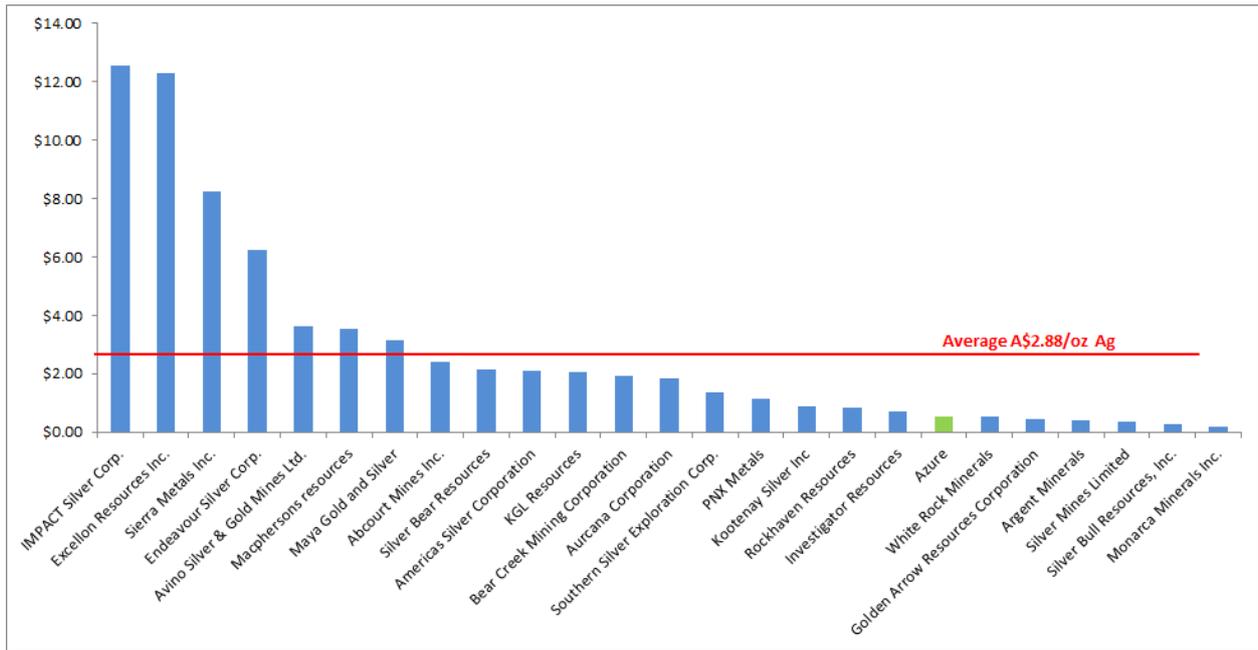
In the above we have assumed the current 100% ownership of AZS's projects. The following table assumes that Teck complete the 51% buy back of the Alcaran Project. This reduces slightly the discount to peers.

#### EV/resource ounce comparison – assumes AZS are diluted

	Azure	Peers	Discount (%)
EV/oz silver (A\$/oz)	\$1.00	\$2.88	-65%
EV/oz eq silver (A\$/oz)	\$0.39	\$1.46	-73%

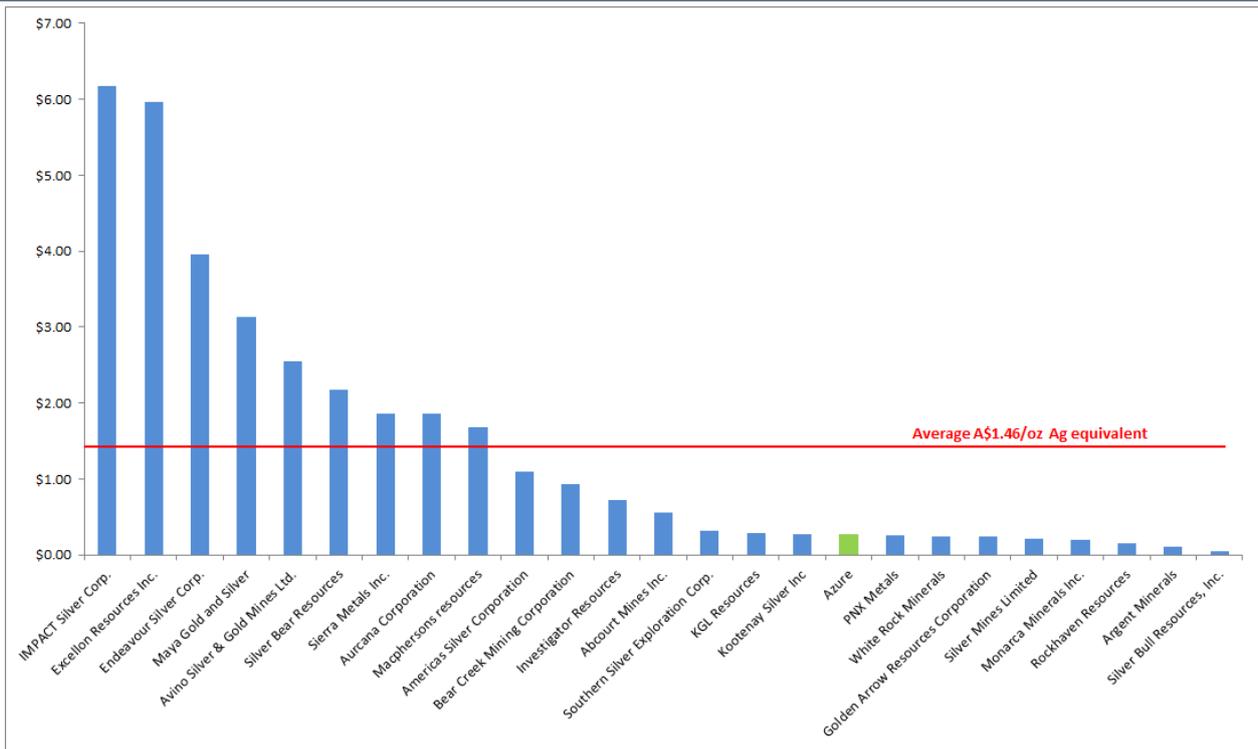
Based on the above AZS is trading at a discount to a number of their peers, even assuming they are diluted as part of the buy back.

**Peer Comparison Based on Silver only Resources**



Source Company Reports, Capital IQ and PAC Partners estimates

**Peer Comparison Based on Equivalent Silver Resources**



Source Company Reports, Capital IQ and PAC Partners estimates

## Board and Management

A solid team that has been together for a number of years and has developed strong experience and understanding of the Mexican mining industry.

### Peter Ingram (Chairman)

Peter is a geologist with over 50 years' experience in the mining and mineral exploration industries within Australia. He was the founding Chairman and Managing Director of Universal Resources Limited (now Altona Mining Limited). Previous directorships include: Managing Director of Metana Minerals NL and Eastmet Limited; Executive Chairman of Australia Oriental Minerals NL and Glengarry Resources Limited; and Non-executive Director of Dragon Mining Limited, Metana Petroleum Limited and Carnarvon Petroleum Limited. AZS shareholdings (as of 30 June 2016) 6.6m shares and 8m options.

### Anthony Rovira (Managing Director)

Tony is a geologist with over 30 years technical and management experience. Prior to joining AZS Tony was the General Manager of Exploration with Jubilee Mines, during which time he led the team that discovered and developed the Cosmos and Cosmos Deeps nickel sulphide deposits in Western Australia. Tony joined Azure Minerals as the inaugural Managing Director in December 2003 and is responsible for the decision to focus AZS activities on the world class mineral provinces in Mexico, where the company has been operating since 2005.

Tony is currently also a Non-Executive Board member of Oro Verde (ASX:OVL)  
AZS shareholdings (as of 30 June 2016) 7.16m shares and 19m options.

### Wolf Martinick (Non-Executive Director)

Wolf is an environmental scientist with over 40 years' experience in mineral exploration and mining projects around the world. He was a founding director and chairman of Weatherly International plc, an AIM listed company with copper mines in Namibia, and a founding director of Basin Minerals Limited, an ASX listed mineral exploration company that discovered a world-class mineral project in Victoria, Australia, that was acquired by Iluka Resources Limited in 2003. Wolf is currently also Chairman of Oro Verde (ASX:OVL).

AZS shareholdings (as of 30 June 2016) 5.3m shares and 8m options.

### Brett Dickson CFO & Company Secretary

Brett Dickson is an accountant with over 25 years experience in the financial management of companies, principally companies in early stage development of its resource or product, and offers broad financial management skills.

## Risks

**AZS is a mineral exploration company, therefore by nature is a high risk proposition.**

**Exploration Risk:** AZS is an exploration company and therefore share price performance is closely tied to high risk exploration success.

**Access to capital:** As an exploration company AZS does not have revenue and therefore will require additional funding to explore and develop assets. Capital management and allocation of the available funds is at the discretion of management. The company is currently well funded.

**Commodity Pricing and Currency Changes:** As a commodities company AZS are exposed to movements in the underlying commodity prices and also the prevailing exchange rate.

**Country Risks:** Mexico has a stable mining industry and an established legislative environment. However localised unrest has resulted in some mining ventures within Mexico being suspended.

## Contact Information

**Melbourne (Head Office)**

Level 10, 330 Collins Street Melbourne VIC 3000 +61 3 8633 9831

**Sydney**

Level 9, 56 Pitt Street, Sydney NSW 2000 +61 2 9233 9600

**Perth**

Suite 4, Level 1, 11 Ventnor Avenue, West Perth WA 6000

### CRAIG STRANGER

Managing Director

03 8633 9832

[cstranger@pacpartners.com.au](mailto:cstranger@pacpartners.com.au)

### SEAN KENNEDY

Corporate Finance

03 8633 9836

[skennedy@pacpartners.com.au](mailto:skennedy@pacpartners.com.au)

### ANTHONY STANI

Corporate Finance

03 8633 8251

[astani@pacpartners.com.au](mailto:astani@pacpartners.com.au)

### BROOKE PICKEN

Equity Capital Markets

03 8633 9831

[bpicken@pacpartners.com.au](mailto:bpicken@pacpartners.com.au)

### PAUL JENSZ

Director, Senior Industrial Analyst

03 8633 9864

[pjensz@pacpartners.com.au](mailto:pjensz@pacpartners.com.au)

### ANDREW SHEARER

Senior Analyst

03 8633 9862

[ashearer@pacpartners.com.au](mailto:ashearer@pacpartners.com.au)

### MICHAEL NOLAN

Senior Analyst

03 8633 9861

[mnolan@pacpartners.com.au](mailto:mnolan@pacpartners.com.au)

### ROGER CHEN

Analyst

03 8633 9868

[rchen@pacpartners.com.au](mailto:rchen@pacpartners.com.au)

### ALEX SMITH

Junior Analyst

03 8633 9865

[asmith@pacpartners.com.au](mailto:asmith@pacpartners.com.au)

### BRENDAN FOGARTY

Corporate Sales - Melbourne

03 8633 9866

[bfogarty@pacpartners.com.au](mailto:bfogarty@pacpartners.com.au)

### PHIL CAWOOD

Institutional Sales – Sydney

02 9994 5552

[Pcawood@pacpartners.com.au](mailto:Pcawood@pacpartners.com.au)

### SEBASTIAN JURD

Senior advisor – Sydney

02 9994 5553

[sjurd@pacpartners.com.au](mailto:sjurd@pacpartners.com.au)

### RYAN GALE

Advisor - Melbourne

03 8633 9833

[rgale@pacpartners.com.au](mailto:rgale@pacpartners.com.au)

### TOM FAIRCHILD

Corporate Sales - Melbourne

03 8633 9867

[tfairchild@pacpartners.com.au](mailto:tfairchild@pacpartners.com.au)

### IAN LEETE

Corporate Sales – Sydney

02 9994 5551

[ileete@pacpartners.com.au](mailto:ileete@pacpartners.com.au)

### SOL JONES

Desk Assistant – Sydney

02 9994 5554

[sjones@pacpartners.com.au](mailto:sjones@pacpartners.com.au)

## Recommendation Criteria

### Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

### Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

### Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

The following person(s) do not hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

- the author of this report
- a member of the immediate family of the author of this report

### Disclaimer

PAC Partners Pty Ltd. ("PAC Partners" or "PAC") is a Corporate Authorised Representative of PAC Asset Management Pty Ltd holder of an Australian Financial Services Licence (AFSL No. 335 374). PAC Partners is a business partner of Phillip Capital Limited ("PhillipCapital") (AFSL 246 827).

The information contained in this report is provided by PAC Partners to Wholesale Investors only. Retail investor and third party recipients should not rely, directly or indirectly, on this report. Users of this research report should not act on any content or recommendation without first seeking professional advice. Whilst the report has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by PAC Partners, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. This report is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This publication contains general securities advice. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user. Access of this report does not create a client relationship between PAC Partners and the user. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation. PAC and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. PAC believes that the advice and information herein is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by PAC or any of its directors, employees or agents. Any content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of PAC Partners.

### Disclosure of Corporate Involvement

PAC Partners has not in the previous 12 months carried out work on behalf of the Company described in this report and received fees on commercial terms for its services. PAC Partners and/or their associates may own securities of the Company described in this report. PAC Partners does and seeks to do business with companies covered in the research. PAC may receive commissions from dealing in securities. As a result, investors should be aware that PAC Partners may have a conflict of interest that could affect the objectivity of this report.

The preparation of this report was funded by ASX in accordance with the ASX Equity Research Scheme. This report was prepared by PAC Partners and not by ASX. ASX does not provide financial product advice. The views expressed in this report do not necessarily reflect the views of ASX. No responsibility or liability is accepted by ASX in relation to this report.

For more information about PAC Partners please visit [www.pacpartners.com.au](http://www.pacpartners.com.au)