

Azure Minerals (AZS)

Positive Zinc Acquisition for AZS

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KEY POINTS

- AZS makes acquisition of an advanced exploration stage zinc/lead/silver project in Mexico. Post paying the US\$1.5m purchase price AZS will have ~\$6.5m in cash to undertake exploration
- Previous owner completed 16 drill holes prior to sale, results of this will be released soon and AZS plans to get on the ground soon with their own drilling program. A maiden JORC resource is expected post the drilling.
- The purchase marks a new chapter for AZS and provides a new direction after a quiet 12months at a time when the zinc market continues to be strong.

New Project, New Direction, News Flow

The Oposura Project is an advanced stage exploration zinc/lead/silver project located in northern Mexico. AZS reports high grade zinc+lead mineralisation from previous drilling and also underground sampling, in addition favourable metallurgical results and exploration upside.

High Grade Zinc: AZS has undertaken sampling of the underground workings, some of which have reported combined Zn+Pb grades of up to 65%, with a number of samples in the range of 48-60% Zn+Pb.

Historic production in the 1940's reported grades of ~40% Zn+Pb which supports the sampling undertaken by AZS. Both the sampling and historic mining are likely to be selective and when AZS is able to report a resource we expect the resource grade will be lower. We have found reference to a non-JORC historic resource in literature which had a grade of ~10% Zn+Pb.

Recent Drilling: Prior to the sale a 16 hole drilling program, was completed, with AZS's technical team assuming responsibility for the logging and sampling. The drilling appears to have been undertaken near the existing underground development. We will be interested to see when AZS plans their drilling if any step out holes are planned to the north and west of the known boundaries to test for extensions.

AZS Confident of potential: by paying the US\$1.5m purchase fee upfront, rather than an earn-in JV agreement, shows to us that AZS is confident of the project. AZS's purchase is a relatively cheap entry into the area when compared to the US\$15m option agreement announced in March 2017 by Americas Silver (TSX:USA) to purchase the San Felipe zinc project located nearby AZS's Oposura Project. The San Felipe project has a defined resource (4.3Mt @ ~7.3% Zn+Pb) and feasibility study. Therefore we see that by defining a resource AZS has the potential to add value from their acquisition.

Previous Research: [AZS March 2017 PAC Partners](#) (Initiation)
[AZS May 2017 PAC Partners](#)

RECOMMENDATION

Speculative Buy

Previous Recommendation	Speculative Buy
Risk Rating	Very High
Current Share Price	\$0.016
12 Month High (\$/sh)	\$0.04
12 Month Low (\$/sh)	\$0.011
Cash (30/06/17)	\$9.7m
Shares on Issue (m)	1,673
Options on issue (m)	297.5
Market capitalisation	\$26m

Investment Summary

For the last 12 months AZS has been in the position where they had cash, lots of experience in Mexico but no immediate project to work on. That has changed with the announcement of the purchasing of the Oposura Project, located not far from their Mexican head office.

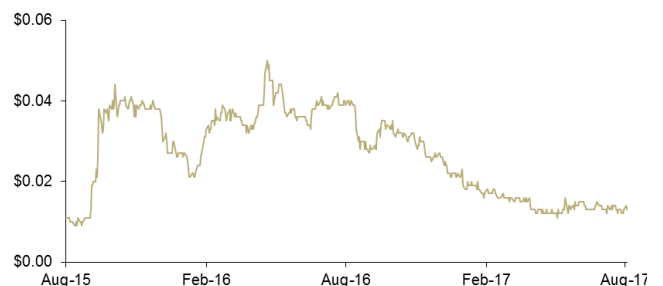
AZS has purchased 100% of the project and undertaken several months of detailed due diligence prior to the agreement. This included managing some of the drilling program. By taking on this work the AZS team will be in a good position to hit the ground running and progress the project. The next steps will be analysing the existing drilling, planning AZS's drilling program and then compiling a maiden JORC resource.

We see the acquisition as positive for AZS as it now provides AZS with an advanced project that has the potential to be rapidly progressed.

Catalysts:

- Drilling results, expected soon
- Commencing of AZS drilling for October
- Release of Maiden Resource, estimated early CY18.

AZS Share price performance



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Overview

Location: The Oposura property is located 150km by road NE from the city of Hermosillo, the capital city of Sonora, where AZS has its Mexican-based exploration and administration office. The project comprises of ten mineral concessions which total 690 hectares in area.

The tenements have been purchased 100% by Minera Piedra Azul SA de CV, a wholly-owned subsidiary of Azure Minerals Limited. A 2.5% NSR royalty on production is payable to the previous owners.

All the tenements are in good standing and the majority are don't expire until 2037.

Oposura Project Location



Source: Company Report

Late stage exploration asset

Previous Exploration undertaken by two major companies from the 1940's to 1970's included the development of ~500m of underground tunnels, small scale mining to provide bulk samples for metallurgical test work and a total of ~100 drill holes.

Mineralisation Model: The mineralisation has been defined as a roughly flat lying horizon extending east-west for ~1,400m, outcrops on the southern margin and extends to the north for ~400m, with the maximum depth ~100m.

The mineralised zone is ~3-9m thick and is described as a carbonate replacement and/or skarn style forming horizontal mantos of massive sulphides containing zinc, lead, silver and copper.

Expansion potential includes extensions to the north and also to the west.

In addition the project has potential for silver mineralisation associated with quartz veining in the east of the property and at the western portion of the project precious and base metal mineralisation has been observed around historic mine workings.

Oposura Project

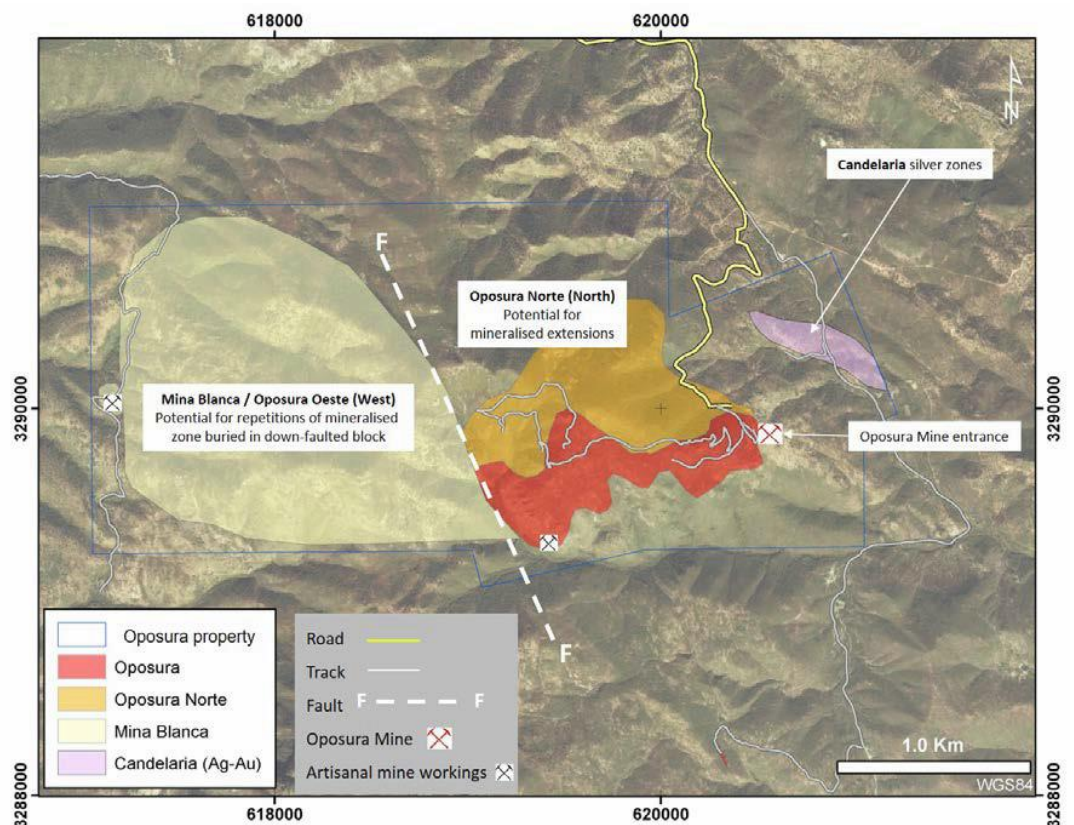
Multiple exploration targets existing, including:

Current mineralisation shown in red, potential to define JORC resource quickly

Northern extension potential shown in yellow

The area to the west (Mina Blanca) is interpreted as a possible down thrown extension to the mineralised horizon and a potential exploration area.

Silver-gold prospect area shown in purple on far east of project



Source: Company Report

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Investment View

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

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

Buy	Hold	Sell
>20%	20% – 5%	<5%

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