**AZURE MINERALS LIMITED**
**ABN 46 106 346 918**

# NOTICE OF GENERAL MEETING

# EXPLANATORY MEMORANDUM
# INDEPENDENT EXPERT'S REPORT
# PROXY FORM

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or another professional adviser before voting. If you are unable to attend the Meeting, please complete and return the enclosed Proxy Form in accordance with the specified directions.

Shareholders of the Company should carefully consider the Independent Expert's Report (**IER**) prepared by Pitcher Partners before considering the Proposed Transaction the subject of Resolution 1 in this Notice of Meeting. The IER comments on the fairness and reasonableness of the Proposed Transaction as a whole to the current Shareholders in the Company who are not associated with Deutsche Balaton Aktiengesellschaft, Delphi Untemehmensberatung Aktiengesellschaft or their Associates.

**Pitcher Partners has concluded that the Proposed Transaction is not fair but reasonable** to the current Shareholders in the Company who are not associated with Deutsche Balaton Aktiengesellschaft, Delphi Untemehmensberatung Aktiengesellschaft or their Associates**.**

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9481 2555.

**Date of Meeting**
19 July 2019

**Time of Meeting**
11:00am (WST)

**Place of Meeting**
The Celtic Club
48 Ord Street
WEST PERTH WA

**AZURE MINERALS LIMITED**
**ABN 46 106 346 918**
**NOTICE OF GENERAL MEETING**

Notice is given that a General Meeting of Shareholders of Azure Minerals Limited ("**Company**") will be held at the Celtic Club, 48 Ord Street, West Perth, Western Australia on 19 July 2019 at 11:00am (WST) for the purpose of transacting the following Business.

**Resolution 1 – Approval of the Proposed Transaction including the acquisition of a Relevant Interest**

To consider, and if thought fit, to pass the following as an **ordinary resolution**:

> *That for the purposes of section 611 (item 7) of the Corporations Act and for all other purposes, Shareholders approve the issue of Convertible Notes in the Company to Deutsche Balaton Aktiengesellschaft and its associate Delphi Untemehmensberatung Aktiengesellschaft (together, the **Investors**), the resultant issue of Shares on the conversion of some or all of the Convertible Notes to the Investors and for the increase in the voting power of the Investors and their Associates to up to 28.16% on the terms and conditions which are described in the Explanatory Memorandum.*

**Independent Expert's Report**: Shareholders should carefully consider the IER prepared by Pitcher Partners before considering Resolution 1 in this Notice of Meeting. The IER comments on the fairness and reasonableness of the Proposed Transaction as a whole to the current Shareholders that are not associated with the Investor.

Pitcher Partners has concluded that the Proposed Transaction (which includes the acquisition of the voting power and relevant interest by Deutsche Balaton Aktiengesellschaft, Delphi Untemehmensberatung Aktiengesellschaft or their Associates) is **not fair but reasonable** to current Shareholders of the Company that are not associated with Deutsche Balaton Aktiengesellschaft or Delphi Untemehmensberatung Aktiengesellschaft.

**Voting Exclusion Statement**

The Company will disregard any votes cast on Resolution 1 by Deutsche Balaton Aktiengesellschaft and Delphi Untemehmensberatung Aktiengesellschaft (and any of their Associates).

However, the Company need not disregard a vote cast on Resolution 1 if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Resolution 2 – Issue of Shares to Teck**

To consider, and if thought fit, to pass the following as an **ordinary resolution**:

> *That for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 27,545,566 Shares or such larger number of Shares as determined by the formula in the Explanatory*
>
> *Memorandum to Minera Teck S.A. de C.V (**Teck**) as consideration for Teck's ownership interest in the Alacran Project on the terms and conditions set out in the Explanatory Memorandum.*

**Voting Exclusion Statement**

The Company will disregard any votes cast in favour of Resolution 2 by or on behalf of Teck (and any of its Associates).

However, the Company need not disregard a vote cast on Resolution 2 if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

For further information please refer to the Explanatory Memorandum which accompanies and forms part of this Notice of Meeting.

By order of the Board of Directors

**Brett Dickson**
**Company Secretary**
Date: 14 June 2019

# Important information for Shareholders

**Explanatory Statement**

The accompanying Explanatory Statement forms part of this Notice of Meeting and should be read in conjunction with it. The glossary at the end of the Explanatory Statement contains definitions of capitalised terms used in this Notice of Meeting and the Explanatory Statement.

**Required majorities**

The resolutions in this Notice of Meeting are ordinary resolutions. An ordinary resolution requires a simple majority of votes cast by Shareholders present (in person, by proxy or representative) and entitled to vote on the resolution.

**Proxies**

All Shareholders who are entitled to attend and vote at the meeting have the right to appoint a proxy to attend and vote for them. The proxy does not have to be a Shareholder. Shareholders holding two or more shares can appoint either one or two proxies. If two proxies are appointed, the appointing Shareholder can specify what proportion of their votes they want each proxy to exercise.

To vote by proxy, please complete and return the proxy form enclosed with this Notice of Meeting as soon as possible. To be effective, a completed proxy form or online proxy instructions must be received by **no later than 11.00am (WST) on Wednesday 17 July 2019**, being not less than 48 hours prior to the commencement of the meeting.

Where the proxy form is executed under power of attorney, the power of attorney must be lodged in the same way as the proxy form.

**Corporate representatives**

A body corporate may appoint an individual as its representative to attend and vote at the meeting and exercise any other powers the body corporate can exercise at the meeting. The appointment may be a standing one. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company. An appointment form is included with the meeting materials.

**Voting entitlements**

The Board has determined that, for the purpose of voting at the Meeting, Shareholders are those persons who are the registered holders of the Company's shares at 5.00pm (WST) on Wednesday 17 July 2019.

**Responsibility for information**

The information contained in this Notice of Meeting (except for the IER and information regarding the Investor and its intentions) has been prepared by the Company and is the responsibility of the Company.

The Investor assumes no responsibility for the accuracy or completeness of that information.

Information concerning the Investor and its intentions has been provided by the Investor. None of the Company, its Associates or its advisers assumes any responsibility for the accuracy or completeness of that information.

Pitcher Partners have prepared the IER and has consented to the inclusion of the report, and references to it, in this Notice of Meeting. Pitcher Partners takes responsibility for that report, and references to it, but is not responsible for any other information contained within this Notice of Meeting.

Shareholders are urged to read the IER carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

**ASIC and ASX involvement**

A copy of this Notice of Meeting has been lodged on 3 June 2019 with ASIC pursuant to ASIC Regulatory Guide 74 and with ASX on 29 May 2019 pursuant to the Listing Rules. Neither ASIC, ASX nor any of their officers take any responsibility for the contents of this Notice of Meeting and Explanatory Memorandum.

**EXPLANATORY MEMORANDUM**

This Explanatory Memorandum is intended to provide Shareholders of Azure Minerals Limited ABN 46 106 346 918 **("Company")** with sufficient information to assess the merits of the resolutions contained in the accompanying Notice of Meeting.

**Resolution 1– Approval of the Proposed Transaction including the acquisition of a Relevant Interest**

**1. Background**

Resolution 1 seeks the approval of Shareholders for the Company to issue Convertible Notes to Deutsche Balaton Aktiengesellschaft and Delphi Untemehmensberatung Aktiengesellschaft (together the **Investors**), and for the conversion of those Convertible Notes into Shares, which will have the effect of increasing the voting power of the Investors and their Associates in the Company.

As announced on 15 October 2018, the Company completed a scoping study on its wholly owned Oposura project located in Sonora (**Project**), Mexico which demonstrated that the Project is economically and technically robust and is expected to generate total positive earnings before interest and tax of A$237 million and a net present value of A$112 million with an internal rate of return of 76% and a payback period of 16 months based on metal prices at the date of the mineral resource estimate.

As set out in section 3 of this Explanatory Memorandum, the proceeds from the Convertible Notes will be used to continue the Company's feasibility study on the Project, investigate the possibility of early start-up of mining on a small scale and maintain adequate working capital. It is likely that the Company will also need to raise additional capital to fund the completion of the feasibility study and further mining works on the Project. However, as at the date of this Notice of Meeting the details and timing for any proposed capital raise have not been determined.

**2. Convertible Notes**

The Company has agreed to enter into a binding unsecured convertible note deed (**Convertible Note Deed**) with the Investors pursuant to which each Investor has agreed (subject to Shareholder approval of Resolution 1 (**Condition**)) to subscribe for $1 million (**Principal Amount**) of Convertible Notes, each with a maturity date 24 months from Issue Date of the Convertible Notes (**Maturity Date**). The Convertible Note Deed is subject to customary conditions regarding termination events.

**a. Consequences of the non-satisfaction of the Condition**

If Resolution 1 is not passed the Condition will not be satisfied and the Investor will have no obligation to pay and subscribe for a total of $2 million of Convertible Notes together, and the Company will not issue the Convertible Notes.

**b. Interest**

The Principal Amount will accrue interest at a rate of 12.5% per annum, calculated on the basis of a 365 day year and paid in arrears every 6 months after the Issue Date and on the Maturity Date.

Overdue interest of an additional 5% will accrue on amounts that are not paid when due and is payable on the last Business Day of every month.

**c. Conversion**

An Investor may elect in its discretion to convert some or all of its Convertible Notes by delivering a notice to the Company (**Conversion Notice**) specifying the number of Convertible Notes and the aggregate Principal Amount of those Convertible Notes the Investor intends to convert (**Specified Principal Amount**) which must be a minimum of $200,000 or any higher integral multiple of $200,000, or if the Principal Amount of all outstanding Convertible Notes is less than $200,000, that lesser amount. The number of Shares the Company must issue to the Investor in respect of the conversion is determined by dividing the Specified Principal Amount

by the conversion price of $0.145. The conversion price will be amended in accordance with the Listing Rules to place the Investor in substantially the same position as it would have been had no such event occurred if the Company conducts a bonus issue or reconstruction of capital.

If the Company conducts a rights issue at any time when there is a Principal Amount outstanding, then the Conversion Price will be adjusted by applying the following formula:

$$O' = O - \frac{E[P-(S+D)]}{N+1}$$

where:

O' means the adjusted Conversion Price;

O means the old Conversion Price of 0.145;

E means the number of Shares which a Convertible Note is converted into, which for the purposes of the above formula is taken to be 1;

P means the volume weighted average market price per Share, calculated over the 5 trading days ending on the day before the ex rights date or ex entitlements date;

S means the subscription price for a Share under the rights issue;

D means the dividend due but not yet paid on the existing Shares (except those to be issued under the rights issue); and

N means the number of Shares with rights or entitlements that must be held to receive a right to one new security.

**d. Redemption**

On the Maturity Date, the Company must redeem the Convertible Notes, to the extent they have not then been converted, by paying to each Investor an amount equal to the outstanding Principal Amount, in full, in immediately available funds, without withholding or deduction.

The Company must also redeem all the Convertible Notes from an Investor if an Event of Default occurs and continues un-remedied for a period of 3 Business Days and an Investor declares that the entire outstanding principal amount together with accrued and unpaid Interest payable on demand or immediately due for payment and payable.

The Company may also redeem the Convertible Notes prior to the Maturity Date by 20 Business Days' notice provided an Investor has not within 10 Business Days of its receipt of the Termination Notice elected to convert all of its remaining Convertible Notes by issuing a Conversion Notice.

**e. No formal disclosure document**

Subject to Shareholder approval being obtained, the Convertible Notes will be offered by the Company to the Investors without a formal disclosure document (i.e. prospectus) in reliance on section 708A(12C) of the Corporations Act, as modified by ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82. If the Company is unable to issue such a notice, it must issue a notice in respect of any Shares issued on conversion that complies with section 708A(5)(e) of the Corporations Act. If the Company is unable to issue a notice in respect of any Shares issued on conversion that complies with section 708A(5)(e) of the Corporations Act the Company must lodge a prospectus within 20 Business Days of the issue of Shares prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure.

**f. Board Nominee**

From the Issue Date until the Maturity Date the Investors will together be entitled to nominate a total of one director to the Board, provided that person is not disqualified to act as a director of the Company under any applicable law, the results of criminal record and bankruptcy and solvency checks conducted in relation to that person confirm the person's good fame and character and the person consents to act as a Director.

**3. Use of funds**

As mentioned above, the proceeds from the Convertible Notes will be used to continue the Company's feasibility study on the Project, investigate the possibility of early start-up of mining on a small scale as well as maintaining the Company's working capital. It is likely that the Company will also need to raise additional capital in the short term to fund completion of the feasibility study and further mining works on the Project. However, as at the date of this Notice of Meeting the details and timing for any proposed capital raise have not been determined.

**4. Corporations Act**

Section 606(1) of the Corporations Act prohibits a person from acquiring a relevant interest in the issued voting shares in a listed company if, as a result of the acquisition that person's or someone else's voting power in the company increases from 20% or below, to more than 20%, or from a starting point that is above 20% and below 90%.

Generally, under section 608 of the Corporations Act, a person has a relevant interest in securities if they:

- are the holder of the securities;
- have power to exercise, or control the exercise of, a right to vote attached to securities; or
- have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a Company involves determining the voting shares in the Company in which the person and the person's Associates have a relevant interest.

A person (second person) will be an "associate" of the other person (first person) if (**Associate**):

(a) the first person is a body corporate and the second person is:

i. a body corporate that the first person controls;
ii. a body corporate that controls the first person; or
iii. a body corporate that is controlled by an entity that controls the first person;

(b) the second person has entered or proposes to enter into a relevant agreement with the first person for the purposes of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or

(c) the second person is a person with whom the first person is acting, or proposing to act, in concert in relation to the company's affairs.

A person's relevant interest or voting power includes only issued voting shares (in the case of the Company, ordinary shares).

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition, whereby a person may make an otherwise prohibited acquisition of a relevant interest in a company's voting shares with Shareholder approval.

The issue of Shares on the conversion of all Convertible Notes (if Resolution 1 is approved) will result in the Investors and their Associates increasing their combined voting power in the Company from 19.23% to a maximum of 28.16%, assuming all of the Convertible Notes are converted into Shares, none of the Company's Options are exercised prior to the conversion of Convertible Notes and no other Shares are issued in the Company, including the Shares proposed to be issued to Teck under the Teck Offer.

If the Shares are issued to Teck under the Teck Offer and all of the Convertible Notes are converted into Shares the Investors' (and its Associates) maximum voting power will be 23.07%.

## 5. Information required by item 7 of section 611 of the Corporations Act and ASIC Regulatory Guide 74

Section 611, Item 7 of the Corporations Act requires that Shareholders be given all information known to the person proposing to make the acquisition or their Associates, or known to the company, that is material to the decision on how to vote on Resolution 1. Section 611, Item 7 includes, as a guide information in relation to the following:

### Table 1

| | Requirement | Explanation |
|---|---|---|
| 1. | The identity of the person proposing to make the acquisition and their Associates. | The Convertible Notes and the Shares issued on conversion of the Convertible Notes will be issued to Deutsche Balaton Aktiengesellschaft (**DBA**) and Delphi Untemehmensberatung Aktiengesellschaft. DBA is an investment holding company incorporated in Germany in 1991 and listed on the "Basic Board" segment of the Frankfurt Stock Exchange for more than 20 years. The Investor's major shareholder is VV Betelligungen Aktiengesellschaft which is in turn is owned by Delphi Untemehmensberatung Aktiengesellschaft (**DUA**), DUA is in turn owned by Investunity AG whose major shareholder is Wilhelm K.T Zours (each of whom are Associates of the Investors and will be deemed to have a relevant interest in any Shares issued to the Investors on the conversion of the Convertible Notes). The value of DBA's total assets is approximately EURO $500 million. DBA's investments range from investments in listed companies to private equity and real estate however, within the last 2 years the Investor's focus has been on the Australian resources sector. |
| 2. | The maximum extent of the increase in that person's voting power in the company that would result from the acquisition. | As of the date of this Notice, DBA holds 10,000,000, Shares and DUA holds 10,293,113 Shares. Other Associates of DBA hold 1,052,833 Shares through nominee entities, so that the Investors and their Associates have a maximum voting power of 19.23% in the Company. |

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| | | Subject to Resolution 1 being passed, the Investors will be issued Convertible Notes to an aggregate value of $1 million each which if converted at the conversion price of $0.145 will result in the issue of a total of 13,793,103 Shares to the Investors. If the Investors elect to convert all of the Convertible Notes the Investors and their Associates will hold a total of 35,139,046 Shares.<br><br>The voting power of the Investors and their Associates will increase from 19.23% to a maximum of 28.16%, assuming all of the Convertible Notes are converted into Shares, none of the Company's Options are exercised prior to the conversion of Convertible Notes and no other Shares are issued in the Company including the Shares proposed to be issued to Teck under the Teck Offer.<br><br>If the Shares are issued to Teck under the Teck Offer and all of the Convertible Notes are converted into Shares the Investors' (and their Associates) maximum voting power will be 23.07%. |
| 3. | The voting power that person would have as a result of the acquisition. | The Convertible Notes, by themselves, will not be counted as part of an Investors' relevant interest or voting power in Shares of the Company. A noteholder's relevant interest or voting power will only increase if and when Convertible Notes are converted, and Shares are issued to the noteholder on conversion.<br><br>The voting power of the Investors will increase from 19.23% to a maximum of 28.16%, assuming the Investors elects to convert all of the Convertible Notes into Shares, none of the Company's Options are exercised prior to the conversion of Convertible Notes and no other Shares are issued in the Company including the Shares proposed to be issued to Teck under the Teck Offer.<br><br>If the Shares are issued to Teck under the Teck Offer and all of the Convertible Notes are converted into Shares the Investors' (and their Associates) maximum voting power will be 23.07%.<br><br>Under the terms of the Convertible Note Deed an Investor may by written notice specify the number of Convertible Notes it intends to convert which must be a minimum of $200,000 or any higher integral multiple of $200,000, or if the Principal Amount of all outstanding Convertible Notes is less than $200,000, that lesser amount. |
| 4. | The maximum extent of the increase in the voting power of each person's Associates that would result from the acquisition. | DBA holds 10,000,000 Shares in its own name and DUA holds 10,293,113 Shares. Other Associates of DBA hold 1,052,833 Shares through nominee entities. Other than the issue of 13,793,103 Shares on the conversion of the Convertible Notes issued to the Investors in total none of their Associates will receive any Shares under the Convertible Note. |

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| | | Accordingly, the voting power of the Investors and their Associates (as defined by section 12 of the Corporations Act) will increase from 19.23% to a maximum of 28.16% on the issue of Convertible Notes and the conversion of all Convertible Notes into Shares.<br><br>If the Shares are issued to Teck under the Teck Offer and all of the Convertible Notes are converted into Shares the Investors' (and their Associates) maximum voting power will be 23.07%. |
| 5. | The voting power that each of the person's Associates would have as a result of the acquisition. | If the Investors elect to convert all of the Convertible Notes the Investors will be issued Shares and the combined voting power of the Investors and their Associates will increase. Other than the issue of 13,793,103 Shares on the conversion of all the Convertible Notes issued to the Investors none of the Investors' other Associates will receive any Shares under the Convertible Note.<br><br>Accordingly, the voting power of the Investors and thier Associates (as defined by section 12 of the Corporations Act) will increase from 19.23% to a maximum of 28.16% only on the issue of Convertible Notes and the conversion of all Convertible Notes into Shares. |

In addition to the above information ASIC Regulatory Guide 74 sets out the following information which should be considered by Shareholders for the purpose of approving an acquisition under section 611, item 7:

## Table 2

| | Requirement | Explanation |
|---|---|---|
| 1. | Particulars (including the number and percentage) of the shares in the company to which the allottee or purchaser is or will be entitled immediately before and after the proposed acquisition. | Refer to Table 1 Questions 2 and 3. |
| 2. | The identity, associations (with the allottee, purchaser or vendor, and with any of their Associates) and qualifications of any person who it is intended will become a director of the company if the shareholders approve the issue or purchase. | As mentioned in Section 2 of the Explanatory Memorandum for Resolution 1, subject to the receipt of Shareholder approval of Resolution 1, from the Issue Date until the Maturity Date the Investors will together be entitled to nominate one director to the Company's Board.<br><br>The Investors are proposing to nominate Hansjoerg Plaggemars for appointment to the Company's Board. Hansjoerg is a finance expert who resides in the United States. Hansjoerg has a bachelor's degree in business administration from Otto-Fredrich- Universitat Bamberg and a Diplom-Kaufmann (equivalent to a MBA). Hansjoerg has held a number of finance |

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| | | positions across various industries and brings finance and capital markets knowledge to the Azure Board. Hansjoerg is currently a board member of a number of companies listed on various German regulated markets including Decheng Technology AG, Youbisheng Green Paper AG and MARNA Beteiligungen AG. Hansjoerg's' past directorships includes a role as a non-executive Director of Stellar Diamonds plc an AIM listed diamond explorer that was subsequently acquired by ASX listed Newfield Resources Limited. Hansjoerg was previously a Director of the Investor and of Delphi Unternehmensberatung AG. Hansjoerg is currently engaged as a consultant of the Investor through his company Value Consult. Except as set out above Mr Plaggemars does not have an interest in the Proposed Transaction.<br><br>Refer also to Table 1. |
| 3. | A statement of the allottee's or purchaser's intentions regarding the future of the company if shareholders approve the issue or purchase, in particular:<br><br>(a) any intention to change the business of the company:<br><br>(b) any intention to inject further capital into the company;<br><br>(c) the future employment of present employees of the company;<br><br>(d) any proposal where assets will be transferred between the company and the allottee, vendor or purchaser or any of their Associates; and<br><br>(e) any intention to otherwise redeploy the fixed assets of the company. | The Investors have informed the Company that their intentions mentioned in this section are based on the facts and information regarding the Company, its business and the general business environment which are known to the Investors as at the date of this Notice, which is limited to publicly available information. Any future decisions regarding these matters will only be made based on all material information and circumstances at the relevant time. Accordingly, the statements set out below are statements of current intention only which, if circumstances change or new information becomes available in the future, could change accordingly.<br><br>Other than the appointment of the Investors' nominee to the Company's Board under the terms of the Convertible Note Deed, no change to the composition of the Company's Board is currently proposed by the Investors or the Company.<br><br>Other than as disclosed above or elsewhere in this Explanatory Memorandum, the Investors:<br><br>• have no current intention of making any significant changes to the existing business of the Company;<br><br>• have no current intention to inject further capital into the Company but may participate in any future entitlements issues that the Company is proposing to undertake including as a possible sub-underwriter ;<br><br>• have no current intention of making changes regarding the future employment of the Company's present employees; |

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| | | • do not currently intend for any assets to be transferred between the Company and itself or any person associated with it; and<br>• have no current intention to otherwise redeploy the fixed assets of the Company. |
| 4. | Details of the terms of the proposed allotment or purchase and any other relevant agreement between the allottee or the purchaser and the company or the vendor (or any of their Associates) which is conditional on (or directly or indirectly depends on) the shareholder's approval of the proposed allotment. | The terms under the Convertible Note Deed are summarised in Section 2 of the Explanatory Memorandum for Resolution 1. Other than the Convertible Note Deed, there are no other contracts or proposed contracts between the Investors and any of their Associates and the Company which are conditional upon, or directly or indirectly dependent on, Shareholder approval of Resolution 1. |
| 5. | When the allotment is to be made or the purchase is to be completed. | The issue of the Convertible Notes will occur 2 Business Days after Resolution 1 is passed (**Issue Date**). The issue of Shares on conversion of the Convertible Notes is at the election of an Investor and will be issued 2 Business Days after an Investor issues a Conversion Notice to the Company. |
| 6. | An explanation of the reason for the proposed allotment. | This information is set out in sections 1 and 3 of the Explanatory Memorandum for Resolution 1. |
| 7. | The interest of the directors in the transaction subject of the proposed resolution. | The Company's current Directors do not have an interest in the Proposed Transaction the subject of Resolution 1.<br><br>No payment or benefit has been given or is proposed to be given to any Director or to any Associate of the Director in connection with or conditional upon the outcome of Resolution 1.<br>No agreement or arrangement has been made between any Director or to any Associate of the Director in connection with or conditional upon the outcome of Resolution 1. |
| 8. | In the case of a listed company, any additional information that the ASX Listing Rules require to be disclosed. | None. |
| 9. | The identity of the directors who approved or voted against the proposal to put the resolution to the shareholders. | The Company's Directors (being Mr Peter Ingram, Mr Anthony Rovira and Dr Wolf Gerhard Martinick) voted unanimously to propose Resolution 1 to Shareholders and have approved this Notice of Meeting and Explanatory Memorandum. |
| 10. | The recommendation or otherwise of each director on how non-associated members should vote on the resolution and the reasons for that recommendation (or the | The Company's Directors unanimously recommend that Shareholders vote in favour of Resolution 1 for the following reasons: |

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| | reasons why the director is not giving a recommendation). | • the Convertible Notes provide funding to allow the Company to fund the costs of completing the feasibility study for the project and to commence small scale mining on the Project's central zone as well as for working capital purposes;<br><br>• the financing costs and terms associated with the Convertible Notes are competitive when compared to other alternative financing options; and<br><br>• should Resolution 1 not be approved, the Company may be unable to fund the full cost of the feasibility study for the Project without raising new capital or alternatively will need to cease completion of the feasibility study until further funding is forthcoming.<br><br>Each of the Company's Directors intends to vote in favour of Resolution 1 in respect of the Shares that they hold. |
| 11. | Any intention of the acquirer to significantly change the financial or dividend distribution policies of the company. | The Investors have no current intention to significantly change the Company's existing financial or dividend policies. |
| 12. | An analysis of whether the proposal is fair and reasonable when considered in the context of the interests of the shareholders other than those involved in the proposed allotment or purchase or associated with such persons | The Directors have engaged an Independent Expert, Pitcher Partners, to undertake an analysis of whether the Proposed Transaction is fair and reasonable when considered in the context of the interests of the Shareholders (other than those involved in the proposed allotment or associated with such persons).<br><br>Pitcher Partners has concluded that the proposed Proposed Transaction is **not fair but reasonable** to the Shareholders.<br><br>A copy of the IER is contained in Schedule 1 of this Notice of Meeting. |
| 13. | An analysis of the advantages and disadvantages of the proposal. | The Directors are of the view that the following, non-exhaustive list of advantages, may be relevant to a non-associated Shareholder's determination on how to vote on the Acquisition Resolutions:<br><br>• if Shareholders vote to approve the Proposed Transaction, the funds raised will provide the Company with the ability and certainty to fund the cost of completing its feasibility study for the Project and commencing early mining works on the Project (see Section 3 for further details on the use of funds). If Shareholders decide not to vote in favour of the Proposed Transaction, the Company will be unable to fund the full cost of the feasibility study for the Project without raising new capital; |

- the Proposed Transaction will also reduce the cash flow strain on the Company and also may assist the Company to raise additional funds;

- the Company's relationship with the Investors, its cornerstone investors may also be strengthened by the Proposed Transaction; and

- the Directors are of the view that the issue of Convertible Notes is the most cost effective form of finance available to fund the completion of its feasibility study for the Project. As part of a strategic review, the Company considered a range of funding options and is not aware of any alternative proposals which may provide a greater benefit to the Shareholders.

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a non-associated Shareholder's determination on how to vote on the Acquisition Resolutions:

- existing Shareholders' interests will be diluted if the Convertible Notes are converted. Additionally the potential increased shareholding of the Investors (if the Convertible Notes are converted) will increase the Investors' influence and control as it will allow the Investors to appoint a nominee to the Board and upon the conversion of all the Convertible Notes it will mean that the Investors have the potential to block a special resolution which requires 75% approval prior to the proposed issue of Shares to Teck under the Teck Offer; and

- Pitcher Partners has concluded that the Proposed Transaction is not fair but reasonable to the current Shareholders in the Company who are not associated with Deutsche Balaton Aktiengesellschaft, Delphi Untemehmensberatung Aktiengesellschaft or their Associates when treated as a control transaction under ASIC Regulatory Guide 111.

The Directors consider that the advantages of the Proposed Transaction outweigh the potential disadvantages.

For further details on the advantages and disadvantages of the Proposed Transaction, please refer to sections 8.1 and 8.2 of the IER.

**6. Independent Expert's Report**

The Corporations Act provides than an IER on the Proposed Transaction must be provided to Shareholders of the Company, which provides an opinion on the fairness and reasonableness of the Proposed Transaction to the existing Shareholders of the Company that are not associated with the Investor.

Accompanying this Notice is an Independent Expert's Report prepared by Pitcher Partners. The IER considers whether the potential acquisition of Shares by the Investors through future conversion of the Convertible Notes, and the corresponding potential increase in the voting power of the Investors and their Associates to up to pursuant to Resolution 1, as part of the overall Proposed Transaction, is fair and/or reasonable to the Shareholders not associated with the Investor.

The report concludes that the Proposed Transaction is not fair but reasonable to the Shareholders not associated with the Investors, in the absence of a superior proposal.

Please refer to the IER of this Notice at Schedule 1 for further details and in particular the advantages and disadvantages of the Proposed Transaction. This assessment is designed to assist all Shareholders in reaching their voting decision. It is recommended that all Shareholders read the IER in full.

**7. Placement capacity**

Approval pursuant to Listing Rule 7.1 is not required in order to issue the Convertible Notes as approval is being obtained under item 7 of section 611 of Corporations Act (ASX Listing Rule 7.2 exception 16). Accordingly, the issue of the Convertible Notes will not be included in the calculation of the Company's annual 15% placement capacity pursuant to Listing Rule 7.1 or its 10% placement capacity pursuant to Listing Rule 7.1A.

**Resolution 2 – Issue of Shares to Teck**

**1. Background**

In October 2016, the Company earned 100% ownership of the Alacran Project, through the expenditure of US$5 million (approx. A$6.5 million) (See the Company's announcement on 31 October 2016).

However, in December 2016, Teck exercised its right to earn back a 51% ownership interest in the Alacran Project by sole-funding US$10 million of exploration expenditure over a four-year period between 2017 to 2020 (See the Company's announcement on 19 December 2016). To date, Teck has expended approximately US$6.5 million.

On 16 May 2019, the Company announced that it has accepted a right of first offer proposal from Teck to consolidate the Company's ownership interest in the Alacran Project (**Teck Offer**).

Under the terms of the Teck Offer subject to the finalisation of a definitive sale agreement, the Company will retain 100% ownership of the Alacran Project by:

- issuing Teck such number of Shares so that Teck's total interest in the Company will be equal to 19.9% being, as at the date of this Notice 27,545,566;
- a 0.5% net smelter royalty; and
- participation in the proceeds of any sale of the project within the next five years as follows:

*All amounts in US$ millions*

| **Aggregate Proceeds** | **% Sales Participation due to Teck** |
|---|---|
| Amounts less than $3.0M | Nil |
| Amounts between $3.0M and | 10.0% |
| Amounts between $4.0M and | 15.0% |
| Amounts between $5.0 and | 17.5% |
| Amounts between $7.5 and | 20.0% |
| Amounts between $10.0 and | 22.5% |
| Amounts more than $15.0M | 25.0% |

## 2. ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, without the approval of shareholders, issue or agree to issue more equity securities during any 12-month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12-month period.

Listing Rule 7.1A enables eligible entities to issue equity securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting at which the Shareholders approve the 10% placement capacity. The 10% placement capacity is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

The effect of Resolution 2 will be to allow the Company to issue the Shares during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity or its additional 10% placement capacity set out in ASX Listing Rule 7.1A and without the requirement to obtain prior Shareholder approval.

If Shareholder approval for Resolution 2 is not obtained the Company's Directors intend to pursue the Teck Offer by issuing Shares under its 15% and 10% placement capacity.

## 3. Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of Shares to Teck:

a. the maximum number of Shares to be issued is the higher of 27,545,566 or the number equal to the total number of Shares in the Company on date completion of the Teck Offer occurs multiplied by 19.99% minus 25,000 (rounded down);

b. the Shares will be issued on completion of the Teck Offer which will be no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);

c. the Shares are being issued as consideration for the Teck's ownership interest in the Alacran Project and have a deemed issue equal to the closing price of the Company's shares on the date completion of the Teck Offer occurs;

d. the Shares will be issued to Teck a wholly owned subsidiary of Teck Resources Limited. Teck is a sophisticated and/or professional investor for the purposes of the Corporations Act and is not a related party of the Company. As at the date of this Notice Teck holds 25,000 Shares (0.02% interest in the Company);

e. the Shares will rank equally with all existing Shares currently on issue in the Company;

f. no funds will be raised from the issue of Shares to Teck; and

g. a voting exclusion statement is included in the Notice.

The unanimously Directors recommend that Shareholders approve Resolution 2.

## GLOSSARY

| | |
|---|---|
| **"Alacran Project"** | means the project known as Alacran located within the Laramide Copper Province; |
| **"ASX"** | means ASX Limited or the Australian Securities Exchange, as appropriate |
| **"Associate"** | has the meaning given to that term under the Corporations Act s 12(2); |
| "**Board**" | means the board of Directors of the Company; |
| **"Business Day"** | means a day that is not a Saturday, Sunday, public holiday or bank holiday in Perth, Australia; |
| **"Chairman"** | means the chairman of the Meeting; |
| **"Company" or "Azure"** | means Azure Minerals Limited ABN 46 106 346 918; |
| **"Condition"** | has the meaning given to that term in section 2 of the Explanatory Memorandum for Resolution 1; |
| **"Conversion Notice"** | has the meaning given to that term in section 2.c of the Explanatory Memorandum for Resolution 1; |
| **"Convertible Note Deed"** | has the meaning given to that term in section 2 of the Explanatory Memorandum for Resolution 1; |
| **"Convertible Notes"** | means the convertible notes issued pursuant to the Convertible Note Deed; |
| **"Corporations Act"** | means *Corporations Act 2001* (Cth); |
| **"Directors"** | means the directors of the Company; |
| **"DBA"** | means Deutsche Balaton Aktiengesellschaft; |
| **"DUA"** | means Delphi Untemehmensberatung Aktiengesellschaft; |
| **"Explanatory Memorandum"** | means this information attached to the Notice, which provides information to Shareholders about the resolutions contained in the Notice; |
| **"IER"** | means the independent expert's report prepared by Pitcher Partners set out in Schedule 1 to this Notice of Meeting; |
| **"Investors"** | means Deutsche Balaton Aktiengesellschaft and Delphi Untemehmensberatung Aktiengesellschaft; |
| **"Issue Date"** | has the meaning given to that term in question 5 of Table 2 in Section 5 of the Explanatory Memorandum for Resolution 1; |
| **"Listing Rules"** | means the listing rules of ASX; |
| **"Maturity Date"** | has the meaning given to that term in section 2 of the Explanatory Memorandum for Resolution 1; |
| **"Meeting"** | means the General Meeting the subject of the Notice; |
| **"Notice" or "Notice of Meeting"** | means the notice of General Meeting which accompanies this Explanatory Memorandum; |
| **"Option"** | means an option to acquire a Share; |
| **"Principal Amount"** | has the meaning given to that term in section 2 of the Explanatory Memorandum for Resolution 1; |

| | |
|---|---|
| **"Proposed Transaction"** | means the proposed transaction the subject of Resolution 1; |
| **"Project"** | has the meaning given to that term in section 1 of the Explanatory Memorandum for Resolution 1; |
| "**Resolution**" | means the resolution set out in this Notice of Meeting; |
| **"Securities"** | has the meaning given to that term in the Listing Rules, and includes shares and options to subscribe for shares; |
| "**Shareholder**" | means a holder of Shares; and |
| **"Shares"** | means fully paid ordinary shares issued in the capital of the Company; |
| **"Specified Principal Amount"** | has the meaning given to that term in section 2.c of the Explanatory Memorandum for Resolution 1; |
| **"Teck"** | means Minera Teck S.A. de C.V; and |
| **"Teck Offer"** | has the meaning given to that term in section 1 of the Explanatory Memorandum for Resolution 2; |

**Schedule 1 - Independent Expert's Report**

# Azure Minerals Limited

**5 June 2019**

Independent Expert Report

**Pitcher Partners Corporate Pty Ltd**
ACN 082 323 868
AFS LICENCE NO. 229841

Level 13, 664 Collins Street
Docklands, Victoria 3008

Level 1, 80 Monash Drive
Dandenong South, Victoria 3175

Postal Address
GPO Box 5193
Melbourne, Victoria 3001

Tel +61 3 8610 5000
Fax +61 3 8610 5999
**www.pitcher.com.au**

Ref: PM:AM;jp

5 June 2019

**PRIVATE AND CONFIDENTIAL**

The Directors
Azure Minerals Limited
Level 1
Colin Street
WEST PERTH WA 6005

Dear Sirs

## INDEPENDENT EXPERT REPORT

## INTRODUCTION

Azure Minerals Limited (AZS or the Company) intends on signing an agreement with Deutsche Balaton Aktiengesellschaft (DBA) to provide funding of A$2 million by way of 2,000,000 unsecured convertible notes, each with a face value of A$1.00 (together 'the Convertible Note'), convertible into 13,793,103 ordinary shares in the Company at a conversion price of $0.145 per share (Proposed Transaction).

DBA currently holds 19.23% of the ordinary shares on an undiluted basis and 18.72% of the ordinary shares on a diluted basis. However,on 16 May 2019, the Company announced that it has accepted a right of first offer proposal from Minera Teck S.A. de C.V. (Teck) to consolidate ownership of the Alcaren Project. Subject to the finalisation of a definitive sale agreement, AZS will issue to Teck a number of ordinary shares that would result in Teck and its affiliates owning 19.9% of Azure's outstanding shares on a post-issuance basis. via an issue of ordinary shares. Based on the current ordinary shares, and subject to any future issuance, this would be 27,545,566 ordinary shares.

On the assumption that this transaction proceeded, if DBA undertook a conversion of the Convertible Note, DBA would increase its interest to 23.07% of the ordinary shares on an undiluted basis and 22.05% of the ordinary shares on a fully diluted basis. Consequently, the Proposed Transaction requires an independent expert report pursuant to Section 611 item 7 of the Corporations Act 2001 (Section 611).

Pitcher Partners Corporate Pty Ltd (Pitcher Partners Corporate) has been engaged by the Directors of AZS to provide an independent expert report providing our opinion as to whether the Proposed Transaction is considered fair and reasonable to the non-associated shareholders of AZS (Shareholders).

## PURPOSE OF REPORT

As stated above, the independent expert report is required pursuant to Section 611 in order to assist the non-associated Shareholders of AZS in their decision as to whether to accept or reject the Proposed Transaction.

The report is to be included in the Notice of Meeting and Explanatory Memorandum to be sent to Shareholders and has been prepared for the exclusive purpose of assisting the Shareholders in their consideration of the Proposed Transaction. The report should not be quoted or referred to or utilised for any other purpose unless written consent has been provided by Pitcher Partners Corporate.

## SOURCES OF INFORMATION

Appendix 2 to this report sets out details of information referred to and relied upon by Pitcher Partners during the course of preparing this report and forming our opinion.

## SUMMARY OPINION

Our report has been prepared having regard to Australian Securities and Investments Commission (ASIC) Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 111 'Content of Expert's Reports' (RG 111) and Regulatory Guide 112 'Independence of Experts' (RG 112).

In arriving at our opinion, we have assessed the terms of the Proposed Transaction as outlined in the body of this report. We have considered:

- the value of AZS prior to the Proposed Transaction on a control basis compared to the value of AZS on a minority basis following the Proposed Transaction;
- the likelihood of a superior alternative offer being available to AZS; and
- other factors which we consider to be relevant to the Shareholders in their assessment of the Proposed Transaction, including the practical level of control DBA may have following the Proposed Transaction as well as the advantages and disadvantages of approving the Proposed Transaction.

In assessing the fairness of the Proposed Transaction in section 7, RG 111.31 stipulates that when assessing non-cash consideration in a control transaction, a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction, on a minority basis.

This approach was confirmed by ASIC in a general letter, dated 5 March 2014, which amongst other matters provides further guidance as to how experts should assess the 'fairness' for Section 611 item 7 transactions where shares are being issued. ASIC reiterated the approach detailed in RG 111 and stated that the assessment of 'fairness' for item 7 transactions involves a "comparison of the control value of the company prior to the transactions with the portfolio (i.e. minority interest) value of the shares that will be 'received' by the shareholders post the transaction".

Our assessment of fairness, as required by RG 111, is summarised in the table below:

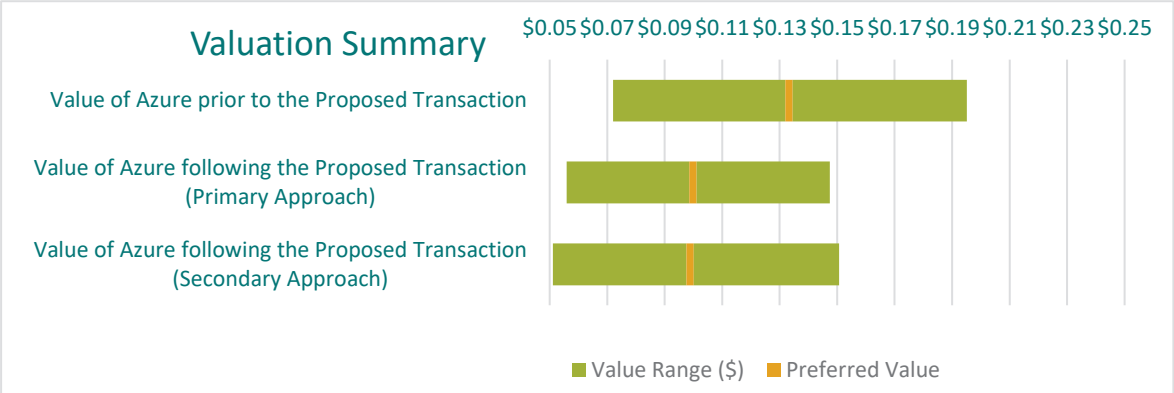
**Assessment of Fairness – Undiluted basis**

| | Low $ | Preferred $ | High $ |
|---|---|---|---|
| Value of ordinary shares prior to the Proposed Transaction on a control basis | 0.0721 | 0.1320 | 0.1926 |
| Value of ordinary shares following the Proposed Transaction on a minority basis – Primary approach | 0.0559 | 0.0986 | 0.1450 |
| Value of ordinary shares following the Proposed Transaction on a minority basis – Secondary approach | 0.0511 | 0.0976 | 0.1482 |

Source: Pitcher Partners

We have only considered fairness on an undiluted basis as options currently on issue have their exercise prices exceeding our estimated value per share and the AZS share price on the date of this report.

The above valuation ranges are graphically presented below:




In our opinion, having regard to the above analysis, the Proposed Transaction is not fair to the non-associated Shareholders of AZS in the absence of a superior offer.

However, it is relevant that Shareholders appreciate that they hold a minority interest in AZS prior to the Proposed Transaction and will retain a minority interest following the Proposed Transaction. While RG 111 requires transactions involving a greater than 20% interest to be treated as control transactions, RG 111 recognises that there may be circumstances where an entity will acquire 20% or more of another entity without obtaining or increasing its practical level of control in that entity. RG 111 states that if the expert believes this to be the case then the expert could take this outcome into account in assessing whether the issue of the shares is 'reasonable' if the expert has determined that the price at which the shares are being issued is not fair.

Following AZS's announcement on 16 May 2019, where AZS will acquire back the earn-in rights Teck to the Alacrán Project:

- DBA will become AZS's largest shareholder with a 23.07% interest on an undiluted basis; and
- Teck will become AZS's second largest shareholder with a 19.9%.

As a consequence, Teck may limit the influence that DBA has over AZS. Having regard to this, in assessing whether the Proposed Transaction is reasonable we have considered the value of the AZS ordinary shares both pre and post the Proposed Transaction on a minority basis. Our findings indicate that the preferred value of AZS both prior to and post the Proposed Transaction on a minority basis is $0.10 (rounded).

In considering the reasonableness of the Proposed Transaction we have also considered the following advantages:

- provides AZS with immediate cash funding;
- places AZS under less cash flow strain;
- the ability of AZS to raise additional funds may increase;
- strengthens AZS's relationship with one of its cornerstone investors;
- the Company has evaluated multiple funding options and considers the Proposed Transaction as the preferred option, on the basis that:
  - the Convertible Note is unsecured;
  - the Convertible Note coupon is comparable to the market for alternative secured debt finance;
  - AZS is not required to enter into any hedging arrangements
  - the Convertible Note does not 'pre-gear' the Oposura project while it remains a mineral resource; and
  - full draw-down of the Convertible Note is not restricted.

We have also considered the following disadvantages:

- dilution of existing Shareholders' interests in AZS; and
- the Proposed Transaction is not fair to Shareholders, when treated as a control transaction as required by RG 111.

If the Proposed Transaction is not approved, AZS will need to re-consider whether any of the alternative sources of finance still remains available in order to meet its short-term commitments and working capital needs. This may include a potentially dilutive capital raising, the introduction of a new third-party financer or the sale of assets.

Immediate alternative sources of funding may not be available, and if they were to be, may be on terms that are less advantageous to AZS, including security over the assets of AZS.

In our opinion, after consideration of all issues, including those set out above, and in the absence of any other information, and/ or a superior proposal, the Proposed Transaction is reasonable to the Shareholders as at the date of this report.

**LIMITATIONS ON SCOPE**

Pitcher Partners Corporate has been engaged to prepare an independent expert's report setting out whether in its opinion the Proposed Transaction is fair and reasonable to the non-associated Shareholders. Pitcher Partners Corporate has not been engaged to provide a recommendation to the non-associated Shareholders in relation to the Proposed Transaction, the responsibility for which lies with the Directors. Shareholders should read the Notice of Meeting and Explanatory Memorandum issued by AZS in relation to the Proposed Transaction.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Shareholders.

The decision as to whether to vote in favour or against the resolutions in respect of the Proposed Transaction is a matter for individual Shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position.

Accordingly, before acting in relation to their investment, Shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders who are in doubt as to the action they should take should consult their own professional adviser.

Pitcher Partners Corporate has prepared a Financial Services Guide as required by the Corporations Act 2001 (the Act). The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Pitcher Partners Corporate's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary. The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours sincerely

PITCHER PARTNERS CORPORATE PTY LTD

P MURONE
Executive Director and Representative

M SONEGO
Executive Director and Representative

Pitcher Partners Corporate Pty Ltd
ACN: 082 323 868
AFSL: 229841

Level 13
664 Collins Street
DOCKLANDS VIC 3008
Tel: +61 3 8610 5000

# Financial Services Guide

**What is a Financial Services Guide?**

This Financial Services Guide ("FSG") is an important document that is designed to assist you in deciding whether to use any of the general financial product advice provided by Pitcher Partners Corporate Pty Ltd. The use of "we", "us" or "our" is a reference to Pitcher Partners Corporate Pty Ltd as the holder of Australian Financial Services Licence ("AFSL") No. 229841. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide.
- details of any potential conflicts of interest
- details of our internal and external dispute resolution procedures and how you can access them.

**Information about us**

Pitcher Partners Corporate Pty Ltd has been engaged by Azure Minerals Limited to provide general financial product advice in the form of a report to be given to you in connection with a financial product to be issued by another party. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are only responsible for the financial product advice provided in our report and for the contents of this FSG.

You may contact us by writing to GPO Box 5193, MELBOURNE VIC 3001, or by telephone on +613 8610 5000.

Pitcher Partners Corporate Pty Ltd is ultimately owned by the Victorian partnership of Pitcher Partners, a provider of audit and assurance, accounting, tax, corporate advisory, insolvency, superannuation, investment advisory and consulting services. Directors of Pitcher Partners Corporate Pty Ltd are partners of Pitcher Partners.

The Victorian partnership of Pitcher Partners is an independent partnership of Pitcher Partners. As such, neither it nor any of the other independent partnerships has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the name "Pitcher Partners", or other related names.

The financial product advice in our report is provided by Pitcher Partners Corporate Pty Ltd and not by the Victorian partnership of Pitcher Partners or its related entities.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, we and the Victorian partnership of Pitcher Partners (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

We hold professional indemnity insurance as required by the Corporations Act 2001 (Cth).

**What financial services are we licensed to provide?**

Our AFSL authorises us to provide general financial product advice and deal in the following classes of financial products to both retail and wholesale clients:

- Deposit products (including basic deposit products and deposit products other than basic deposit products)
- Derivatives
- Government debentures, stocks or bonds
- Interests in managed investment schemes including investor directed portfolio services
- Securities

**Information about the general financial product advice we provide**

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant Product Disclosure Statement ("PDS") or offer document provided by the issuer of the financial product. The purpose of the PDS or offer document is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS or offer document will include details such as the risks, benefits and costs of acquiring the particular financial product.

**How are we and our employees remunerated?**

The fees we charge for preparing reports are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of pocket expenses incurred in providing the services.

Fee arrangements are agreed and confirmed in a letter of engagement with the party or parties who engage us.

Neither Pitcher Partners Corporate Pty Ltd nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any other fees, commissions or other benefits in connection with preparing and providing this report.

All of our employees receive a salary with partners also having an equity interest in the partnership. We do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance.
We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

**What should you do if you have a complaint?**

If you have any concerns regarding our report, you may wish to advise us. We are committed to responding to any complaints promptly, fairly and effectively. We have developed an internal complaint resolution policy and complaint handling procedures that are designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

Partner in Charge – Corporate Finance
Pitcher Partners
GPO Box 5193
MELBOURNE VIC 3001

If we are not able to resolve your complaint to your satisfaction within 45 days of the first notification of your complaint to us, you may contact the Australian Financial Complaints Authority ("AFCA"). AFCA provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to AFCA online at www.afca.org.au.

The Australian Securities and Investments Commission ("ASIC") website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630
Email: info@asic.gov.au
Internet: http://www.asic.gov.au/asic/asic.nsf

If your complaint relates to a breach of our Privacy Policy or the Australian Privacy Principles, the matter should be referred to The Privacy Officer, GPO Box 5193, Melbourne VIC 3001.

# Contents

# 1. Details of the Proposed Transaction

## 1.1 Summary of the Proposed Transaction

Azure Minerals Limited (AZS or the Company) intend on signing an agreement with Deutsche Balaton Aktiengesellschaft (DBA) to provide funding of A$2 million by way of 2,000,000 unsecured convertible notes, each with a face value of A$1.00 (together 'the Convertible Note'), convertible into 13,793,103 ordinary shares in the Company at a conversion price of $0.145 per share (Proposed Transaction).

It is not presently decided which DBA group entity will be the one that will subscribe to the note other than it will be a related party of DBA.

DBA currently holds 19.23% of the ordinary shares on an undiluted basis and 18.72% of the ordinary shares on a diluted basis. However,on 16 May 2019, the Company announced that it has accepted a right of first offer proposal from Minera Teck S.A. de C.V. (Teckto consolidate ownership of the Alcaren Project. Subject to the finalisation of a definitive sale agreement, AZS will issue to Teck a number of ordinary shares that would result in Teck and its affiliates owning 19.9% of Azure's outstanding shares on a post-issuance basis. via an issue of ordinary shares. Based on the current ordinary shares, and subject to any future issuance, this would be 27,545,566 ordinary shares.

On the assumption that this transaction proceeded, if DBA undertook a conversion of the Convertible Note, AZS would increase its interest to 23.07% of the ordinary shares on an undiluted basis and 22.05% of the ordinary shares on a fully diluted basis. Consequently, the Proposed Transaction requires an independent expert report pursuant to Section 611 item 7 of the Corporations Act 2001 (Section 611).

Pitcher Partners Corporate Pty Ltd (Pitcher Partners Corporate) has been engaged by the Directors of AZS to provide an independent expert report providing our opinion as to whether the Proposed Transaction is considered fair and reasonable to the non-associated shareholders of AZS (Shareholders).

## 1.2 Proposed Capital Structure

AZS currently has the following capital structure:

- 110,999,992 Fully paid ordinary shares
- 9,725,511 options exercisable at $1.10 which expire 11 July 2019
- 2,050,000 options exercisable at $0.94 which expire 30 November 2019
- 2,050,000 options exercisable at $0.58 which expire 30 November 2020
- 13,683,339 options exercisable at $0.45 which expire 30 April 2020
- 2,200,000 options exercisable at $0.29 which expire 30 November 2021

If the Proposed Transaction is approved and DBA elects to convert, DBA can receive 13,793,103 shares upon conversion of the Convertible Note, at a conversion price of $0.145. The table below illustrates the number of shares that may be issued to AZS following approval of the Proposed Transaction and issue of shares under the convertible note agreement.

**Proposed Capital Structure – Undiluted Basis**

| | DBA | Other Shareholders | Total |
|---|---|---|---|
| Issued shares as at 31 March 2019 | 21,345,946 | 89,654,046 | 110,999,992 |
| *% holding* | *19.23%* | *80.77%* | *100.00%* |
| *Pro-forma Adjustment:* | | | |
| Shares to be issued to Teck (refer section 6.1) | - | 27,545,566 | 27,545,566 |
| Pro-forma number of shares on issue prior to the Proposed Transaction | 21,345,946 | 117,199,612 | 138,545,558 |
| *Pro-forma % holding* | *15.41%* | *84.59%* | *100.00%* |
| Shares issued upon conversion of the Convertible Note | 13,793,103 | - | 13,793,103 |
| Shares on issue following the Proposed Transaction | 35,139,049 | 117,199,612 | 152,338,661 |
| *% holding* | *23.07%%* | *76.93%* | *100.00%* |

**Proposed Capital Structure – Fully Diluted Basis**

| | DBA | Other Shareholders | Total |
|---|---|---|---|
| Issued shares on a fully diluted basis at 31 March 2019 | 26,345,946 | 114,362,896 | 140,708,842 |
| *% holding* | *18.72%* | *81.28%* | *100.00%* |
| *Pro-forma adjustment:* | | | |
| Shares to be issued to Teck (refer section 6.1) | - | 27,545,566 | 27,545,566 |
| Pro-forma number of shares on issue prior to the Proposed Transaction | 26,345,946 | 114,362,896 | 140,708,842 |
| *Pro-forma % holding* | *15.66%* | *84.34%* | *100.00%* |
| Shares issued upon conversion of the Convertible Note | 13,793,103 | - | 13,793,103 |
| Shares on issue on a fully diluted basis following the Proposed Transaction | 40,139,049 | 169,454,029 | 209,593,078 |
| *% holding* | *22.05%* | *77.95%* | *100.00%* |

## 1.3 Key Terms and Conditions

The key terms and conditions of the Convertible Note are as follows:

**Key Terms & Conditions**

| Item | Details |
|---|---|
| Condition Precedent | The issue of the Convertible Notes and Shares on the conversion of the Convertible Notes under the terms of this Deed is conditional on the receipt by the Company of shareholder approval for the purposes of item 7 of Section 611 of the Corporations Act and for all other purposes ('the Condition').<br><br>The Condition is for the benefit of both the DBA and AZS and cannot be waived except as agreed by the parties in writing and then provided it does not cause AZS to be in breach of the Listing Rules, or DBA to be in breach of the Corporations Act. |
| Completion | The Parties acknowledge that it is their commercial intention that the Condition is satisfied, and the Convertible Notes are issued as soon as reasonably practicable after the Condition is satisfied, and in any event by the Conditions Satisfaction Date (31 July 2019, or any other date agreed by the parties in writing). If the Condition is not satisfied the Convertible Note will not been issued. |
| Termination | Either AZS or DBA may, if not otherwise in breach of the Convertible Note deed, terminate the agreement by giving written notice to the other party at any time before the Second Business day after the Condition is fulfilled or waived, unless otherwise agreed by the parties in writing (the 'Issue Date'), if the Condition is not fulfilled before 5pm on the Conditions Satisfaction Date. |
| Number | 2,000,000 unsecured notes, each with a face value of $1.00 per note. |
| Term | 24 months, however AZS holds an early redemption right to terminate the notes early upon the payment of outstanding amounts (principal and interest) before the maturity date. |
| Interest | Interest rate will be 12.5% payable 6 monthly in arrears (6, 12, 18 months after the issue date with the balance payable on maturity). Over-due interest is payable on unpaid interest amounts at a rate of 17.5% until paid. |
| Conversion | Conversion is at the election of the note holder at A$0.145 per share, resulting in the issue upon conversion of the Convertible Note into 13,793,103 ordinary shares in AZS. If a portion, or all, of the notes are not converted, then the outstanding notes are repayable in cash at face value. |

Source: DBA Convertible Note Deed (Draft)

As at the date of this report, the Condition Satisfaction Date of 31 July 2019 referred to above is unlikely to be met. We have been advised that the Company is in negotiation with DBA regarding an extension to this date.

# 2. Scope of the Report

## 2.1 Purpose of the Report

Section 606 of the Corporations Act expressly prohibits the acquisition of shares in a public company by a party if that acquisition will result in that person (or someone else) increasing their interest:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%,

unless a full takeover is made to all shareholders.

As at the date of the report, DBA owns 21,345,946 fully paid ordinary shares in AZS, representing an interest of 19.23%. Following the transaction with Teck to buy-back the earn-in rights held by Teck for the Alacrán Project (section 6.1), DBA will hold an interest of 15.41%. As part of the Proposed Transaction, DBA can receive 13,793,103 shares on conversion of the Convertible Note, resulting in an interest of 23.07%.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of AZS, by either:

- undertaking a detailed examination of the Proposed Transaction themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of AZS have commissioned this Independent Expert's Report to satisfy this obligation.

## 2.2 Basis of Evaluation

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Proposed Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider, to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Proposed Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Proposed Transaction as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

In determining whether the advantages of the Proposed Transaction outweigh the disadvantages, we have had regard to the views expressed by ASIC in RG 111. This Regulatory Guide suggests that an opinion as to whether the advantages of a transaction outweigh the disadvantages should focus on the purpose and outcome of the transaction, that is, the substance of the transaction rather than the legal mechanism to affect it.

RG 111 suggests that an expert should assess whether a premium for control will be provided to the vendor of any shares. The greater any premium for control then the greater the advantages of undertaking the transaction must be to non-associated shareholders.

RG 111 sets out that the expert should inquire whether further transactions are planned between the entity, the vendor, or their associates and if any are contemplated determine if these are at arm's length. RG 111 also suggests that an expert should consider whether the transaction will deter the making of a takeover bid.

## 2.3 Adopted Basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, Pitcher Partners Corporate has completed this comparison in two parts:

- A comparison between the value of AZS prior to the Proposed Transaction on a control basis and the value of AZS following the Proposed Transaction on a minority basis (fairness – see section 7 'Is the Proposed Transaction Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the Proposed Transaction, after reference to the value derived above (reasonableness – see section 8 'Is the Proposed Transaction Reasonable?').

## 2.4 Limitations and Reliance on Information

The opinion of Pitcher Partners Corporate is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

Our procedures and enquiries do not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board.

# 3. Profile of AZS

## 3.1 Background

AZS is a junior listed exploration company focussed on the 100% owned Oposura zinc-lead-silver project, located in Sonora Mexico.

The Company, formerly known as Nickel Australia Limited, was incorporated on 19 September 2003, and listed on the Australian Securities Exchange (ASX) on 16th December 2003. Their head office is in West Perth, Australia. The company is exploring zinc, lead, silver, copper, gold, and cobalt, and engaged in the planned production of precious and base mineral deposits in Mexico.

## 3.2 Major Projects

### *Oposura (AZS 100% Ownership)*

The company's major asset is the Oposura (zinc-lead-silver) project. Located near the town of Moctezuma, the project has high grade zinc, lead and silver mineralisation. AZS has 100% interest in the asset and is aiming to bring it into production by late 2020 to early 2021. Oposura benefits from the advantage of having simple geology and mining and processing methods meaning the cost of extraction and production are comparatively low. Pursuant to a Scoping Study released by AZS to the ASX on 15 October 2018, it is estimated that the project would have a life of 2 to 6 years, with the first three years open pit followed by underground room and pillar extraction for the latter. Additionally, using standard sulphide flotation processing, and concentrate grades of 53%, 60% and 320g/t respectively, the company expects to achieve a high-end product at relatively low cost. There are no back-in, earn-back or other rights relating to the project. This asset has an additional 2.5% royalty obligation to the previous owner, Puma.

### *Alacrán (AZS 100% Ownership)*

The Alacrán Project is a silver-gold-copper project 100% earned by AZS from Teck between 2015-2016. Alacrán comprises of three primary deposits, Mesa de Plata, Loma Bonita, Cerro Alacrán, the former two hosting significant silver and gold deposits. Teck exercised their clawback right in December 2016 and is the project operator. Through sole funding of US$10 million plus a cash payment of US$0.5 million to AZS during the four-year program, Teck has the right to earn back 51% with the potential to increase that ownership to 65% by sole funding an additional US$5 million plus a cash payment of US$1.5 million to AZS. This would leave AZS retaining a 35% interest, and Grupo Mexico a 2% NSR royalty.

On 16 May 2019, AZS announced it had reached an agreement with Teck to acquire its rights to earn an interest in the project. Refer to section 3.3 for further information.

### *Promontorio (AZS 100% Ownership)*

Promontorio, a 100% owned copper-gold-silver project, which is offered for sale or joint venture to focus efforts on Oposura.

## 3.3 Less Advanced Projects

In addition to the above major projects, Azure also has a number of less advanced assets that are in earlier stages of exploration.

### *Sara-Alicia (AZS 100% Ownership)*

Sara-Alicia is a gold-cobalt project, 100% owned by AZS which has produced positive exploration results. The project is offered for sale or joint venture as part of AZS's strategic focus on the development of the Oposura Project.

### *Oso Negro (AZS 100% Ownership)*

Oso Negro, a silver-gold project, also 100% owned by AZS, an area of historical mine workings, has produced positive returns on assay of dump sites, and is also offered for sale or joint venture as part of AZS's strategic focus on the Oposura project.

### *Other (AZS 100% Ownership)*

AZS has a number of other sites including San Agustin (gold-silver), Telix (Graphite), El Tecolote (copper-zine-silver), and Panchita (gold-silver) at various stages of exploration. El Tecolote and Panchita are both located in the state of Sonora, San Agustin is located in the state of Durango and Telix is located in the southern Mexico state of Oaxaca.


Source: Azure Minerals website

## 3.4 Recent Developments

### *Oposura (AZS 100% Ownership)*

Feasibility study of the 100% owned project is ongoing with the East Zone infill drilling results just completed. Successful infill and extensional drilling have increased the East Zone Mineral Resource by 20% and enabled most of the initial East Zone Mineral Resource to now be classified within the JORC Indicated Resource category. This classification provides confidence in the continuity of grade and widths of the mineralisation. The latest drilling campaign has increased the East Zone resource tonnage and the amount of total contained zinc, lead and silver within the deposit, which is expected to lead to an increase in the mine life of the project as part of the Feasibility Study currently in progress. Drilling also confirmed that significant quantities of high-grade mineralisation are immediately accessible for open pit and underground mining, supporting near-term mine development.

The study has identified groundwater upon first-pass hydrological drilling located on the Oposura concessions, condemnation/ sterilisation drilling on the proposed sites has been completed for the processing plan and tailings facility and Metallurgical samples for deposit-wide physical characterisation and flotation has been collected and testwork has commenced.

Further information to be released later in 2019 as part of the feasibility study including: the geographical study for open pit and underground mining, open pit and underground mine design and scheduling and calculation of Ore Reserves for open pit and underground exploitation of the East and West Zones (Q3 2019).

Production for the project is estimated as follows:

- Pre-feasibility Study – Completed mid 2019
- Definitive Feasibility Study – Completed by end of 2019
- Project approvals – completed in the first quarter of 2020
- Construction – Completed by end of 2020
- First production - In late 2020 or first quarter 2021

## Alacrán (AZS 100% Ownership)

Project operator Teck's two-year program (as part of the four-year earning back of the project to 51% ownership per the first option) comprised geological, geographical and geophysical surveys, followed by a phase 2 drilling campaign of 21 holes totaling 10,537m through two operating drill rigs continuously from August to December 2018. Sixteen holes targeted the Cerro Alacrán prospect where porphyry-style copper mineralisation lay beneath a blanket of copper oxides and chalcocite (an acid-soluble copper sulphide mineral). The remaining holes targeted epithermal style precious metals mineralisation at Cerro San Simon and Cerro Colorado.

Results from the 2018 exploration and drill program confirm the prospectivity of the Alacrán property to host porphyry-associated copper-molybdenum-gold mineralisation, specifically at Cerro Alacrán. The overall copper grades contained within the broad intersections are of low to moderate grade, in the range of 0.15% to 0.30% Cu, however additional results support the concept of a large mineralised system.

On 16 May 2019, AZS announced a transaction whereby AZS will buy-back the earn-in rights held by Teck to the Alacrán Project through either a cash payment of US$5 million or the alternative consideration as follows:

- issue of 27,545,566 ordinary shares in AZS to Teck and its associates (to give a post issuance undiluted ownership of 19.9% as Teck currently own 25,000 shares in AZS);
- granting to Teck a 0.5% NSR on the project; and
- payment of the following amounts to Teck, if during a 60 month period following the sale, AZS sells or options (directly or indirectly) all or a portion of the Alacrán Project:

| *Aggregate Proceeds (all amounts in US$ millions)* | *% Sales Participation* |
|---|---|
| Amounts less than $3.0 million: | Nil |
| Amounts between $3.0 million and $4.0 million | 10.0% |
| Amounts between $4.0 million and $5.0 million | 15.0% |
| Amounts between $5.0 million and $7.5 million | 17.5% |
| Amounts between $7.5 million and $10.0 million | 20.0% |
| Amounts between $10.0 million and $15.0 million | 22.5% |
| Amounts more than $15.0 million | 25.0% |

Proceeds include, but are not limited to, cash, securities, or other assets received as well as up-front proceeds, future proceeds (including contingent payments) with amounts being due and payable to Teck on receipt of settlement amounts by AZS.

## Promontorio (AZS 100% Ownership)

No work undertaken recently. AZS continues to seek a partner for further exploration on this project.

## Sara Alicia (AZS 100% Ownership)

No exploration activities have been recently carried out. AZS has offered this property for sale or joint venture with several companies whom are reviewing the data and undertaking site visits.

## Oso Negro (AZS 100% Ownership)

The Oso Negro Project is located 70km north of the Oposura Project and comprises two concessions covering 1,275ha which host epithermal quartz veining and historical mine workings. Sampling taken in the third quarter of 2019 indicates strong grades of silver (up to 1,935g/t Ag), gold (up to 17.55g/t Au) as well as zinc and lead.

## San Agustin (AZS 100% Ownership)

This is a gold-silver project located in the heart of the Mexican silver belt in the state of Durango. It is a small concession located nearby to a number of operating silver and gold mines and new precious metal discoveries. Covering over 200 hectares, San Agustin has not been explored in modern times and to date AZS has not conducted any exploration on the project.

### *Telix (AZS 100% Ownership)*

This is a Graphite project and consists of concession applications only at this stage. No work has been undertaken by AZS. It was an opportunistic pegging as the concession applications are adjacent to a now closed graphite mine.

### *El Tecolote (AZS 100% Ownership)*

This is a copper-zinc project where a historical mine produced 1.4 million tonnes @ 1.9% copper, 7.0% zinc and 47g/t silver and closed in 1984. AZS has undertaken considerable exploration in JV with JOGMEC, a Japanese parastatal company, without success. In April 2013 JOGMEC withdrew from the JV. Work undertaken by the JV resulted in the identification of several encouraging zones of skarn-hosted copper-zinc mineralisation. AZS has not conducted any meaningful exploration at the project since that time.

### *Panchita (AZS 100% Ownership)*

A small gold concession acquired as it is strategically placed in a gold district controlled by large gold mining companies. AZS has not conducted any meaningful field work at the project.

## 3.5 Board of Directors

**Board of Directors**

| Directors | Experience |
|---|---|
| Mr Peter Anthony John Ingram, Chairman | Mr Ingram is a geologist with over fifty years' experience in the mining and mineral exploration industries within Australia, including over forty years' experience in public company management.<br><br>Mr Ingram was a founding councillor and past President of the Association of Mining and Exploration Companies (AMEC) and has been made an Honorary Life Member in recognition of his services to AMEC. He was also a founding director of the Australian Gold Mining Industry Council. He has served on the board of management of the WA School of Mines at Curtin University.<br><br>Peter has no other current Directorships, holds 500,055 ordinary shares and 750,000 options over ordinary shares in AZS. |
| Mr Anthony (Tony) Paul Rovira, Managing Director | Mr Rovira has over 30 years technical and management experience in the mining industry, as an exploration and mining geologist, and as a company executive at Board level.<br><br>Tony joined AZS as the inaugural Managing Director in December 2003 and held the position of Executive Chairman from June 2007 until December 2012. Tony is responsible for the decision to focus AZS's activities on the world class mineral provinces in Mexico.<br><br>Tony also holds a Directorship in Oro Verde Limited, holds 686,000 ordinary shares, and 1,500,000 options over ordinary shares in AZS. |
| Dr Wolf Gerhard Martinick, Non-Executive Director | Dr Martinick is an environmental scientist with over 40 years' experience in mineral exploration and mining projects around the world, attending to environmental, water, land access and indigenous people issues.<br><br>Wolf has conducted due diligence on mining projects around the world on behalf of international financial institutions and resource companies for a variety of transactions including listings on international stock exchanges, mergers and debt financing. He is a Fellow of the Australian Institute of Mining and Metallurgy.<br><br>Wolf also holds a Directorship in Oro Verde Limited, holds 265,000 ordinary shares, and 750,000 options over ordinary shares in AZS. |
| Mr Brett Douglas Dickson, Company Secretary & Chief Financial Officer | Mr Dickson is a Certified Practising Accountant with a bachelor's degree in economics and Finance from Curtin University and has considerable experience in the financial management of companies, principally companies in early stage development of its resource or product and offers broad financial management skills.<br><br>Brett has been Chief Financial Officer for a number of successful resource companies listed on the ASX. In addition, he has had close involvement with the financing and development of a number of greenfield resources projects.<br><br>Brett holds a Directorship in Oro Verde Limited and Rox Resources Limited. |

## 3.6 Capital Structure

The share structure of AZS as at 31 March 2019 is outlined below:

**Top 20% Shareholdings**

| | Number |
|---|---|
| Total ordinary shares on issues | 110,999,992 |
| Top 20 shareholders | 53,183,334 |
| Total 20 shareholders -% of shares on issue | 47.92% |

Source: AZS Computershare extract as at 31 March 2019

The range of shares held in AZS as at 31 March 2019 is as follows:

**Range of Holdings**

| | Number of Holders | Number of Ordinary Shares |
|---|---|---|
| 1 - 1000 | 1,131 | 482,764 |
| 1,001 - 5,000 | 1,012 | 2,876,798 |
| 5,001 - 10,000 | 445 | 3,413,162 |
| 10,001 - 100,000 | 922 | 29,747,109 |
| 100,001 - and over | 131 | 74,480,159 |
| | 3,641 | 110,999,992 |
| The number of shareholders holding less than a marketable parcel of shares are: | 1,987 | 2,581,220 |

Source: AZS Computershare extract as at 31 March 2019

The ordinary shares held by the most significant shareholders as at 31 March 2019 are detailed below:

**Significant Shareholdings**

| Name | Ordinary Shares Held | Percentage of Issued Shares (%) |
|---|---|---|
| Delphi Unternehmensberatung Aktiengesellschaft | 10,293,113 | 9.27 |
| Deutsche Balaton Aktiengesellschaft | 10,000,000 | 9.01 |
| Citicorp Nominees | 7,383,569 | 6.65 |
| BNP Paribas Noms Pty Ltd | 6,378,334 | 5.75 |
| Yandal Investments Pty Ltd | 5,000,000 | 4.50 |
| HSBC Custody Nominees <Australia> Limited | 4,724,057 | 4.26 |
| J & B Smith Superannuation Pty Ltd <Loch M Fraser Cu Trasf A/C | 1,020,000 | 0.92 |
| Mr Brian Gregory Walsh | 904,880 | 0.82 |
| J P Morgan Nominees Australia Pty Limited | 902,487 | 0.81 |
| Dr Lyndsay George Mcdonald Gordon | 822,481 | 0.74 |
| Wip Funds Management Pty Ltd <Porter Family S/F A/C> | 790,000 | 0.71 |
| Bnp Paribas Nominees Pty Ltd <Ib Au Noms Retailclient Drp> | 727,863 | 0.66 |
| Mr Peter Murray Nicholas | 700,000 | 0.63 |
| Mr Anthony Paul Rovira | 576,333 | 0.52 |
| Mr John William Rogers | 533,257 | 0.48 |
| Calyerup Pty Ltd <The St Cecelia S/F A/C> | 500,056 | 0.45 |
| Seneschal (Wa) Pty Ltd <Winston Scotney Fam Sf A/C> | 500,000 | 0.45 |
| Mr Garry Temple | 500,000 | 0.45 |
| Mr Neil James Waddington | 464,112 | 0.42 |
| Mr Dirk Keizer + Mrs Lena Keizer <The Keizer A/C> | 462,792 | 0.42 |
| | 53,183,334 | 47.92 |

Source: AZS Computershare Extract as at 31 March 2019

The top 20 shareholders hold approximately 48% of the total shares in Azure, with approximately 19% held by the DBA entities.

The ordinary shares and options held by DBA are split between the below group entities:

**AZS shares held by DBA**

| Name | Number of Ordinary Shares Held | Number of Options Held | Percentage of Undiluted Equity (%) | Percentage of Diluted Equity (%) |
|---|---|---|---|---|
| Delphi Unternehmensberatung Aktiengesellschaft | 10,293,113 | - | 9.27 | 7.31 |
| Deutsche Balaton Aktiengesellschaft | 10,000,000 | 5,000,000 | 9.01 | 10.66 |
| Other DBA related entities | 1,052,833 | - | 0.95 | 0.75 |
| Total | 21,345,946 | 5,000,000 | 19.23 | 18.72 |

The options held by DBA were obtained as part of a placement at $0.30 completed on 18 April 2018 following shareholder approval.

The range of options on issue in AZS as at 31 March 2019 is as follows:

**Unlisted Options on Issue**

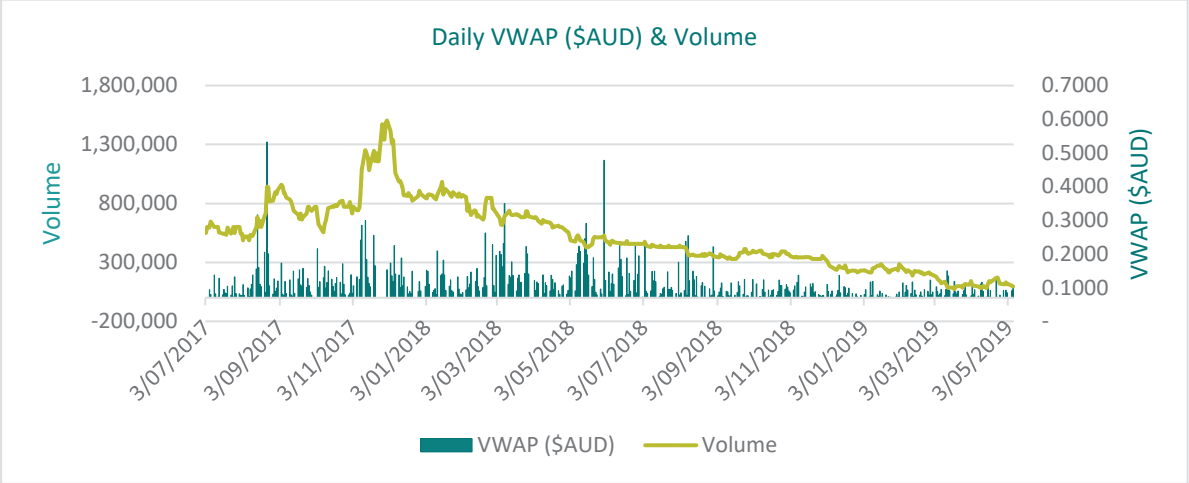
| Exercise price^ (A$) | Number | Grant Date | Expiry Date | Term | Comments |
|---|---|---|---|---|---|
| 0.94 | 2,050,000 | 7 Dec'16 | 30 Nov '19 | 3 years | 1,000,000 to directors, 1,050,000 to staff and contractors. |
| 0.58 | 2,050,000 | 20 Nov '17 | 30 Nov '20 | 3 years | 1,000,000 to directors, 1,050,000 to staff and contractors. |
| 1.10 | 9,725,511 | 7 July '16 | 11 Jul '19 | 3 years | Issued as part of share placement to unrelated parties. One free attaching option for every two shares issued. |
| 0.45 | 13,683,339 | 17 Apr '18 | 30 Apr '20 | 2 years | Issued as part of share placement. One free attaching option for every two shares issued. 5,000,000 free attaching options issued to DBA with remaining 8,683,339 options issued to unrelated parties. |
| 0.29 | 2,200,000 | 19 Dec '18 | 30 Nov '21 | 3 years | 1,000,000 to directors, 1,200,000 to staff and contractors. |
| | 29,708,850 | | | | Total |

^ Following 1:20 share consolidation

Source: AZS management, ASX announcements and Computershare Share Registry

## 3.7 Liquidity Analysis

The chart below illustrates the volume weighted average share price and volume of trade in the ordinary shares from July 2017 to May 2019.




Source: S&P Capital IQ

The below table sets out an analysis of volume and trading over the last 12 months to the date of this report.

| Trading Days | Share price low | Share price high | Cumulative volume traded | As a % of Issued Capital |
|---|---|---|---|---|
| 1 Day | 0.1000 | 0.1000 | 101,987 | 0.09% |
| 10 Days | 0.1000 | 0.1000 | 326,056 | 0.29% |
| 30 Days | 0.0970 | 0.1300 | 986,910 | 0.89% |
| 60 Days | 0.0970 | 0.1300 | 2,362,440 | 2.13% |
| 90 Days | 0.0970 | 0.1750 | 3,637,955 | 3.28% |
| 180 Days | 0.0970 | 0.1900 | 6,285,982 | 5.66% |
| 1 Year | 0.0970 | 0.2550 | 23,773,308 | 21.42% |

Source: S&P Capital IQ

A summary of the recent share history is as follows:

| Date of announcement | Share Price^ | Purpose/ commentary |
|---|---|---|
| 23 August 2017 | 0.38 | AZS announces the acquisition of the High Grade Oposura Zinc-Lead-Silver project. |
| 4 October 2017 | 0.28 | AZS announces that shareholder approval is sought for 20:1 consolidation of capital with shareholder meeting to be held on 20 November 2017. |
| 20 November 2017 | 0.46 | Shareholders approve the 20:1 consolidation of capital. |
| 26 November 2017 | 0.585 | Recommencement of trading following trading halt on project update. First day of trading following restructure of capital. |
| 27 February 2018 | 0.325 | Completion of 20.525 million placement to raise approximately A$6.15 million (before costs) at $0.30 per share (Tranche 1).<br>Tranche 1 included the issue of one free-attaching option at $0.45 and expiry 30 April 2020 for every two shares issued. |

| Date of announcement | Share Price^ | Purpose/ commentary |
|---|---|---|
| 8 March 2018 | 0.32 | DBA announces initial substantial shareholder notice having purchased 7,500,000 shares (7.2% of voting power) at 30 cents per share. |
| 18 April 2018 | 0.275 | Completion of placement for the issue of 6.84 million shares raising A$2.05 million (before costs) at $0.30 per share (Tranche 2).<br>Tranche 2 included the issue of one free-attaching option at $0.45 and expiry 30 April 2020 for every two shares issued. |
| 19 April 2018 | 0.285 | DBA announces updated substantial shareholder notice following purchase of additional 2,500,000 shares to give 9.01% of voting power. |
| 31 May 2018 | 0.235 | AZS announces high grade gold and colbalt confirmed at the Sara Alicia project. |
| 18 June 2018 | 0.23 | DBA announces updated substantial shareholder notice following purchase of additional 1,225,651 shares to give 10.11% of voting power. |
| 28 June 2018 | 0.235 | DBA announces updated substantial shareholder notice following purchase of additional 1,127,179 shares to give 11.13% of voting power. |
| 4 July 2018 | 0.23 | AZS announces initial mineral resource at the Oposura project. |
| 15 October 2018 | 0.19 | Scoping study on the Oposura project released. |
| October 2018 – 17 April 2019 (valuation date) | 0.19 -> 0.12 (trending) | DBA continues to invest in shares in AZS to reach its existing 19.23% ownership.<br>Ongoing exploration and evaluation work at AZS's projects. |

^ closing price as at date of announcement, or close on the first day of trading following the announcement if suspended.

The below table sets out the AZS's capital structure before and after the issue in early 2018 of the 27,366,666 ordinary shares with 13,683,339 free attaching $0.45 options, comprising Tranche 1 and 2 (together the 'Placement').

**Capital Structure**

| | Shares | Options | Total |
|---|---|---|---|
| Pre-Placement | 83,633,326 | 15,675,511 | 99,308,837 |
| Placement at $0.30 per share | 27,366,666 | 13,683,339 | 41,050,005 |
| Post placement | 110,999,992 | 29,358,850 | 140,358,842 |
| % Increase in instruments on issue as a result of issue of free attaching options | | | 10.80% |

Based on the above, the decline in AZS's share price is likely to reflect a combination of the following factors:

- the downward trend in Zinc and Lead prices during 2018;
- increased political risk in Mexico given the presidential election in July 2018;
  Following Andrew Manuel Lopez Obrador's win, markets remain somewhat uncertain given he had previously sent mixed signals reading his view of the mining sector;
- the limited increase in share price achieved following the 20:1 consolidation of the issued capital of AZS;
- the difficult equity markets and the requirement for AZS to price a significant share issue at a discount to trading prices in February 2018;
- the additional market 'sweetener' applied to the placement of a 1:2 free attaching option, resulting in a 10.80% increase in diluted equity; and
- the 'watch and see' nature of the market, whereby investors are waiting to the see the outcome of the pre-feasibility study following the release of the scoping study, particularly given the A$69.9 million capital required for the project.

## 3.8 Historical Statement of Comprehensive Income

The table below shows the historical statements of Comprehensive Income for the years ended 30 June 2017 and 30 June 2018, half year ended 31 December 2018 and the nine-month period ended 31 March 2019:

| | Audited As at 30 June 2017 $ | Audited As at 30 June 2018 $ | Reviewed As at 31 December 2018 $ | Unaudited As at 31 March 2019 $ |
|---|---|---|---|---|
| Revenue from continuing activities | 442,421 | 85,748 | 33,903 | 41,982 |
| Expenditure: | | | | |
| Depreciation | (57,545) | (56,841) | (27,026) | (40,997) |
| Salaries and employee benefits expense | (700,776) | (917,284) | (307,128) | (454,182) |
| Directors fees | (95,000) | (95,000) | (47,500) | (71,250) |
| Exploration expenses | (5,758,221) | (5,813,830) | (2,596,433) | (3,716,895) |
| Exploration expenses reimbursed | 1,353,280 | - | - | - |
| Travel expenses | (319,836) | (326,319) | (153,823) | (191,443) |
| Promotion expenses | (107,071) | (84,801) | (41,185) | (85,074) |
| Administration expenses | (349,838) | (303,960) | (83,768) | (160,061) |
| Consulting expenses | (398,432) | (247,491) | (5,281) | (15,681) |
| Insurance expenses | (22,507) | (24,078) | (13,466) | (20,678) |
| Share based payment expense | (565,185) | (646,365) | (226,543) | (226,543) |
| Capitalised acquisition costs w/o | - | - | (144,795) | (146,089) |
| Other expenses | (406,831) | (790,298) | (557,900) | (761,654) |
| Loss from continuing operations before income tax | (6,985,541) | (9,220,519) | (4,170,945) | (5,848,565) |
| Income tax expense | - | - | - | - |
| Loss from continuing operations after income tax | (6,985,541) | (9,220,519) | (4,170,945) | (5,848,565) |
| Other comprehensive income/loss: | | | | |
| Exchange differences on translation of foreign operations | (103,010) | (619,125) | 549,608 | 604,327 |
| Total comprehensive loss for the year | (7,088,551) | (9,839,644) | (3,621,337) | (5,244,238) |

Source: AZS's audited financial statements for the years ended 30 June 2017, 30 June 2018, reviewed financial statements for the half year ended 31 December 2018 and unaudited management accounts for the nine-period ended 31 March 2019.

We note the following in relation to AZS's Historical Statement of Comprehensive Income:

- Revenue from continuing activities for the year ended 30 June 2017, 30 June 2018, half year ended 31 December 2018 and nine-month period ended 31 March 2019 comprised solely interest income, with the exception of $354 relating to proceeds on sale of assets in the nine-month period ended 31 March 2019.
- Exploration expenses for the nine-month period ended 31 March 2019, and for prior year ended 30 June 2018, are split across AZS's areas of interest as set out below. It is AZS's accounting policy to write off exploration and evaluation costs in the year that they are incurred apart from acquisition costs which are carried forward where right to tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area or interest. Summarised below is the composition of the expenditure:

| Expense by Area of Interest | Total since 1 July 2016 to date $ | Audited As at 30 June 2017 $ | Audited As at 30 June 2018 $ | Reviewed As at 31 December 2018 $ | Unaudited As at 31 March 2019 $ |
|---|---|---|---|---|---|
| *Exploration:* | | | | | |
| San Augustin | 32,208 | 28,475 | 1,412 | 813 | 2,321 |
| El Tecolote | 196,545 | 76,212 | 66,345 | 25,991 | 53,988 |
| Panchita | 9,932 | 3,202 | 3,283 | 1,530 | 3,447 |
| Loreto | 59,960 | 46,969 | 11,184 | 1,791 | 1,807 |
| Alacrán | 3,710,421 | 3,656,114 | 24,017 | 24,995 | 30,290 |
| Sara Alicia | 1,175,496 | - | 1,033,345 | 138,654 | 142,151 |
| Oso Negro | 117,596 | - | - | 106,851 | 117,596 |
| El Sahuaro | 656 | - | - | 248 | 656 |
| El Triunfo | 83,704 | - | - | 82,962 | 83,704 |
| Unallocated/General | 780,099 | 466,112 | 198,957 | 70,103 | 115,030 |
| Sub-total Exploration | 6,166,617 | 4,277,084 | 1,338,543 | 453,938 | 550,990 |
| *Evaluation:* | | | | | |
| Oposura | 6,446,338 | - | 3,556,014 | 2,015,299 | 2,890,324 |
| Promontorio | 2,675,991 | 1,481,137 | 919,273 | 127,196 | 275,581 |
| Sub-total Evaluation | 9,122,329 | 1,481,137 | 4,475,287 | 2,142,495 | 3,165,905 |
| Total | 15,288,946 | 5,758,221 | 5,813,830 | 2,596,433 | 3,716,895 |

**Source:** AZS management accounts for the years ended 30 June 2017 and 30 June 2018, half year ended 31 December 2018 and for the nine-month period ended 31 March 2019

- During the year ended 30 June 2017, AZS was reimbursed $1,353,280 for previously incurred expenditure by Rio Tinto through their farm-in to the Promontorio project.
- In addition to the exploration expenses by area of interest set out above, during the year ending 30 June 2019, AZS wrote off approximately $145,000 of previous capitalised costs for their Loreto project for which tenure was relinquished.
- Other expenses comprise annual reporting costs, tax, audit, regulatory costs (ASX and ASIC), share registry, legal, conferences and general administration at the project level in Mexico.

## 3.9 Historical Statement of Financial Position

The table below shows the historical statements of Financial Position as at 30 June 2017, 30 June 2018, 31 December 2018 and 31 March 2019:

| | Audited As at 30 June 2017 $ | Audited As at 30 June 2018 $ | Reviewed As at 31 December 2018 $ | Unaudited As at 31 March 2019 $ |
|---|---|---|---|---|
| Current Assets: | | | | |
| Cash and cash receivables | 9,699,949 | 6,593,163 | 3,437,911 | 1,768,814 |
| Trade and other receivables | 960,236 | 810,207 | 398,822 | 204,485 |
| Total Current Assets | 10,660,185 | 7,403,370 | 3,836,733 | 1,973,298 |
| Non-Current Assets: | | | | |
| Available for sale investments | 948 | 948 | 948 | 948 |
| Plant & Equipment | 211,321 | 174,278 | 172,674 | 162,772 |
| Capitalised exploration expenditure | 6,131,024 | 7,940,514 | 8,353,639 | 8,407,495 |
| Total Non-Current Assets | 6,343,293 | 8,115,740 | 8,527,261 | 8,571,215 |
| Total Assets | 17,003,478 | 15,519,110 | 12,363,994 | 10,544,513 |
| Current Liabilities: | | | | |
| Trade & other payables | 334,284 | 268,193 | 478,862 | 282,281 |
| Provisions | 97,445 | 154,141 | 179,662 | 179,662 |
| Total Current Liabilities | 431,729 | 422,334 | 658,524 | 461,943 |
| Non-current liabilities: | | | | |
| Provisions | 67,647 | 81,425 | 84,913 | 84,913 |
| Total Non-Current Liabilities | 67,647 | 81,425 | 84,913 | 84,913 |
| Total Liabilities | 499,376 | 503,759 | 743,437 | 546,856 |
| Net Assets | 16,504,102 | 15,015,351 | 11,620,557 | 9,997,656 |
| Equity: | | | | |
| Contributed equity | 73,027,947 | 80,732,475 | 80,732,475 | 80,732,475 |
| Reserves | 3,371,670 | 3,398,910 | 4,175,061 | 4,229,780 |
| Accumulated losses | (59,895,515) | (69,116,034) | (73,286,979) | (74,964,599) |
| Total Equity | 16,504,102 | 15,015,351 | 11,620,557 | 9,997,656 |

Source: AZS' audited financial statements for the years ended 30 June 2017, 30 June 2018, reviewed financial statements for the half-year ended 31 December 2018 and unaudited management accounts for the nine-month period 31 March 2019.

We noted the following in relation to AZS's Historical Statements of Financial Position:

- Cash and cash equivalents decreased since 30 June 2018 by $4,824,349, comprising primarily payments for exploration and evaluation of $3,096,000, administration and corporate costs of $1,148,000 and staff costs of $525,000;
- In the period since 1 July 2016, AZS has incurred $15,288,944 on exploration and evaluation, with a further $2,203,012 on acquiring the Oposura project during the year ended 30 June 2018;
- In the nine-month period to 31 March 2019, capitalised exploration expenditure increased by $54,000 resulting solely from exchange rate movements between the A$ and the Peso, with no additions to any area of interest; and
- During the year ended 30 June 2018, AZS issued 27,366,666 ordinary shares at an issue price of $0.30 per share to raise $7,704,528 after costs.

# 4. Profile of DBA

DBA is a German investment company located in Heidelberg. The shares of DBA are listed at the German Stock Exchange for more than 20 years. DBA has a very stable shareholder structure with one majority shareholder. The company manages its own funds, which are around Euro500 million of total assets under management. DBA has a very broad investment spectrum ranging from investments in stock listed companies as well as private equity and seed investments to real estate. Within the last two years the group has expanded its investment focus to the Australian resource sector. DBA's current board of directors are as follows:

- Mr Wilhelm Konrad Thomas Zours, Chairman of the Supervisory Board
- Mr Philip Andreas Hornig, Vice Chairman of the Supervisory Board
- Dr Burkhard Schäfer, Member of the Supervisory Board
- Mr Rolf Birkert, Member of the Executive Board / Member of Board of Management
- Mr Jens-Martin Jüttner, Member of the Executive Board / Member of Board of Management
- Mr Marco Stillich, Authorised Signatory

DBA is a part of a corporate group, the head of which is Investunity AG. The global ultimate owner is Mr Wilhelm Konrad Thomas Zours.

# 5. Valuation Methodology

## 5.1 Valuation Approach

Regulatory Guide 111 states that it is generally appropriate for an expert to consider using the following methodologies:

- the capitalisation of future maintainable earnings;
- the discounted cash flow method (DCF);
- the amount that would be available for distribution to security holders on an orderly realisation of assets;
- the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale; and
- any recent genuine offers received by the company for any business units or assets as a basis for valuation of those business units or assets.

### Capitalisation of Future Maintainable Earnings

The capitalisation of future maintainable earnings methodology involves capitalising the estimated future maintainable earnings at a multiple which reflects the risk and opportunities of the business and the stream of income it generates.

In utilising this methodology, it is necessary to determine the appropriate income stream to value, such as:

- Operating Profit After Income Tax (PAT);
- Operating Profit Before Income Tax (EBT);
- EBIT; or
- EBITDA.

The selection of multiple is undertaken by reviewing either listed guideline company data or mergers and acquisition data.

In using the mergers and acquisition data, a review is undertaken of recent transactions of comparable businesses from which the implied earnings multiples are calculated. Multiples are then selected and applied to the subject entity to arrive at an indication of value. The multiples derived are based on an analysis of recent trades of entire companies and therefore reflect value for 100% of the business. However, the data often available to determine the implied multiples is less transparent and often forecast data is not available. Furthermore, the price paid for an acquisition normally reflects the fact that there were synergies available to the acquirer. If the target's earnings were adjusted for these synergies, the effective multiple would be lower than that calculated using the actual earnings.

In using guideline company data, a portfolio of public companies is selected based on comparability of the subject company from which valuation multiples and other analytics are calculated. Multiples are then selected and applied to the subject entity to arrive at an indication of value. The multiples derived for guideline companies are based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect multiples reflective of the prices at which portfolio interests change hands. That is to say, there is no premium for control incorporated within such pricing. The multiples may also be impacted by the level of liquidity in the particular stock.

### Discounted Cash Flow

The discounted cash flow methodology has regard to the expected future economic benefits discounted to present value. This is considered appropriate where a forecast of future cash flows can be made with a reasonable degree of certainty. This approach is particularly relevant to the valuation of a business in its early growth stage but is equally applicable to any business with expectations of significant growth or with volatility in cash flows.

In undertaking the discounted cash flow methodology regard is generally had to:

- the projected future cash flows;
- an appropriate discount rate; and
- the perpetuity or terminal value, if any.

## Asset Based Approach

The asset-based approach determines the value of the business having regard to the market value of the underlying assets and liabilities thereof. This approach includes the following methodologies:

- going concern method;
- orderly realisation method; and
- liquidation method.

Under a going concern method, the value is derived by assessing the market value of every asset and liability on a going concern basis. This may include a premium to reflect the value of intangible assets not recorded on the balance sheet, if appropriate, to reflect market position, profitability and overall attractiveness of business. A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business.

The orderly realisation method has regard to the amount that would be distributed to shareholders on the assumption that the entity would be liquidated with the funds realised from the sale of its assets, after payment of all liabilities including realisation costs and taxes, being distributed to shareholders.

The liquidation method is based on the same principles except that in the orderly realisation method, the assets are realised in an orderly manner, whereas, the liquidation method assumes that the assets are sold within a shorter time frame.

## Quoted Price

This approach looks at the value of the company having regard to the trades in the subject entity's own equity. There is no premium for control incorporated within such pricing and the pricing may also be impacted by the level of liquidity in the particular stock.

## Recent Genuine Offers

Any recent genuine offers received by the company for any business units or assets may be used as a basis for valuation of those business units or assets or for assessing implied multiples which may be utilised when undertaking the capitalisation of future maintainable earnings approach.

## 5.2 Selection of Approach & Methodology

In valuing AZS we have adopted an asset-based methodology on a going concern basis as the primary approach. Pitcher Partners Corporate does not have the necessary experience to undertake a valuation of the exploration assets or mineral assets. Accordingly, we instructed independent specialists to provide an independent valuation of the Company's exploration assets.

There was insufficient history of earnings and cash flows in order for us to undertake a valuation on an earnings basis or on a discounted cash flow basis.

Further, as disclosed in section 3.7, the shares in AZS have been relatively illiquid and inactively traded. As such we do not consider the quoted price methodology to be appropriate.

# 6. Valuation

## 6.1 Assessment of the value of AZS prior to the Proposed Transaction

We instructed Valuation and Resources Management Pty Limited (VRM) to provide an independent market valuation of AZS's mineral assets. VRM considered a number of different valuation methods across the Company's mineral portfolio in conjunction with the geological and exploration information available when valuing each of the mineral assets. VRM elected to apply the Market Approach method as the primary valuation method and the Appraised Value (using Multiples of Exploration Expenditure) as a cross-check.

We consider these methods to be appropriate given the pre-development stage of the Oposura Project and AZS's other exploration targets. Further information regarding VRM's valuation of the Oposura Project and AZS's other exploration targets can be found in Appendix 3.

The range of values for each of AZS's mineral assets, including the Oposura Project, as assessed by VRM is set out below:

| | Low Value $^ | Preferred value $^ | High value $^ |
|---|---|---|---|
| Oposura project (100% interest) | 2,200,000 | 6,100,000 | 10,100,000 |
| Alacrán project (100% interest) | 3,200,000 | 5,500,000 | 7,900,000 |
| Promontorio project (100% interest) | 2,400,000 | 3,700,000 | 5,100,000 |
| All Other projects (100% interest) | 700,000 | 1,400,000 | 2,000,000 |
| **Total - All projects (100% interest)^** | **8,400,000** | **16,700,000** | **25,100,000** |

Source: VRM's Independent Technical Specialists Report & Valuation for the Mineral Assets of Azure Minerals Limited
^ Rounded amounts.

We have adjusted the unaudited balance sheet as at 31 March 2019 to incorporate the above preferred project values as well as for the following recently announced Teck transaction.

As stated previously, on 16 May 2019, AZS announced a transaction with Teck in relation to the Alacrán Project. While AZS is the 100% beneficial owner of the Alacrán Project following the completion of a 100% earn in from Teck, AZS has a joint venture with Teck over the Alacrán Project whereby Teck can earn back up to a 65% beneficial interest through initially spending over a four-year period US$10 million to earn a 51% beneficial interest and a further US$5 million to earn a further 14% interest (for a total of 65% interest).

The announcement proposes that AZS will acquire the rights from Teck to earn an interest in Alacrán Project (the "Teck Earn Back") through the issue of 27,545,566 ordinary shares in AZS as well as the grant of a 0.5% NSR to Teck on the project. There is also a series of sliding payments to Teck if the project is sold in the following 60 months as follows:

| *Aggregate Proceeds (all amounts in US$ millions)* | *% Sales Participation* |
|---|---|
| Amounts less than $3.0 million: | Nil |
| Amounts between $3.0 million and $4.0 million | 10.0% |
| Amounts between $4.0 million and $5.0 million | 15.0% |
| Amounts between $5.0 million and $7.5 million | 17.5% |
| Amounts between $7.5 million and $10.0 million | 20.0% |
| Amounts between $10.0 million and $15.0 million | 22.5% |
| Amounts more than $15.0 million | 25.0% |

Proceeds include, but are not limited to, cash, securities, or other assets received as well as up-front proceeds, future proceeds (including contingent payments) with amounts being due and payable to Teck on receipt of settlement amounts by AZS.

We have adjusted the net assets of AZS as at 31 March 2019 to arrive at the unaudited Pro-forma balances on the assumptions that:

- AZS will elect to issue shares to Teck rather than cash. A share price of $0.12 was used, consistent with the closing price on 17 April 2019, the valuation date adopted by VRM;

- no value has been attributed to the deferred settlement amounts arising from the 0.5% NSR and any future sale of the project as there are currently no plans to develop or sell the Alacrán Project; and
- the Convertible Note will not be converted prior to the completion of the Teck transaction.

Based on this, we have first adjusted the book value of AZS's assets prior to the Proposed Transaction for the Tech Earn Back to arrive at the unaudited Pro-forma balance sheet as at 31 March 2019 as follows:

| | Unaudited as at 31 March 2019 | Pro-forma Adjustments | Unaudited Pro-forma as at 31 March 2019 $ |
|---|---|---|---|
| | $ | $ | |
| Current Assets: | | | |
| Cash and cash receivables | 1,768,814 | - | 1,768,814 |
| Trade and other receivables | 204,485 | - | 204,485 |
| Total Current Assets | 1,973,298 | - | 1,973,298 |
| Non-Current Assets: | | | |
| Available for sale investments | 948 | - | 948 |
| Plant & Equipment | 162,772 | - | 162,772 |
| Capitalised exploration expenditure | 8,407,495 | 3,305,468 | 11,712,963 |
| Total Non-Current Assets | 8,571,215 | 3,305,468 | 11,876,683 |
| Total Assets | 10,544,513 | 3,305,468 | 13,849,981 |
| Current Liabilities: | | | |
| Trade & other payables | 282,281 | - | 282,281 |
| Provisions | 179,662 | - | 179,662 |
| Total Current Liabilities | 461,943 | - | 461,943 |
| Non-current liabilities: | | | |
| Provisions | 84,913 | - | 84,913 |
| Total Non-Current Liabilities | 84,913 | - | 84,913 |
| Total Liabilities | 546,856 | - | 546,856 |
| Net Assets | 9,997,656 | 3,305,468 | 13,303,124 |
| Equity: | | | |
| Contributed equity | 80,732,475 | 3,305,468 | 81,037,943 |
| Reserves | 4,229,780 | - | 4,229,780 |
| Accumulated losses | (74,964,599) | - | (74,964,599) |
| Total Equity | 9,997,656 | 3,305,468 | 13,303,124 |

Based on this, we have determined the value of AZS's assets prior to the Proposed Transaction, on a going concern basis, to be as follows:

| | Ref | Low Value $ | Preferred Value $ | High Value $ |
|---|---|---|---|---|
| Net Assets | | 13,303,124 | 13,303,124 | 13,303,124 |
| Less Capitalised exploration expenditure | | (11,712,963) | (11,712,963) | (11,712,963) |
| Independent Valuation of Exploration Assets | | 8,400,000 | 16,700,000 | 25,100,000 |
| Value of Equity | | 9,990,161 | 18,290,161 | 26,690,161 |
| | | | | |
| Number of shares on issue prior to the Proposed Transaction | 1.2 | 138,545,558 | 138,545,558 | 138,545,558 |
| Value per share ($) | | 0.0721 | 0.1320 | 0.1926 |
| Value per share (cents) | | 7.21 | 13.20 | 19.26 |

Source: Pitcher Partners

The table above indicates the net asset value of an AZS share is between $0.0721 and $0.1926, with a preferred value of $0.1320. We have been advised that there has not been a significant change in the net assets of AZS since 31 March 2019. Additionally, nothing has come to our attention as a result of our procedures that would suggest the need for any further adjustments.

## 6.2 Assessment of the value of AZS following the Proposed Transaction

### Primary approach

The value of AZS on a going concern basis following the Proposed Transaction is set out below:

| | Ref | Low value $ | Preferred Value $ | High Value $ |
|---|---|---|---|---|
| NAV of AZS prior to the Proposed Transaction | 6.1 | 9,990,161 | 18,290,161 | 26,690,161 |
| *Add:* Cash from issue of Convertible Note | Note 1 | 2,000,000 | 2,000,000 | 2,000,000 |
| Value of AZS following the Proposed Transaction (control basis) | | **11,990,161** | **20,290,161** | **28,690,161** |
| Discount for minority interest | Note 2 | 29% | 26% | 23% |
| Value of AZS following the Proposed Transaction (minority interest basis) | | **8,513,014** | **15,014,719** | **22,091,424** |
| Number of AZS shares on issue following the Proposed Transaction | 1.2 | 152,338,662 | 152,338,662 | 152,338,662 |
| Value per share ($) | | 0.0559 | 0.0986 | 0.1450 |
| Value per share (cents) | | 5.59 | 9.86 | 14.50 |

Source: Pitcher Partners

The table above indicates the net asset value of AZS following the Proposed Transaction on a minority basis is between $0.0559 and $0.1450, with a preferred value of $0.0986.

In arriving at this value, the following adjustments were made to the net assets of AZS following the Proposed Transaction.

- Note 1) Cash from issue of Convertible Note

  We have added cash of $2 million that is to be received from the issue of the Convertible Note.

- Note 2) Discount for minority interest

  The net asset value of an AZS share following the Proposed Transaction is reflective of a controlling interest. However, if the Proposed Transaction is approved, Shareholders will continue to be minority interest shareholders in AZS.

  Therefore, we have adjusted our valuation of an AZS share following the Proposed Transaction, to reflect a minority interest holding. A minority interest discount is the inverse of a premium for control and is calculated using the formula 1 – (1/1+control premium). We consider an appropriate control premium for AZS to be in the range of 30% to 40%, giving rise to a minority interest discount in the range of 23% to 29%.

## Secondary approach

Under Australian Accounting Standards, the fair value of a convertible note/loan is apportioned between debt and equity. The debt component of a convertible note/loan that converts into a fixed number of shares is valued at the present value of its cash flows (coupons and principal). The discount rate used in the present value calculation is the interest rate that the issuer could obtain from the market on a similar debt instrument without the conversion feature. The equity component of the convertible note/loan is the residual between the face value of the note/loan and the value of the debt.

As the conversion feature converts into a fixed number of shares, we need to determine the interest rate which AZS could borrow funds in the market without a conversion feature.

To do this, we considered the alternative funding indicative offers provided to AZS during the first quarter of 2019.

We have calculated the value of the debt using NPV calculations as well as considered alternative debt funding offers presented to AZS during the first quarter of 2019 (specifically those without a conversion feature).

The key inputs used in calculation of debt value are detailed below:

- Term of the Convertible Note

  The maturity date for the Convertible Note is two years from the date of drawdown, which implies that the term of the Convertible Note will be two years, however, under the terms AZS hold the right to terminate the Convertible Note early by the payment of outstanding principal and interest.

  Based on the Oposura scoping study and AZS's budgeted cashflows, expenditure will be approximately A$6.3 million in the twelve months to 31 March 2020. Given that its starting cash position is approximately $1.7 million, and while much of the budgeted expenditure is discretionary, AZS will need to raise approximately A$4.6 million to fund working capital, additional drilling, and the completion of the feasibility studies in twelve months to 31 March 2020, with the possibility of reducing this amount through the early onset of small scale mining. While early redemption is possible by AZS we consider it unlikely that early redemption will occur. As a result, for the purposes of the calculation, two years has been used as the term of the Convertible Note.

- Discount rate

  The rate of return required by providers of debt capital, without an equity conversion right, to AZS over a commensurate term as the Convertible Note.

  AZS approached a selection of third parties with respect to financing. This included private equity, major banks and the resource sector lenders. Of the indicative term sheets received, only one lender provided terms similar to those provided by the Convertible Note without the equity feature. Based on this secured facility, and our cost of debt calculations, we have used 15% to discount the Convertible Note's cashflows.

- Coupon rate

  The coupon rate on the Convertible Note is 12.5%. In the event that unpaid amounts arise, then a default interest rate of 17.5% applies to unpaid amounts. Interest is payable six months from the issue of the convertible note and subsequently at 12 and 18 months before the balance of interest is due on maturity 24 months after issue.

Based on the 31 March 2019 cash balance and the intended work programme over the three months to 30 June 2019 summarised below, AZS would require additional sources of funding, in addition to the Convertible Note to meet the first interest payment in late 2019.

**Estimated Cash Balance**

| Item | Convertible Note |
|---|---|
| Cash balance as at 31 March 2019 | 1,769,000 |
| Estimated cash outflows for 1 April 2019 – 30 June 2019: | |
| - Exploration and evaluation | (830,000) |
| - Staff costs | (209,000) |
| - Administration and corporate costs | (245,000) |
| Estimated cash balance at 30 June 2019 | 485,000 |

Source: AZS's Quarterly Cashflow Report (lodged with the ASX on 26 April 2019).

Based on our analysis, the value of the debt and equity component of the Convertible Note is set out in the table below:

**Debt v Equity Component of Convertible Note**

| Item | Convertible Note 12.5% coupon |
|---|---|
| Value of the equity component of the Convertible Note (residual) | 66,317 |
| Value of the debt component of the Convertible Note | 1,933,317 |
| Face Value of the Convertible Note | 2,000,000 |

Source: Pitcher Partners

The value of AZS following the Proposed Transaction is set out below:

**Value Post Proposed Transaction**

| | Ref | Low value $ | Preferred value $ | High value $ |
|---|---|---|---|---|
| NAV of AZS prior to the Proposed Transaction | 6.1 | 9,990,161 | 18,290,161 | 26,690,161 |
| Add: Cash from issue of Convertible Note | Note 1 | 2,000,000 | 2,000,000 | 2,000,000 |
| Deduct: Debt component of the Convertible Note | Note 2 | (1,511,708) | (1,511,708) | (1,511,708) |
| Deduct: Present Value of interest on Convertible Note | Note 3 | (421,609) | (421,609) | (421,609) |
| Value of AZS following the Proposed Transaction (control basis) | | 10,056,844 | 18,356,844 | 26,756,844 |
| Discount for minority interest | Note 4 | 29% | 26% | 23% |
| Value of AZS following Proposed Transaction (minority interest basis) | | **7,140,359** | **13,584,065** | **20,602,770** |
| Adjustment for equity component of the Convertible Notes | Note 5 | (66,683) | (66,683) | (66,683) |
| Ordinary Shareholder value | | 7,073,676 | 13,517,382 | 20,536,087 |
| Number of AZS shares on issue following the Proposed Transaction | Note 6 | 138,545,558 | 138,545,558 | 138,545,558 |
| Value per share ($) | | 0.0511 | 0.0976 | 0.1482 |
| Value per share (cents) | | 5.11 | 9.76 | 14.82 |

Source: Pitcher Partners

The table above indicates the net asset value of AZS following the Proposed Transaction on a minority basis is between $0.0511 and $0.1482, with a preferred value of $0.0976.

In arriving at this value, the following adjustments were made to the net assets of AZS following the Proposed Transaction.

- Note 1) Cash from issue of Convertible Note

  We have added cash of $2 million that is to be received in consideration for the Convertible Note.
- Note 2) Debt component of Convertible Note

  We have adjusted the net assets of AZS for the value of the debt component of the Convertible Note. The debt component is the present value of the face value of the Convertible Note.
- Note 3) Present value of interest payable on the Convertible Note

  The Convertible Note has an interest rate of 12.50% per annum. We have calculated the total interest that will accrue over the two-year term of the Convertible Note to be $500,685. We have discounted this to present value using a discount rate of 15% per annum, based on the debt features of the Convertible Note. The discount rate is based on the indicative term sheets received by AZS for debt funding, with only one lender providing terms similar to those provided by the Convertible Note without the equity feature.
- Note 4) Discount for minority interest

  The net asset value of an AZS share following the Proposed Transaction is reflective of a controlling interest. However, if the Proposed Transaction is approved, Shareholders will continue to be minority interest shareholders in AZS as DBA will hold a controlling interest.

  Therefore, we have adjusted our valuation of an AZS share following the Proposed Transaction, to reflect a minority interest holding. A minority interest discount is the inverse of a premium for control and is calculated using the formula 1 – (1/1+control premium). We consider an appropriate control premium for AZS to be in the range of 30% to 40%, giving rise to a minority interest discount in the range of 23% to 29%.

- Note 5) Adjustment for equity component of the Convertible Note

  We have adjusted the ordinary shareholder value of AZS for the value of the equity component of the Convertible Note. We used the NPV model to calculate the debt component of the Convertible note. The equity value is the residual value of the face value of the Convertible Note after deducting the debt component. The inputs used in the calculations and subsequent values are detailed above.

- Note 6) Number of shares on issue

  After adjusting for the 27,545,566 ordinary shares to be issued for the Teck Earn Back, we have not increased the number of shares on issue for the conversion of the Convertible Note as this is reflected through the reduction in equity as a result of the call option value, and the increase in the liabilities arising from the debt component of the Convertible Note. Therefore, the number of shares on issue is equal to the pro-forma number of AZS shares on issue prior to the Proposed Transaction, which is 138,545,558. We have excluded options currently on issue because their exercise prices exceed our estimated value per share and the AZS share price on the date of this report.

# 7. Is the Proposed Transaction fair?

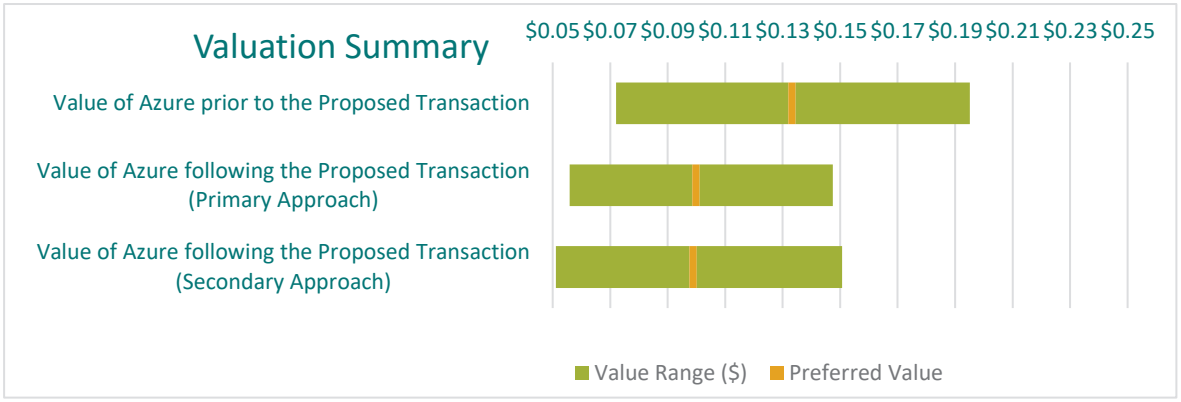
The value of AZS prior to the Proposed Transaction on a control basis and the value of AZS following the Proposed Transaction on a minority basis is compared below:

**Assessment of Fairness**

| | Low | Preferred | High |
|---|---|---|---|
| | $ | $ | $ |
| Value of AZS on a control basis prior to the Proposed Transaction | 0.0721 | 0.1320 | 0.1926 |
| Value of AZS on a minority basis following the Proposed Transaction – Primary approach | 0.0559 | 0.0986 | 0.1450 |
| Value of AZS on a minority basis following the Proposed Transaction – Secondary approach | 0.0511 | 0.0976 | 0.1482 |

Source: Pitcher Partners

The above valuation ranges are graphically presented below:




The value range of AZS prior to the Proposed Transaction on a control basis is higher than the value range of AZS following the Proposed Transaction on a minority basis under both the primary and secondary approaches. Therefore, we consider that the Proposed Transaction is not fair to Shareholders.

# 8. Is the Proposed Transaction reasonable?

## 8.1 Advantages of approving the Proposed Transaction

We have considered the following advantages when assessing whether the Proposed Transaction is reasonable.

- Provides AZS with immediate cash funding.

  AZS requires approximately A$4 million, in addition to cash on hand at May 2019, to fully fund working capital, additional drilling and the completion of feasibility studies over the next 18 months (see further discussion in section 8.3 below).

  Based on AZS's cashflow model, the Company requires an immediate cash injection in June 2019. While AZS may reduce the intended work programme on the Oposura (and other) projects while still meeting any minimum spend conditions, AZS is required to obtain financing or undertake a capital raising in the next 1-2 months.

  The Convertible Note remains the only option likely to be completed in the timeframe.

  The Proposed Transaction provides immediate funding via the Convertible Note, which will provide sufficient working capital to further develop the Oposura Project ('the Project') and other projects located in Mexico, before seeking additional means of funding.
- Places AZS under less cash flow strain.

  If DBA elects to convert, the conversion of the Convertible Note will result in the issue of an additional 13,793,103 shares. Upon conversion, the Convertible Note will be deemed as having been repaid. Accordingly, unlike debt the Company may not have to repay the whole of the Convertible Note in cash, which may put the Company under less cash flow strain.

  It also provides AZS with the option to repay and limit dilution should AZS's shares be 're-rated' at either the release of the Preliminary Feasibility study, commencement of small scale mining, or financing Feasibility Study.
- The ability of AZS to raise additional funds may increase.
- Strengthens AZS's relationship with one of its cornerstone investors.

  DBA is a private equity company that invests in a diverse range of commodities. The primary goal of a private equity company is to generate a return on its investments. Since private equity firms receive shares in the companies they invest in, their return is generated by an increase in the value of those companies, which consequently aligns their interests with shareholders' interests.

  DBA currently has an interest in AZS of approximately 19.23%. The potential conversion under the Convertible Note will increase the interest of DBA and its associates in AZS, which accordingly, may increase its major shareholder support in the future.
- The Convertible Note is unsecured whereas alternative third party debt finance, including all the alternative financing proposals obtained by AZS, are likely to be secured.
- The Convertible Note coupon is comparable to the market for alternative debt secured finance.
- AZS is not required to enter into any hedging arrangements with the lender or a third party on issue of the Convertible Note.

  Under certain loan arrangements, the borrower is required to enter into a hedging contract which often limits the upside of the project but also reduces the risk of non-repayment to the borrower. The attractiveness of AZS's exposure to specific commodities and/ or cycles may be reduced by the implementation of a hedging program.
- The decision of Board to pursue the Convertible Note does not 'pre-gear' the Oposura Project while deposit remains a mineral resource.
- AZS's scoping study concluded that Oposura requires A$69.9 million in capital expenditure (including 25% contingency) to bring the project into full scale production (this is in addition to the requirement for approximately A$4.6 million over and above the $1.7 million cash on hand at 31 March 2019 to fully fund the Preliminary Feasibility and Feasibility Studies and cover all working capital and overheads in the twelve months to 31 March 2020). It is likely the Company will fund this development capital expenditure through a combination of debt and equity.
- Full draw-down of the Convertible Note is not restricted.

  Unlike the alternative debt proposals presented to the Company, the Convertible Note does have any restrictions on draw-down, either through financial covenants or key performance indicators.

## 8.2 Disadvantages of approving the Proposed Transaction

If the Proposed Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed below:

- Dilution of existing Shareholders

  If the Proposed Transaction is approved and DBA elects to convert the Convertible Note into shares, after taking into account the Teck Earn Back, the interest of DBA will increase from approximately 15.41%, to approximately 23.07% and existing AZS shareholders' interest will be diluted on a post Tech Earn Back pro-forma basis from approximately 84.59% to approximately 76.93%. This dilution may give DBA and its associates significant influence over resolutions and will reduce Shareholders collective influence on the operations of the Company. Furthermore, it may also discourage other parties from seeking to acquire AZS shares.
- The Proposed Transaction is not fair to Shareholders, when treated as a control transaction as required by RG 111.

## 8.3 Other considerations

### Alternative proposals

AZS's objective is to minimise shareholder dilution at current share price lows by raising the required funding through alternative debt, asset sale and strategic equity sources. Refer to section 3.5 for further background on the AZS's share price history. To this end, AZS appraised a range of indicative financing offers from private equity groups, major banks and resource sector lenders. AZS received financing proposals from six third parties in addition to the term sheet provided by DBA with three indicative offers shortlisted.

AZS appointed Noah's Rule, a boutique corporate advisory firm providing debt and risk advisory services to the resources sector, to provide feedback and commentary on the offers received in context of both the objectives of AZS and current market conditions.

A summary of the shortlisted indicative offers that were received are summarised in the table below.

**Indicative Offers**

| Facility type | Amount | Term | Secured? | Restrictions on availability | Implicit Interest Rate^ |
|---|---|---|---|---|---|
| Working Capital Term Loan | US$5m | 36mths | Yes | Yes | 25% |
| Term Loan | A$3m | 24mths | Yes | No | 44% |
| Term Loan | US$5m | 24mths | Yes | Further clarification needed from lender | 15% |

Source: Noah's Rule paper (draft received by AZS management), Pitcher Partners. ^ Inclusive of transaction costs.

Taking to account cash on hand of approximately $1.7 million at 31 March 2019, the Company requires approximately A$4.6 million in the twelve month period to 31 March 2020 in order to complete the evaluation of the 100% owned Oposura Lead-Zinc-Silver Project during 2019 with a Preliminary Feasibility Study to be completed by mid-2019 and a financing Feasibility Study by the end of 2019 (with the possibility of reducing this amount through the early onset of small scale mining). Subject to positive Project economics and the availability of finance, AZS is aiming to bring the Project into full production by late 2020 to early 2021. To this end, per the existing Scoping Study (released October 2018), AZS will require to fund A$69.9 million in Capital Development costs (inclusive of a 25% contingency).

For interim funding AZS has a spectrum of funding possibilities from equity to debt with each exposing AZS to both risks and opportunities. Equity is dilutionary, is relatively more expensive and may preclude or attract other investors while debt has little or no dilution, is relatively less expensive but is likely to be secured and pre-gears the projects adding to funding risk. In short it is a high risk measure to enter into debt, or gear presently, given the stage of the Project and the Company's existing market capitalisation, as concluded by the Board.

The US$5 million Term Loan has the most favourable terms, in so far as the quantum of funding is the highest and the implicit interest rate over the life of the facility is the lowest. A comparison of the

Convertible Note to the US$5 million Term Loan is included within the Advantages and Disadvantages in section 8.1 and 8.2 above.

## Minority interest

In assessing the fairness of the Proposed Transaction in section 7, RG 111.31 stipulates that when assessing non-cash consideration in a control transaction, a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction, on a minority basis. However, it is relevant that Shareholders appreciate that they hold a minority interest in AZS prior to the Proposed Transaction and will retain a minority interest following the Proposed Transaction.

This approach was confirmed by ASIC in a general letter, dated 5 March 2014, which amongst other matters provides further guidance as to how experts should assess the 'fairness' for Section 611 item 7 transactions where shares are being issued. ASIC reiterated the approach detailed in RG 111 and stated that the assessment of 'fairness' for item 7 transactions involves a "comparison of the control value of the company prior to the transactions with the portfolio (i.e. minority interest) value of the shares that will be 'received' by the shareholders post the transaction".

While RG 111 requires transactions involving a greater than 20% interest to be treated as control transactions, RG 111 recognises that there may be circumstances where an entity will acquire 20% or more of another entity without obtaining or increasing its practical level of control in that entity. RG 111 states that if the expert believes this to be the case then the expert could take this outcome into account in assessing whether the issue of the shares is 'reasonable' if the expert has determined that the price at which the shares are being issued is fair.

Following AZS's announcement on 16 May 2019, where AZS will acquire back the earn-in rights Teck to the Alacrán Project:

- DBA will become AZS's largest shareholder with a 23.07% interest on an undiluted basis; and
- Teck will become AZS's second largest shareholder with a 19.9%.

As a consequence, Teck may limit the influence that DBA has over AZS. Having regard to this, in assessing whether the Proposed Transaction is reasonable we have valued AZS applying an approach without "assuming 100% ownership of the Company". This assessment excludes a premium for control.

In the table below, we have provided a comparison of the value of AZS prior to the Proposed Transaction and following the Proposed Transaction, both on a minority interest basis.

**Comparison on a minority basis**

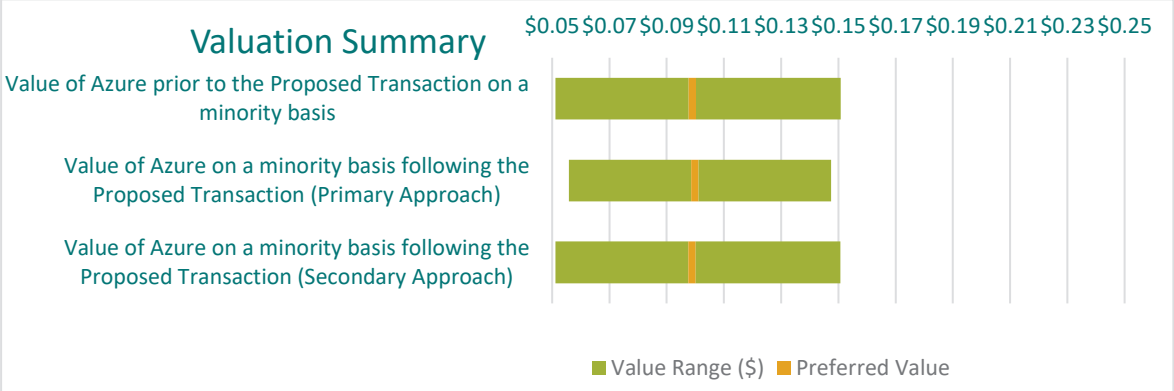
| | Ref | Low $ | Preferred $ | High $ |
|---|---|---|---|---|
| Value of AZS prior to the Proposed Transaction on a minority basis | Note 1 | 0.0512 | 0.0977 | 0.1483 |
| Value of AZS on a minority basis following the Proposed Transaction – Primary approach | 6.2 | 0.0559 | 0.0986 | 0.1450 |
| Value of AZS on a minority basis following the Proposed Transaction – Secondary approach | 6.3 | 0.0511 | 0.0976 | 0.1482 |

Source: Pitcher Partners

- Note 1) Calculation of Value of AZS prior to the Proposed Transaction on a minority basis

| | Ref | Low value $ | Preferred value $ | High value $ |
|---|---|---|---|---|
| Value of AZS following the Proposed Transaction (control basis) | 6.1 | 0.0721 | 0.1320 | 0.1926 |
| Discount for minority interest | 6.2 | 29% | 26% | 23% |
| Value of AZS following Proposed Transaction (minority interest basis) | | 0.0512 | 0.0977 | 0.1483 |

The above valuation ranges are graphically presented below:




The table and graphical representation show that the preferred value of AZS prior to the Proposed Transaction, when assessed on a minority basis, of $0.0977 aligns almost exactly with the preferred value of AZS following the Proposed Transaction on a minority basis, sitting within the lower and upper range of $0.0976 and $0.986 respectively.

### Practical level of control

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter.

As at the date of our Report, DBA has an interest of 19.23% in AZS. If the Proposed Transaction is approved following the Teck Earn Back, DBA's shareholding could increase to 23.07% if DBA elects to convert the Convertible Note into shares. Consequently, DBA would have an ability to significantly influence resolutions, however will be unable to pass general or special resolutions.

### Consequences of not approving the Proposed Transaction

If the Proposed Transaction is not approved, AZS will need to re-consider whether any of the preferred alternative sources of finance still remain available in order to meet its short-term commitments and working capital needs. This may include a potentially dilutive capital raising, the introduction of a new third party financer or the sale of assets.

Immediate alternative sources of funding are unlikely to be available and if they were to be may be on terms that are less advantageous to the Company than the alternative proposals summarised above.

## 8.4 Conclusion

We have considered the terms of the Proposed Transaction as outlined in this report and have concluded that the Proposed Transaction is not fair, but reasonable to the Shareholders of AZS.

# Appendix 1: Glossary of Terms

| Term | Description |
|---|---|
| **A$** | Australian Dollars |
| **US$** | United States Dollar |
| **Act** | Corporations Act 2001 |
| **AFSL** | Australian Financial Services Limited |
| **APES 225 Valuation Services** | Accounting Professional & Ethical Standards |
| **ASIC** | Australian Securities and Investments Commission |
| **ASX** | ASX Limited |
| **Au** | Gold |
| **Azure Minerals, AZS or Company** | Azure Minerals Limited (ABN 46 106 346 918) |
| **Claw-back** | Contractual provision that allows a party to take back ownership through agreed upon transactions |
| **Convertible Note** | The 2,000,000 convertible notes forming part of Proposed Transaction |
| **Cu** | Copper |
| **DBA** | Deutsche Balaton Aktiengesellschaft and is related entities (used interchangeably) |
| **DCF** | Discounted Cash Flow |
| **Directors** | The Board of Azure Minerals |
| **DTA** | Deferred Tax Asset |
| **EBIT** | Earnings Before Interest and Tax |
| **EBITDA** | Earnings Before Interest, Tax, Depreciation and Amortisation |
| **Epithermal** | Deposits of minerals formed in warm water at shallow depth |
| **Fair** | The value of the offer consideration is greater than the value of the value of the securities subject to the offer |
| **Flotation processing** | Crushing and grinding ore finely, using water to separate minerals using their surface properties to 'float' individual particles on resulting froth. Common method of beneficiation. |
| **FSG** | Financial Services Guide |
| **FX** | Foreign Exchange |
| **GST** | Goods and Services Tax |
| **High concentrate grade** | Commodity with high purity / quality trading at higher prices |
| **Independent Directors** | Independent directors of Azure Minerals |
| **Independent Experts Report (IER)** | The report by Pitcher Partners accompanying this Notice. |
| **JORC** | Joint Ore Reserves Committee. The Australasian code for reporting of exploration results, miner and ore reserves. |
| **Junior exploration company** | Low cap, low volume trading explorations companies |
| **JV** | Joint venture |
| **LOM** | Life of Mine |

| Term | Description |
|---|---|
| **Mining concession** | A concession to search for, explore and/or exploit mineralisation's |
| **NSR** | Net Smelter Royalty |
| **Non-associated shareholders** | Shareholders not associated with the transaction |
| **Notice or Notice of Meeting** | The notice of meeting accompanying this Explanatory Statement. |
| **Option** | Unlisted issued option in the capital of the Company |
| **PAT** | Operating Profit After Income Tax |
| **Pb** | Lead |
| **PBT** | Operating Profit Before Income Tax |
| **Pegging** | The legal process of determining the boundaries of a mining tenement along with application and approval process. |
| **Peso** | The official currency of Mexico |
| **Pitcher Partners Corporate or Pitcher Partners** | Pitcher Partners Corporate Pty Ltd |
| **Poryphery** | Describes the texture of igneous rock consisting of large-grained crystals dispersed in a fine-grained silicate rich ground mass. |
| **Proposed Transaction** | The DBA funding proposal through the issue of the Convertible Note |
| **Prospectivity mapping** | Process used to guide resource estimation and predictive targeting for resource. |
| **Reasonableness** | In the absence of fairness, transaction may be reasonable in the absence of a higher offer |
| **RG** | ASIC Regulatory Guide |
| **Room and pillar extraction** | Commonly used underground mining method often used for flat dipping bedded ores. Pillars are placed in a particular formation and the 'rooms' mined out. |
| **Section 606** | Section 606 of the Corporations Act |
| **Section 611** | Section 611 Item 7 of the Corporations Act |
| **Share** | Fully paid ordinary share in the capital of the Company |
| **Shareholders** | Shareholders of Azure Minerals |
| **Skarn-hosted** | Mineral hosted in a lime-bearing siliceous rock produced in the metamorphic alteration of limestone or dolomite. |
| **Teck Resources** | Canadian-based mining company who shares ownership of Alacrán resource with Azure. |
| **Tonne** | Metric tonne, 1,000 kilograms |
| **Zn** | Zinc |

# Appendix 2: Sources of Information

In preparing this report we had regard to the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Convertible Note Agreement Deed (draft), provided to Pitcher Partners on 2 May 2019;
- Audited financial statements of AZS for the years ended 30 June 2017, 30 June 2018 and reviewed financial statements of AZS for the half year period ended 31 December 2018;
- Unaudited management accounts of AZS for the nine-month period ended 31 March 2019;
- Independent Technical Assessment and Valuation Report dated 21 May 2019 performed by Valuation and Resource Management Pty Ltd;
- Noah's Rule draft paper to management on funding proposals;
- Term sheets for alternative financing proposals obtained by management;
- Share registry information; and
- Information in the public domain.

In addition to the above, we had regard to a management interview with Brett Dickson held at AZS's offices on 10 April 2019.

# Appendix 3: Independent Valuation of Exploration Assets

**VALUATION and RESOURCE MANAGEMENT**

Consultants in Economic Geology & Management

# INDEPENDENT TECHNICAL SPECIALISTS REPORT & VALUATION for the MINERAL ASSETS of AZURE MINERALS LIMITED

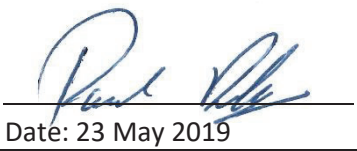
**FINAL**

May 2019

Report Commissioned by Pitcher Partners

| | |
|---|---|
| Valuation Date: | 17 April 2019 |
| Report Date: | 23 May 2019 |
| Primary Author: | Paul Dunbar |

Distribution:
Pitcher Partners Corporate Pty Ltd
Azure Minerals Limited
Valuation and Resource Management Pty Ltd

| | | |
|---|---|---|
| Document Reference | AZURE VALMIN Report 23 May 2019 Final.pdf | |
| Distribution | Azure Minerals Limited<br>Pitcher Partners Corporate Pty Ltd<br>Valuation and Resource Management Pty Ltd | |
| Principal Author | Paul Dunbar<br>BSc Hons (Geology)<br>MSc (MINEX)<br>M AusIMM<br>M AIG |  <br>Date: 23 May 2019 |
| Contributors | Deborah Lord F AusIMM, M AIG, G AICD<br>Shaun Searle M AIG<br>Marion Bush M AIG | |
| Valuation Date | 17 April 2019 | |

# 1. Executive Summary

Pitcher Partners Corporate Pty Ltd (PP) commissioned Valuation and Resource Management (VRM), the trading name of Valuation and Resource Management Pty Ltd (ABN 12 632 859 780) to prepare an Independent Technical Assessment and Valuation Report ("the Report" or the ITAR) of the mineral assets of Azure Minerals Limited (ASX: AZS) (Azure).

The Report provides an opinion to support an Independent Expert's Report to be prepared by PP, and has been prepared as a public document, in the format of an independent specialist's report and in accordance with the 2015 VALMIN Code.

This report is a technical review of the Azure Resources projects, being the advanced Oposura, Alacrán and Promontorio projects all with resources and six early stage exploration projects all in Mexico.

It includes a technical evaluation of the exploration and development projects and a fair market valuation of these Mineral Assets. In accordance with the VALMIN code VRM has undertaken several valuation methods for both the existing Mineral Resources and a separate valuation for the earlier stage exploration tenements that surround the resource areas. Importantly, as neither the principal author nor VRM hold an Australian Financial Services Licence, this valuation is not a valuation of Azure Minerals Limited but rather a valuation of the Mineral Assets owned by the company.

This valuation is current as of 17 April 2019, being the date that VRM was engaged to conduct the report. As commodity prices, exchange rates and cost inputs fluctuate over time this valuation is subject to change. The valuation derived by VRM is based on information provided by Azure along with publicly available data including stock exchange releases (both ASX and TSX) and public data obtained from various sources including government geological surveys. VRM has made all reasonable endeavours to confirm the accuracy, validity and completeness of the technical data which forms the basis of this report. The opinions and statements in this report are given in good faith and under the belief that they are accurate and not false nor misleading. The default currency is Australian dollars. As with all valuations the valuation included in this report is the likely fair market value of the mineral projects and not an absolute value. A range of likely values for the various mineral assets is provided with that range providing an indication of the accuracy of the valuation.

Significantly on 16 May 2019 Azure announced a transaction whereby they will acquire the rights to earn up to 65% of the Alacrán project under the Teck earn back. This right is being acquired by issuing 27,545,566 shares in Azure to Teck or its affiliates and also granting a 0.5% NSR royalty to Teck on the project. This Teck royalty is in addition to the existing royalty of 2% owned by Grupo Mexico. There are also a series of sliding scale payments to Teck if the project is sold within 60 months of the transaction date with these payments dependent on sale price. In VRM's opinion this values the total Alacrán project, excluding the royalty at $5.94 million. The range of valuations for all of the Alacrán project in this report was determined as being between $3.2 million and $7.9 million with a preferred valuation of $4.6 million. This transaction therefore broadly confirms the range of valuations for the Alacrán project.

VRM considers the total mineral asset valuation of Azure's projects to be within a range of $8.4 million and $25.1 million with a preferred valuation of $16.7 million.

# 2. Contents

## 3. List of Figures



## 4. List of Tables

# 1. Introduction

Valuation and Resource Management (VRM), the trading name of Valuation and Resource Management Pty Ltd (ABN 12 632 859 780), was engaged by Pitcher Partners Corporate Pty Ltd (PP) to undertake an Independent Technical Assessment and Valuation Report (ITAR) on the mineral assets of Azure Minerals Limited (Azure or AZS). The mineral assets of Azure include the Oposura, Alacrán, and Promontorio projects and six earlier stage projects. Six of the projects are located in Sonora state while there is one project in each of the Chihuahua, Durango and Oaxaca states of the United Mexican States (Mexico).

VRM understands that this ITAR will be included in the Independent Experts Report (IER) being prepared by PP to determine the merit of the proposed transaction and that PP will append this report to their Independent Experts Report evaluating if the proposed transaction is in the best interests of the Azure Shareholders.

The valuation date has been determined as being 17 April 2019, being the date that VRM was engaged to undertake the valuation and complete the report.

## 1.1. Compliance with the JORC and VALMIN Codes and ASIC Regulatory Guides

The ITAR has been prepared in accordance with the 2012 JORC and the 2015 VALMIN Codes. Both of these industry codes are mandatory for all members of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. These codes are also requirements under Australian Securities and Investment Commission (ASIC) rules and guidelines and the listing rules of the Australian Securities Exchange (ASX)

This ITAR is as a Public Report as described in the VALMIN Code (Clause 5) and the JORC Code (Clause 9). It is based on, and fairly reflects, the information and supporting documentation provided by Azure Minerals Limited to the Competent Persons listed as signatories to this ITAR and additional publicly available information.

## 1.2. Scope of Work

VRM's primary obligation in preparing mineral asset reports is to independently describe mineral projects in compliance with the JORC and VALMIN Codes. These require that the Public Report contains all the relevant information at the date of disclosure, which investors and their professional advisors would reasonably require in making a reasoned and balanced judgement regarding the project.

VRM has compiled the ITAR based upon the principle of reviewing and interrogating both the work of Azure and independent specialists who have contributed to the technical information available for the projects. This report is a summary of the work conducted, completed and reported by the various companies to 17 April 2019 and is based on information supplied to VRM by Azure, its advisors and information that is in the public domain, to the extent required by the 2012 JORC Code and the 2015 VALMIN Code.

VRM has prepared an Independent Valuation of the nine mineral projects all located in Mexico

VRM understands that its review and valuations will be relied upon and appended to an Independent Expert's Report prepared by PP for inclusion in an IER prepared to assist shareholders in their decision regarding the approval of the proposed transaction. As such, it is understood that VRM's review and valuation will be a public document. Accordingly, this report has been prepared in accordance with the requirements of the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (the VALMIN Code, 2015).

## 1.3. Statement of Independence

Valuation and Resource Management (VRM), the trading name of Valuation and Resource Management Pty Ltd, was engaged to undertake an Independent Technical Assessment and valuation of the mineral assets of Azure. This work has been conducted in accordance with the 2012 JORC and the 2015 VALMIN codes. In addition to these industry codes the work also complies with ASIC Regulatory Guideline 111 – Content of Expert Reports (RG111) and ASIC Regulatory Guidelines 112 Independence of Experts (RG112).

Mr Dunbar of Valuation and Resource Management, the trading name of Valuation and Resource Management Pty Ltd has not had any association with Azure, its individual employees, or any interest in the securities of AZS which could be regarded as affecting the ability to give an independent, objective and unbiased opinion. Neither VRM or Mr Paul Dunbar hold an AFS licence and the valuation contained within this report is limited to a valuation of the mineral assets being reviewed. Valuation and Resource Management will be paid a fee for this work on standard commercial rates for professional services. The fee is not contingent on the results of this review and is estimated at $30,000.

Additional specialists, being Mr Shaun Searle and Ms Marion Bush have been engaged by VRM to undertake specific sections of this report. Mr Searle undertook a review of the Resource Estimates of each company. While Ms Bush has prepared the geological summaries of each projects. Both Mr Searle and Ms Bush have confirmed that they are independent of Azure, they have had no other association with Azure, its individual employees, or any interest in the securities of AZS, which could be regarded as affecting their ability to give an independent, objective and unbiased opinion.

## 1.4. Competent Persons Declaration and Qualifications

This report was prepared by Mr Paul Dunbar as the primary author with specialist sections undertaken by Mr Shaun Searle and Ms Marion Bush.

The primary author of the report and information that relates to geology, exploration and the mineral asset valuation is based on information compiled or overseen by Mr Paul Dunbar, BSc (Hons), MSc (Minex), a Competent Person who is a member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr Dunbar is employed by Valuation and Resource Management Pty Ltd, trading as Valuation and Resource Management, a Geology and Exploration Management consultancy, which has been engaged by Pitcher Partners (WA) Pty Ltd. Mr Dunbar has a Master of Science in Mineral Exploration and Mineral Economics and has sufficient experience, which is relevant to the style of mineralisation, geology and type of deposit under consideration and to the activity being undertaken to qualify as a competent person under the 2012 edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the 2012 JORC Code) and a specialist under the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (The 2015 VALMIN Code). Mr Dunbar consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**Specialists Qualifications**

Mr Shaun Searle, Senior Consultant Geologist with Ashmore Advisory Pty Ltd, was engaged by VRM to review the reasonableness of the previously announced Mineral Resource estimates for both companies. Mr. Searle has not verified the underlying geological datasets, nor has he re-reported the Mineral Resources for the projects. He is the principal author of Section 3.2.5, Section 3.3.5, Section 3.3.6 and Section 3.4.5. Mr Searle is a Member of the Australian Institute of Geoscientists and has sufficient experience to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Searle consents to the inclusion in this report of these matters based on information in the form and context in which it appears.

Ms Marion Bush was engaged by VRM to review the geological information and exploration history of the mineral projects owned by Azure. Ms Bush is a Member of the Australian Institute of Geoscientists and has sufficient experience to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Bush consents to the inclusion in this report of these matters based on information in the form and context in which it appears.

## 1.5. Reliance on Experts

The authors of this report are not qualified to provide extensive commentary on the legal aspects of the mineral properties or the compliance with the relevant laws governing mining within the United Mexican States. Valuation and Resource Management has interrogated the websites of the various state departments to confirm the validity

of the tenements and aspects relating to the compliance with the various government acts. All have confirmed that the tenements are reported as being in good standing and that all tenement matters including annual reports, rents and renewals have been lodged and are progressing in accordance with the various Mining Acts. As VRM and the authors of this report are not experts in the Mining Acts, no warranty or guarantee, be it express or implied, is made by the authors with respect to the completeness or accuracy of the legal aspects regarding the security of the tenure.

For Azure's projects VRM has relied upon the following reports and information;

- A review of the following Mineral Resource Estimates by Mr S Searle, May 2019
  - Oposura
  - Promontorio
  - Alacrán
- Various Azure ASX releases including exploration results
- Azure Quarterly Reports and Annual Reports.
- ASX releases from other companies that have previously explored the areas
- Publicly available information and regional datasets including geological mapping, interpretation, reports, geophysical datasets and Mineral Deposit information.

## 1.6. Sources of Information

The historical production from the various mines and occurrences have been derived from and mainly government reports including;

- AGP Mining Consultants, 2015. Azure Minerals Limited Promontorio Project Resource Estimate. Technical report prepared by Amec Foster Wheeler Australia Pty Ltd for Azure Minerals Limited.
- Amec Foster Wheeler, 2016. JORC Code Mineral Resource Estimate Competent Persons Report Mesa de Plata. Technical report prepared by AGP Mining Consultants Inc for Azure Minerals Limited.
- Azure Minerals Limited, 2013. Promontorio Resource Update. ASX release by Azure Minerals, dated 10th May 2013.
- Azure Minerals Limited, 2015. Promontorio Resources Updated. ASX release by Azure Minerals, dated 7th May 2015.
- Azure Minerals Limited, 2016a. Silver Resource Upgraded at Mesa de Plata. ASX release by Azure Minerals, dated 1st December 2016.
- Azure Minerals Limited, 2016b. Initial Mineral Resource Estimate for Loma Bonita. ASX release by Azure Minerals, dated 21st December 2016.
- Azure Minerals Limited, 2018. Azure Delivers Robust Initial Mineral Resource at Oposura. ASX release by Azure Minerals, dated 4th July 2018.
- Azure Minerals Limited, 2019. Azure Expands Oposura Mineral Resource. ASX release by Azure Minerals, dated 8th May 2019.

In VRM's opinion, the information provided for the resources was of reasonable quality and satisfactorily addressed the requirements for an assessment of the reasonableness of the approach to the various Mineral Resource estimates. The technical data was reviewed at a high level, however full due diligence was not undertaken.

All information and conclusions within this report are based on information made available to VRM and the specialists engaged to assist with this report by Azure and other relevant publicly available data to 17 April 2019. Reference has been made to other sources of information, published and unpublished, including government reports and reports prepared by previous interested parties and Joint Venturers to the areas, where it has been considered necessary. VRM has, as far as possible and making all reasonable enquiries, attempted to confirm the authenticity and completeness of the technical data used in the preparation of this report and to ensure that it had access to all relevant technical information. VRM has relied on the information contained within the reports, articles and databases provided by Azure as detailed in the reference list. A draft of this report has been provided to Azure (via PP) to identify and address any factual errors or omissions prior to finalisation of the report. The valuation sections of the report were not provided to the until the technical aspects were validated and the report was declared final.

## 1.7. Site Visit

VRM has assessed the requirement for a site visit to each of the projects. As most of the projects are early stage exploration assets it is considered that a site visit would not reveal any information that would be considered material for the early stage projects. For the more advanced projects there have been recent site visits conducted by independent resource consultants as a part of the Resource Estimates for the Oposura, Promontorio and Alacrán projects, due to the recent site visits and the company reporting that no additional information or work has been conducted that materially impacts the resource estimates in VRM's opinion a site visit would not reveal any additional information that would materially modify the assumptions or content of this report.

# 2. Mineral Assets

The mineral assets that are included in this review include the Oposura, Promontorio and Alacrán projects along with several earlier stage projects owned by Azure and all located in Mexico (Figure 1)

As the majority of the projects are within Sonora state, north western Mexico, VRM considers it reasonable to describe the regional geology of the general region rather than detail the regional geology in each of the project descriptions below.


from Azure website.

**Figure 1 Location of the Azure tenements in Mexico.**

# 3. Azure Resources Mineral Assets

Azure mineral assets (Figure 1) include the advanced Oposura, Alacrán and Promontorio projects which all have Mineral Resource Estimates while there are six earlier stage exploration projects.

The mineral tenure, including the Joint Venture terms, royalties and significant aspects of the tenements for all the Azure projects are documented in Section 3 with detailed tenements list included in Appendix A. The local geology, exploration history, recent exploration results and resources for each of the major projects are detailed in Sections 3.2 to 3.4 below while the minor projects are detailed in Section 3.5 below.

## 3.1. Mineral Tenure

Details of the Azure tenements are included in Appendix A. The tenements have been validated by VRM reviewing the tenement certificates provided by Azure. These tenement certificates were validated original certificates from when the tenements were granted. The title number was checked against the tenement schedule provided by Azure and cross referenced to the tenement schedule from various Azure ASX releases, annual reports and ASX releases associated with the acquisition of the projects. Other than minor typographical errors no material errors were identified to the tenement schedule provided by Azure. A tenement plan is not included in this section of the report however suitable tenement plans for each of the projects are included in the technical descriptions of the projects below.

The majority of the tenements reviewed in this report are 100% beneficially owned by Azure either directly or through a wholly owned subsidiary however the tenement holder on the certified tenement documents are often the tenement applicant at the time the tenement was lodged. VRM has cross referenced the ASX releases associated with Azure acquiring the each of the projects. Azure is listed as the 100% beneficial owner for all the tenements. As at the valuation date Teck had the right to earn up to 65% of the Alacrán Project however on 16 May 2019 Azure acquired Tecks' rights to earn up to 65% of the Alacrán Project.

VRM relies on the tenement certificates supplied by Azure and various government databases and websites which confirm Azure tenements are, at the time of this report, in good standing.

### 3.1.1. Potential Joint Ventures

The Alacrán project is the only project owned by Azure that at the valuation date was potentially subject to a Joint Venture. Teck has been earning up to a 65% interest in the Alacrán project since 2017 and was at the valuation date the operator. Work conducted during 2017 and 2018 represent the first two years of activity in a total four-year program comprising the first Option which will entitle Teck to earn back a 51% share of the project by sole-funding US$10 million of exploration expenditure and making cash payments to Azure totalling US$500,000. Teck may exercise the second Option to further increase its interest to 65% by sole funding an additional US$5 million in expenditures over a further two years and making cash payments to Azure totalling an additional US$1.5 million. At the end of each of the first option period if Teck elected not to continue with the second option then a contributing Joint Venture would be formed with Teck holding 51% and Azure 49%. If Teck elected to exercise the second optiopn and earn up to 65% then a Joint Venture would be formed at the end of that option period with Teck holding 65% and Azure 35%. As detailed above on 16 May 2019 Azure acquired Teck's right to earn up to 65% of the project.

Azure currently retains a 100% beneficial interest in the project.

The Promontorio project was subject to Joint Venture with a subsidiary of the Rio Tinto Group however that Joint Venture was terminated in early 2017. Azure has retained a 100% economic and beneficial interest in the project.

### 3.1.2. Royalties and Encumbrances on Azure Tenements

The following royalties or future payments have been identified for the Oposura, Alacrán, San Agustin and Sara Alicia projects. The details of these royalties have been derived from publicly available information, resource reports and the Oposura Scoping Study. It has not been compiled from the original executed agreements and VRM nor the authors are specialists in mining law or royalties. Therefore, and VRM provides no warranties or guaranties relating to completeness of the royalties or encumbrances detailed in this section.

While all mineral projects in Mexico are subject to a 7.5% government royalty, there are additional private royalties associated with the acquisition of the various projects.

**Oposura**
Under the terms of acquisition of the Oposura property, production from the property is subject to a 2.5% NSR royalty to Puma, the previous owners. This applies across all concessions, with the exception of production from the Nuevo Oposura 2 concession (acquired in 2018).

**Alacrán**
Grupo Mexico retains a 2% NSR royalty on any production from the Alacrán Project. On 16 May 2019 Azure announced a transaction whereby they will grant an additional 0.5% NSR royalty to Teck as a part payment on Azure acquiring Teck's eights to earn back to 51% of the project.

**San Agustin**
The vendor retains a 1% NSR over future mineral production from the San Agustin project.

**Sara Alicia**
A payment of $US125,000 is required to be made to the vendors of the upon the project achieving commercial production.

## 3.2. Oposura Zinc-Lead-Silver Project

The Oposura Project is a zinc-lead-silver deposit, located within the Mexican state of Sonora (Figure 1). Mineral Resources within the project total 3.1 million tonnes containing 153,000 tonnes of zinc at 5.0% Zn, 84,000 tonnes of lead at 2.7% Pb, and 1.78 million oz of silver at 18g/t Ag (ASX release 4 July 2018). CSA Global completed a Scoping Study for Azure at Oposura in October 2018 using a previous, slightly smaller Resource estimate, (ASX release 15 October 2018, CSA Report 3 October 2018)). Azure is aiming to bring the project into production by late 2020 to early 2021.

Collectively there are eleven granted tenements covering 837.95 hectares, although El Encinal (T-223483) overlies several of the smaller concessions. The tenements that constitute the Oposura project are detailed in Appendix A while Figure 3 shows a plan of the tenement outline overlain on the known mineralisation while shows the location of the tenements.

Azure owns 100% of the Oposura Project through its wholly owned subsidiary Minera Piedra Azul S.A. de C.V. Tenement certificates were reviewed by VRM with the El Encinal concession detailed as an which is an exploration licence while the others are all exploitation licences.

### 3.2.1. Location and Access

The Oposura Project is located in the Sierra Madre Occidental mountain range in the north of Sonora state in northern Mexico, approximately 180km south of the border with the USA and 150km by road northeast of the state capital, Hermosillo (Figure 3). The current resource at Oposura East is centred at 620,280mE, 3,289,890mN UTM (WGS84) zone 12N (EPSG: 32612). Elevation ranges across the Project between 950 m above sea level (ASL) to 1,520 m ASL.

Oposura is 180 km by road from Hermosillo via a sealed highway (National Highway 14) that runs from Hermosillo to Moctezuma. Site access from Highway 14 via a well-maintained gravel road to the Oposura historical workings.

The nearest airstrip is located at Cumpas, approximately 30 km to the north of Moctezuma on Highway 17. This airstrip is bitumen and 1.5 km in length. There is an international airport at Hermosillo


Source: Oposura – Scoping Study, 3 October 2018

**Figure 2 Oposura Mining Concessions**

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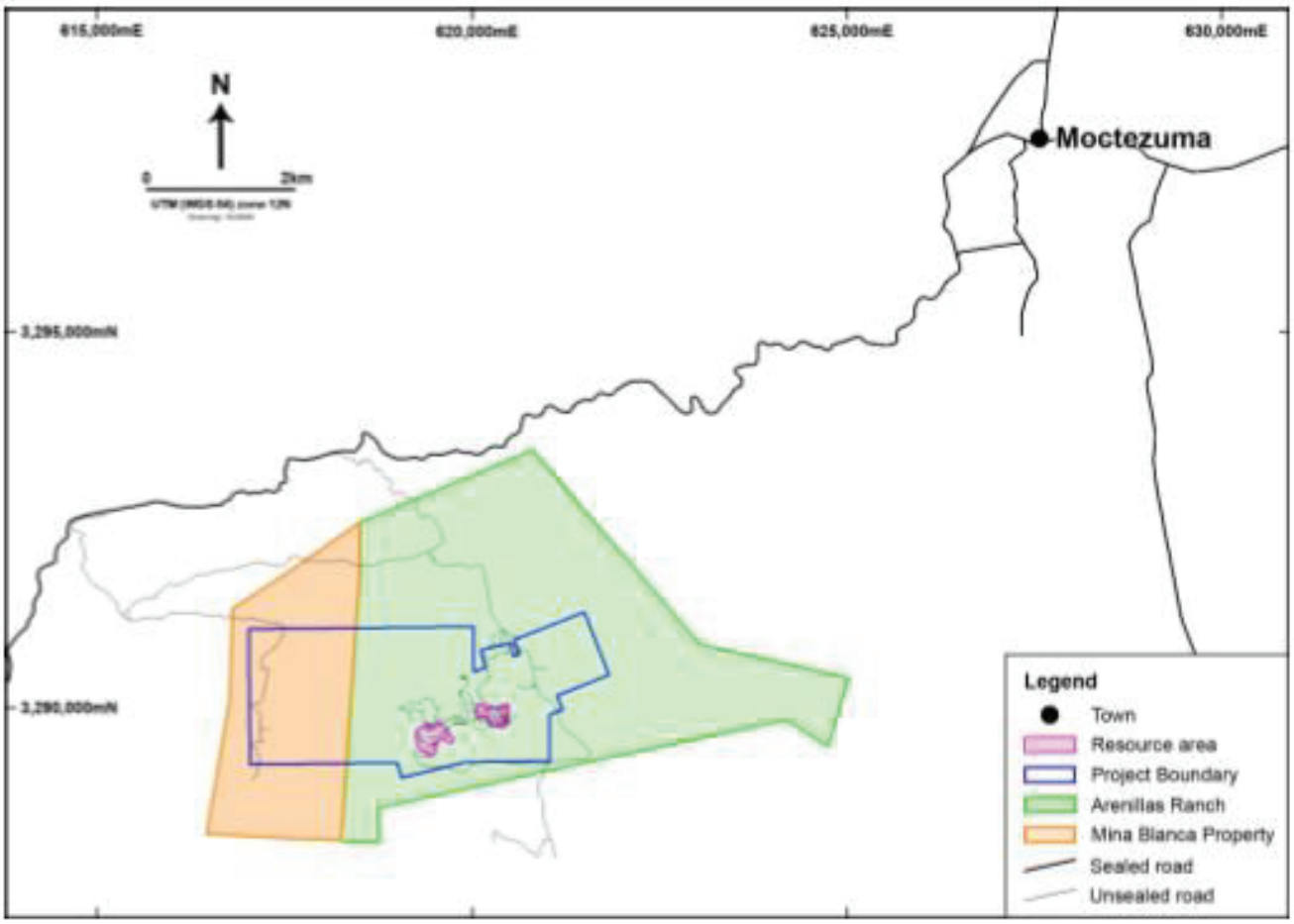



From Azure ASX release 3 October 2018

**Figure 3 Existing Oposura Project Infrastructure**

### 4.2.1 Previous Production and Exploration

The Project area has a history of exploration and small-scale exploratory mining, of zinc, lead and silver dating back to the early 20th century. Several companies have conducted exploration over the Oposura Project between the 1920s and 1980s, including Anaconda from the 1940s to 1960s and Peñoles in the 1970s to 1980s. Exploration activities included extensive mapping, surface and underground geochemistry, trenching, various types of imagery, geophysics, petrography and other studies. There was a hiatus in activity on the project from the 1980s until the previous owner, Grupo Minera Puma S.A. de C.V. (Puma), conducted a drilling program of 16 holes in early 2017.

Prior to Azure's ownership, 94 surface holes and 25 underground holes have been drilled by Anaconda, Peñoles, and Puma. All historical drilling was diamond drilling, details of which are below in Table 1.

**Table 1** Historical Drilling Details

| Company | Years | No. of holes | Average depth (m) | Hole depth (min – max) | Total Metres |
|---|---|---|---|---|---|
| Anaconda | 1948 - 1966 | 52 (surface) | 51.57 | 3.05 – 168.86 | 2,681.44 |
| | | 25 (underground) | 8.93 | 1.53 – 19.51 | 223.23 |
| Peñoles | 1976 - 1982 | 26 | 105.77 | 49.55 – 261.45 | 2,749.90 |
| Puma | 2017 | 16 | 61.43 | 37.15 – 120.10 | 982.90 |

Source: Oposura Zinc-Lead-Silver Project – Scoping Study, 3 October 2018

The historical work defined a mineralised horizon extending east-west for approximately 1,400m. The overall mineralised zone is up to nine metres thick, averages about three metres in true width, and demonstrates good continuity of width and grade.

### 3.2.2. Local Geology

The Oposura deposit is located in the Sierra La Huerta west of Moctezuma town in the western part of the Sierra Madre Occidental arc, about 150 km south-southeast of the Cananea porphyry copper deposit. It sits firmly within the northwest Mexico porphyry belt, not within the Carbonate-Replacement District (CRD).

The Moctezuma district is dominated by volcanics of Late Cretaceous to Palaeogene age, interpreted to straddle the Laramide event. The Project area occurs within the Tarahumara Formation, which is over 4km thick and is dominated by subaerial volcanic rocks with subordinate terrestrial sediments, including lacustrine limestones. Mineralisation at Oposura is hosted within the felsic, volcano-sedimentary Arenillas Formation, one of a number of formations interpreted to be equivalent to the lower part of the Tarahumara Formation at a larger scale.

The Arenillas Formation is a mixed unit of tuffaceous and limestone intervals sandwiched between two volcanic welded tuff units. The footwall unit is the ignimbritic volcanics of the Revancha Rhyolite and the hanging wall unit is the tuffs of the Candelaria Formation.

The sequence at Oposura is weakly deformed and un metamorphosed. The stratigraphy is relatively shallow dipping to the northwest, but in detail bedding may dip southwest to northeast around open fold closures. The stratigraphy is offset by a prominent set of northwest-trending faults with throws of metres to decimetres. Antithetic east-northeast faults are also present. The faults postdate mineralisation.

Skarn and sulphide mineralisation location and geometry are controlled by the distribution of favourable host rock and structurally-controlled feeder systems. No definitive feeder systems have been identified. No intrusions are known in the Oposura area. However, the source of the mineralising fluids is almost certainly magmatic, with transport facilitated by major structures, such as the major northwest-trending Rancho Arenillas structure mapped to run northeast of Oposura with associated epithermal mineralisation. A magnetic high in the ground magnetic survey about 1 km north of the mineralised zone could represent a buried intrusion.

The overall mineralised zone is up to nine metres thick, averages about three metres in true width, and demonstrates good continuity of width and grade.

**Lithology**

The Arenillas Formation is characterised by a range of lithologies with significant lateral thickness and facies variation. Key lithofacies include:

- Coarse poorly-sorted clastic volcano-sedimentary rocks, thick-bedded or poorly bedded, dominated by volcanic-derived sediment and varying from lithic-rich to crystal rich (Figure 4).
- Thinly-bedded to laminated tuffaceous sandstone to siltstone to mudstone that are variably calcareous but typically have calcareous horizons often replaced by manganoan silicates or silicified.
- Laminated limestone and calcareous mudstone/siltstone.
- Massive and algal limestone, often with irregular to chaotic or pseudobreccia texture but without bioclasts.

Source: Oposura – Scoping Study, 3rd October 2018

**Figure 4 Argilles Formation bedded coarse crystal-lithic tuffaceous lithofacies with interbeds of fine siltstone/mudstone**

**Mineralisation**

CSA Global observed that Oposura fits the characteristics of a distal skarn, carbonate-replacement style deposit, with skarn alteration and zinc, lead and sulphide-bearing disseminated to massive strata bound mineralisation replacing limestone horizons within the Arenillas Formation. The strata bound mineralisation can be mapped as gossanous outcrops extending for almost 2 km of strike along the eastern and southern side of Oposura hill. Total oxidation does not extend more than a few metres from surface outcrop.

Sulphide mineralisation is dominantly sphalerite and galena with subordinate pyrite, minor chalcopyrite, trace molybdenite, and locally abundant magnetite. Tetrahedrite is also reported by Deen and Atkinson (1988). Sulphide mineralisation is associated with manganese-rich calc silicate minerals replacing massive and laminated limestone. Manganese-rich skarn alteration is more extensive than the strong sulphide mineralisation and affects the calcareous volcanic sediments in the Arenillas Formation as well as the limestone. Skarn alteration and sulphide mineralisation show sharp cut-offs laterally and across bedding with un-mineralised host rocks including unaltered limestone.

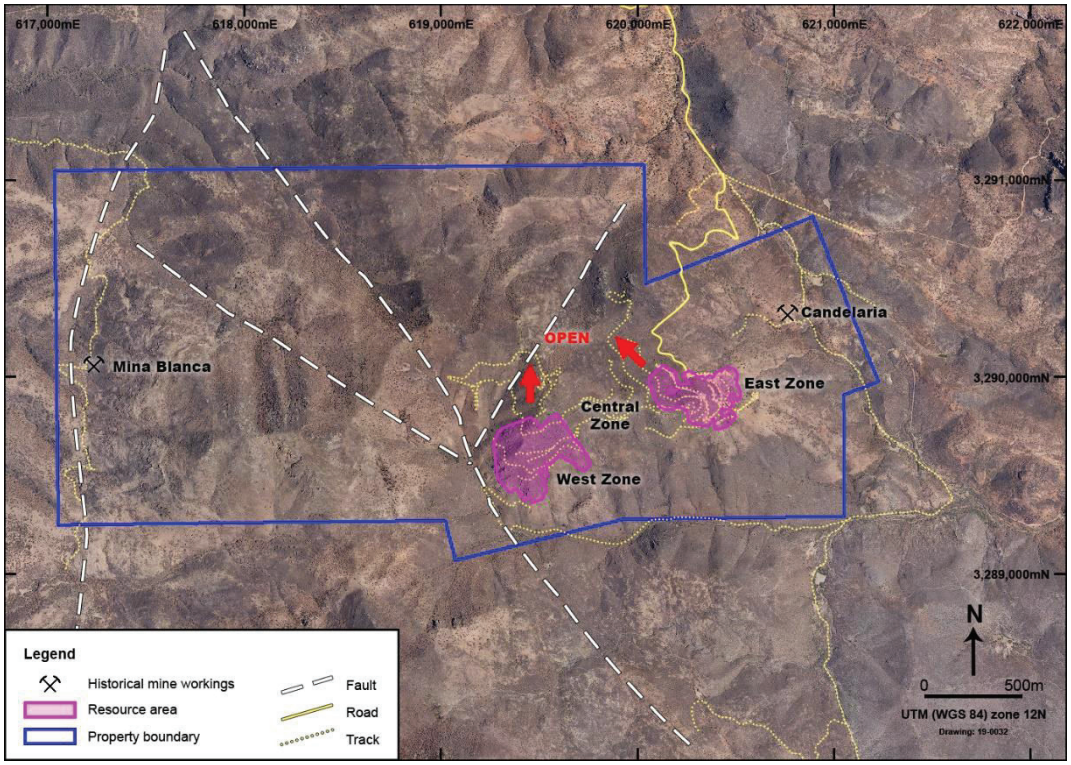
Silver rich epithermal vein hosted mineralization also occurs in the project area and has not yet been evaluated by Azure.

### 3.2.3. Recent Exploration Activities

In August 2017, Azure acquired the Project and immediately commenced project-wide exploration and resource definition drilling over the East and West zones of the Oposura Project. Geophysical surveys including LiDAR and aerial photographic aeromagnetic and radiometric surveys were undertaken along with Sampling and surveying of underground workings at the Oposura mine. Mapping and sampling of the area, and sampling and surveying of artisanal workings was also completed. The initial drilling program of resource definition drilling program was completed in March 2018 and the initial mineral resource was announced on 4 July 2018. This initial drilling consisted of 157 holes for a total of 10,125 metres. 154 of the holes were used in the Mineral Resource Estimation of the East and West Zone Mineral Resources (ASX release 4 July 2018).

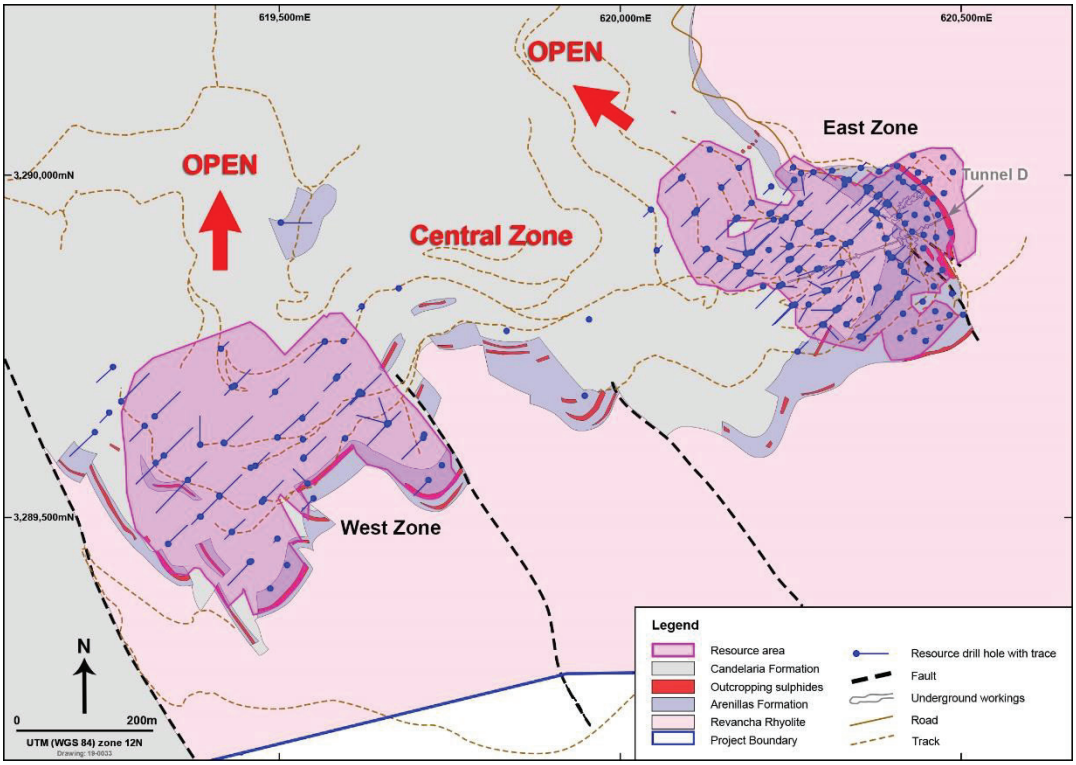
Azure completed 58 holes (OPDH-158 to OPDH-215) for 4,566.85m in the March 2019 quarter
The drilling program designed to:

- upgrade the resources scheduled to be exploited within the first few years of the mine plan, to JORC Indicated resources
- expand the mineral resource located around Tunnel D extending from the East Zone into the Central Zone, a 500m-wide zone situated between the East and West Zones (Figure 7 and Figure 8).




Source: Azure

**Figure 5 Oposura project area with Mineral Resource outlines**

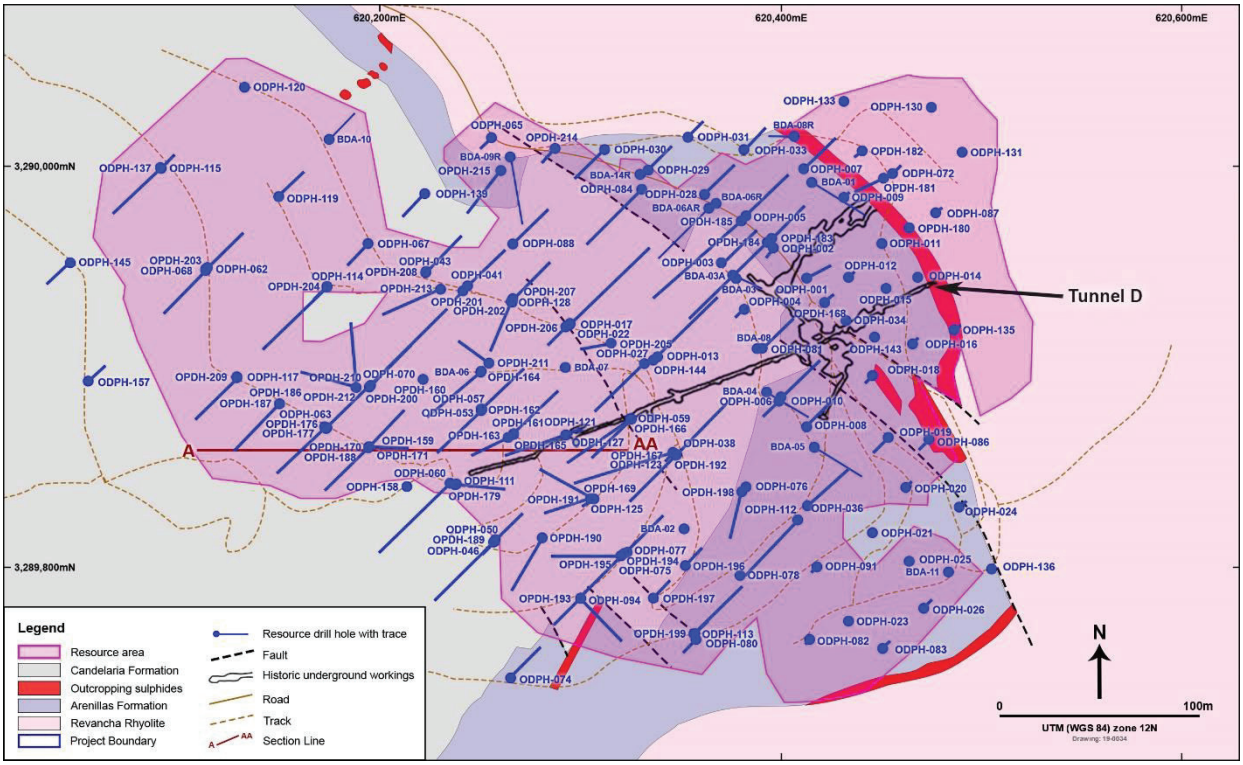



Source: Azure

**Figure 6 East Zone and West Zone Mineral Resource outlines**

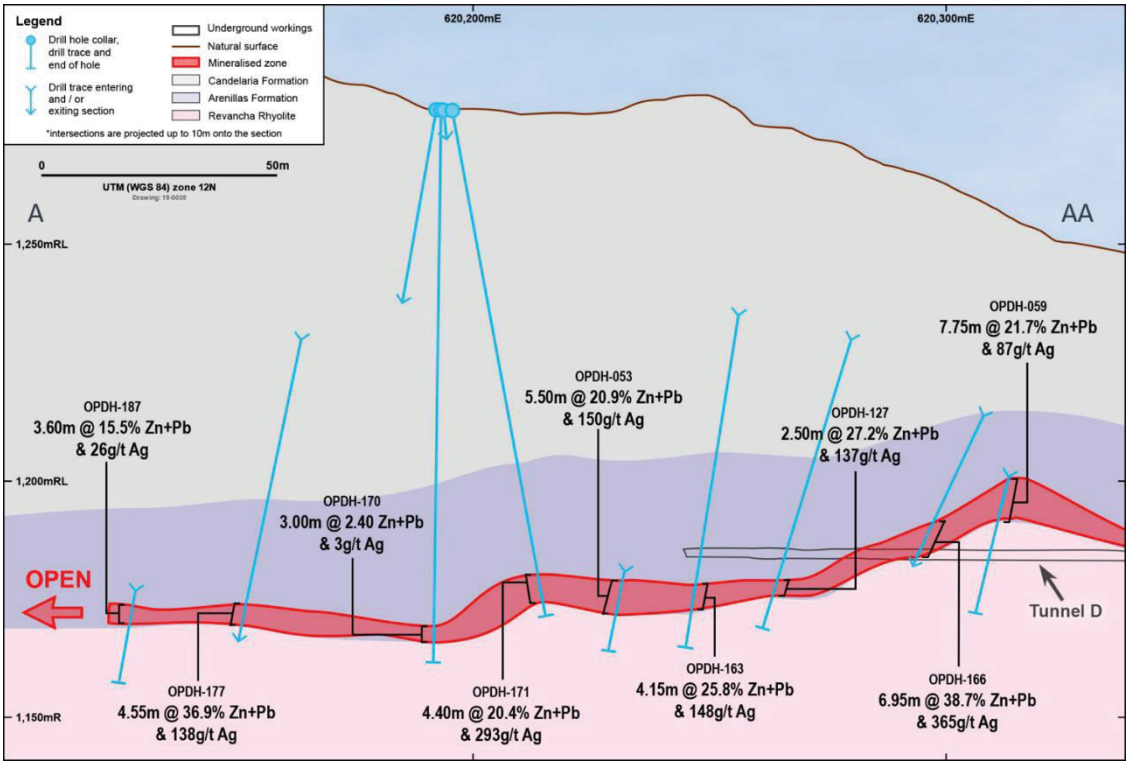
The resource infill drilling confirmed excellent continuity of mineralisation within the East Zone and this is likely to result in upgrading most of the East Zone Mineral Resource to JORC Indicated classification, thereby enabling conversion to JORC Probable Reserves as part of the Feasibility Study. Azure reported an updated Mineral Resource Estimate on 8 May 2019. This resource update has been included in this report and valuation.

The close-spaced extensional drilling was successful in delineating a zone of high-grade (>20% Zn+Pb) mineralisation located around Tunnel D within the western part of the East Zone and extending further to the west into the Central Zone (Figure 8). Azure is currently assessing the potential for early development of this high-grade mineralization. (March 2019 Quarterly Activities Report)




Source: ASX release 11 December 2018

**Figure 7 Plan of the Oposura East Zone showing locations of Phase 2 drill holes**




Source: ASX release 11 December 2018

**Figure 8 Cross Section through the Tunnel D High Grade Zone**

Some of the high-grade mineralised intersections of the Phase 2 drilling program are included in Table 2 below

**Table 2 High Grade intercepts of Phase 2 drill program**

| Hole No | Intercept Length (m) | Grade | | | |
|---|---|---|---|---|---|
| | | Zn (%) | Pb (%) | Zn+Pb (%) | Ag (g/t) |
| OPDH-166 | 6.95 | 33.5 | 5.2 | 38.7 | 365 |
| OPDH-177 | 4.55 | 30.8 | 6.1 | 36.9 | 138 |
| OPDH-127 | 2.50 | 24.8 | 2.4 | 27.2 | 137 |
| OPDH-163 | 4.15 | 21.9 | 3.8 | 25.7 | 148 |
| OPDH-165 | 2.90 | 18.8 | 2.3 | 21.1 | 148 |
| OPDH-171 | 4.40 | 14.8 | 5.6 | 20.4 | 294 |

Source: March 2019 Quarterly Activities Report

Additional high grade intercepts were reported in the ASX releases of 24 October 2018 and 11 December 2018.

### 3.2.4. Mineral Resource Estimate

(Source: AZS, 8 May 2019)

Table 3 below details the 8 May 2019 Mineral Resource Estimate for the Oposura deposit. This estimate is a slight increase on the previous estimate of 4 July 2018 when the total resource was 2.9Mt containing 145,000t of zinc, 82,000t of lead and 1.6Moz of silver. While the increase is modest there was 0.4Mt added to the indicated category and a 0.2Mt decrease in the inferred resources. As the majority of the additional drilling was aimed at increasing the resource confidence this change is considered material to the overall project.

**Table 3 Oposura 2019 Mineral Resource Estimate (1.5% ZnEq* Cut-off)**

| | Tonnage Mt | Grade | | | Metal | | |
|---|---|---|---|---|---|---|---|
| | | Zn % | Pb % | Ag g/t | Zn kt | Pb kt | Ag koz |
| **Indicated** | 2.5 | 5.3 | 2.9 | 19 | 133 | 72 | 1,500 |
| **Inferred** | 0.6 | 3.4 | 2.1 | 15 | 21 | 13 | 290 |
| **Total** | **3.1** | **5.0** | **2.7** | **18** | **153** | **84** | **1,780** |

*Note:*
*ZnEq = Zinc Equivalent Grade, reported in USD*
*ZnEq = [(Zn % x 0.875 x 0.85) + (Pb % x 0.85 x 0.95) + (Ag g/t x 0.67 x 0.70)] / (Zn % x 0.875 x 0.85)*
*Assumptions: Zn price $3,107.5/t, Pb price $2,411/t, Ag price $16.2/oz (from Kitco and LME, 20/06/2018)*
*Concentrate recoveries: Zn 87.5%, Pb 85%, Ag 67% (from test work)*
*Smelter recoveries: Zn 85%, Pb 95%, Ag 70% (from International Benchmarks)*

#### 3.2.4.1. Geology and Mineralisation

The Oposura Zinc-Lead-Silver Project is located in Sonora, Mexico. Oposura is hosted by the Cretaceous-age Mesa Formation, a volcano-sedimentary sequence that extends across northern Mexico.

At Oposura, the host lithology is a felsic volcano-sedimentary sequence. Mineralisation predominantly occurs within the Arenillas Formation, a mixed unit of volcanic tuffs and limestone intervals sandwiched between two volcanic welded tuff units. The footwall unit is the Revancha Rhyolite and the hanging wall unit is the Candelaria Formation.

Based on the observed alteration mineralogy, Oposura fits the characteristics of a distal skarn, carbonate replacement style deposit, with skarn alteration and sulphide mineralisation replacing limestone horizons within the Arenillas Formation.

Mineralisation comprises zinc, lead and silver-bearing sulphides and iron sulphides (pyrite) occurring as massive to semi-massive strata bound lenses that replace limestone horizons in the sedimentary sequence. Higher grade zinc

and lead mineralisation is correlated with elevated silver concentrations. The most extensive mineralised horizon replaces a well-developed, clean, massive to laminated limestone unit near the base of the Arenillas Formation. Extensive skarn alteration of limestone and of calcareous volcanoclastic sedimentary rocks is associated with the sulphide mineralisation and is characterised by manganese-rich calc-silicate minerals with strong, late-stage retrogression.

Massive sulphide mineralisation commences at surface with little evidence of oxidation or weathering.

#### 3.2.4.2. Informing Data and QA/QC

**Drilling and Sampling**

Mineral Resource definition drilling has been undertaken in two phases. Phase 1 was undertaken in 2017/18 and comprised 173 diamond drill holes for 11,109m of drilling, with 16 holes drilled by the previous owner Puma (983m) and 157 holes by Azure (10,126m). Phase 2 was undertaken in 2018 and comprised 58 diamond drill holes totalling 4,567m, all drilled by Azure. Hole depths ranged from 10m to 134m, with an average depth of 68m, highlighting the shallow nature of the deposit.

Holes were drilled with a variety of azimuths and dips to ensure the mineralised horizon was intersected on an initial 50m by 50m spacing. Additional drilling to infill the hole spacing to 25m by 25m was undertaken in some areas. For the Mineral Resource, all Puma holes and 187 Azure holes intersected mineralisation.

Drill core was sawn in half along the core axis using a wet diamond core saw. All samples were collected from the same side of the core. Duplicate, standard and blank check samples were anonymously submitted with drill core samples at the rate of approximately one standard, blank or duplicate in every 10 samples. When a duplicate sample was required, the half core sub-sample was then wet-cut preparing two quarter core sub-samples for laboratory dispatch, one considered to be the primary sample, the other a duplicate.

Sample lengths for assay purposes were guided by changes in geology and varied from 0.05m to 3.05m, with an average sample mass of 2.75kg.

**Analysis**

Bureau Veritas Mineral Laboratories ("BVL") prepared all the samples from Oposura at their sample preparation facilities in Hermosillo, Sonora, Mexico. Samples were weighed, assigned a unique bar code and logged into the laboratory tracking system. Samples were then dried, and each sample was crushed to >70% passing a 2mm screen. A 250g sub-sample was collected for pulverising by ring and puck to >85% passing sub 75µm. The 250g sample pulps were then dispatched via courier to BVL in Vancouver, Canada for analysis.

Samples drilled by Puma were analysed by the technique MA200 with 0.25kg samples subject to a four-acid digest followed by multi-element ICP-MS analysis producing results for silver and base metals. This technique is considered a total digest for all relevant minerals and has a very low detection limit.

The analytical technique, MA300, was used for all samples drilled by Azure, comprising 0.25kg samples subject to a four-acid digest followed by multi-element ICP-ES analysis producing results for silver and base metals. This technique is considered a total digest for all relevant minerals.

Over-limit assays for both Azure and Puma drill samples were re-analysed by:

- Method MA370 (0.5kg samples digested by 4 acids and analysed by ICP-ES for base metals grading >1%);
- Method GC816 (by Classical Titration for zinc grading >20%);
- Method GC817 (by Classical Titration for lead grading >10%);
- Method FA530 (by fire assay with gravimetric finish for silver grading >200ppm).

**QA/QC**

Core duplicate, certified reference materials ("CRMs") and blank quality control ("QC") samples were anonymously submitted with primary drill core samples at the rate of approximately one QC sample for every 10 samples. When a duplicate sample was required, the half core sub-sample was then wet-cut preparing two quarter core sub-samples for laboratory dispatch, one considered to be the primary sample, the other a duplicate.

Three samples of CRM "CDN-ME-1402" exceeded the upper certification limit of three standard deviations for "ore-grade" ICP-ES (MA370) analysis. The batches for these three samples contained primary samples from two holes, OPDH-053, lying in the central part of domain 4 of Oposura East, and OPDH-042, in the southern edge of domain 1 of the West Zone. Samples from both holes, samples intercepted mineralisation and were used for the estimation. Mineral Resources were classified as Inferred for the material around the former hole. The latter is within material classified as Indicated, however, it is between two holes with grades of the same tenor.

Anomalous zinc, lead and silver assay grades for blanks indicated that potential sample swaps or contamination had occurred, or that inappropriate material was used for the blanks. However, the Competent Person determined that the anomalies were not material.

Based on an assessment of the data, the Competent Person considers the entire dataset to be acceptable for resource estimation with assaying posing minimal risk to the overall confidence level of the Mineral Resource estimate

**Bulk Density Measurements**

Azure collected a total of 1,217 density measurements from drill core samples with 835 samples sourced from within the boundaries of the Mineral Resource and the remainder collected from within lower-grade and waste zones to provide a good range of material for density determinations.

Each sample was dried and measured for length and diameter. The diameter was measured with callipers at three points along the length of the core sample and averaged. The volume of the core sample was calculated, and the sample was weighed. Azure calculated the density for the core samples by dividing the dry weight of the sample by its volume.

A total of 196 of the 1,217 samples were sent to Bureau Veritas Laboratories in Hermosillo, Mexico for confirmatory density measurements by immersion of waxed core (method SPG03). The results of the immersion method were compared to densities calculated by Azure. There was no discernible difference between the calliper and immersion methods.

A multivariate regression formula from dry bulk density determinations to Zn% and Pb% was developed for use across the deposit for areas of varying zinc and lead grades. This formula combined the measured density of samples that were subsequently sent for assay.

The multivariate regression formula was also used to analyse the results of the dense media separation test work.

**Metallurgical Test work**

Dense media separation ("DMS") and staged and locked cycle flotation tests were conducted by Blue Coast Research ("BCR") laboratories in Vancouver, Canada, on historical underground workings at and individual drill hole intersections of varying combined zinc and lead grades and zinc to lead grade ratios. These ascertained the density at which the DMS circuit could optimise metallurgical recovery and waste rejection.

DMS test work was then conducted on a bulk master composite comprising intersections from several drill holes, averaging 6.4% Zn, 4.2% Pb and 28.8g/t Ag from 11 resource infill diamond holes. The bulk composite is considered representative of the overall Oposura deposit. The laboratory split the bulk composite into several sub-samples, with multiple batch and locked cycle flotation tests showing that an overall metallurgical recovery of 95% could be achieved with an upgrade in zinc and lead grades of 34% each, while rejecting approximately 30% of the mass entering the DMS circuit.

The use of DMS with a bulk mining approach is supported at Oposura where distinct density differences between mineralised material and waste rock exist. Results from recent metallurgical test work optimising crushing, screening and DMS processing prior to a standard sulphide flotation treatment support this option.

The staged flotation tests conducted on the master composite were used to optimise primary and secondary grind sizes, flotation times and reagent regimes for the separate zinc and lead concentrates. A locked cycle test was then conducted on the master composite to more closely simulate a continuously operating flotation circuit.

The result of the locked cycle test was a zinc concentrate grading 57.2% zinc with a zinc recovery of 85.6% and a lead concentrate grading 61.4% lead at a lead recovery of 84.0%. Silver recovery to the lead concentrate was 67.1% silver at a concentrate grade of 323.8g/t Ag (10.4 oz/t Ag).

These grades are above the typical industry benchmark grades quoted respectively for zinc and lead concentrates of 53% zinc and 60% lead. At the benchmark concentrate grades, a regression line on the batch locked cycle test results defines a zinc recovery of 87.5% at the benchmark concentrate grade of 53% zinc and a lead recovery of 85% was used at the benchmark concentrate grade of 60% lead.

Physical test work comprised the establishment of crushing, grinding and abrasion indices. All three of the indices are within the typical range of expected values for mining projects.

Assays on the concentrates indicated that deleterious elements were not present at levels that would cause concern or penalties from smelters.

**Comment**
The drilling, sampling and sample preparation procedures are appropriate for the mineralisation style and thickness. The frequency and type of QC samples is adequate and support the data for use in Mineral Resource estimation.

Project-wise, there are sufficient bulk density measurements, however it was not stated if a density measurement was obtained for every assayed sample interval. Ashmore recommends that a bulk density measurement is obtained for every assayed sample interval derived from core at any type of base metals deposit.

Metallurgical testing has been conducted at Oposura and indicate that the mineralisation can be processed into separate zinc and lead concentrates at recoveries that support prospects for eventual economic extraction.

#### 3.2.4.3. Estimation

For Mineral Resource estimation control, five mineralisation domains and five low-grade halo (non-Mineral Resource) domains were identified for East Zone, while for West Zone five mineralisation and five low-grade halo (non-Mineral Resource) domains were grouped into two statistical domains based on statistical and geometric similarities.

The domains were identified by geological and spatial continuity, as grade-boundary analysis of zinc, lead and combined zinc + lead showed continuous distributions. The volumes of the domains were modelled using conventional sectional interpretation followed by digital wireframing methods. The wireframe models were reviewed and accepted by Azure and then used to code a digital block model as follows:

- Mineralisation: defined using a combined nominal ≥ 1.5% Zn% + Pb% grade cut-off.
- Low grade halos (not reportable as Mineral Resources): defined as being any coherent zones enveloping the mineralisation wireframes below the mineralisation modelling cut-off. This allows a more robust measure of dilution around the mineralisation for mine studies.

Sub-blocks were included in the block model to closely match the estimation domain boundaries and the topographic surface and provide adequate resolution on volumes.

Domains were estimated using composites from each estimation domain. For East Zone, the semi- variogram models from the same domain were used, for West Zone, the semi-variogram model from the statistical domain grouping was used.

Quantitative Kriging Neighbourhood Analysis ("QKNA") was undertaken using Supervisor software to assess the effect of changing key Kriging neighbourhood parameters on block grade estimates. Kriging Efficiency and Slope of Regression were reviewed for a range of block sizes, minimum and maximum samples, search dimensions and discretisation grids.

Ordinary Kriging ("OK") was adopted to interpolate grades into cells for the mineralised domains and low-grade halo domains around the mineralisation, inside which the composites for the high-grade domain were removed.

The block size appropriately reflects the dual open-pit and underground scenarios, and the drill hole spacing, which varies from 25m to 50m sections along strike. Intra-section pierce points are evenly spaced in predominance and vary from 10m to 25m in the eastern parts of East Zone, to 40m to 60m in other parts of East Zone and West Zone.

The estimate utilised a four-pass search strategy to improve the local grade estimate. The first pass was equal to two thirds of the range of the largest variogram model structure for each variable in each domain, honouring the anisotropic ratios orthogonally. The second pass equated to 100% of the ranges, the third 150% and the fourth 200%. Following the fourth estimation pass, the Sichel mean of the composite within the statistical domain was assigned for Zn %, Pb % and Ag g/t for each domain. The mean was assigned for blocks with un estimated sulphur grades.

All geological modelling and grade estimation were undertaken using Surpac software.

**Comment**

The interpretation and wireframing methodology are suitable for the mineralisation style and geometry. Top cuts were applied to the data prior to estimation, which Ashmore deems as conservative for base metal estimation. No information was supplied for the maximum samples used in the estimate, which is the most appropriate parameter to judge the effects of over smoothing of block grades. However, Ashmore expects the mineralised domains to display low coefficients of variance, therefore smoothing should not be an issue for the Oposura estimate.

It is not clear as to the method of assigning bulk density into the block model, however Ashmore assumes that averages were assigned based on domains. The number of measurements obtained from within the mineralisation would not generally be sufficient to define a reliable grade-density regression equation that could be used to calculate density to estimate, or to assign a regression for density and block grade.

Overall, the estimation of the Oposura Mineral Resource is conducted with industry standard techniques and is appropriate for the level of confidence at the deposit.

#### 3.2.4.4. Mineral Resource Classification and Reporting

The Mineral Resource was classified based on the guidelines specified in The JORC Code (2012). The classification level is based upon an assessment of geological understanding of the deposit, geological and mineralisation continuity, drill hole spacing, sampling and assaying processes, QC results, search and interpolation parameters, and an analysis of available density information.

The following approach was adopted:

- Consider the classification of Indicated Mineral Resources for large zones of contiguous blocks where consistent, coherent zones:
    - Average drill spacing nominally 25m in East Zone and no more than 50m in West Zone;
    - Estimation was undertaken in search passes 1 and 2;
    - Number of samples was near the optimum of seven; and
    - Slope of regression > 0.5.

The Mineral Resources were reporting above a 1.5% zinc equivalent ("ZnEq") grade based upon benchmark Mexico mining and processing costs for the proposed scale of operations, current metallurgical test work, international benchmark smelting and refining charges, and metal pricing as at the end of May 2018.

The cut-off grade was determined by calculation of Zn %, Pb % and Ag ounces as a Zn % equivalent in USD using the following inputs:

- Equivalent values are calculated in USD;
- Assumed Zinc commodity price = $3,107.50/t;
- Assumed Lead commodity price = $2,411/t (spot price, LME, 2018. www.lme.com, cited 0:00 GMT 20/06/2018);
- Silver $16.20/oz (spot price, NYSE, 2018. www.kitco.com, cited 0:00 GMT 20/06/2018);
- Assumed concentrate recoveries: Zn 87.5%, Pb 85%, Ag 67% (Locked Cycle Flotation tests: Azure Minerals Ltd, 2018); and
- Assumed Smelter recoveries at: Zn 85%, Pb 95%, Ag 70% (Benchmark Tests: Azure Minerals Ltd, 2018).

**Comment**

The parameters used for Mineral Resource classification are standard industry practice, however it is not specified whether the parameters were used as a guide to assign classification qualitatively, or whether the parameters were used directly to assign classification quantitively. Ashmore strongly recommends that classification is assigned in a qualitative manner, using the CSA parameters as a guide. The drill spacing of up to 50m should be adequate to classify Indicated Mineral Resource for this mineralisation style.

A global cut-off grade of 1.5% ZnEq is applied for the Mineral Resource and in Ashmore's opinion, is appropriate for the open pit mineable material. CSA suggest that portions of the deposit are more amenable to underground mining. If that is the case, Ashmore recommends increasing the cut-off grade to approximately 3% ZnEq for these portions.

#### 3.2.4.5. JORC Table 1 Appropriateness – Ashmore Comment

In VRM's opinion the information and data presented in the JORC Table 1 is adequate.

### 3.2.5. Scoping Study Summary

The 2018 Scoping Study, ASX release 15 October 2018 evaluated a 0.5Mtpa operation from a combined open pit and underground mining operation. The study accessed an annual production profile of approximately 19,000t of zinc (in 35,000t of zinc concentrate) and 10,000t of lead (in 16,000t of lead concentrate) with approximately 145,000oz of silver also contained in the lead concentrate. The scoping study has outlined an economic project which Azure has progressed to a pre-feasibility study with the aim of completing that study and a more detailed definitive feasibility study by the end of 2019.

Azure is working towards a Feasibility study and activities currently underway or recently completed, in addition to drilling, include:

- open pit and underground mine planning and scheduling
- geotechnical study
- Initial hydrological drilling
- condemnation / sterilisation drilling on plant site and tailings storage facility (completed)
- detailed deposit-wide variability metallurgical testwork

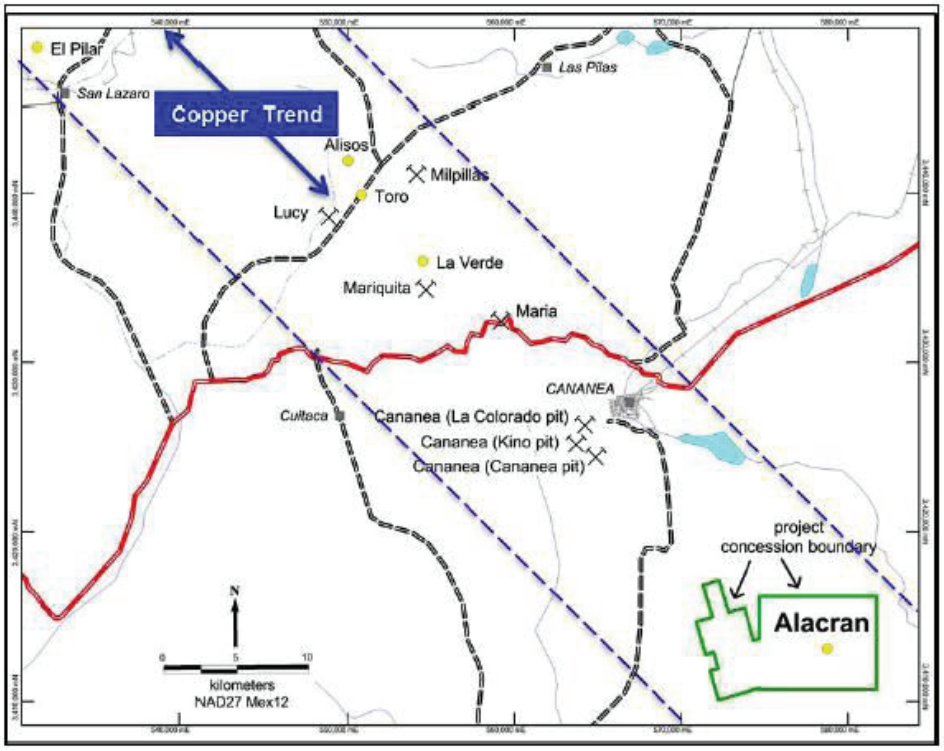
### 3.2.6. Ore Reserves

No Ore Reserves have been estimated for any of the Resources within the Oposura Project.

## 3.3. Alacrán Project

The Alacrán Project currently consists of three Silver-Gold-Copper deposits – Mesa de Plata (Ag), Loma Bonita (Ag-Au) and Cerro Alacrán (Cu) - located within the north of the Mexican state of Sonora (Figure 1). Figure 9 shows the project outline in relation to the other copper deposits in the area.

Collectively there are twenty one granted tenements covering 5,433.36 hectares within a continuous series of projects. All tenements are 100% owned by Azure. Teck Resources has, since 2017, been earning back into the project and is currently the project operator. Teck can earn a 51% interest by 2020 by spending US$10 million with an option to increase their interest to 65%. Grupo Mexico, owner of the adjoining Cananea Copper Mine, retains a 2% Net Smelter Royalty over future mineral production from Alacrán (ASX release 7 January 2015)




Source: ASX release, dated 7 January 2015

**Figure 9 Proximity of major copper mines and projects to Alacrán project area**

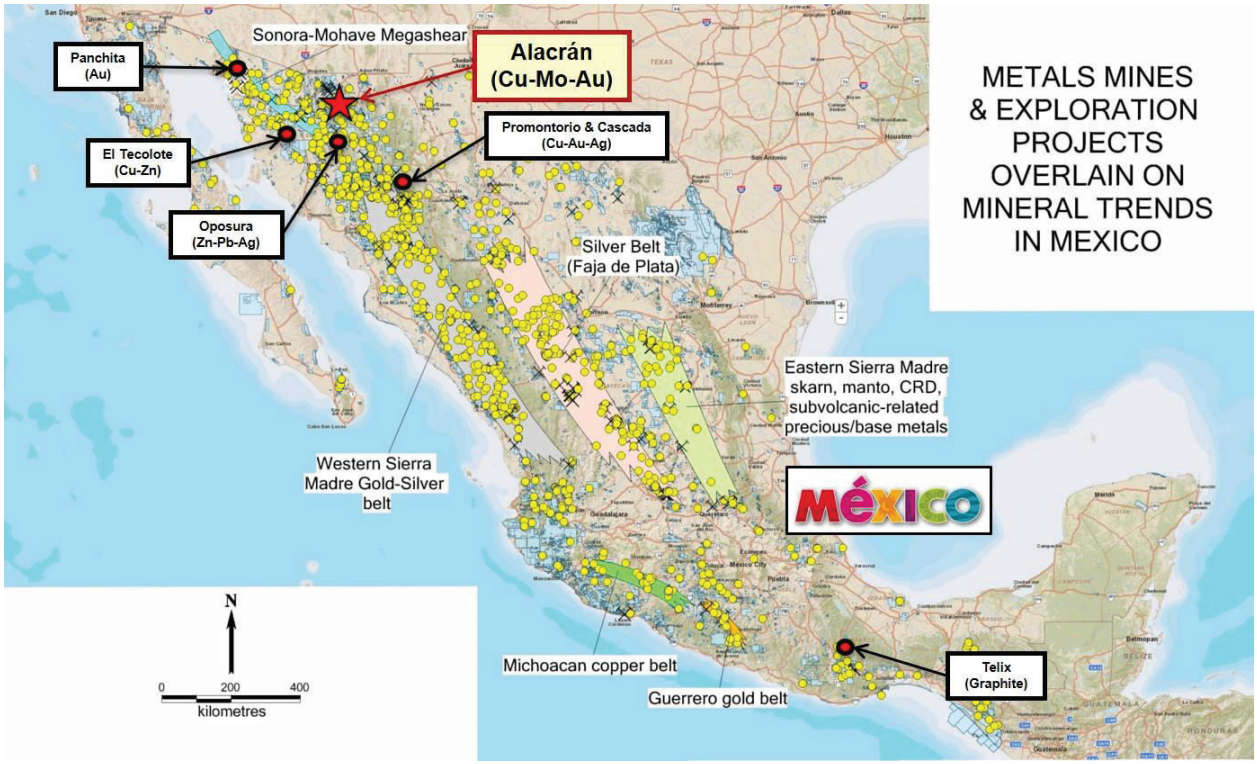
Significantly on 16 May 2019 Azure announced a transaction whereby they will acquire the rights to 51% of the Alacrán project under the Teck earn back. This right is being acquired by issuing Teck and its associates 27,545,566 shares in Azure and also granting a 0.5% NSR royalty to Teck on the project. There are also a series of sliding scale payments to Teck if the project is sold in the following 60 months.

### 3.3.1. Location and Access

The Alacrán Project is located in northern Mexico approximately 50km south of the border with the USA (Figure 10). Alacrán is situated within the Laramide Copper Province, North America's major copper-molybdenum-gold producing district (Figure 9) that extends in a southeast to northwest direction from northern Mexico into Arizona.

Alacrán lies near several large copper mines and is only 15km south of the Cananea Copper Mine, also known as Buenavista del Cobre.

Access is excellent via 200km of sealed highway from Hermosillo, capital of the state of Sonora, to the mining town of Cananea. Existing mine roads and ranch tracks provide good access to and throughout the property. Cananea is a mining-friendly jurisdiction with experienced exploration and mining services, as well as all physical infrastructure including roads, railway, airport, and mains electrical power and water.




Source: Azure

**Figure 10 Alacrán Project (red star) and other Azure Minerals' projects (red dots)**

### 3.3.2. Previous Production and Exploration

*(largely from the Azure March 2015 Quarterly Report, ASX release 7 January 2015; and Mesa de Plata mineral resource report 30 May 2016.)*

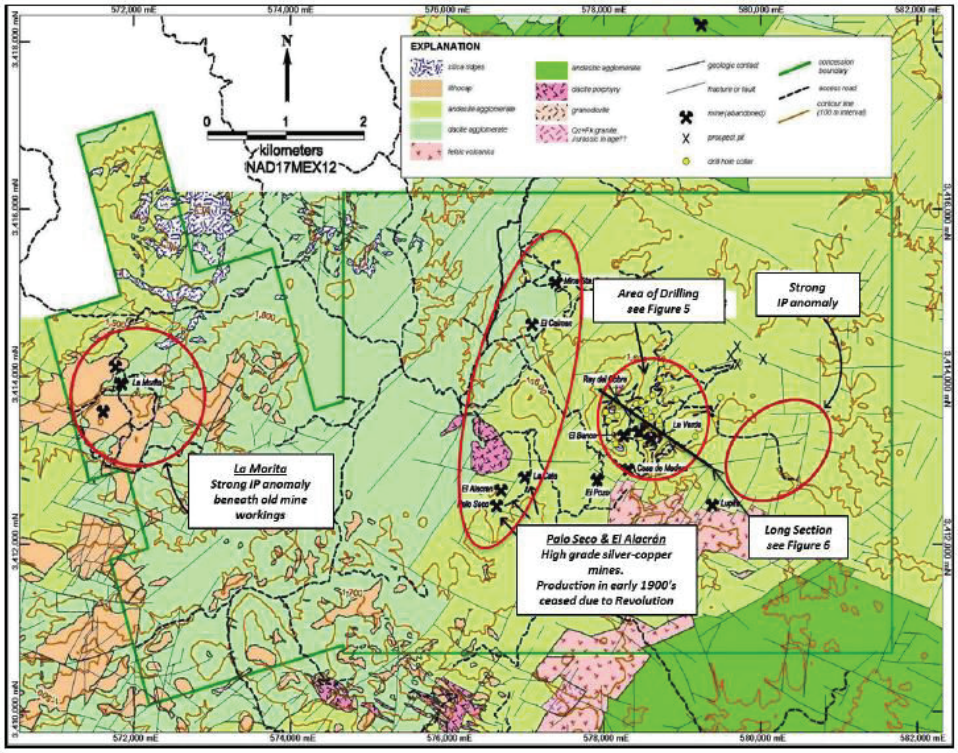
When Azure acquired the project area in December 2014, the area was only lightly explored with untested potential for hosting large porphyry copper deposits and smaller high-grade deposits.

Industrial-scale commercial mining and small-scale artisanal mining commenced within the project area in the early 20th century and ended shortly after the Mexican Revolution in 1913 commenced. Since the 1920's, the property was intermittently explored.

Modern exploration at Alacrán commenced in the late 1960's, focused on drilling near the centre of the property (Figure 11), where outcropping copper oxide mineralisation was present. Little exploration was undertaken for silver. The Mexican Geological Survey drilled six holes in 1970 at the Cerro Alacrán prospect and conducted geophysical (IP and resistivity) surveys in 1981. Later Grupo Mexico acquired the project and drilled 26 core holes in the mid-1990's, intersecting wide zones of copper mineralization ASX release on 7 January 2015 documents previous significant copper, gold and molybdenum intercepts.

Historical drilling had been restricted to an area of 1000m x 500m area, most of which was relatively shallow and did not test for primary, porphyry hosted copper sulphide mineralization. Most of the drilling had been assayed for copper, although there are a few assays for gold or molybdenum which yielded anomalous results. Previous small scale Induced Polarisation surveys identified strong anomalies that had not been drill tested. (ASX release 7 January 2015).

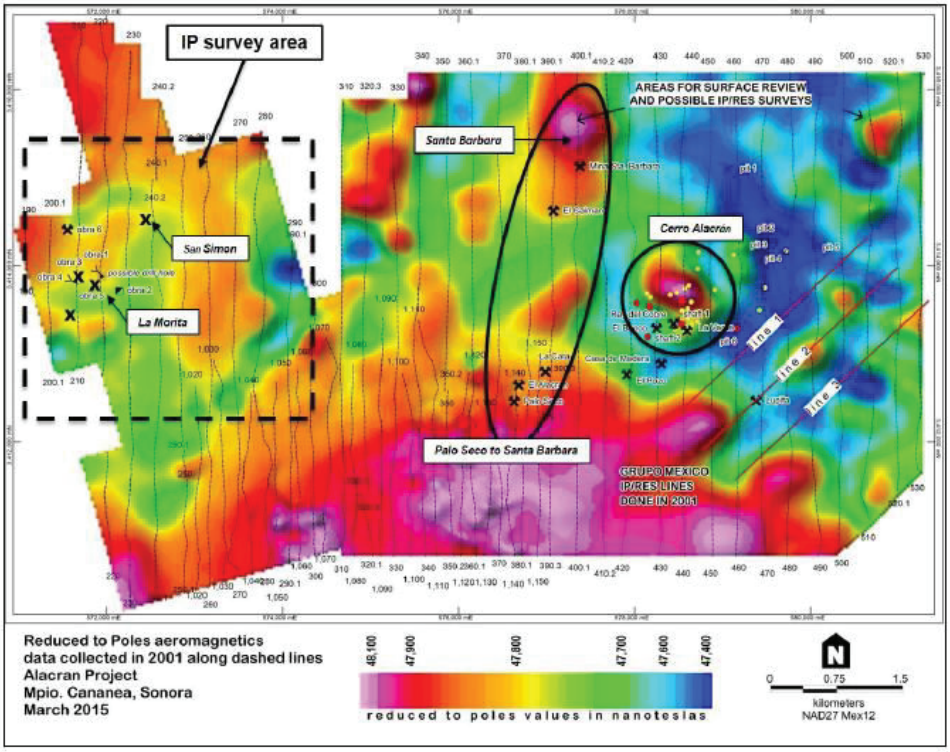
Minera Teck S.A. de C.V., a Mexican subsidiary of Canadian company Teck Resources Limited, acquired the property in 2012 and undertook preliminary surface exploration.




Source: ASX release, dated 7 January 2015

**Figure 11 Alacrán geology plan showing areas of historical mining and drilling**

A helicopter-borne aeromagnetic survey was undertaken over the Alacrán project area in 2001. In early 2015, Azure acquired the digital survey data and all background technical specifications. The data was reprocessed by Perth-based geophysical consultancy Southern Geoscience Consultants. An example image of the survey is shown in Figure 12 (ASX release 23 April 2015).




Source: ASX release, dated 23 April 2015.

**Figure 12 Aeromagnetic image with locations of prospects, old workings (mines and drill holes) and area of planned IP survey (as at 7th January 2015)**

### 3.3.3. Geology

Alacrán is situated within North America's major copper-molybdenum-gold producing district – the Laramide Copper Province. The province extends in a southeast to northwest direction from northern Mexico into Arizona. This is the most prolific copper-producing district in Mexico.

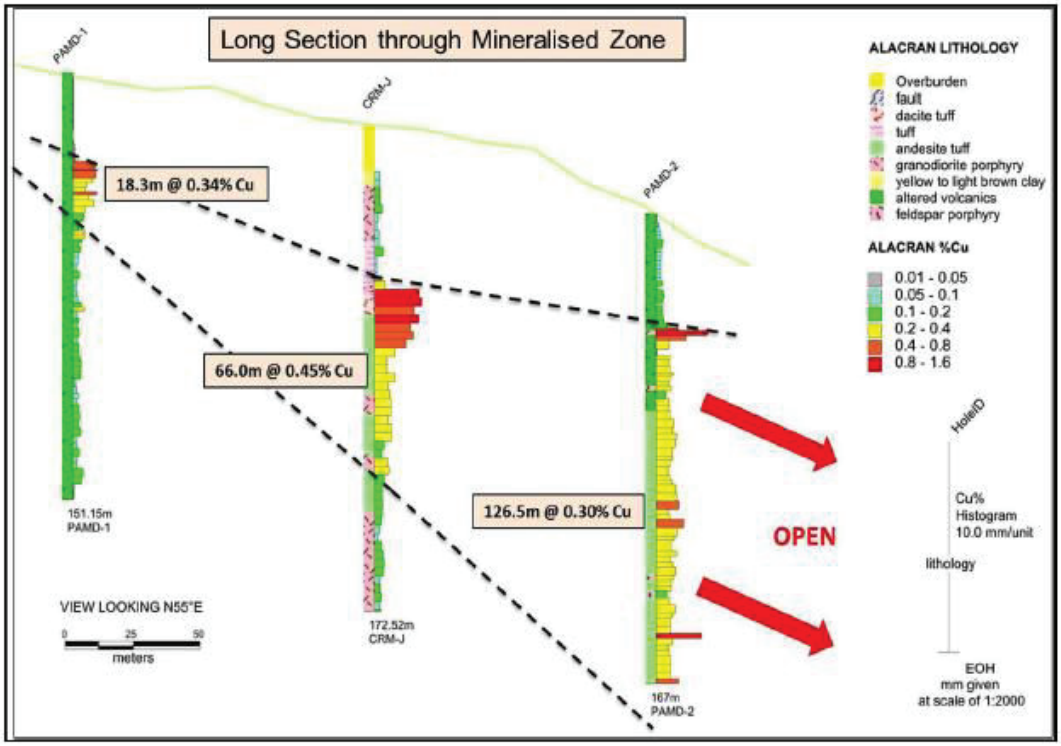
Copper mineralisation is associated with quartz stockwork veining and quartz-sericite alteration hosted by volcanic rocks and porphyry intrusions. A supergene chalcocite blanket lies at depths from 18m to 75m beneath outcropping copper oxide mineralisation.

**Local Geology**

1. Porphyry associated Copper deposits – Cerro Alacrán

Copper mineralisation is associated with quartz stockwork veining and quartz-sericite alteration hosted by volcanic rocks intersect and porphyry intrusions. A supergene chalcocite blanket lies at depths from 18m to 75m beneath outcropping copper oxide mineralisation.

Typically, shallow drill holes intersect supergene mineralisation with deeper holes intersecting primary copper mineralisation. Supergene mineralisation is typified by copper oxides and chalcocite and the underlying primary sulphide mineralisation is predominantly chalcopyrite. Primary mineralisation is described in historical drill logs to comprise pyrite-chalcopyrite +/- bornite and molybdenite, which is similar to the ore currently mined at the nearby Cananea Mine.

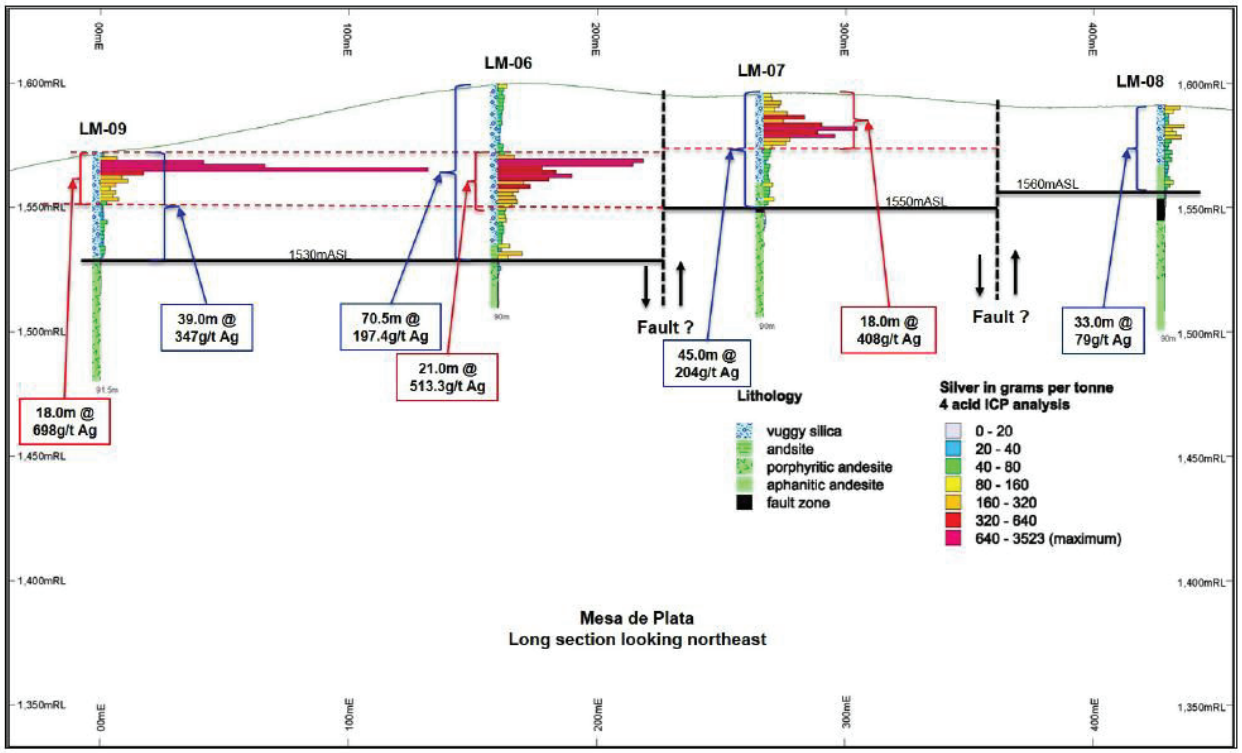



Source: ASX release, dated 7 January 2015

**Figure 13 Long section looking northeast through copper mineralised zone**

2. Epithermal Silver and Gold deposits - Mesa de Plata & Loma Bonita

Mineralisation is hosted in flat-lying, silicified volcanic rocks and residual quartz (vuggy silica) which form a prominent ridge. Mineralisation starts at or near surface.




Source: ASX release, dated 16 September 2015

**Figure 14 Long section of Mesa de Plata drill holes looking northeast**

## 3.3.4. Recent Exploration Activities

**Project Operator - Azure (2015 -2016)**

Azure commenced exploration at the Alacrán Project soon after acquisition of the project in January 2015. Early low cost activities included mapping and sampling in and around old mine workings, geochemical soil sampling, an IP survey covering La Morita and San Simon prospects, an airborne LIDAR survey for aerial photographs and digital terrain model and reprocessing of historical airborne geophysical data. (ASX release 23 April 2015).

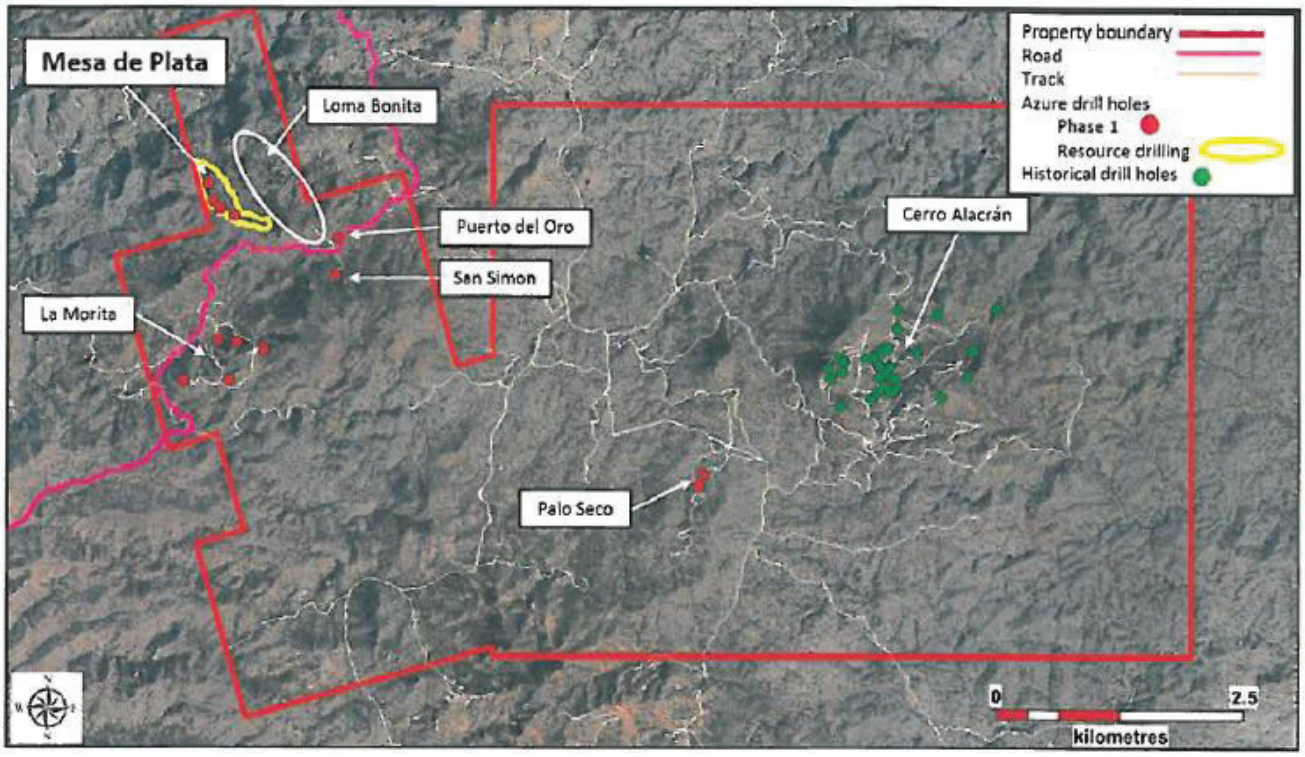
This work identified several highly prospective targets for precious and base metal mineralisation. La Morita was identified as having potential for porphyry-related copper mineralisation, and Mesa de Plata, San Simon, Puerto del Oro and Palo Seco for potential for structurally-controlled, strata bound or epithermal polymetallic mineralisation - specifically for silver-gold deposits.

In 2015 Azure conducted an initial 14 hole Reverse Circulation drill hole program at Mesa de Plata (for silver), La Morita (for porphyry-related copper mineralisation), San Simon and Puerto del Oro (for gold-silver mineralisation), and Palo Seco (for zinc-silver mineralisation). Four of the holes were drilled at Mesa de Plata where a significant silver discovery was made (ASX release 16 September 2015).

In January 2016 Azure completed a resource drill out program of the Mesa de Plata deposit. The program consisted of 61 RC and 5 diamond drill holes for a total of 6,350.7m. A maiden JORC mineral resource was announced on 9 May 2016 and after further drilling, a subsequent upgrade was announced on 1 December 2016. Metallurgical testwork was also been conducted on the Mesa de Plata mineralisation with positive results (ASX release 17 Dec 2015)

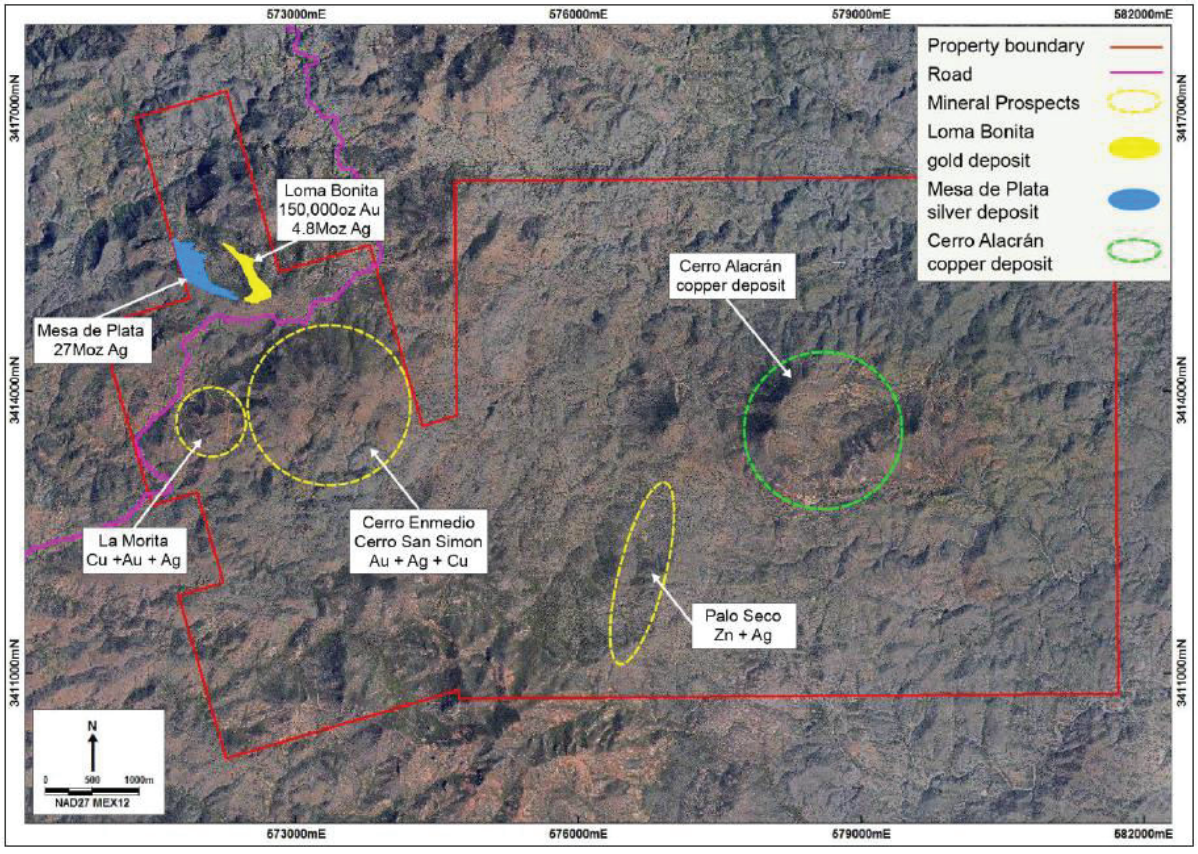
An 11 hole diamond drilling program was completed in early 2016 for a total of 1,962.9. Targets tested included Puerto del Oro, Loma Bonita and the northeast extension of the Mesa de Plata silver zone. Drilling in early 2016 intersected 600-800m of continuous mineralisation along the Loma Bonita ridge. Anomalous drill hole samples are detailed in the Azure March 2016 Quarterly Report.

Exploration drilling intersected significant gold and silver mineralisation at Loma Bonita and an initial mineral resource estimate was announced on 21 December 2016. At that time Loma Bonita was considered to have the potential to host a large system of gold and silver mineralisation and Azure commenced further diamond drilling on a number of high priority targets.




Source: Azure December 2015 Quarterly Activities Report

**Figure 15 Aerial photograph of Alacrán property showing drill targets, at 31 December 2015**




Source: Azure December 2016 Quarterly Report

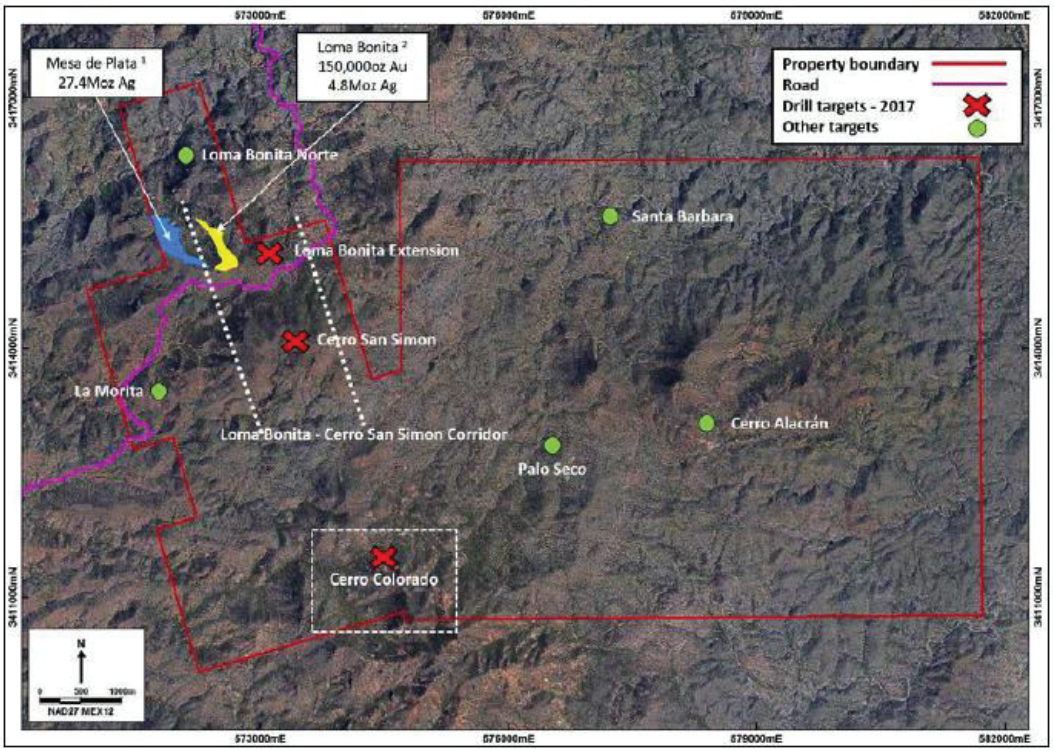
**Figure 16 Aerial photograph of Alacrán Project showing prospect locations at 31st December 2016**

**Project Operator - Teck (2017 onwards)**
**Teck (2017)**

Teck's 2017 exploration activities comprised geological mapping, surface sampling and geophysical (Induced Polarisation (IP)) surveys, with most activities focused in the western half of the property. This work identified two high priority targets – extension of the Loma Bonita silver-gold deposit towards Cerro San Simon; and Cerro Colorado where the Teck IP survey and geochemistry indicated potential for porphyry copper mineralisation Figure 17.

Teck's Phase 1 drilling program comprised of 14 diamond drill holes for 4,907 metres. The holes were sampled for both precious metals and base metals. Results and findings from this drilling program were released to market in AZS ASX release dated 10 May 2018.

Results from Teck's 2017 exploration program suggest the potential for expansion of the Loma Bonita epithermal gold-silver mineralised system at depth east and south towards Cerro San Simon (the Loma Bonita – Cerro San Simon Corridor), and confirmation of potential for porphyry copper mineralisation at Cerro Colorado (Figure 17).




Source: Azure March 2018 Quarterly Activities Report

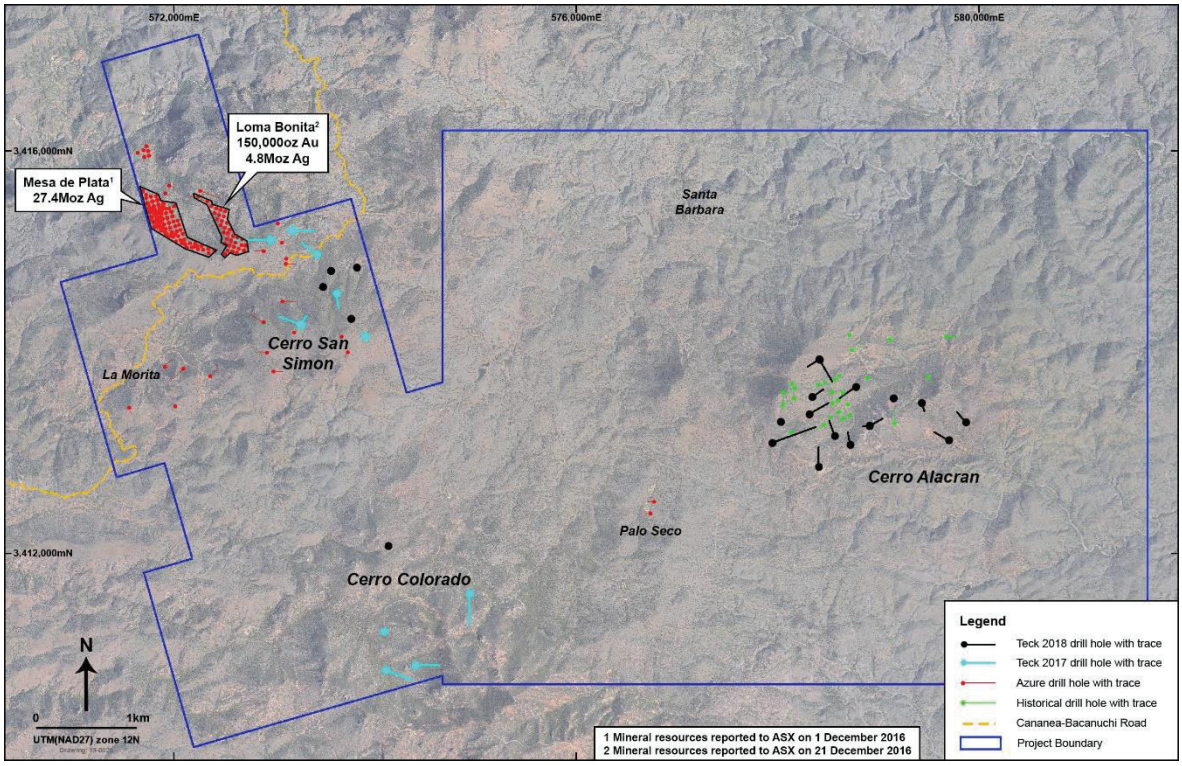
**Figure 17 Areas targeted in Teck's 2017 work program and targets planned for 2018**

**Teck 2018**

Teck's 2018 work program comprised further geological, geochemical and geophysical surveys, followed by the Phase 2 diamond drilling campaign. The major focus for Teck was the porphyry copper potential at the Cerro Alacrán prospect, with other targets including epithermal precious metals targets at Cerro San Simon and Cerro Colorado.

The Phase 2 drilling program consisted of 21 holes totalling 10,537m. Sixteen of Teck's holes targeted the Cerro Alacrán prospect where porphyry-style copper mineralization lies beneath a blanket of copper oxides and chalcocite which was previously drilled by the Mexican Geological Survey in the 1970s and by Grupo Mexico in the 1990s. The remainder of the holes targeted epithermal-style precious metals mineralisation at Cerro San Simon and Cerro Colorado (Figure 18)

Assay results for the drill samples have been received from Teck. Azure is currently undertaking a technical review and significant drill intersections will be released when this process is complete (Azure March 2019 Quarterly Activities Report).




Source: Azure

**Figure 18 Teck 2018 Drilling**

## 3.3.5. Resource Estimate - Mesa de Plata Silver Deposit

Source: AZS, Dec 2016a

Table 4 below details the JORC 2012 resource estimate for the Mesa de Plata silver deposit located within the Alacrán project.

**Table 4 Mesa de Plata 2016 Mineral Resource Estimate (20g/t Ag Cut-off)**

| | Tonnage Mt | Grade | Metal |
|---|---|---|---|
| | | Ag g/t | Ag Moz |
| **Measured** | 9.64 | 76.2 | 23.6 |
| **Indicated** | 0.82 | 145.4 | 3.8 |
| **Total** | **10.46** | **81.6** | **27.4** |

### 3.3.5.1. Geology and Mineralisation

Silver mineralisation at Mesa de Plata is hosted in a unit of sub-horizontal to gently northeast dipping volcanic strata which forms a prominent ridge.

The deposit was formed through high-sulphidation epithermal processes which preferentially altered and mineralised a favourable horizon, resulting in the mineralisation being hosted in a unit of volcanic rocks, now silicified and altered to residual quartz (vuggy silica). The contact zone between the mineralised siliceous zone and the underlying footwall andesite, which can be up to 5m wide, comprises weakly mineralised andesite which gradationally changes to a barren andesite.

### 3.3.5.2. Informing Data and QA/QC

**Drilling and Sampling**

The initial Mineral Resource definition drilling (Phase 1) involved two RC programs and one diamond core (HQ size) drill program, totalling 61 RC holes (for 5,504.5m of sampling) and seven diamond holes (for 852.2m of sampling.

Infill drilling to upgrade the Mineral Resource from Indicated to Measured Mineral Resource classification included RC and large diameter (PQ size) diamond core drill programs, totalling 55 RC holes (for 2,929.1m of sampling) and 8 PQ holes (for 506.35m of sampling) respectively. Two additional HQ diamond holes (for 93m of sampling) were included from drilling to extend the resource to the northeast. Only three HQ diamond holes have been used for the Mineral Resource estimate to avoid clustering issues in the estimation process, but core measurements from all diamond holes have been used to estimate the rock density. All PQ diamond holes are included in the estimation data set. There are 6,966 assays representing a total of 9,883.7m of drill hole sampling in the Mineral Resource database provided for the Mineral Resource update.

The initial Mineral Resource definition RC drill hole spacing was on a 50m by 50m pattern covering a northwest-southeast extent of 1,000m and a width, in an east-west direction, ranging from 50m to 320m. All Phase 1 RC holes were drilled vertically to depths of up to 90m. Samples of RC cuttings were collected over 1.5m intervals and passed through a Jones riffle splitter to produce quarter split sub-samples with an average mass of 6kg. All samples were collected in dry ground conditions.

The Phase 2, infill RC drill hole spacing is approximately on a 25m by 50m pattern covering the central portion of the high grade zone. The RC holes ranged in dip from 45° to vertical and were drilled to depths ranging between 25.9m and 88.4m. All infill RC holes were surveyed for deviation with surveys taken at 10m down-hole intervals. Samples of RC cuttings were collected over 1.524m (5ft) intervals and passed through a Jones riffle splitter to produce quarter split sub-samples with an average mass of 6kg. All samples were collected in dry ground conditions.

In Phase 1 drilling, four HQ diamond holes twinned RC holes and one diamond hole was inserted into the 50m by 50m pattern. A further two HQ diamond holes were terminated early due to difficult drilling conditions. All HQ diamond holes were drilled vertically to depths of between 75m and 203m, and all holes were surveyed for down-hole deviation with surveys taken at 30m intervals and at the bottom of hole. Drill core was diamond saw-cut longitudinally and quarter core samples were collected for assay. Sample lengths for assay purposes were guided by changes in geology and varied from 0.15m to 1.5m.

The Phase 2 PQ diamond holes were drilled throughout the high grade zone with varying azimuths but all with a dip angle of -60°. One PQ diamond hole was terminated early due to difficult drilling conditions. Drill core was diamond saw-cut longitudinally and "fillet" core samples were collected for assay using sample lengths consistent with the other half and quarter core sampling. The remaining PQ core was dispatched for metallurgical test work.

**Analysis**

BVL prepared all the samples from Mesa de Plata in both Phase 1 and Phase 2 drilling programs at their sample preparation facilities in Hermosillo, Sonora, Mexico. Samples were weighed, assigned a unique bar code and logged into the Acme tracking system. Samples were then dried, and each sample was crushed to sub 2mm before a 250g sub-sample was collected for pulverising to sub 75µm. The 250g sample pulps were then dispatched via courier to BVL in Vancouver, Canada for silver analysis.

The analytical technique used for silver grade determination is a four-acid digest followed by multi-element ICP-MS analysis. This technique is considered a total digest for silver. Following the four-acid digest, the analytical method used was MA300 which is an ICP-MS method with a maximum detection limit for silver of 200g/t Ag. All ICP-MS results of >90g/t Ag were re- analysed by assay method FA530, which is a 30g charge fire assay with gravimetric finish.

**QA/QC**

For sub-sampling and assay quality control monitoring Azure:

- Submitted replicate quarter cores anonymously to the laboratory in order to monitor the precision of this sub-sample type;
- Instructed the sample preparation laboratory to collect replicate riffles splits of samples received, in order to monitor the precision of samples prior to crushing;

- Instructed the laboratory to collect and assay replicates of pulp samples in order to monitor the precision of the pulp material dispatched for assay; and
- Submitted known grade value pulp references anonymously to the laboratory in order to monitor the accuracy of grades reported.

Quality control samples confirm that acceptable levels of precision and accuracy for silver grades have been demonstrated.

**Bulk Density Measurements**

Azure collected a total of 161 density measurements from drill core samples from eight diamond holes. The volume of each core piece was measured using a 3D scanner. The scans are extremely accurate and provide an accurate volume for the scanned material. Azure calculated density for these core samples by dividing the dry weight of the sample by the scanned volume.

For the Mineral Resource estimate, there were 70 measurements available within the Mid-Grade Zone and 27 measurements available in the High Grade Zone. The Competent Person found that the mean density for the low grade domain average 2.34 $t/m^3$ and the mean for the high grade domain was 2.50 $t/m^3$. The density mean values are estimated following capping the lower and upper 2.5% of results, effectively giving the 90% confidence interval density estimate.

**Metallurgical Test work**

A composite metallurgical sample was prepared from the RC drilling cuttings and shipped to Xstrata Process Support for preliminary mineralogical evaluation using QEMSCAN and EPMA techniques. The sample was found to be predominantly quartz (80% by mass), with alunite and various iron oxides making up a further 14% of the sample mass. Two silver-bearing species were identified, namely:

- Bromian Chlorargyrite – (BrCl)Ag – containing up to 70% of the silver metal; and
- Sb-Pb-Fe oxides, containing up to 30% of the silver.

Preliminary test results indicate, for a cyanide leach in plant process, silver recoveries of 62% to 76% (refer to ASX release on 17 December 2015). Heap leach processing, albeit with lower and as yet undetermined recoveries, is an option that is currently under investigation.

**Comment**

The drilling, sampling and sample preparation procedures are appropriate for the mineralisation style and thickness. The type of QC samples is adequate, but the frequency of QC sample insertion was not stated.

Ashmore notes that only 97 measurements were obtained from within the Mineral Resource area. There could be more measurements obtained and Ashmore recommends that a bulk density measurement is obtained for every assayed sample interval derived from core at any type of base metals deposit.

Metallurgical testing has been conducted at Mesa de Plata and indicate that the mineralisation can be extracted using a heap leach process with recoveries between 62 to 76%.

#### 3.3.5.3. Estimation

For the updated Mineral Resource estimation control, two estimation domains were identified, based upon grade-boundary analysis and silver grade thresholds. The volumes of the domains were modelled using conventional sectional interpretation followed by digital wireframing methods. The wireframe models were reviewed and accepted by Azure and then used to code a digital block model as follows:

- High Grade Zone – defined using a nominal >90g/t Ag grade cut-off and identified by an abrupt spike in silver grades. This is a distinct zone of high grade silver in the central and upper parts of the deposit in some areas presents as a narrow flat lying sheet in other areas. There are three separate High Grade Zone bodies, and each has been estimated independently using the data contained in each volume.

- Mid-Grade Zone – defined as being between a lower grade cut-off of 20g/t Ag and an upper grade cut-off of 90g/t Ag. This zone forms a halo generally surrounding the High Grade Zone. The Mid-Grade Zone has been estimated using only the data within this volume.

Sub blocks were included in the block model to closely match the estimation domain boundaries and the topographic surface.

Using the estimation-domain coded block model, the capped silver grades were estimated from the capped composites (1.5m long) using ordinary block kriging into a parent block sizes of 12.5mE by 12.5mN by 5m in elevation, with sub block grades estimated using parent block assumptions. The composite search routine for each block estimate was set to search to match the trends identified in grade continuity analyses and find up to 24 composites from the nearest drill holes with a maximum of four composites from any one drill hole. As such, most block estimates reflect the kriging weighted average of up to 24 capped composites, with a minimum acceptance of eight samples for a block to be estimated. A multi-pass search strategy with an expanding search after each pass was used to ensure estimates were made for all blocks. For the final pass the minimum samples required for an estimate was reduced to four samples. The average number of samples used in the final model was 23.9 samples per estimate.

The model was validated by on-screen visual inspection and statistical comparisons of (composite) input and (block estimate) output mean grades on a global and local basis. The block model grade validation results were deemed to be acceptable by the Competent Person.

**Comment**

The interpretation and wireframing methodology are suitable for the mineralisation style and geometry. Top cuts were applied to the data prior to estimation. The block size is appropriate for the drill spacing and is approximately a quarter to half the drill spacing. The interpolation method and search neighbourhood parameters are appropriate for the style of mineralisation.

Bulk density was assigned using the average by domains, with exclusion of the top and bottom 2.5% of measurements when determining average densities. Given the available data, this is appropriate. However, Ashmore recommends that more bulk density measurements are obtained (preferably one bulk density measurement for every sample interval) in order to determine if any grade-density relationships are apparent.

Overall, the estimation of the Mesa de Plata Mineral Resource is conducted with industry standard techniques and is appropriate for the level of confidence at the deposit.

#### 3.3.5.4. Mineral Resource Classification and Reporting

The criteria used for JORC Code classification included data quality, geological understanding, data spacing, estimation methodology and validation, with data spacing being the primary consideration along with assessment of local geological continuity and complexity. Nearly all of the Mid-Grade Zone has been classified as Measured Mineral Resource because of the thickness of zone and demonstrated continuity in the infill Phase 2 drilling. One area has been classified as Indicated Mineral Resource due to the wider average drill spacing at the deposit margin in the north east.

Only the more closely sampled, thicker and less geologically complex parts of the High Grade Zone have been classified as Measured Mineral Resource. The thinner areas, and more geological complex parts of the High Grade Zone have been classified as Indicated Mineral Resource. A small near surface pod of High Grade has also been classified as Indicated Mineral Resource.

The Competent Person has classified the entire Mineral Resource as Measured and Indicated Mineral Resources based on:

- Assessment of the data quality – in that the base data has quantified an acceptable levels of precision accuracy and lack of cross-contamination.

- Geological control, complexity and continuity – there is confident geological control, low silver nugget effects and while ranges of silver continuity in variography are currently only partially confirmed the results support that continuity can be reasonable assumed between data points for Indicated Mineral Resources.
- Data spacing and extrapolation – no part of the reported Mineral Resource is considered to be excessively extrapolated within the Mid-Grade Zone wireframe, which bounds the High Grade Zone extended ~ 25m at most from the end of each drill fence.
- Quality of estimation and validation of block model estimation results – all validations confirmed good correspondence of inputs and outputs.
- Reasonable (no overly optimistic) assumptions as to eventual potential economic extraction for a 20g/t Ag block cut-off grade.
- The maximum extrapolation of grades away from data is in the order of 25m to 50m and as such, the Competent Person considers that no Inferred Resources occur within the estimate.

The 20g/t Ag Mineral Resource reporting block cut-off was selected based upon order of magnitude cost estimates from current silver mining and heap leach processing operations in northern Mexico, heap leach recovery inferred from current metallurgical tests, and assumed mining and metal pricing parameters.

The Competent Person's methodology used to select the reporting cut-off for the Mineral Resource is as follows:

- The deposit under consideration is relatively shallow with grade declining with depth and as such, a pit optimisation limit of the estimate is not necessary.
- All potentially economically viable Mineral Resources should be included in the reported estimate so as to be included in an Ore Reserve study.
- The cost of heap leach processing should be considered as the control on break-even grade, with heap leach silver producers in Mexico reporting cash costs (inclusive of process costs) in the range USD6/t to USD12/t.
- Preliminary metallurgical tests indicate silver recoveries in the range 55% to 65% of in-situ silver grade, and that the mineralisation should be amenable to heap leach processing.
- Public forecasts of silver price range from USD17/oz to USD19/oz.
- Combining the assumptions above, the Competent Person found that a ≥20g/t Ag block cut-off grade for Mineral Resource reporting was consistent with the assumptions of potential future:
    - Silver metal prices of USD18/oz;
    - Dump leach costs of ~USD7.5/t, and
    - Metallurgical recoveries of 55%.

**Comment**

Drill spacing of 25m by 50m has been classified as Measured Mineral Resource. In Ashmore's opinion, this is too optimistic. Measured classification should generally be restricted to portions of the deposit that have been defined with very close spaced drilling such as typical grade control drill spacings, which would be 10 to 12.5m spacing in this case. The classification of Indicated Mineral Resource would be more appropriate fort this material. In addition, it is rare to report Mineral Resources without any Inferred Mineral Resource. This indicates that there is generally minimal extrapolation of the geological domains and all domains were well supported with sampling.

A global cut-off grade of 20g/t Ag is applied for the Mineral Resource given the parameters that AFW have specified above. However, Ashmore feels it is on the low side as it includes the reporting of the low grade halo. Further studies are required to support the cut-off grade utilised.

### 3.3.6. Resource Estimate - Loma Bonita Silver Deposit

Source: AZS, Dec 2016b

Table 5 below details the JORC 2012 resource estimate for the Loma Bonita epithermal gold-silver deposit located within the Alacrán project.

**Table 5 Loma Bonita 2016 Mineral Resource Estimate (0.21g/t Au Cut-off)**

| | Tonnage Mt | Grade | | Metal | |
|---|---|---|---|---|---|
| | | Au g/t | Ag g/t | Au koz | Ag Moz |
| **Indicated** | 4.20 | 0.95 | 30.1 | 128.5 | 4.07 |
| **Inferred** | 1.2 | 0.6 | 18.0 | 22 | 0.7 |
| **Total** | **5.4** | **0.9** | **28.0** | **150** | **4.8** |

#### 3.3.6.1. Geology and Mineralisation

Gold and silver mineralisation at Loma Bonita is hosted at or near surface by intercalated and altered volcanic rocks that crop out along a northwest trending ridge, which lies parallel to, and to the east, of the nearby Mesa de Plata silver deposit.

At Loma Bonita, gold and silver mineralisation is hosted in near flat-lying horizons of residual quartz (vuggy silica) that are up to tens of meters thick and also as silicified breccia bodies that can be over 170m thick. These mineralised breccias may represent mineralising feeder structures to lithocaps such as the Mesa de Plata silver deposit. All mineralisation contained in the Mineral Resource is oxidised; no sulphide mineralisation was intersected by drilling.

The Mesa de Plata silver deposit, located between 200m to 400m west of Loma Bonita, was formed through high-sulphidation epithermal processes which preferentially altered and mineralised a favourable horizon, resulting in the mineralisation being hosted in a unit of volcanic rocks that are now silicified and altered to vuggy silica.

#### 3.3.6.2. Informing Data and QA/QC

**Drilling and Sampling**

Mineral Resource definition drilling comprised 27 RC and 17 DC holes completed on a nominal 50m by 50m spacing, across and along the strike of the Loma Bonita Ridge. All RC holes were drilled vertically, and the diamond holes were drilled with a variety of azimuths and dips. For the Mineral Resource, 26 RC and 14 diamond holes intersected mineralisation.

Cuttings from the RC holes were sub-sampled over 1.5m intervals using a Jones riffle splitter to produce quarter split sub-samples with an average mass of 6kg. All samples were collected in dry ground conditions.

Diamond drilling core was sampled by wet-cutting with a diamond saw longitudinally and quarter core samples were cut for assay. Sample lengths for assay purposes were guided by changes in geology and varied from 0.15m to 1.5m, with an average sample mass of 1.4kg.

**Analysis**

BVL prepared all the samples from Loma Bonita at their sample preparation facilities in Hermosillo, Sonora, Mexico. Samples were weighed, assigned a unique bar code and logged into the laboratory tracking system. Samples were then dried, and each sample was crushed to sub 2mm before a 250g sub-sample was collected for pulverising to sub-75µm. The 250g sample pulps were then dispatched via courier to BVL in Vancouver, Canada for gold and silver analysis.

The analytical technique used for gold grade determination was a fire assay method followed by AAS analysis. The analytical method used was FA430, which is a 30g charge fire assay with an AAS finish. The maximum detection limit for gold is 10g/t Au. All AAS results of >10g/t Au were re-analysed by assay method FA530, which is a 30g charge fire assay with gravimetric finish. Both methods are considered a total digest for gold.

The analytical technique used for silver grade determination was a four-acid digest followed by multi-element ICP-MS analysis. This technique is considered a total digest for silver. Following the four-acid digest, the analytical method used was MA300 which is an ICP-MS method with a maximum detection limit for silver of 200g/t Ag. All ICP-MS results of >200g/t Ag were re-analysed by assay method FA530.

**QA/QC**

For sub-sampling and assay quality control monitoring Azure:

- Submitted replicate quarter cores anonymously to the laboratory in order to monitor the precision of this sub-sample type;
- Instructed the sample preparation laboratory to collect replicate riffles splits of samples received, in order to monitor the precision of samples prior to crushing;
- Instructed the laboratory to collect and assay replicates of pulp samples in order to monitor the precision of the pulp material dispatched for assay; and
- Submitted known grade value pulp references anonymously to the laboratory in order to monitor the accuracy of grades reported.

Quality control samples confirm that acceptable levels of precision and accuracy for silver grades have been demonstrated.

**Bulk Density Measurements**

Azure collected a total of 64 density measurements from drill core samples, with 29 samples within the bounds of the reported Mineral Resource. The volume of each core piece was measured using a 3D scanner. The high precision scans provide an accurate volume for the scanned material. Azure calculated density for these core samples by dividing the dry weight of the sample by the scanned volume. A top and bottom capped (upper and lower 2.5% cap) mean density of these samples was applied to the respective High and Low Grade zones of the deposit.

For the Mineral Resource estimate, there were 21 measurements available within the High Grade Zone and 8 measurements available in the Low Grade Zone. The Competent Person found that the mean density for the low grade domain average 2.32t/$m^3$ and the mean for the high grade domain was 1.96t/$m^3$. The density mean values are estimated following capping the lower and upper 2.5% of results, effectively giving the 90% confidence interval density estimate.

**Metallurgical Test work**

Industry standard bottle roll tests were undertaken at the laboratories of Kappes, Cassiday and Associates in Reno, Nevada USA. The test work focused on two different size fractions, comprising ground (average size of ground samples is 80% passing 80 microns) and crushed (average size of crushed samples is 80% passing 11.3mm) particle sizes. These sizes were tested to simulate gold recoveries that might be expected to be achieved from conventional milling (e.g. carbon-in-pulp or carbon-in-leach processing) and heap leach gold processing, respectively.

Tests were conducted on 20 core samples (10 fine ground and 10 coarse crushed), collected and composited from diamond drill holes selected from across the deposit. Gold grades of these composite samples ranged between 0.25g/t Au and 3.1g/t Au and were sourced from depths varying from surface to 74m below surface. These samples are considered to be representative of the currently known grade range of the gold mineralisation, and the strike and depth extents of the Loma Bonita mineralised zone. All mineralisation contained in the Mineral Resource is oxidised with no sulphide mineralisation intersected by drilling.

Metallurgical test work for this deposit focused on maximising gold recovery rather than the accessory silver. High gold recoveries of between 88% and 97% were achieved on the ground material, with an overall average recovery of greater than 93%. Tests on the crushed material achieved gold recoveries of between 42% and 89%, with an overall average recovery of more than 73%. The recovery of silver by cyanide leaching is low, with tests returning average silver recovery of between 9% and 27% for ground material and 1% and 7% for crushed samples.

Leach kinetics were excellent with rapid gold recoveries. Final gold recoveries on the ground material were achieved within a 24 hour period, and over a period of 192 hours (8 days) on the crushed material.

Further test work is proposed to optimise recovery and processing conditions.

**Comment**
The drilling, sampling and sample preparation procedures are appropriate for the mineralisation style and thickness. The type of QC samples is adequate, but the frequency of QC sample insertion was not stated.

Ashmore notes that only 29 measurements were obtained from within the Mineral Resource area. There should be more measurements obtained and Ashmore recommends that a bulk density measurement is obtained for every assayed sample interval derived from core at any type of base metals deposit.

Metallurgical testing has been conducted at Loma Bonita and indicate that the gold can be extracted using a cyanide leach process with recoveries between 88 to 97%. As processing focussed on gold extraction, it was found that silver recoveries were low by cyanide leaching, with recoveries between 9 and 27%.

#### 3.3.6.3. Estimation

For the Mineral Resource estimation control, two estimation domains were identified, based on a grade-boundary analysis of gold grade thresholds. The volumes of the domains were modelled using conventional sectional interpretation followed by digital wireframing methods. The wireframe models were reviewed and accepted by Azure and then used to code a digital block model as follows:

- High Grade Zone – defined using a nominal ≥>0.5g/t Au grade cut-off and identified by abrupt spikes in gold, silver and antimony grades. There is a distinct zone of significantly higher grade gold mineralisation in the south parts of the deposit in some areas and presents as a narrow flat lying zone at surface sheet in other areas.
- Low Grade Zone – defined as being between a lower grade cut-off of ≥0.2g/t Au and an upper grade cut-off of ≥0.5g/t Au. This zone forms a halo generally surrounding the High Grade Zone. The zones have been estimated using only the data within the respective volumes.

Sub-blocks were included in the block model to closely match the estimation domain boundaries and the topographic surface.

Using the estimation-zone coded block model, the capped gold grades were estimated from the capped composites (1.5m long) using ordinary block kriging into a parent block size of 12.5mE by 12.5mN by 5m in elevation, with sub-block grades estimated using parent block assumptions. The composite search routine for each block estimate was set to search to match the trends identified in grade continuity analyses and find up to 24 composites from the nearest drill holes with a maximum of four composites from any one drill hole.

As such, most block estimates reflect the kriging weighted average of up to 24 capped composites, with a minimum acceptance of eight samples for a block to be estimated. A multi-pass search strategy with an expanding search after each pass was used to ensure estimates were made for all blocks within each estimation zone. For the final pass the minimum samples required for an estimate was reduced to four samples.

The block model estimates were validated by on-screen visual inspection and statistical comparisons of (composite) input and (block estimate) output mean grades on a global and local basis. The block model grade validation results were deemed to be acceptable by the Competent Person.

**Comment**
The interpretation and wireframing methodology are suitable for the mineralisation style and geometry. Top cuts were applied to the data prior to estimation. The block size is appropriate for the drill spacing and is approximately a quarter of the drill spacing. The interpolation method and search neighbourhood parameters are appropriate for the style of mineralisation.

Bulk density was assigned using the average by domains, with exclusion of the top and bottom 2.5% of measurements when determining average densities. Given the available data, this is appropriate. However, Ashmore recommends that more bulk density measurements are obtained (preferably one bulk density measurement for every sample interval) in order to determine if any grade-density relationships are apparent. The number of bulk density

measurements available for the mineralisation are on the lower limits for what is deemed appropriate for Indicated Mineral Resource classification.

Overall, the estimation of the Loma Bonita Mineral Resource is conducted with industry standard techniques and is appropriate for the level of confidence at the deposit.

#### 3.3.6.4. Mineral Resource Classification and Reporting

The criteria used for JORC Code classification included data quality, geological understanding, data spacing, estimation methodology and validation, with data spacing being the primary consideration along with assessment of local geological continuity and complexity. The majority of the deposit has been classified at Indicated Mineral Resource based on the continuity of gold and silver grades, which are partly confirmed in grade continuity analyses (variography) of gold and silver composites.

Deeper parts of the mineralisation on the southern three drill fences of the deposit have been classified as Inferred Mineral Resource, despite the zone having similar data spacing to other regions of the deposit as the depth may or may not support open pit mining. Additional drilling and a first pass Ore Reserve study is required to confirm whether these zones can be included in Indicated Mineral Resource.

The Competent Person has classified the entire Mineral Resource as Measured and Indicated Mineral Resources based on:

- Assessment of the data quality – in that the base data has quantified and acceptable levels of precision accuracy and lack of cross-contamination in the sample data.
- Geological control, complexity and continuity – there is confident geological control, low nugget effects and while ranges of gold and silver continuity in variography are currently only partially confirmed. Specifically, the results support the JORC Code requirement that continuity can be reasonably assumed between data points for Indicated Mineral Resources.
- Data spacing and extrapolation – no part of the reported Mineral Resource is considered to be excessively extrapolated within the Low-grade Zone wireframe, which bounds the High-grade Zone extended ~ 25m at most from the end of each drill fence.
- Quality of estimation and validation of block model estimation results – all validations confirmed good correspondence of inputs and outputs.
- Reasonable (not overly optimistic) assumptions as to eventual potential economic extraction for a ≥ 0.21g/t Ag block cut-off grade.
- Inferred Resources have been allocated at the southern end of the deposit where it is not clear whether the mineralisation will be viable for open pit mining. A preliminary Ore Reserve study is required to make this assessment and may result in reclassification of some of the Inferred Mineral Resource to Indicated Resource or possibly reclassified as not viable.
- The maximum extrapolation of grades away from data is in the order of 25m and as such, the Competent Person considers that significantly extrapolated Inferred Mineral Resource is not present in the estimate being reported.

The ≥ 0.21g/t Au Mineral Resource reporting block cut-off was selected based upon order of magnitude cost estimates from current open pit gold mining and heap leach processing operations in northern Mexico, with heap leach recovery inferred from current metallurgical tests, and assumed mining and metal pricing parameters.

The Competent Person's methodology used to select the reporting cut-off for the Mineral Resource is as follows:

- All potentially economically viable Mineral Resources should be included in the reported Mineral Resource so as to be included in a preliminary Ore Reserve study.
- The cost of heap leach processing should be considered as the control on break-even grade, with heap leach silver-gold producers in Mexico reporting cash costs (inclusive of process costs) in the order of USD7.5/t.

- Preliminary metallurgical tests indicate gold recoveries ~75% of the in situ gold, under the assumption that the mineralisation should be amenable to heap leach processing.
- AFW's internal guidance for gold price for Mineral Resource of USD1,466/oz.
- Combining the assumptions above the Competent Person found that a ≥0.21g/t Au block cut-off grade for Mineral Resource reporting was consistent with the assumptions of potential future viable extraction.

**Comment**

Drill spacing of 50m by 50m has been classified as Indicated Mineral Resource, which is appropriate in relation to drill spacing only. In Ashmore's opinion, the number of bulk density measurements obtained from mineralisation is on the lower limit for what is deemed acceptable for an Indicated Mineral Resource.

A global cut-off grade of 0.21g/t Au is applied for the Mineral Resource and is appropriate for the open pit mineable material, given the parameters that AFW have specified above. However, Ashmore feels it is on the low side as it includes the reporting of the low grade halo. Further studies are required to support the cut-off grade utilised.

Ashmore notes that the wording presented above by Azure uses a heap leach processing option when discussing the Loma Bonita cut-off grade, but in the previous discussion on metallurgy in Section 2.4.2, a cyanide processing option with high gold recoveries (88 to 97%) was discussed.

### 3.3.7. Ore Reserves

No Ore Reserves have been estimated for any of the Resources within the Alacrán Project.

## 3.4. Promontorio Project

The Promontorio Project, located in Chihuahua state, consists of two Copper-Gold-Silver deposits – the Promontorio and Cascada deposits Figure 1). Mineral Resources estimates have been completed for both deposits with these totalling 2.9M tonnes containing 39,600 tonnes of copper at 1.4% Cu, 151,000 ounces of gold at 1.6g/t Au, and 3,260,000 oz of silver at 35g/t Ag (AZS ASX release 7 May 2015). Azure has reported that it is considering divesting the project.

As tabulated in Appendix A there are sixteen contiguous tenements covering 10,520 hectares. Thirteen of these tenements constitute a large block of tenements surrounding main deposit. All the tenements are 100% owned by Azure. Original title certificates have been reviewed. Figure 19 shows the location of the tenements and Figure 20 shows a plan of the three central tenements overlain on the regional geology.

### 3.4.1. Location and Access

The Promontorio Property is located in the Sierra Madre Mountains of western Chihuahua, Mexico, approximately 2,000m above sea level (Figure 19). The Property occurs within a district containing numerous operating multi-million ounce gold-silver mines including the Mulatos, Delores, Ocampo, Piños Altos and Concheño mines. The property is centred at 3,146,045 N and 782,575 E (UTM Nad27 Zone 12).

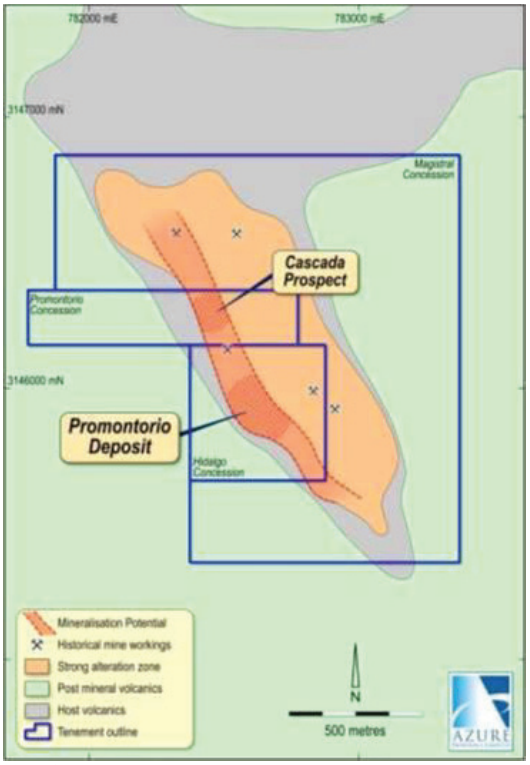
The Promontorio project is located near the Hermosillo-Chihuahua highway and is 4-5 hours' drive by car from Chihuahua City to the east, and 8-9 hours' drive from the city of Hermosillo, Sonora to the west.

Access from Chihuahua City is via Federal Highway 16 for approximately 215 km to the town of Tomochic, then proceeding 55 km along a well-maintained dirt road starting approximately 5 km west of the village of Tomochic.

The project is comprised of a central block of three mineral concessions - Promontorio, El Magistral, and Hidlago - which collectively cover 187 hectares. The fourth concession - Ampliacion Promontorio – covers 10,512 hectares surrounding the three central concessions. Figure 20 displays the three central concessions overlain on regional geology.


Source: AGP Promontorio Project Resource Update, 24th June 2015

**Figure 19 Location of the Promontorio Tenements**




Source: AGP Promontorio Project Resource Update, 24th June 2015

**Figure 20** Central tenements overlain on regional geology

### 3.4.2. Previous Production and Exploration

The project has a long history with exploration and mining in the area, including small-scale mining, in the late 19th century. The area produced direct shipping ore just prior to the Mexican revolution and after the Mexican Revolution, between 1920 to 1923, some 1160t of direct shipping ore was produced. Sporadic artisanal mining was carried out after 1923 and by 1940 a mill and flotation plant were constructed (enterprise name Minas de Chihuahua)

which operated approximately 15 years and produced several loads of concentrates. Small-scale mining was also undertaken from 1973 to 1978.

Between 1993 and 2008 the property was operated by several exploration companies. From 1993 to 1994, Empresa Minera Can Mex S.A. de C.V. have conducted exploration and RC drilling. From 1995 to 1997 Sierra Nevada Gold established a local grid, drilled 63 NQ and BQ diamond drill holes, rehabilitated, mapped and sampled 400 m of old underground mine workings, and initiated metallurgical test work. In 1997 a preliminary estimate of Mineral Resources was prepared by Mine Development Associates. In 2004 Dia Bras Exploration began geological mapping, prospecting, diamond drilling, and geophysics. The geophysics included an I.P / Resistivity survey over the core of the project, which Azure has reviewed and deemed to be of poor quality. At the same time a ground magnetic survey was conducted over the core of the project which proved to be inconclusive. Roscoe Postle Associates Inc. prepared a 43-101 compliant technical report on the property in 2005.

Drilling on the property has been undertaken in a number of core campaigns and one RC campaign from 1993 to 2014. Drilling comprised a total of 246 drill holes (36,080 m), of which 206 were core drill holes (31,830 m) and 40 were RC drill holes (4,250 m). Azure drilled 122 of the diamond drill holes.

Much of the mineralisation at the Promontorio deposit, particularly in the Veta Grande and Santiago Veins, has been well defined by multiple orientations of inclined drill holes, resulting in an overall vein intersection density of approximately 20 – 30 m spacing, but in places can be as low as 50 to 80 m. Half of the 149 holes targeting the mineralised veins have been drilled recently by Azure.

The mineralization at the Cascada deposit has been drilled by Azure as well as by previous operators however the historical drilling was unable to be verified by Azure. Most of the 37 drill holes completed by Azure were from north-south oriented fans from five drill sites at 20 m line spacing. Drilling has identified a north-east striking narrow high grade zone dipping steeply to the north-west, surrounded by a broader low grade zone.

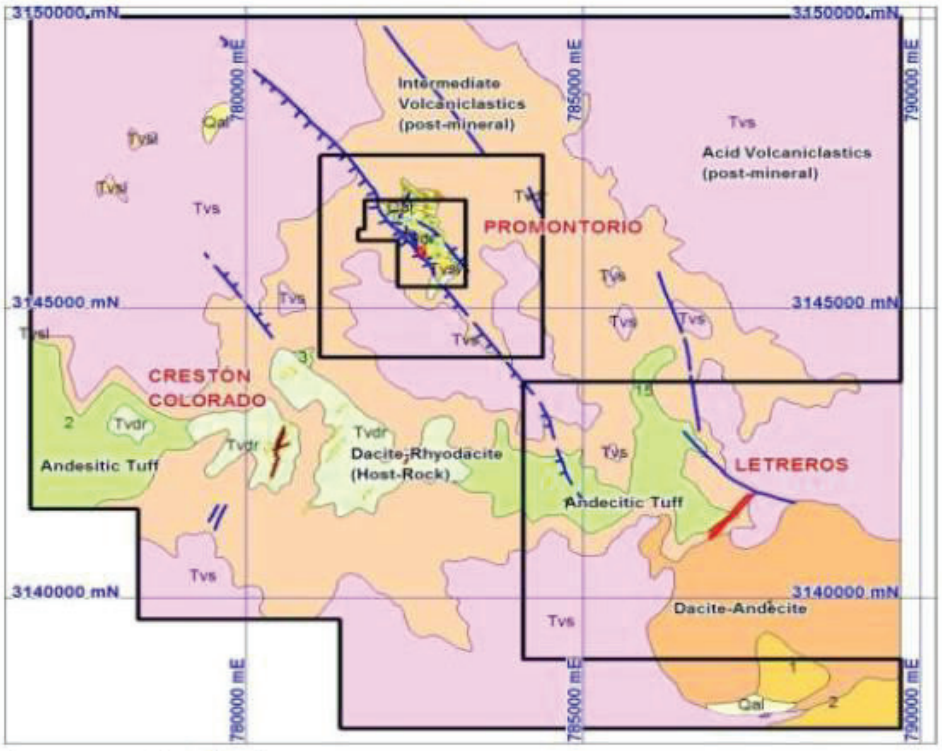
### 3.4.3. Local Geology

The Promontorio Property is situated in the Sierra de los Pandos Mountains which lie within the north west trending Sierra Madre precious metals belt.

The area surrounding the Promontorio property is underlain predominantly by a sequence of upper cretaceous to lower tertiary intermediate to felsic volcanic rocks of the Lower Volcanic Series (LVS), and by younger continental rhyolitic and dacitic ignimbrites of the Upper Volcanic Series (UVS), which are interpreted to be middle tertiary in age. In general, the rocks in the area trend north west and dip gently to the north east local geology is shown in Figure 21.

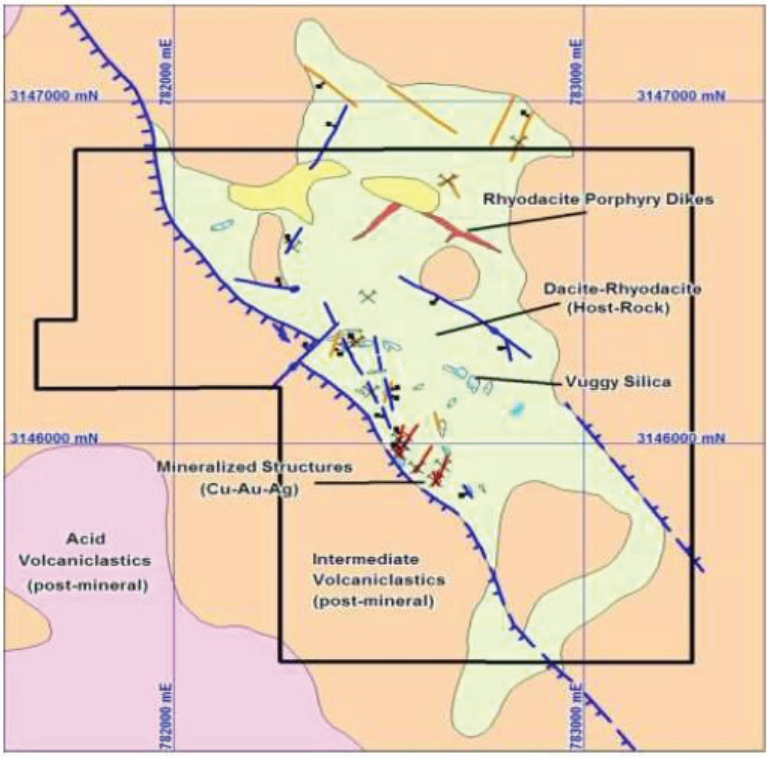
**Lithology**

The mineralisation on the property is hosted by a sequence of tertiary (late Oligocene) andesitic to dacitic volcanics in the LVS, characterised by a complex sequence of tuffaceous flows which include breccia, pyroclastic and massive porphyritic rock fabrics. Pre-mineralised rock units' outcrop within a 1.5 x 0.7 km structural window. These host rocks are overlain by a post-mineral volcanic pile, which is divided into the lower intermediate (poligmitic agglomerates) and the upper acid (rhyodactic to dactic crystal tuffs) volcaniclastics. The property geology is detailed in Figure 22.




Source: AGP Promontorio Project Resource Update, 24th June 2015

**Figure 21 Local Geology**




Source: AGP Promontorio Project Resource Update, 24th June 2015

**Figure 22 Property Geology**

**Mineralisation**

The base metal and gold mineralisation is hosted by north-north east (NNE) and north-north west (NNW) trending, steeply dipping massive sulphide veins occurring locally within vuggy- silica bodies that are up to 30 m thick and can be traced for up to 200 m.

The massive sulphide veins contain variable amounts of disseminated sulphides. Four main types of mineralisation have been identified within the project area, being: massive sulphide, disseminated sulphides, mixed massive and disseminated sulphides, and hydrothermal breccia.

The Promontorio deposit comprises mostly massive sulphides, while the Cascada deposit is mostly disseminated sulphides with some mixed massive and disseminated sulphides and hydrothermal breccia.

- Typical massive sulphide mineralogy is dominated by enargite but also includes minor chalcocite, chalcopyrite, bornite, tetrahedrite, tennantite, pyrite, sphalerite and galena with gold and silver present as electrum.

- Typical disseminated sulphide mineralogy is predominantly chalcocite and pyrite, with moderate bornite and minor chalcopyrite and enargite.

There are two main mineralised vein structures identified within the Promontorio high- sulphidation system. The Santiago vein trends NNE and dips steeply to the NW, while the Veta Grande strikes NNW and steeply dips to the west. The two intersect near the northern extent of the Veta Grande vein. Six subsidiary veins have been identified: Mina Vieja and San Felipe strike NNE, Veta Sur has an easterly strike, and S.R. veins have a complicated geometry and limited strike length. Locally the veins outcrop at surface, characterised by grey-siliceous caps overlying argillic alteration.

### 3.4.4. Recent Exploration Activities

In February 2015 field work commenced at Promontorio as part of the Earn-In and JV Agreement with Kennecott Exploration Mexico S.A. de C.V. (part of the Rio Tinto Group). While the results of these programs confirmed the prospectivity of Promontorio, they did not meet the requirements of the Rio Tinto Group. In total, approximately US$4.0 million was spent as a part of the Earn-In and JV agreement. In January 2017 Rio withdrew from the JV (ASX release 13 January 2017). No further exploration activities have been conducted at since and Azure are currently looking to divest this project.

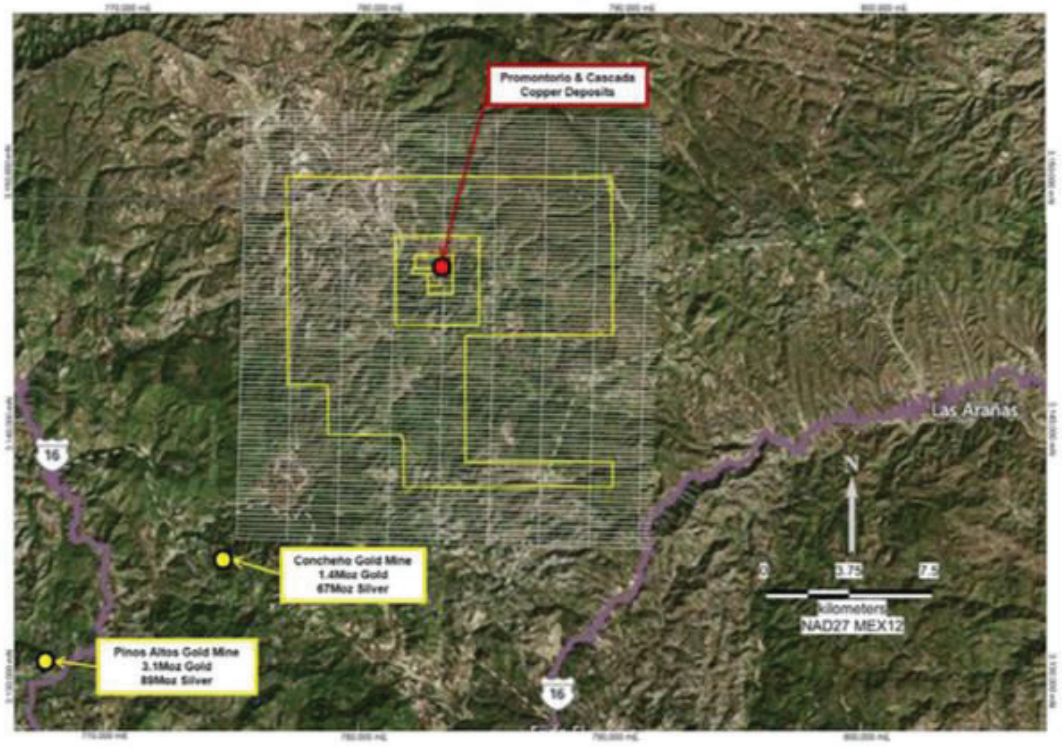
Work completed under the Kennecott Agreement comprised regional geological mapping and sampling, detailed re-logging of the drill core, airborne programs consisting of a LiDAR survey and an aeromagnetic, radiometric and electromagnetic survey covering the entire Promontorio area, and a diamond drill program.

**Geophysics**

A helicopter-borne geophysical survey was completed during the June 2015 quarter. The survey was designed to detect geophysical signatures indicative of large copper systems and near surface epithermal and massive sulphide mineralisation below the post-mineral volcanic rocks which cover most of the project. It collected magnetic, radiometric and electromagnetic data on 200m-spaced East-West lines with 2,000m-spaced North-South tie lines, for a total of 1,572 line kilometres covering an area of approximately 280km$^2$ (Figure 23). (ASX release 13 July 2015).

**Drilling**

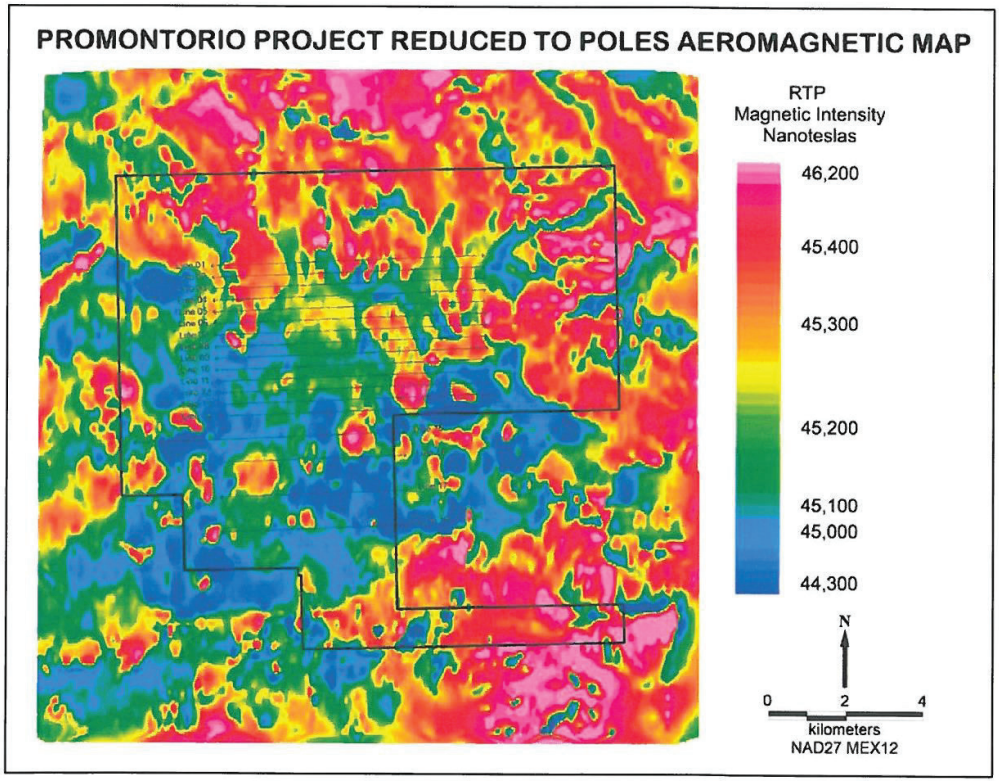
During 2016 Kennecott completed nine diamond drill holes at the project (APR-DD 124 to 132) for 8,783.7m (Figure 25). Final assays were received with results reported in ASX release 13 January 2017 demonstrating anomalous levels of copper, gold and silver mineralisation. The drill program was designed to test for porphyry-hosted copper mineralisation below the high-sulphidation epithermal copper-gold-silver deposits of Promontorio and Cascada (ASX release 13 January 2017). Extensive zones of low grade porphyry and epithermal copper-gold mineralisation were intersected.




Source: ASX release, dated 13 July 2015

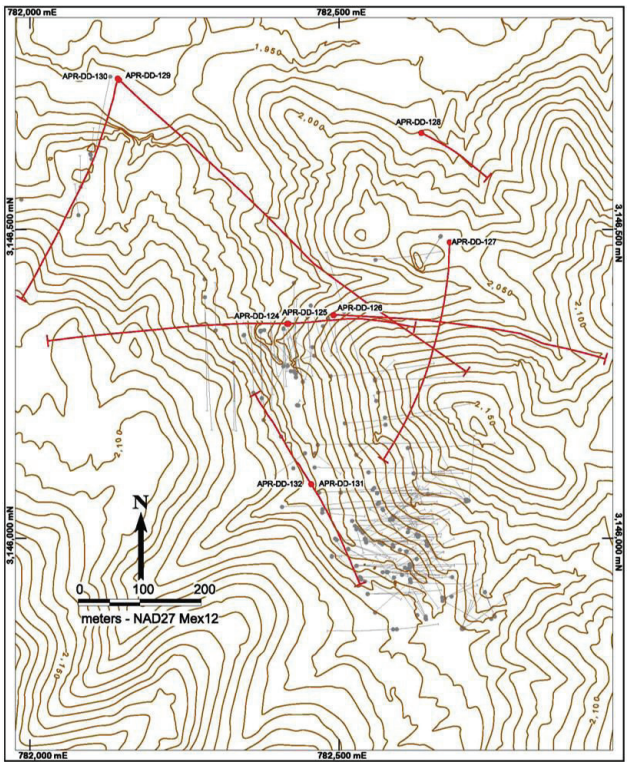
**Figure 23 Area of airborne geophysical survey over Promontorio project area**

A ground geophysical survey, utilising deep-seeking Induced Polarisation (IP) and Magneto-Telluric (MT) surveys, was completed in late 2015. The survey consisted 18 east-west lines totalling 120 and covered most of the central part of the project area (Figure 24). This data was used to plan a follow up drill program.




Source: December 2015 Quarterly Activities Report

**Figure 24 IP and MT survey lines on aeromagnetic image of Promontorio Project**




Source: ASX release, dated 13 January 2017

**Figure 25 Promontorio drill hole plan (holes drilled in 2016 by Azure/Kennecott shown in red. Pre-2016 holes shown in grey)**

### 3.4.5. Resources Estimate Promontorio Copper-Gold-Silver Project

(Source: AZS, May 2013 and May 2015)

Table 6 below details the Mineral Resource estimates for the Cascada deposit which was reported in accordance with JROC 2012 while Table 7 below details the JORC 2004 estimate for the Promontorio deposit.

**Table 6 Cascada 2015 Mineral Resource Estimate (0.5% CuEq Cut-off Above Pit Shell, 1.0% Below Pit Shell)**

| | Tonnage Mt | Grade | | | | Metal | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Cu % | Au g/t | Ag g/t | CuEq % | Cu kt | Au koz | Ag Moz | CuEq kt |
| **Indicated** | 0.84 | 1.1 | 1.4 | 27 | 1.9 | 9.2 | 36.7 | 0.74 | 16.3 |
| **Inferred** | 1.23 | 0.8 | 1.8 | 26 | 1.8 | 9.5 | 70.5 | 1.02 | 22.3 |
| **Total** | **2.06** | **0.9** | **1.6** | **27** | **1.9** | **18.8** | **107.2** | **1.76** | **38.6** |

*Note:*
*CuEq = Copper Equivalent Grade, reported in USD*
*CuEq = (Cu % x 0.95) + (Au g/t x 0.4729) + (Ag g/t x 0.0091)*
*Assumptions: Cu price $3.4/lb, Au price $1,470/oz, Ag price $25.0/oz (three year average to 30th Oct, 2014)*
*Metal recoveries: Cu 95%, Au 75%, Ag 85% (assumed)*

**Table 7 Promontorio 2013 Mineral Resource Estimate (0.5% CuEq Cut-off)**

| | Tonnage Mt | Grade | | | | Metal | | |
|---|---|---|---|---|---|---|---|---|
| | | Cu % | Au g/t | Ag g/t | CuEq % | Cu kt | Au koz | Ag Moz |
| **Indicated** | 0.61 | 2.7 | 1.7 | 56 | 4.4 | 16.7 | 32.5 | 1.09 |
| **Inferred** | 0.23 | 1.8 | 1.5 | 56 | 3.3 | 4.1 | 11.3 | 0.41 |
| **Total** | **0.84** | **2.5** | **1.6** | **56** | **4.1** | **20.8** | **43.8** | **1.50** |

*Note:*
*CuEq = Copper Equivalent Grade, reported in USD*
*CuEq = (Cu % x 0.979) + (Au g/t x 0.6077) + (Ag g/t x 0.0120)*
*Assumptions: Cu price $3.25/lb, Au price $1,450/oz, Ag price $27.5/oz (three year average to 2nd Apr, 2013)*
*Metal recoveries: Cu 97.9%, Au 93.4%, Ag 97% (from test work)*

#### 3.4.5.1. Geology and Mineralisation

Project mineralisation comprises massive, semi-massive and disseminated copper sulphides hosted in vuggy silica and silicified volcanic and intrusive host rocks. The sulphide mineralisation is predominantly chalcocite and pyrite, with minor chalcopyrite and enargite (a copper-arsenic sulphide almost totally hosted within the High Grade Zone). Mineralisation was formed through high-sulphidation epithermal and hydrothermal brecciation processes.

#### 3.4.5.2. Informing Data and QA/QC

**Drilling and Sampling**

For Cascada, a total of 37 HQ (63.5mm diameter) core holes were used in the Mineral Resource estimate with an aggregated core length of 7,158m. Drill core was saw-cut longitudinally, and half core samples collected and assayed. The total number of assayed samples in the database amounts to 7,509. Twenty-seven holes intersecting mineralisation were not used in the resource estimate. These holes were historical holes dating back to 1993 and assays could not be validated.

For Promontorio, a total of 140 diamond drill holes were used in the Mineral Resource estimate, including 38 holes completed by Azure. Historical drilling has been verified by a series of data verification conducted by Azure.

**Analysis**

Samples were prepared at ALS Chemex and Acme laboratories in either Hermosillo or Chihuahua, Mexico. Samples were weighed, assigned a unique bar code and logged into the database tracking system. The sample was dried, and the entire sample was fine crushed to >70% passing a 2mm screen. A 250g split was pulverised using a ring and puck system to >85% passing 75µm screen.

Envelopes containing the 250g sample pulps were sent via courier to the ALS Chemex and Acme laboratories in Vancouver, Canada for analysis. Samples were dissolved by four-acid digest and analysed by ICP (multi-element) and Fire Assay for gold.

**QA/QC**

CRMs and blank check samples were routinely inserted at 20m intervals and also immediately following visually identified mineralised intercepts to provide assay quality checks. Review of the standards and blanks are within acceptable limits. Pulp duplicate samples are randomly selected and submitted for analysis. Internal laboratory control procedures comprised duplicate sampling of randomly selected assay pulps, as well as internal laboratory standards and blanks.

**Bulk Density Measurements**

For Cascada, a total of 1,931 density measurements were collected by Azure using the water displacement method of weighing the dry core in air then weighing the core in water. The core is vuggy therefore Azure tightly wrapped the core pieces with a plastic film and accounted for the weight of the wrap in the calculation.

For 101 of those samples, Azure measured the volume of the core piece using a 3D scanner used in the industry to reverse engineer parts intended for 3D printing. The scans are extremely accurate and provide an excellent volume

for the scanned material. Azure calculated density for these samples by dividing the dry weight of the sample by the scanned volume.

Since the 3D scan density is consistently higher, AGP reviewed the data available and produced a regression curve between the two methods. Removing three outliers, the regression is very good with a R2 of 0.97 and a slope of regression of 0.997. Inspection of a selected photo suite of core pieces shows that the plastic wrap probably inflated the volume of the material because it could not be drawn tightly enough in areas where there are drill induced gashes in the core and in the ends of the pieces. In contrast, the 3D scan may understate the volume since the scanning picks up natural voids on the surface of the sample.

It is AGP's opinion that the 3D scans provide a closer estimate of the true density of the samples. Since the regression between the water displacement method and the 3D scan was excellent, AGP elected to convert the 1,931 density values using the following regression equation:

- Density = 0.11744 + 0.99722 * Water displacement method

For Promontorio, a total of 3,260 density measurements were collected by Azure using the water displacement method of weighing the dry core in air then weighing the core in water.

**Metallurgical Test work**

Metallurgical test work was conducted at SGS Minerals Services (Lakefield, Ontario) in 2014 on a 100kg sample of mineralisation from the Cascada deposit. Locked cycle testwork at SGS gave rise to a high grade flotation concentrate, with good recoveries of copper, silver and gold. Grade and recovery specifications for the Cascada concentrate were:

- 33-37% Copper with >93% recovery;
- 12-15g/t Gold with >75% recovery; and
- 400-470g/t Silver with >83% recovery.

**Comment**

The drilling, sampling and sample preparation procedures are appropriate for the mineralisation style and thickness. The type and frequency of QC samples is adequate.

Substantial bulk density measurements were obtained from each deposit.

Metallurgical testing has been conducted at Cascada and indicate that the mineralisation can be processed into a concentrate at recoveries that support prospects for eventual economic extraction. No testing at Promontorio was discussed, however it could be assumed that the deposits would have similar processing flowsheets and recoveries, although this needs to be verified with test work.

#### 3.4.5.3. Estimation

The Cascada model was interpolated using Dassault Systems GEMS software into a block model with an origin located at 782,250m East, 3,146,105m North and 2,075m elevation. The block model matrix size was 5m by 5m by 5m with no rotation. Drill hole spacing in the heart of the deposit (1,787m elevation ASL) averaged just above 15m. Block model matrix size was set to a quarter of the average drill spacing and also considered the possibility of a small open pit operation followed by an underground bulk mining scenario.

The block model was estimated using OK with an inverse distance (“ID”) and a nearest neighbour (“NN”) estimate for validation. The model was interpolated in three passes of increasing size that were based on the variograms. For copper the Pass 1 search ellipsoid reached 25m for the major axis, 17m for the semi-major axis and 10m for the minor axis. For gold the Pass 1 search ellipsoid reached 21m for the major axis, 13m for the semi-major axis and 10m for the minor axis. For silver the Pass 1 search ellipsoid reached 33m for the major axis, 16m for the semi-major axis and 10m for the minor axis. A 1.5x multiplier was used to define the second pass search parameters, and from Pass 2 a 1.8x multiplier was used to define the third pass search parameters.

For all passes a maximum number of 15 composites with a maximum of three composites from any single hole were used. Since seven composites minimum were needed for the most restrictive Pass 1, the interpolation method needed to pool data from three drill holes in order to interpolate a block. For the second pass, the minimum numbers of composites were reduced to four, forcing a minimum of two holes to interpolate a block. For the third pass, a minimum of two composites were required, therefore a block could be interpolated with data originating from a single hole.

A similar process was adopted for the Promontorio estimate.

**Comment**
The interpretation and wireframing methodology are suitable for the mineralisation style and geometry. Top cuts were applied to the data prior to estimation. The block size is appropriate for the drill spacing and is approximately a quarter of the drill spacing. The interpolation method and search neighbourhood parameters are appropriate for the style of mineralisation.

Bulk density was estimated into the domains using ID interpolation and the copper search parameters. This method is appropriate as long as sufficient samples were available within each domain for a robust estimate.

Overall, the estimation of the Cascada and Promontorio Mineral Resources was conducted with industry standard techniques and are appropriate for the level of confidence at the deposits.

#### 3.4.5.4. Mineral Resource Classification and Reporting

Mineral Resource classification was developed from the confidence levels of key criteria including drilling methods, geological understanding and interpretation, sampling, data density and location, grade estimation and the quality of the estimate.

The reported Mineral Resources are considered to have reasonable prospects of economic extraction. For Cascada, a Lerchs Grossman optimised constraining shell was generated to constrain the potential open pit material. This shell was designed using design parameters and costs for comparable deposits and 45° overall wall slopes. Recoveries were based on preliminary metallurgical test work and had copper recovery of 95%, gold recovery of 75% and silver recovery of 85%. Metal prices used in the pit shell determination were $3.40/lb copper, $1,470/oz gold and $25/oz silver.

For Cascada, the open pit cut-off is 0.5% CuEq for the material within the resource constraining shell and at 1.0% CuEq for the material below the constraining shell. The underground cut-off is based on similar operations in northern Mexico. No underground mining shapes have been generated. The Promontorio Mineral Resource was reported above a 0.5% CuEq grade.

**Comment**
Drill spacing of 25m spacing has been classified as Indicated Mineral Resource, which is appropriate. There were sufficient bulk density measurements obtained from each deposit to support this classification.

A global cut-off grade of 0.5% CuEq is applied for the Mineral Resources for material amenable to open pit mining and constrained to an optimised pit shell. Material below the optimised shell was reported at a 1.0% CuEq cut-off grade at Cascada and is appropriate for material amenable to underground mining.

#### 3.4.5.5. JORC Table 1 Content

The data presented in the JORC Table 1 for Cascada is adequate. As the Promontorio Mineral Resource Estimate was prepared under the JORC (2004) guidelines there is no JORC 1 associated with this resource nor was the information included in the ASX release.

### 3.4.6. Ore Reserves

No Ore Reserves have been estimated for any of the Resources within the Promontorio Project.

## 3.5. Non Resource Projects

This section is a summary of the six non-resource projects owned by Azure. Azure has reported that some of these projects are actively being offered for joint venture or divestment while the company focusses on the more advanced projects.

The tenements that constitute these projects have been documented in the tenure section above with the tenement details documented in Appendix A while the regional location of these tenements is shown in Figure 1

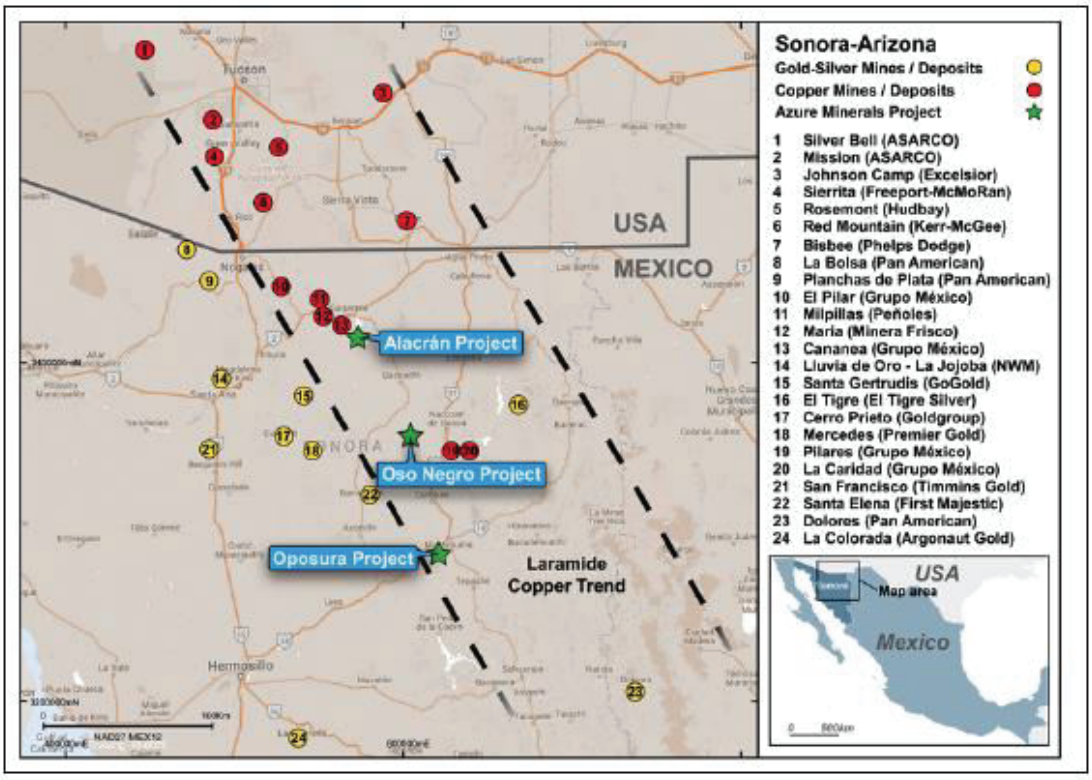
### 3.5.1. Oso Negro Project

Azure's 100% owned Oso Negro Project is a Silver-Gold project covering 1,275 hectares in the state of Sonora (Figure 1). The project, consisting of two tenements is located 70km north of Oposura and 65km southeast of the Alacrán (Figure 26).

There are historical epithermal mine workings within the project with mineralisation identified over up to 800 meters.

Exploration activities in late 2018 have consisted of reconnaissance sampling of veins, selvages and dumps with many returning high silver grades (up to 2,680g/t Ag) and gold (up to 100.5g/t Au) (ASX release dated 5 September 2018). With sampling completed in the December 2018 quarter resulting in a newly identified veins which returned strong grades of silver (up to 1,935g/t Ag) and gold (up to 17.55g/t Au).

The work within this project is ongoing.




Source: Azure December 2018 Quarterly report

**Figure 26 Oso Negro project location**

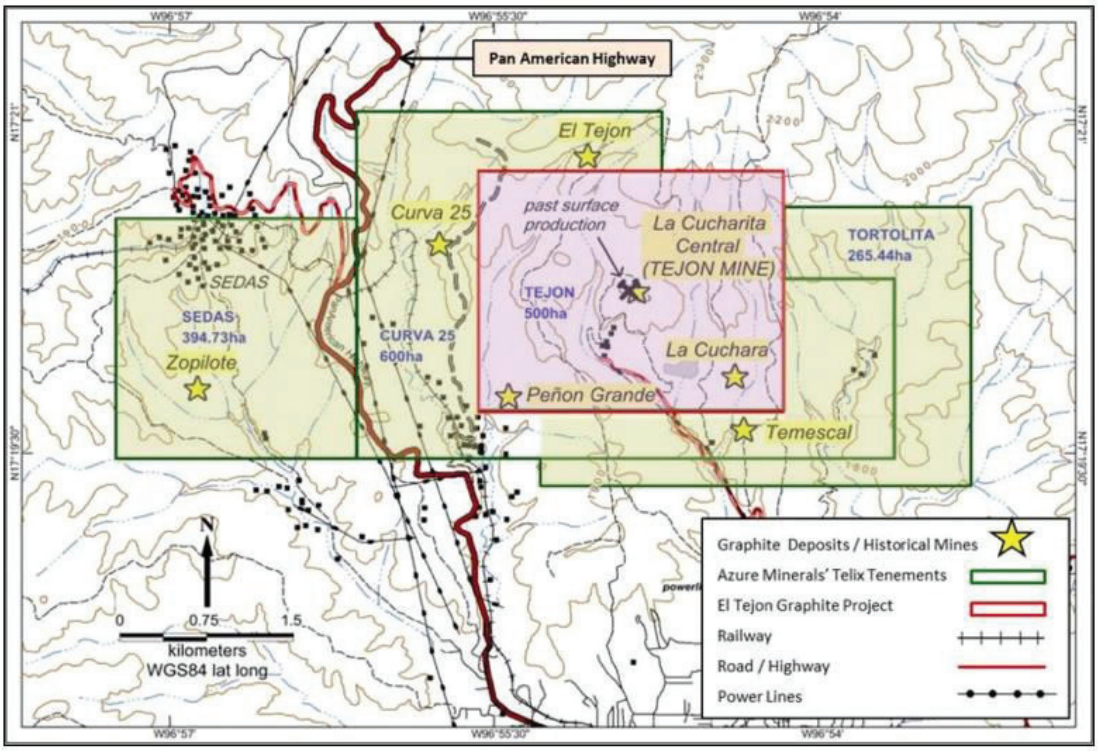
### 3.5.2. Telix Project

The Telix Project, owned 100% by Azure is a Graphite project covers 12.6km$^2$ within the state of Oaxaca, southern Mexico (Figure 1). The project is well supported by local infrastructure including good roads including the Pan American Highway, a major railroad, and mains electrical power and water all passing through the project area (Figure 27)

The Telix project is located adjacent to the El Tejon Graphite Mine, Mexico's only commercial graphite mine. The El Tejon Mine and Mill owned and managed by the Mexican government operated for 21 years until 2002. El Tejon was acquired in 2014 by Canadian company Big North Graphite Corp who are reported to be considering restarting the operation. El Tejon produced high quality flake graphite at a ratio of 20% large flake and 80% medium and fine flake from open pit mining, mostly from La Cucharita Central deposit.

The project area covers the same gneissic rocks that host significant graphite mineralisation throughout the district. Several historical graphite mines, including Curva 25, Zopilote and Temescal, are hosted within the project. These deposits are reported to be high quality flake graphite similar to that mined at the adjacent La Cucharita Central deposit.

No exploration has been conducted on the project by Azure since it was acquired in 2015.




Source: Azure

**Figure 27 Project infrastructure with graphite prospects**

### 3.5.3. El Tecolate Project

The El Tecolate Project, owned 100% by Azure, is a Copper-Zinc-Silver project within the state of Sonora (Figure 1).

The project contains the historical skarn-hosted El Tecolote Copper-Zinc-Silver Mine, which is reported to have produced 1.6 million tonnes @ 1.8% copper, 6.9% zinc and 50g/t silver in the late 1970's to mid-1980's with production ceasing due to low metal prices.

Azure has completed geophysical surveys (airborne VTEM, aeromagnetic, ground magnetic and IP), geological mapping, sampling and diamond drilling, which tested targets including extensions of the El Tecolote Mine and several nearby porphyry copper targets.

Drilling undertaken across the prospect intersected mineralisation over a 200m strike length near the El Tecolote mine, with results including;
6m @ 6.9% Zinc from 125.1m
5m @ 2.4% Zinc from 60.5m

Future exploration would likely consist of drilling, mineral resource estimation, and metallurgical testwork on the tailings and drill core.

### 3.5.4. San Agustin Project

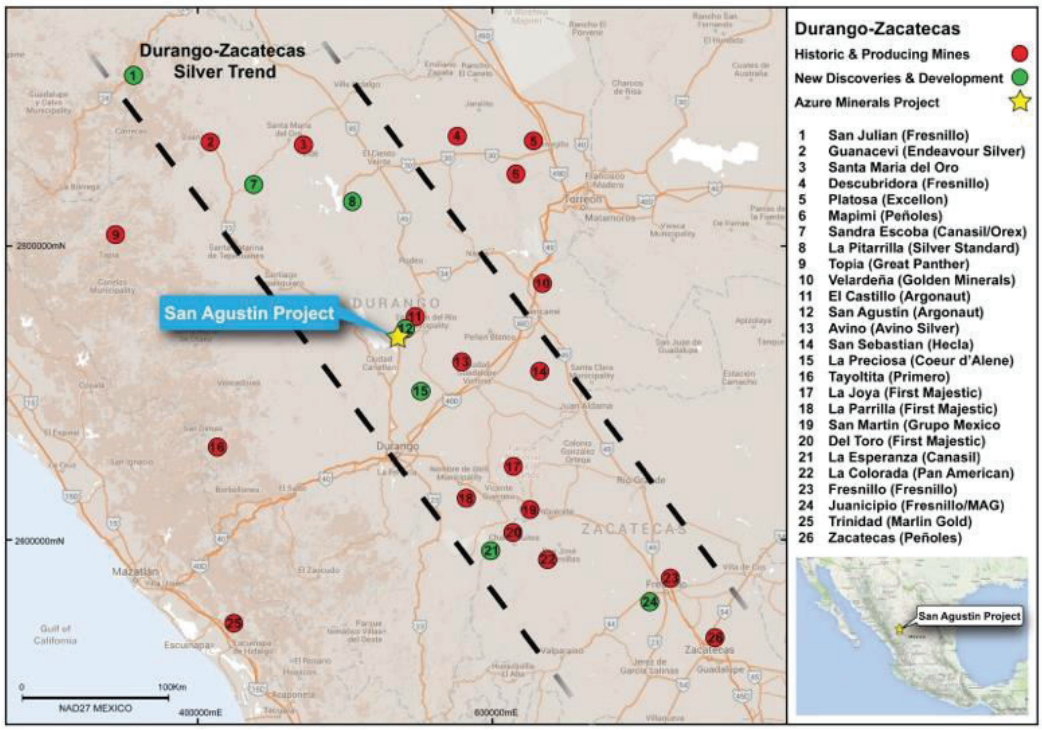
San Agustin is a gold-silver project covering 201 hectares in the state of Durango (Figure 1). The project is 100% owned by Azure Minerals with the vendor retaining a 1% NSR over future mineral production.

The project is located in the Mexican Silver Belt, host to several operating silver and gold mines, with some also producing by-products, including zinc, lead and copper (Figure 28).

San Agustin is located 80km north of the city of Durango. The property is serviced by highways and roads (located 7km from Federal Highway #45) with nearby infrastructure that includes the state power grid.

No prior exploration has been undertaken on the project. The area around the San Agustin property is an emerging gold-silver district. The El Castillo gold mine owned by Argonaut Gold1 is located 16km northeast of the project and reported production of 80,000oz in 2015 at a mined head grade of 0.3g/t Au. Argonaut also owns a gold-silver project 3km northeast of the project which hosts resources of 850,000 ounces of gold (resource grade of 0.3g/t Au) and 28 million ounces of silver (resource grade of 11g/t Ag).

Similar rocks have been described on the project as are seen in both of Argonaut's deposits - predominantly gold-rich, intermediate sulphidation mineralisation hosted by calcareous clastic rocks.




Source: Azure

**Figure 28 San Agustin Project Location**

Azure has completed detailed soil sampling over the entire project area. The results confirmed widespread gold and silver anomalism and identified two coherent anomalies. Follow up mapping and rock chip sampling was completed to identify drill targets (ASX release dated 3 April 2017).

### 3.5.5. Sara Alicia Project

The 100% Azure owned Sara Alicia Project is a Gold-Cobalt project that covers 9 hectares within the southern end of the state of Sonora (Figure 1 and Figure 29). As a part of the acquisition a payment of $US125,000 to the previous owners of the project is required on commercial production from the project.

Access to site is good with a sealed road to the town of Alamos and the nearby Piedras Verdes Copper Mine, and with gravel roads providing access to site.

Small-scale production of gold and cobalt occurred in the 1930s from an underground mine historical plans and reports indicate that the mine was approximately 60m deep. Drilling and inspection of the mineralised system within the old mine workings suggest the shoot continues at depth to the northwest (June 2018 quarterly report).

The Project hosts a sequence of carbonate rocks which have been intruded by a granodiorite porphyry. Strong alteration in the limestones have formed skarns, with precious and base metal mineralisation occurring at several horizons (or mantos) within the stratigraphy. One manto hosts the gold-cobalt mineralisation, while two others are anomalous in copper-zinc-silver.

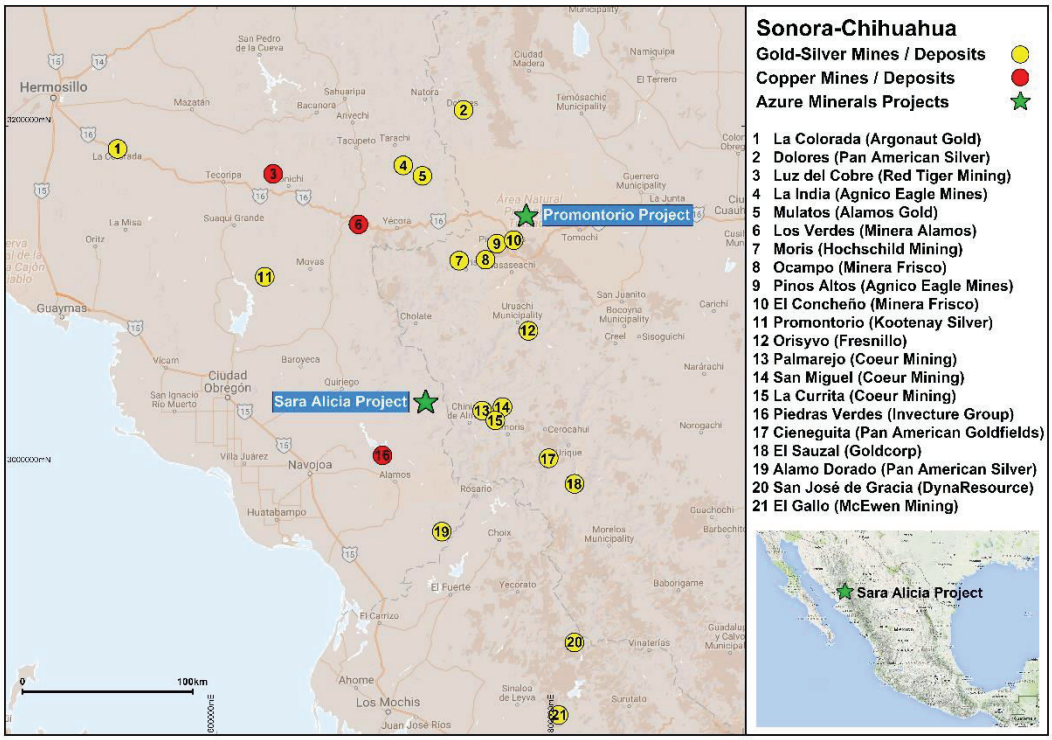



**Figure 29 Location of the Sara Alicia Project**

High grade cobalt is hosted within a shoot of massive and semi massive sulphides that outcrop near the top of the Sara Alicia hill and plunges shallowly towards the northwest.

Azure acquired the project in 2017 and initially conducted sampling of outcrop and mine workings. Two phases of drilling have been completed for 19 diamond holes for 1,607m. Drill results intersected wide of near surface, high-grade gold and cobalt mineralisation. Significant assay results were reported in Azure's December 2017 and June 2018 quarterly reports and an ASX release on 31 May 2018. As the mineralisation occurs as massive and semi massive sulphides geophysical techniques could be used in targeting.

Azure reported in the December 2018 quarterly report that the company had hosted site visits for companies investigating either a joint venture or purchase of the project.

### 3.5.6. Panchita Project

The Panchita Project, owned 100% by Azure is a Gold-Silver project located in the state of Sonora (Figure 1). The project was acquired in 2013. It is located in a well-mineralised, gold-rich district, which hosts several major deposits

Azure's first reconnaissance exploration program comprised surface sampling targeting outcrops, old mine workings and mine dumps, collecting a total of 66 samples. Thirty-three samples returned greater than 0.5g/t gold, with 25 samples returning greater than 1g/t gold. Anomalous silver values were also returned from many of the samples.

Azure is seeking a joint venture partner or an outright sale of the project.

# 4. Valuation Methodology

The VALMIN code outlines various valuation approaches that are applicable for projects at various stages of the development pipeline. These include valuations based on market based transactions, income or costs as shown in Table 8 below and provides a guide as to the most applicable valuation techniques for different a ssets.

**Table 8 VALMIN Code 2015 valuation approaches suitable for mineral projects**

| Valuation Approach | Exploration Projects | Pre-development Projects | Development Projects | Production Projects |
|---|---|---|---|---|
| Market | Yes | Yes | Yes | Yes |
| Income | No | In some cases | Yes | Yes |
| Cost | Yes | In some cases | No | No |

From VALMIN Code 2015

As no reserves have been declared for the projects that are valued as a part of this report VRM does not consider an income valuation methodology is appropriate for any of the assets being valued. Therefore, the preferred valuations for the Azure projects are based on market transactions with support from a replacement cost valuation method.

The valuation approach for the remaining assets is a Market based approach with the details of the methodology detailed in Section 5.3 below.

## 4.1. Previous Valuations

VRM has enquired to Azure regarding any previous valuations that have been completed and are in the public domain. The company has confirmed that there are no recent valuations that are relevant to this valuation. VRM has also undertaken an extensive search to ensure there are no other valuations that have used the mineral assets of Azure as a basis of that valuation.

There are no previous valuation reports that are relevant to this valuation.

## 4.2. Valuation Subject to Change

The valuation of any mineral project is subject to several critical inputs most of these change over time and this valuation is using information available as of 17 April 2019 being the valuation date for this report. Additional information has since been released by Azure including a Resource Increase at the Oposura project with this resource update being included in this report. This valuation is subject to change due to variations in the geological understanding, variable assumptions and mining conditions, climatic variability that may impact on the development assumptions, the ability and timing of available funding to advance the project, the current and future commodity prices, exchange rates, political, social, environmental aspects of a possible development, a multitude of input costs including but not limited to fuel and energy prices, steel prices, labour rates and supply and demand dynamics for critical aspects of the potential development like mining equipment. While VRM has undertaken a review of multiple aspects that could impact the valuation there are numerous factors that are beyond the control of VRM. This valuation assumes several forward-looking production and economic criteria which would be unreasonable for VRM to anticipate.

As at the date of the report (21 May 2019) in VRM's opinion there have been no significant changes in the underlying inputs or circumstances that would make a material impact on the outcomes or findings of this report.

## 4.3. General assumptions

Mineral Assets of Azure are valued using appropriate methodologies as described in the following sections. The valuation is based on a number of specific assumptions detailed above, including the following general assumptions;

- That all information provided to VRM and its associates is accurate and can be relied upon,
- The valuations only relate to the mineral assets of Azure and not Azure Minerals Limited nor their shares or market value,
- That the mineral rights, tenement security and statutory obligations were fairly stated to VRM by Azure and that the mineral licences will remain active,
- That all other regulatory approvals for exploration and mining are either active or will be obtained in the required and expected timeframe
- That the owners of the mineral assets can obtain the required funding to advance the project as assumed,
- That the current mineral resource estimates and any modifying factors assumed in their estimation remain reasonable and valid,
- The commodity prices assumed (where it is used in the valuation) are as at 17 April 2019, being;
    - Gold US$ 1,245.3/oz (kitco.com)
    - Silver US$ 15.00/oz (kitco.com)
    - Zinc US$1.3283/lb (kitcometals.com)
    - Lead US$0.8788/lb (kitcometals.com)
    - Copper US$2.9588/lb (kitcometals.com)
  - The US$ - AUD$ exchange rate of 0.71676 has been used (xe.com).
- All currency in this report are Australian Dollars (AUD$), unless otherwise noted, if a particular value is in United States Dollars, it is prefixed with US$.

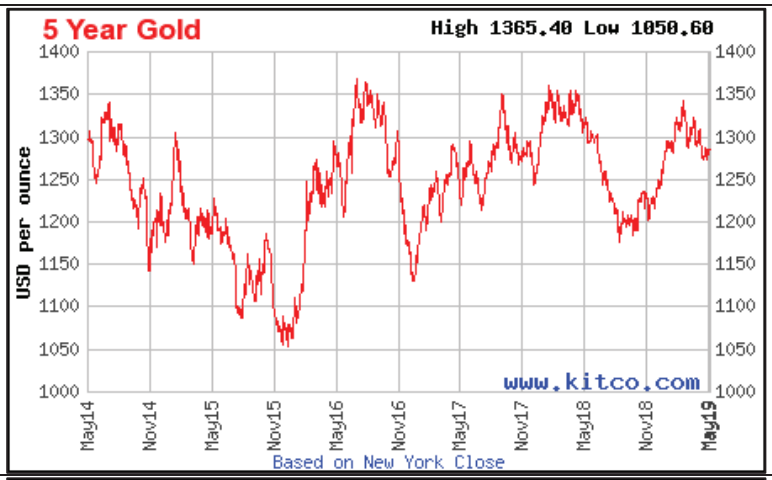
## 4.4. Market Based Valuations

As most the projects being valued in this report are base metal projects it is important to note the current status of the base and precious metal markets prior to completing the valuation.

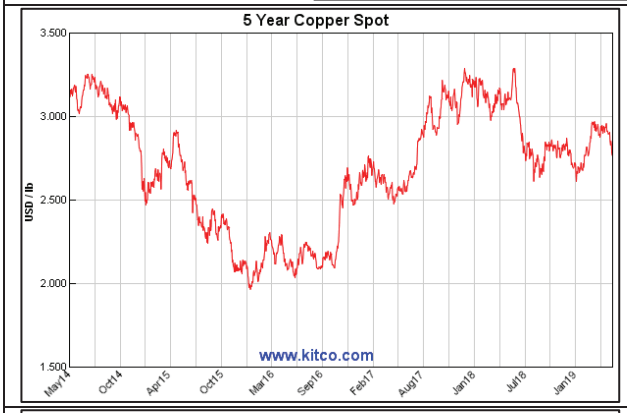
### 4.4.1. Base Metal Market

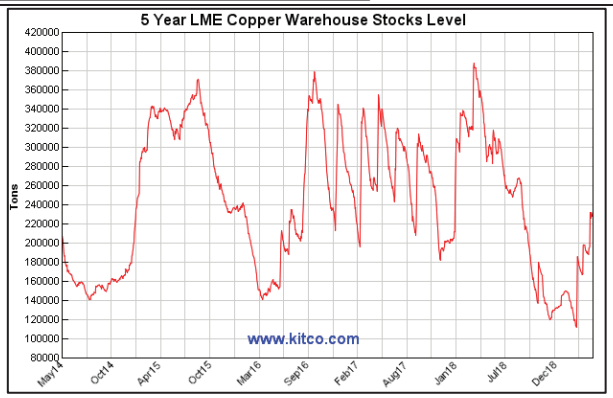
Commodities being targeted by Azure, being dominated by base and precious metals. The Oposura project is dominated by zinc. The global zinc market has been in supply deficit the past few years as several large operations close primarily due to resource / reserve depletion rather than the mines being closed due to commodity prices. This has placed the zinc market in a significant deficit with this predicted by many forecast agencies to continue into the near future. As most base metals, in particular zinc and lead, prices are driven by the supply and demand balance the market review is based on the stockpiles of zinc and lead on various exchanges and the current metal price. The copper price is often seen as a direct reflection of the global economic performance. With several of the major economies, in particular the USA, China and some European countries continuing to see strong growth the copper price has been reasonably resilient over the past 12 – 18 months. The precious metal prices, in particular gold is frequently considered to be a pseudo currency with demand on physical gold being linked to periods of economic uncertainty and a safe haven investment option

Below are several graphs of the metal prices over the past five years and the stockpiles of those metals on the major metal exchanges of London and Shanghai. Overall even given the supply – demand fundamentals of the zinc market there hasn't been a significant increase in the metal price. The zinc, lead and copper prices are all significantly lower than the five year peak prices that occurred approximately 12 – 18 months ago. Therefore, it is considered reasonable to discount the technical valuations by approximately 10%.


5 Year Gold
High 1365.40 Low 1050.60
USD per ounce
1400
1350
1300
1250
1200
1150
1100
1050
1000
May14
Nov14
May15
Nov15
May16
Nov16
May17
Nov17
May18
Nov18
May19
www.kitco.com
Based on New York Close

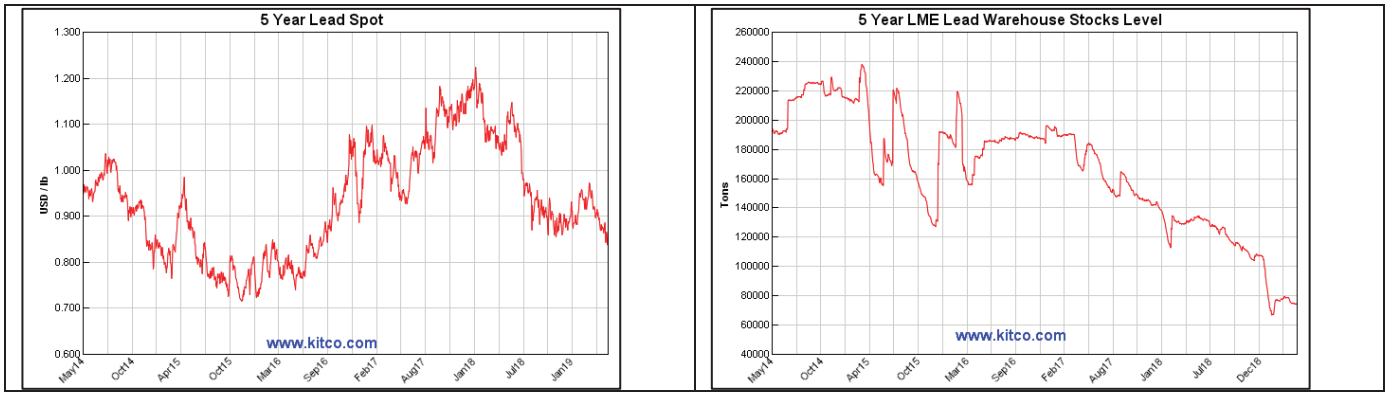

5 Year Silver
High 21.45 Low 13.65
USD per ounce
22.00
21.00
20.00
19.00
18.00
17.00
16.00
15.00
14.00
13.00
12.00
May14
Nov14
May15
Nov15
May16
Nov16
May17
Nov17
May18
Nov18
May19
www.kitco.com
Based on New York Close


5 Year Copper Spot
USD / lb
3.500
3.000
2.500
2.000
1.500
May14
Oct14
Apr15
Oct15
Mar16
Sep16
Feb17
Aug17
Jan18
Jul18
Jan19
www.kitco.com


5 Year LME Copper Warehouse Stocks Level
Tons
420000
400000
380000
360000
340000
320000
300000
280000
260000
240000
220000
200000
180000
160000
140000
120000
100000
80000
May14
Oct14
Apr15
Oct15
Mar16
Sep16
Feb17
Aug17
Jan18
Jul18
Dec18
www.kitco.com


5 Year Zinc Spot
USD / lb
1.800
1.600
1.400
1.200
1.000
0.800
0.600
May14
Oct14
Apr15
Oct15
Mar16
Sep16
Feb17
Aug17
Jan18
Jul18
Jan19
www.kitco.com


5 Year LME Zinc Warehouse Stocks Level
Tons
850000
800000
750000
700000
650000
600000
550000
500000
450000
400000
350000
300000
250000
200000
150000
100000
50000
0
May14
Oct14
Apr15
Oct15
Mar16
Sep16
Feb17
Aug17
Jan18
Jul18
Dec18
www.kitco.com




### 4.4.2. Valuation of Advanced Projects

There are several valuation methods that are suitable for advanced projects these include;

- Financial modelling including DCF valuations (limited to projects with published Reserves),
- Comparable Market Based transactions including Resource and Reserve Multiples
- Joint Venture Transactions
- Yardstick valuations

As there are no Ore Reserves estimated for any of the projects VRM does not consider an income based valuation approach is suitable. There are significant modifying factors that impact the viability and economic returns of a mining operation. Until the modifying factors are identified and quantified by additional studies, typically completed as a part of an Ore Reserve Estimation, it is VRM's opinion that any assumptions in critical modifying factors could, and often would have a material impact on a valuation using an income approach. Even if an income approach were used the variables would create a very wide range in valuations therefore limiting the usefulness in assessing a potential fair market valuation.

#### 4.4.2.1. Comparable Market Based Transactions

A comparable Transactional valuation is a simple and easily understood valuation method which is broadly based on the real estate approach to valuation. It can be applied to a transaction based on the contained metal (for projects with Mineral Resource Estimated reported) or on an area basis for non-resource projects. Advantages of this type of valuation method include that it is easily understood and applied, especially where the resources or tenement area is comparable and the resources are reported according to an industry standard (like the JORC Code or NI43-101) but it is not as robust for projects where the resources are either historic in nature, reported according to a more relaxed standard or are using a cut-off grade that reflects a commodity price that is not justified by the current market fundamentals. If the projects being valued are in the same or a comparable jurisdiction, then it removes the requirement for a geopolitical adjustment. Finally, if the transaction being used is recent then it should reflect the current market conditions. Difficulties arise when there are a limited number of transactions, where the projects have subtle but identifiable differences that impact the economic viability of one of the projects, for example the requirement for a very fine grind required to liberate gold from a sulphide rich ore or where the ore is refractory in nature and requires a non-standard processing method.

The information for the comparable transactions has been derived from various sources including the ASX and TSX releases associated with these transactions, a database compiled by VRM for exploration stage projects (with resources estimated) and development ready projects and a monthly publication by PCF Capital termed the Resource Thermometer.

This valuation method is the primary valuation method for exploration or advanced (pre-development) projects where Resources have been estimated but no Reserves or DCF or financial models have been completed. More advanced projects would typically be valued using an income approach due to the modifying factors for a mining operation being better defined.

The preference is to limit the transactions and Resource multiples to completed transactions from the past two to three years in either the same geopolitical region or same geological terrain.

The validity of the Resource multiples used by VRM has been checked by reviewing the May 2019 PCF Capital Resource Thermometer (valid up to the end of April 2019). This report details, amongst other information, the Resource and Reserve multiples for projects at an exploration, development, mining, and care and maintenance stage for gold, copper, zinc, iron ore and nickel. PCF Capital does not provide any warranty of the accuracy of these resource and reserve multiples. As the Resource Thermometer, published by PCF Capital is a lagging average, several of the recent transactions have not yet increased the average resource multiple for the past year. Additionally, as the transactions that have been used to generate the multiples are not documented and transparent, they should, in VRM's opinion, not be relied on for a public report.

The comparable transactions have been compiled for advanced projects where Resources have been estimated. Appendix B details the Resource Multiples for a series of transactions that are considered at least broadly comparable to the base and precious metal projects owned by Azure.

#### 4.4.2.2. Yardstick Valuation

A yardstick valuation was undertaken as a check of the comparable transactions. This yardstick valuation is based on a rule of thumb as supported by a large database of transactions where resources and reserves at various degrees of confidence are multiplied by a percentage of the spot price. The database is an in-house compilation of historical publicly announced transactions (dominantly from ASX releases) with various resources classifications. The yardstick valuation factors used in this report are in line with other yardstick valuation factors commonly used by other independent specialists and used in other VALMIN reports such as Naidoo et.al. (2016).

Typically, base metal and other commodities which are sold as concentrates use significantly lower yardstick multiples to reflect the proportion of the value of the metal in concentrate that is paid to the producer. Gold is typically sold directly to a refinery or mint as gold Dore (an alloy of gold and silver) and a very high proportion of the metal value is paid to the producer, often >97% while concentrates result in a much lower proportion of the metal value being paid to a producer (often as low as 50-60% of the metal value). Table 9 below details the yardstick multiples used for base metal projects.

The US$-AUD$ exchange rate and spot commodity prices as of 17 April 2019 and documented above have been used to determine the yardstick valuation.

**Table 9 Yardstick Multiples used for Base Metal Projects or projects where a concentrate is sold**

| Resource or Reserve Classification | Lower Yardstick (% of Spot price) | Upper Yardstick (% of Spot price) |
|---|---|---|
| Ore Reserves | 3% | 5% |
| Measured Resources (less Proved Reserves) | 1% | 3% |
| Indicated Resources (less Probable Reserves) | 0.5% | 1% |
| Inferred Resources | 0.3% | 0.5% |

### 4.4.3. Exploration Asset Valuation

To generate an overall value of the entire project it is important to value all the separate parts of the mineral assets under consideration. In the case of the advanced projects (with reserves or resources) the most significant value drivers for the overall project are the Resources or Reserves for earlier stage projects a significant contributor to the projects value is the exploration potential. There are several ways to determine the potential of pre-resource projects, these being;

- A Geoscientific (Kilburn) Valuation
- Comparable transactions based on the projects' area
- Joint Venture Terms
- A prospectivity enhancement multiplier (PEM)

The methodology to determine the Comparable transactions based on a projects area is undertaken using the same methodology as the described in the Comparable transactions' valuation for advanced projects section above other than the transactional value is applied to the project's area rather than the resources. The Joint Venture terms valuation is similar to the comparable transactions based on the project area other than a discount to the Joint Venture terms is applied to account for the time value of money (an appropriate discount rate is applied) and a discount to the earn-in expenditure to account for the chance that the Joint Venture earn-in expenditure is not completed in the agreed timeframe.

VRM considers the Geoscientific (Kilburn) Valuation method to be the most robust and therefore that is the primary valuation method used for early stage projects. The Geoscientific (Kilburn) Valuation method is checked using the other valuation methods with a preference toward Joint Venture terms and comparable transactions. It is the view of VRM that the least transparent and most variable valuation method is a PEM valuation.

#### 4.4.3.1. Geoscientific (Kilburn) Valuation

One valuation technique that is widely used to determine the value of a project that is at an early exploration stage without any mineral resources or reserve estimates was developed and is described in an article published in the CIM bulletin by Kilburn (1990). This method is widely termed the geoscientific method where a series of factors within a project are assessed for their potential. While this technique is somewhat subjective and open to interpretation it is a method that when applied correctly and by a suitably experienced specialist enables an accurate estimate of the value of the project. There are five critical aspects that need to be considered when using a Kilburn or Geoscientific valuation, these are the base acquisition cost, which put simply is the cost to acquire and continue to retain the tenements being valued. The other aspects are the proximity to both adjacent to and along strike of a major deposit (Off Property Factors), the occurrence of a mineral system on the tenement (On Property Factors), the success of previous exploration within the tenement (Anomaly Factors) and the geological prospectivity of the geological terrain covered by the mineral claims or tenements (Geological Factors)

While this valuation method is robust and transparent it can generate a very wide range in valuations, especially when the ranking criteria are assigned to a large tenement. This method was initially developed in Canada where the mineral claims are generally small therefore reducing the potential errors associated with spreading both favourable and unfavourable ranking criteria to be spread over a large tenement. Therefore, VRM either values each tenement or breaks down a larger tenement into areas of higher and lower prospectivity.

Table 10 documents the ranking criteria while the inputs and assumptions that were used t o derive the base acquisition cost (BAC) for each tenement are detailed in the valuation section of each of the projects.

The technical valuation derived from the Kilburn ranking factors are frequently adjusted to reflect the geopolitical risks associated with the location of the project and also the current market conditions toward a specific commodity or geological terrain. These adjustments can either increase or decrease the technical value to derive the fair market valuation.

Using the ranking criteria from Table 10 along with the base acquisition costs tabulated in the Appendices an overall technical valuation was determined.

The technical valuation was discounted to derive a market valuation. A market factor was derived to account for th e geopolitical risks of operating in Mexico and the status of the market to base and precious metal projects.

Mexico has several geopolitical risks (governmental risks) along with social and community risks and is expected to
have an increased level of environmental compliance and approvals risks. Therefore a 15% discount was applied to the Technical Valuation to account for this increased risk.

**Table 10 Ranking criteria are used to determine the geoscientific technical valuation**

| Rating | Off-property factor | On-property factor | Anomaly factor | Geological factor |
|---|---|---|---|---|
| 0.1 | | | | Generally unfavourable geological setting |
| 0.5 | | | Extensive previous exploration with poor results | Poor geological setting |
| 0.9 | | | Poor results to date | Generally favourable geological setting, under cover |
| 1.0 | No known mineralisation in district | No known mineralisation within tenement | No targets defined | Generally favourable geological setting |
| 1.5 | Mineralisation identified | Mineralisation identified | Target identified, initial indications positive | |
| 2.0 | Resource targets identified | Exploration targets identified | | Favourable geological setting |
| 2.5 | | | Significant intersections - not correlated on section | |
| 3.0 | Along strike or adjacent to known mineralisation | Mine or abundant workings with significant previous production | | Mineralised zones exposed in prospective host rocks |
| 3.5 | | | Several significant ore grade intersections that can be correlated | |
| 4.0 | Along strike from a major mine(s) | Major mine with significant historical production | | |
| 5.0 | Along strike from world class mine | | | |

In addition to the jurisdictional risks there are also market based factors that can dramatically change the market valuation. Therefore, an additional discount has been applied for to account for the current state of the commodity price and general market sentiment toward base and precious metal projects. While the market for zinc is currently quite robust due to supply restraints and continued economic improvements resulting in increased demand. This has resulted in an improvement in the commodity price. The increase in the base metal commodity prices and the link to the market prices for projects appears to be limited to well understood, technically simple and low risk advanced stage or development ready projects, exploration projects remain difficult to fund and advance toward a development decision. Additionally, the market factors can change depending on the local currency commodity prices. For example, in Australia the gold price, in Australian dollar terms is quite strong however it remains difficult to attract exploration funds to advance small gold projects, therefore, it is considered reasonable to apply a small discount the commodity price environment.

On that basis, the technical valuations are discounted by 15% for the geopolitical risks and the commodity price discount of 10% has been applied to the technical valuation.

#### 4.4.3.2. Cost Based Valuation

As outlined in Table 10 above and in the VALMIN code a cost based, or appraised value method is an appropriate valuation technique for an early stage exploration project. Under this method, the previous exploration expenditure is assessed as either improving or decreasing the potential of the project. The prospectivity enhancement multiplier (PEM) involves a factor which is directly related to the success of the exploration expenditure to advance the project. There are several alternate PEM factors that can be used depending on the specific project and commodity being evaluated. Onley, (1994) included several guidelines for the use and selection of appropriate PEM criteria. The PEM ranking criteria used in this ITAR are outlined in Table 11 below.

VRM considers the PEM valuation method as a secondary valuation method and no higher PEM ranges are used as once a resource has been estimated it is, in the opinion of the author, preferable to use resource multiples for comparable transactions once a resource has been estimated. Additionally, in VRM's opinion the PEM valuation method should only be assigned to recent, usually the last three to five years of exploration expenditure. If a projec t were purchased by the current owner, then it is considered reasonable to include that initial purchase price in the previous expenditure as long as that purchase occurred in the past three to five years.

**Table 11 Prospectivity Enhancement Multiplier (PEM) ranking criteria**

| Range | Criteria |
|---|---|
| 0.2 – 0.5 | Exploration downgrade the potential |
| 0.5 – 1 | Exploration has maintained the potential |
| 1.0 - 1.3 | Exploration has slightly increased the potential |
| 1.3 – 1.5 | Exploration has considerably increased the potential |
| 1.5 – 2.0 | Limited Preliminary Drilling intersected interesting mineralised intersections |
| 2.0 – 2.5 | Detailed Drilling has defined targets with potential economic interest |
| 2.5 – 3.0 | A Mineral Resource has been estimated at an Inferred category |

# 5. Valuation of the Azure Mineral Assets

## 5.1. Oposura Project

The valuation of the Oposura Project undertaken by VRM was undertaken as a sum of the individual parts basis with several valuations undertaken for the Resources with additional value derived from the exploration upside around the currently defined mineralisation. The resources have been valued as an exploration project as the resources and development studies are not advanced to the stage that an ore reserve could be estimated. The valuation techniques include a resource multiple based on comparable transactions with secondary valuation methods include a yardstick valuation method. The exploration upside has been valued using a Kilburn or geoscientific technique with secondary valuations including a PEM and an area based transaction multiple valuation. The details of these valuations are below and are based on the information and tenements as detailed in section 3 and Appendix B.

The Oposura Project consists of a series of tenements surrounded by a larger exploration tenement. The valuation of the smaller tenements has been undertaken using the resource multiples while the surrounding tenement has been valued using a Kilburn valuation.

### 5.1.1. Comparable Transactions – Resource Multiples

As detailed in Appendix B, VRM has reviewed a series of transactions that are considered broadly comparable to the Azure Projects.

As the Oposura Resource includes multiple commodities the resource multiple used in the valuation has been determined by a metal ratio which is essentially a metal equivalent however there are several assumptions used in determining the metal ratio including an assumed recovery. The metal ratio for in determining the resource multiplier and the contained metal within the Oposura Resource has been calculated based on the current commodity prices as at 17 April 2019.

From the analysis of the completed transactions from the Mexico and the geological extensions to the Laramide belt VRM has determined that the resource multiples for broadly comparable projects range from A$0.0022/lb ZnEq to A$0.093/lb ZnEq.

VRM considers that for Azure's Oposura Project, a reasonable resource multiple for the global resource is between A$0.0030/lb ZnEq and A$0.067/lb ZnEq with a median of A$0.0038/lb ZnEq. These multiples are based on the median and the 25$^{th}$ and 75$^{th}$ percentiles from an analysis of a subset of the transactions identified as potentially comparable. The projects that were excluded from the overall analysis were significantly larger projects with that are located in southern Arizona which, given the geopolitical differences would also account for the higher resource multiple when compared to the projects in Mexico which is considered a higher risk jurisdiction compared to southern Arizona.

The resource multiples detailed above and supported by the information in Appendix B have been used along with the Resources for the Oposura Project to derive the value of the resources shown in Table 12.

**Table 12 Comparable transaction valuation summary for the Oposura Project.**

| Oposura Project | | | |
|---|---|---|---|
| | **Lower (25th Percentile)** | **Median** | **Upper (75th Percentile)** |
| **Resource (Mlb ZnEq).** | 597.8 | 597.8 | 597.8 |
| **Resource Multiple (AUD$/lb Zn Eq)** | $0.003 | $0.009 | $0.015 |
| **Resource Valuation (AUD$ million)** | $1.8 | $5.5 | $9.2 |

Note appropriate rounding has been applied to the Resource estimate and the valuation.

If the larger resource multiple identified from recent transactions were used, then the project valuation would be A$51.8 million however this has been excluded from the analysis due to it being considered a statistical outlier and has been derived from a project that is significantly larger than Oposura. In 2018 Cons Zinc purchased an additional 39% of their main project in accordance with the initial purchase agreement. If the resource multiple for that transaction were used, then the upper valuation for the Oposura project would be A$9.2 million. That project has subsequently been put into production. The analysis of this valuation has determined a very wide valuation range, this is considered to be mainly due to the challenge in determining a truly comparable transaction dataset. In the series of transactions that were considered comparable there are two transactions that are advanced, one being the Cons Zinc project while the other is the Sierra Mojada project owned by Silver Bull. The latter project is a significantly larger resource at approximately 58Mt at a zinc equivalent grade of 6.2%Zn. South 32 Limited recently announced a joint venture where they are entitled to earn up to 70% in the project for a total expenditure of US$100 million. This is a significantly larger and more advanced project than some of the other projects in the dataset however it is a project, like the Cons Zinc project that is more advanced than other projects and therefore is considered to represent a viable comparable transaction of an upper valuation.

Therefore, VRM considers the Resources within the Oposura Project to be valued, based on comparable transactions, at between **$1.8 million** and **$9.2 million** with a preferred valuation of **$5.5 million**, being the average of the upper and lower valuations**.** In addition to this value the exploration potential needs to be included. The exploration potential has been derived via a Geoscientific (Kilburn) valuation method below.

### 5.1.2. Yardstick

Table 13 details the yardstick multiples were used to determine the value of the Resources within the Azure Projects while Table 14 tabulates the valuation for the project based on the currently Resource estimates.

**Table 13 Yardstick Multiples used for the Azure Projects**

| Resource or Reserve Classification | Lower Yardstick Multiple | Upper Yardstick Multiple |
|---|---|---|
| | (% of Spot price) | (% of Spot price) |
| Ore Reserves | 3.0% | 5.0% |
| Measured Resources (less Proved Reserves) | 1.0% | 3.0% |
| Indicated Resources (less Probable Reserves) | 0.5% | 1.0% |
| Inferred Resources | 0.3% | 0.5% |

**Table 14 Yardstick Valuation of the Resources in the Oposura Projects**

| | | | Valuation (AUD$ million) | | |
|---|---|---|---|---|---|
| | Resource | AUD$/t | Low | Preferred | High |
| Reserves | 0.000 | 4085.57 | - | - | - |
| Measured | 0.000 | 4085.57 | - | - | - |
| Indicated | 0.191 | 4085.57 | 3.9 | 5.9 | 7.8 |
| Inferred | 0.062 | 4085.57 | 0.8 | 1.0 | 1.3 |
| **Total Valuation (AUD$M)** | | | **4.7** | **6.9** | **9.1** |

Note: The yardstick valuation of uses the commodity prices as at 17 April 2019 and appropriate rounding has been applied to the resource and the valuation.

The yardstick valuation is broadly in line with the comparable transaction valuation however a yardstick valuation does not take into consideration the exploration potential within the projects or other technical aspects of the project such as metallurgy as such is considered by VRM to be a useful guide of a possible valuation and should not be used as a primary valuation method.

### 5.1.3. Geoscientific Valuation

There are several specific inputs that are critical in determining a valid geoscientific or Kilburn valuation, these are ensuring that the specialist undertaking the valuation has a good understanding of the mineralisation styles within the overall region, the tenements and has access to all the exploration and geological information to ensure that the rankings are based on a thorough knowledge of the project. In addition to ensuring the rankings are correct deriving the base acquisition costs (BAC) is critical as that is the primary driver of the final value. In this case the BAC is derived by the current costs of applying for a tenement of the specific type and the exploration commitment to maintain the tenement in good standing. If the valuation is being undertaken on a large area it is preferable to break down the larger area into smaller zones to ensure that an area with a high ranking is not spread over a large area, thereby artificially increasing the valuation. The opposite can occur with large areas of low potential.

For the Oposura Project, in VRM's opinion the value of the small tenements that contain the resources has been captured by the resource multiple however the surrounding tenement has considerable exploration potential which has been valued by a Kilburn valuation.

The Geoscientific rankings were derived for each of the Kilburn ranking criteria with the off property criteria considered to be between 3 and 3.5, the on Property criteria between 1.5 and 2, the anomaly factor between 1.5 and 2 while the geology criteria are considered to be between 2 and 2.5. when this is combined with the base acquisition cost of A$33,400 this has determined the technical value as shown in Table 15.

Table 15 details the technical value of the exploration potential of the tenement that surrounds the Oposura resource tenements while the Fair Market Value of the exploration potential is based on a 10% market discount while the geopolitical and social risks have resulted in a further 15% discount to the technical valuation. Overall the fair market valuation is detailed in Table 16.

**Table 15 Technical Valuation for the tenement surrounding the Oposura Resource tenements**

| Tenement | Technical Valuation | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | $450,900 | $809,950 | $1,169,000 |

Note the table above is the technical valuation which is the base acquisition cost multiplied by the ranking factors outlined in Appendix C

**Table 16 Fair Market Valuation for the tenement surrounding the Oposura Resource tenements**

| Tenement | Market Valuation ($M) | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | 0.3 | 0.6 | 0.9 |

Note appropriate rounding to the valuation has been undertaken.

Table 16 is the fair market valuation (in AUD$) which is the technical valuation multiplied by two additional valuation factors, the geopolitical or sovereign risk factor and the market factor. In this case the location factor is 85% while the commodity or market factor is 90%. These factors have been applied to the technical valuations in Table 15.

Therefore, in VRM's opinion the Oposura Project has a fair market value of between **A$2.2 million and A$10.1 million** with a preferred value of **$6.1 million**.

VRM does note that the Scoping Study determined an $NPV_{(8\%)}$ of approximately US$ 84 million of the project. The significant difference between the fair market valuation and the NPV is likely due to the low discount rate, the technical risks associated with the development and funding risks. As additional studies are completed it is likely that difference between these two valuations methods would significantly reduce.

## 5.2. Alacrán Project

The valuation of the Alacrán Project undertaken by VRM was done using a similar approach to that taken for the Oposura Project as described above however the main difference was that the resource multiples and metal ratio was based on contained silver metal ratio (AgEq) rather than a zinc metal ratio.

The Alacrán Project consists of a series of tenements with the valuation of the smaller tenements has been determined by a resource multiples valuation while the surrounding tenement has been valued using a Kilburn valuation.

### 5.2.1. Comparable Transactions – Resource Multiples

As detailed in Appendix B, VRM has reviewed a series of transactions that are considered broadly comparable to the Alacrán Project.

As was undertaken for the Oposura Project the resource multiple used in the valuation has been determined by a metal ratio which is essentially a metal equivalent however there are several assumptions used in determining the metal ratio including an assumed recovery. The metal ratio used to determine the resource multiplier and the contained metal within the Alacrán Resource has been calculated based on the current commodity prices as at 17 April 2019. For the Alacrán valuation a separate metal ratio was determined for transactions on projects that contain silver, in most cases these are the same transactions that were used for the Oposura valuation however rather than a zinc metal ratio VRM has calculated a silver metal ratio.

From the analysis of the completed transactions from the Mexico VRM has determined that the resource multiples for broadly comparable projects range from A$0.0353/oz AgEq to A$0.199/oz AgEq.

VRM considers that for Azure's Alacrán Project, a reasonable resource multiple for the global resource is between A$0.038/oz AgEq and A$0.088/oz AgEq. These multiples are based on the median and the 25$^{th}$ and 75$^{th}$ percentiles from an analysis of a subset of the transactions identified as potentially comparable. As there Alacrán project is not as advanced as the Oposura project one transaction that was used as a comparable transaction for Oposura has been excluded from the comparable transactions used to determine the resource multiples for the Alacrán project. This has significantly reduced the upper valuation for the Alacrán project compared to the upper valuation of the Oposura project.

The resource multiples detailed above and supported by the information in Appendix B have been used along with the Resources for the Alacrán Project to derive the value of the resources shown in Table 17. The preferred valuation is the average of the upper and lower valuations as determined by the 25$^{th}$ and 75$^{th}$ percentiles for the comparable projects.

**Table 17 Comparable transaction valuation summary for the Alacrán Project.**

| Alacrán Project | | | |
|---|---|---|---|
| | **Lower** | **Preferred** | **Upper** |
| **Resource (Moz AgEq).** | 47.07 | 47.07 | 47.07 |
| **Resource Multiple (AUD$/lb Zn Eq)** | $0.0380 | $0.063 | $0.088 |
| **Resource Valuation (AUD$ million)** | $1.8 | $3.0 | $4.2 |

Note appropriate rounding has been applied to the Resource estimate and the valuation.

Therefore, VRM considers the Resources within the Alacrán Project to be valued, based on comparable transactions, at between **$1.8 million** and **$4.2 million** with a preferred valuation of **$3.0 million.** In addition to this value the exploration potential needs to be included. The exploration potential has been derived via a Geoscientific (Kilburn) valuation method below.

### 5.2.2. Yardstick

Table 18 details the yardstick multiples were used to determine the value of the Resources within the Azure Projects while Table 19 tabulates the valuation for the project based on the currently Resource estimates. Due to the independent analysis and review of the resources for the Mesa de Plata resource where it is considered optimistic to classify the majority of the resource as a Measured Resource for the valuation via a Yardstick valuation VRM has elected to use an indicated yardstick valuation for the material that has been classified as measured. The net result of this reduction in the yardstick multiple is that the minimum yardstick valuation is $2.5 million lower, the upper valuation is $9.9 million lower than if the resources were valued using a measured resource yardstick multiple.

**Table 18 Yardstick Multiples used for the Alacrán Projects**

| Resource or Reserve Classification | Lower Yardstick Multiple | Upper Yardstick Multiple |
|---|---|---|
| | (% of Spot price) | (% of Spot price) |
| Ore Reserves | 3.0% | 5.0% |
| Measured Resources (less Proved Reserves) | 1.0% | 3.0% |
| Indicated Resources (less Probable Reserves) | 0.5% | 1.0% |
| Inferred Resources | 0.3% | 0.5% |

**Table 19 Yardstick Valuation of the Resources in the Alacrán Project**

| | Au (Moz) | | Ag (Moz) | | Valuation (AUD$ million) | | |
|---|---|---|---|---|---|---|---|
| | Resource | AUD$/oz | Resource | AUD$/oz | Low | Preferred | High |
| Reserves | 0.00 | $1,780.03 | 0.0 | 20.93 | - | - | - |
| Measured | 0.00 | $1,780.03 | 0.0 | 20.93 | | | |
| Indicated | 0.13 | $1,780.03 | 31.5 | 20.93 | 4.4 | 6.1 | 7.7 |
| Inferred | 0.02 | $1,780.03 | 0.7 | 20.93 | 0.2 | 0.2 | 0.2 |
| **Valuation** | **0.15** | | **32.2** | | **4.6** | **6.3** | **7.9** |

Note: The yardstick valuation of uses the commodity prices as at 17 April 2019 and appropriate rounding has been applied to the resource and the valuation.

The yardstick valuation is significantly higher than the comparable transaction valuation range above however this is mainly due to the majority of the valuation is being derived by the resource for the Mesa de Plata being classified as a Measured Resource. If that were classified as an indicated resource, then the yardstick valuation would be approximately $10 million lower.

The yardstick valuation does not take into consideration the exploration potential within the projects or other technical aspects of the project such as metallurgy as such is considered by VRM to be a useful guide of a possible valuation and should not be used as a primary valuation method.

### 5.2.3. Geoscientific Valuation

For the Alacrán Project, in VRM's opinion the value of the value of two tenements that contain the resources has been captured by the resource multiple however the surrounding tenements have considerable exploration potential which has been valued by a Kilburn valuation.

The Geoscientific rankings were derived for each of the Kilburn ranking criteria with the off property criteria considered to be between 3.5 and 4, the on Property criteria between 1.5 and 2, the anomaly factor between 1 and 1.5 while the geology criteria is considered to be between 0.9 and 1. For the main Cerro Alacrán porphyry copper target this was ranked separately from the other tenements as having the following rankings off property criteria considered to be between 3.5 and 4, the on Property criteria between 1.5 and 2, the anomaly factor between 2 and 2.5 while the geology criteria is considered to be between 1 and 1.5 with the proportion of the tenement that is covered by that target being 10% of the overall large exploration tenement. The ranking criteria and BAC used in this valuation are detailed in Appendix C while the technical value as shown in Table 15.

Table 20 details the technical value of the exploration potential of the project away from the resources that have been estimated for the Alacrán project. The Fair Market Value of the exploration potential is based on a 10% market discount while the geopolitical and social risks have resulted in a further 15% discount to the technical valuation. Overall the fair market valuation is detailed in Table 21.

Table 20 Technical Valuation for the tenement surrounding the Alacrán Resources

| Project | Technical Valuation | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | $1,845,400 | $3,316,550 | $4,787,700 |

Note the table above is the technical valuation which is the base acquisition cost multiplied by the ranking factors outlined in Appendix C

Table 21 Fair Market Valuation for the tenement surrounding the Alacrán Resources

| Tenement | Market Valuation ($M) | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | 1.4 | 2.5 | 3.7 |

Note appropriate rounding to the valuation has been undertaken.

In VRM's opinion the Alacrán Project has a fair market value of between **A$3.2million** and **A$7.9 million** with a preferred valuation of **$5.5 million**. This is based on the Comparable transaction valuation of between $1.8 million and $4.2 million with a preferred valuation of $3.0 million and the exploration potential via a Kilburn valuation method of between $1.4 million and $3.7 million with a preferred valuation of $2.5 million.

## 5.3. Promontorio Project

The valuation of the Promontorio Project undertaken by VRM was done using a similar approach to that taken for the Oposura and Alacrán Projects as described above however the main difference was that the resource multiples and metal ratio was based on contained copper silver metal ratio (CuEq) rather than a zinc or silver metal ratios.

The Promontorio Project consists of a series of tenements. The valuation of the smaller tenements has been undertaken using the resource multiples while the surrounding tenement has been valued using a Kilburn valuation.

### 5.3.1. Comparable Transactions – Resource Multiples

As detailed in Appendix B, VRM has reviewed a series of transactions that are considered broadly comparable to the Promontorio Project.

As was undertaken for the Oposura Project the resource multiple used in the valuation has been determined by a copper metal equivalent as reported either by Azure for the Promontorio project or a metal ratio based on the resources for various projects. The metal ratio used to determine the resource multiplier and the contained metal within the Promontorio Resource has been calculated based on the current commodity prices as at 17 April 2019.

From the analysis of the completed transactions from the Mexico VRM has determined that the resource multiples for broadly comparable projects range from A$2.08/t CuEq to A$19.7/t CuEq.

VRM considers that for Azure's Promontorio Project, a reasonable resource multiple for the global resource is between A$14/t CuEq and A$19/t CuEq with a median of A$17/t CuEq. These multiples are based an analysis of a subset of the transactions identified as potentially comparable.

The resource multiples detailed above and supported by the information in Appendix B have been used along with the Resources for the Promontorio Project to derive the value of the resources shown in Table 22.

**Table 22 Comparable transaction valuation summary for the Promontorio Project.**

| Promontorio Project | | | |
|---|---|---|---|
| | **Lower** | **Preferred** | **Upper** |
| **Resource (t CuEq)** | 73,040 | 73,040 | 73,040 |
| **Resource Multiple (AUD$/t CuEq)** | $14 | $17 | $19 |
| **Resource Valuation (AUD$ million)** | $1.0 | $1.2 | $1.4 |

Note appropriate rounding has been applied to the Resource estimate and the valuation.

Therefore, VRM considers the Resources within the Promontorio Project to be valued, based on comparable transactions, at between **$1.0 million** and **$1.4 million** with a preferred valuation of **$1.2 million.** In addition to this value the exploration potential needs to be included. The exploration potential has been derived via a Geoscientific (Kilburn) valuation method below.

### 5.3.2. Yardstick

Table 23 details the yardstick multiples were used to determine the value of the Resources within the Promontorio Project while Table 24 tabulates the valuation for the project based on the current Resource estimates.

**Table 23 Yardstick Multiples used for the Promontorio Projects**

| Resource or Reserve Classification | Lower Yardstick Multiple (% of Spot price) | Upper Yardstick Multiple (% of Spot price) |
|---|---|---|
| Ore Reserves | 3.0% | 5.0% |
| Measured Resources (less Proved Reserves) | 1.0% | 3.0% |
| Indicated Resources (less Probable Reserves) | 0.5% | 1.0% |
| Inferred Resources | 0.3% | 0.5% |

**Table 24 Yardstick Valuation of the Resources in the Promontorio Project**

| | Resource (Mt) | AUD$/t | Valuation (AUD$ million) | | |
|---|---|---|---|---|---|
| | | | Low | Preferred | High |
| Reserves | 0.000 | 9100.65 | - | - | - |
| Measured | 0.000 | 9100.65 | - | - | - |
| Indicated | 0.043 | 9100.65 | 1.95 | 2.92 | 3.90 |
| Inferred | 0.030 | 9100.65 | 0.81 | 1.08 | 1.35 |
| **Total Valuation (AUD$M)** | 0.073 | | 2.8 | 4.00 | 5.2 |

Note: The yardstick valuation of uses the commodity prices as at 17 April 2019 and appropriate rounding has been applied to the resource and the valuation.

The yardstick valuation is significantly higher than the comparable transaction valuation. This may be due to the geopolitical risks and the relatively early stage of the project or other technical aspects of the project such as metallurgy as such is considered by VRM to be a useful guide of a possible valuation and should not be used as a primary valuation method.

### 5.3.3. Geoscientific Valuation

For the Promontorio Project, in VRM's opinion the value of the tenements that make up the core of the project and contain the resources has been captured by the resource multiple however the surrounding tenement has considerable exploration potential which has been valued by a Kilburn valuation. The surrounding tenement consists of 13 separate titles in the tenement schedule.

Two separate Kilburn valuations have been undertaken, one to value the entire project and second to only value the exploration upside away from the existing resources. In doing this VRM has changed the ranking criteria of each of the tenements to reflect the tenements containing the resources and the second one with the resources excluded but occurring along strike (if they are along strike of the tenement being ranked). An estimate of how much

exploration potential was captured by the Resource Multiple valuation above has been undertaken for each of the tenements that contain the resources. This percentage has been used to reduce the modified Kilburn valuation to determine the exploration potential valuation.

The Geoscientific rankings were derived for each of the Kilburn ranking criteria with the off property criteria considered to be between 2.5 and 3, the on Property criteria between 1.5 and 2, the anomaly factor between 1.5 and 2 while the geology criteria are considered to be between 0.9 and 1.2. When this is combined with the base acquisition cost of this has determined the technical value as shown in Table 25.

Table 25 details the technical value of the exploration potential of the tenement that surrounds the Promontorio resource tenements while the Fair Market Value of the exploration potential is based on a 10% market discount while the geopolitical and social risks have resulted in a further 15% discount to the technical valuation. Overall the fair market valuation is detailed in Table 26.

**Table 25 Technical Valuation for the tenement surrounding the Promontorio Resources**

| Tenement | Technical Valuation | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | $1,845,400 | $3,316,550 | $4,787,700 |

Note the table above is the technical valuation which is the base acquisition cost multiplied by the ranking factors outlined in Appendix C

**Table 26 Fair Market Valuation for the tenement surrounding the Promontorio Resources**

| Tenement | Market Valuation ($M) | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | $1.4 | $2.5 | $3.7 |

Note appropriate rounding to the valuation has been undertaken.

Therefore, in VRM's opinion the exploration potential within the Promontorio Project has a fair market value of between A$1.4 million and A$3.7 million with a preferred value of $2.5 million.

This provides a total fair market valuation for the Promontorio project (being the resource multiples added to the exploration potential) of between $2.4 million and $5.1 million with a preferred valuation of $3.7 million

## 5.4. Valuation of Non Resource Projects

The valuation of the non-resource projects owned by Azure has been untaken using two separate valuation techniques, being a PEM valuation and a Kilburn valuation. Importantly as there are two tenement applications that these have not been valued using the Kilburn valuation as there is no security of tenure. These tenement applications have been included in the PEM valuation however as there has been minimal exploration on the applications the value of these applications is insignificant.

Rather than break the valuations to each individual tenement or project this section of the report details the combined valuations with the supporting valuation information included in Appendix C.

### 5.4.1. PEM Valuation

As detailed in Appendix D, VRM has assigned variable PEM factors to the previous expenditure within each of the projects. Azure provided to VRM the total expenditure for each of the projects based of all previous expenditure. No breakdown of the expenditure as to individual exploration activities nor was the expenditure broken down into expenditure years. VRM has reviewed the previous ASX releases relating to prior exploration to determine if the expenditures on an individual tenement were in the past three to four years. For expenditure that was reported to have occurred greater than four years ago a significantly lower PEM multiple was assigned.

Overall the expenditure on the non-resource projects was reported as being approximately $5 million. A significant proportion of this expenditure was from the El Tecolote project with the last significant exploration reported in 2014.

For each of the projects a PEM was assigned with most projects having an PEM where the exploration potential has been maintained to slightly enhanced. The exception for this is the approximately $3.6 million that has been expended on El Tecolote where a very low PEM was assigned due to most of the expenditure, approximately US$3 million being incurred prior to 2015 in a Joint Venture with JOGMEC, a Japanese Government organisation.

Therefore, based on a PEM valuation VRM considers the non-resource projects to have a valuation of between $1.8 and $3.6 million with a preferred valuation of $2.7 million.

### 5.4.2. Geoscientific Valuation

For the non-resource projects each granted tenement was assigned a ranking criterion based on the off property potential, the on property potential, the anomaly ranking and the geological prospectivity. These were multiplied by the base acquisition cost as was done of the Resource projects above to determine a technical valuation of the tenements. This technical valuation was then converted to a fair market value by assigning a geopolitical ranking along with a commodity ranking. As was done above there was a 10% discount to account for the market (both the commodity and exploration funding market) while an additional 15% geopolitical discount was applied to the technical value to reflect the risks of exploration in Mexico. The geopolitical risks include social, environmental, permitting, legislative and economic (project funding) risks.

The Geoscientific rankings were derived for each of the Kilburn ranking criteria with the off property criteria considered to be between 2.5 and 3, the on Property criteria between 1.5 and 2, the anomaly factor between 1.5 and 2 while the geology criteria are considered to be between 0.9 and 1.2. When this is combined with the base acquisition cost of this has determined the technical value as shown in Table 15.

Table 27 details the technical value of the exploration potential of the non-resource projects while the Fair Market Value is based on a 10% market discount and a 15% geopolitical and social discount to the technical valuation. Overall the fair market valuation is detailed in Table 28.

**Table 27 Technical Valuation for the Non-Resource Projects**

| Tenement | Technical Valuation | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | $976,000 | $1,798,650 | $2,621,300 |

Note the table above is the technical valuation which is the base acquisition cost multiplied by the ranking factors outlined in Appendix C

**Table 28 Fair Market Valuation for the Non-Resource Projects**

| Tenement | Market Valuation ($M) | | |
|---|---|---|---|
| | Lower | Preferred | Upper |
| TOTAL | $0.7 | $1.4 | $2.0 |

Note appropriate rounding to the valuation has been undertaken.

Therefore, in VRM's opinion the fair market value of the non-resource projects is between A$0.7 million and A$2.0 million with a preferred value of $1.4 million.

# 6. Preferred Valuations

Based on the valuation techniques detailed above Table 29 provides a summary of the valuations based on these various techniques. The preferred valuation for the mineral assets of Azure are documented in Table 30. Figure 30 shows the various valuations and VRM's preferred valuation range for the mineral assets of Azure.

**Table 29 Summary of the Valuations completed for Azure.**

| Mineral Asset | Valuation Technique | Report Section | Asset Being Valued | Lower Valuation (AUD$ M) | Preferred Valuation (AUD$ M) | Upper Valuation (AUD$ M) |
|---|---|---|---|---|---|---|
| **Azure Mineral Assets** | | | | | | |
| Oposura | Comparable Transactions [1] | 6.1.1.1 | Resource | **1.8** | **5.5** | **9.2** |
| | Yardstick | 6.1.1.2 | Resource | 4.7 | 6.9 | 9.1 |
| | Kilburn | 6.1.1.3 | Exploration upside | **0.3** | **0.6** | **0.9** |
| | Total | | | **2.2** | **6.1** | **10.1** |
| Alacrán | Comparable Transactions[1] | 6.1.3.1 | Resource | **1.8** | **3.0** | **4.2** |
| | Yardstick | 6.1.3.2 | Resource | 4.6 | 6.3 | 7.9 |
| | Kilburn | 6.1.3.3 | Exploration upside | **1.4** | **2.5** | **3.7** |
| | Total | | | **3.2** | **5.5** | **7.9** |
| Promontorio | Comparable Transactions[1] | 6.1.3.1 | Resource | **1.0** | **1.2** | **1.4** |
| | Yardstick | 6.1.3.2 | Resource | 2.8 | 4.0 | 5.2 |
| | Kilburn | 6.1.5.1 | Exploration upside | **1.4** | **2.5** | **3.7** |
| | Total | | | **2.4** | **3.7** | **5.1** |
| Other Projects | Kilburn | | Exploration | **0.7** | **1.4** | **2.0** |
| | PEM | | Exploration | 1.8 | 2.7 | 3.6 |
| **Total All Projects** | **Primary Valuation** | | | **8.4** | **16.7** | **25.1** |

[1] The preferred valuation is the average of the upper and lower valuations. Appropriate rounding has been applied.

**Table 30 VRM's preferred valuation of the mineral assets of Azure**

| Company | Lower Valuation (AUD$ M) | Preferred Valuation (AUD$ M) | Upper Valuation (AUD$ M) |
|---|---|---|---|
| **Azure Mineral Assets Valuation** | **8.4** | **16.7** | **25.1** |

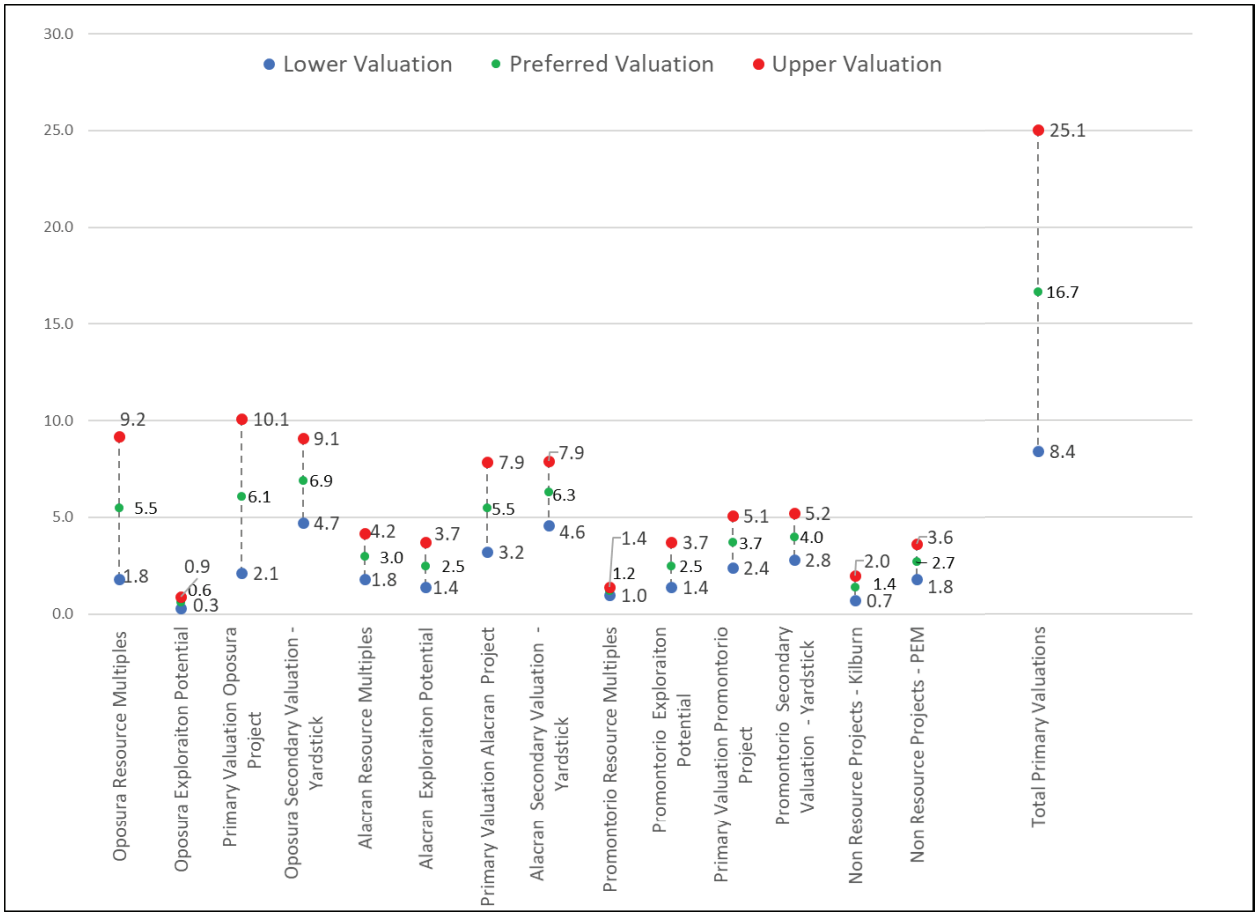



**Figure 30 Azure Mineral Asset Valuation Summary**

# 7. Conclusion

VRM considers the total mineral asset valuation of Azure to be within a range of **$8.4 million** to **$25.1 million** with a preferred total mineral asset value of **$16.7 million**.

# 8. References

The reference list below is dominated by unpublished company reports. Where they are published the publication is noted. None of the ASX releases of Azure have been listed in the Reference list but are all available on each of the companies, and the ASX websites.

JORC, 2012, *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)* [online]. Available from: http://www.jorc.org (The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia).

Kilburn, L.C., 1990, *Valuation of mineral properties which do not contain exploitable reserve*, CIM Bulletin, 83, pp. 90–93.

Naidoo, T., O'Callaghan, P., Cobb, M., *2016 Independent Technical Specialist's Report, Valuation of Renaissance Minerals' Okvau Gold Project, Cambodia, CSA Global Report No 236.2016,* in Renaissance Minerals Limited Independent Expert's Report, BDO, Renaissance Minerals Target Statement 2016.

PCF Capital Group., 2019, April *2019 Resource Thermometer*, unpubl. 39pp

VALMIN, 2015, *Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (The VALMIN Code)* [online]. Available from: http://www.valmin.org (The VALMIN Committee of the Australasian Institute of Mining and Metallurgy and Australian Institute of Geoscientists).

# 9. Glossary

Below are brief descriptions of some terms used in this report. For further information or for terms that are not described here, please refer to internet sources such as Webmineral www.webmineral.com, Wikipedia www.wikipedia.org,

*The following terms are taken from the 2015 VALMIN Code*

**Annual Report** means a document published by public corporations on a yearly basis to provide shareholders, the public and the government with financial data, a summary of ownership and the accounting practices used to prepare the report.

**Australasian** means Australia, New Zealand, Papua New Guinea and their off-shore territories.

**Code of Ethics** means the Code of Ethics of the relevant Professional Organisation or Recognised Professional Organisations.

**Corporations Act** means the Australian Corporations Act 2001 (Cth).

**Experts** are persons defined in the Corporations Act whose profession or reputation gives authority to a statement made by him or her in relation to a matter. A Practitioner may be an Expert. Also see Clause 2.1.

**Exploration Results** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to http://www.jorc.org for further information.

**Feasibility Study** means a comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of applicable Modifying Factors together with any other relevant operational factors and detailed financial analysis that are necessary to demonstrate at the time of reporting that extraction is reasonably justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or finance, the development of the project. The confidence level of the study will be higher than that of a Pre-feasibility Study.

**Financial Reporting Standards** means Australian statements of generally accepted accounting practice in the relevant jurisdiction in accordance with the Australian Accounting Standards Board (AASB) and the Corporations Act.

**Independent Expert Report** means a Public Report as may be required by the Corporations Act, the Listing Rules of the ASX or other security exchanges prepared by a Practitioner who is acknowledged as being independent of the Commissioning Entity. Also see ASIC Regulatory Guides RG 111 and RG 112 as well as Clause 5.5 of the VALMIN Code for guidance on Independent Expert Reports.

**Information Memoranda** means documents used in financing of projects detailing the project and financing arrangements.

**Investment Value** means the benefit of an asset to the owner or prospective owner for individual investment or operational objectives.

**Life-of-Mine Plan** means a design and costing study of an existing or proposed mining operation where all Modifying Factors have been considered in sufficient detail to demonstrate at the time of reporting that extraction is reasonably justified. Such a study should be inclusive of all development and mining activities proposed through to the effective closure of the existing or proposed mining operation.

**Market Value** means the estimated amount of money (or the cash equivalent of some other consideration) for which the Mineral Asset should exchange on the date of Valuation between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing wherein the parties each acted knowledgeably, prudently and without compulsion. Also see Clause 8.1 for guidance on Market Value.

**Materiality** or being **Material** requires that a Public Report contains all the relevant information that investors and their professional advisors would reasonably require, and reasonably expect to find in the report, for the purpose of making a reasoned and balanced judgement regarding the Technical Assessment or Mineral Asset Valuation being reported. Where relevant information is not supplied, an explanation must be provided to justify its exclusion. Also see Clause 3.2 for guidance on what is Material.

**Member** means a person who has been accepted and entitled to the post-nominals associated with the AIG or the AusIMM or both. Alternatively, it may be a person who is a member of a Recognised Professional Organisation included in a list promulgated from time to time.

**Mineable** means those parts of the mineralised body, both economic and uneconomic, that are extracted or to be extracted during the normal course of mining.

**Mineral Asset** means all property including (but not limited to) tangible property, intellectual property, mining and exploration Tenure and other rights held or acquired in connection with the exploration, development of and production from those Tenures. This may include the plant, equipment and infrastructure owned or acquired for the development, extraction and processing of Minerals in connection with that Tenure.

Most Mineral Assets can be classified as either:

(a) **Early-stage Exploration Projects** – Tenure holdings where mineralisation may or may not have been identified, but where Mineral Resources have not been identified;

(b) **Advanced Exploration Projects** – Tenure holdings where considerable exploration has been undertaken and specific targets identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A Mineral Resource estimate may or may not have been made, but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the Mineral Resources category;

(c) **Pre-Development Projects** – Tenure holdings where Mineral Resources have been identified and their extent estimated (possibly incompletely), but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral Resources have been identified, even if no further work is being undertaken;

(d) **Development Projects** – Tenure holdings for which a decision has been made to proceed with construction or production or both, but which are not yet commissioned or operating at design levels. Economic viability of Development Projects will be proven by at least a Pre-Feasibility Study;

(e) **Production Projects** – Tenure holdings – particularly mines, wellfields and processing plants – that have been commissioned and are in production.

**Mine Design** means a framework of mining components and processes taking into account mining methods, access to the Mineralisation, personnel, material handling, ventilation, water, power and other technical requirements spanning commissioning, operation and closure so that mine planning can be undertaken.

**Mine Planning** includes production planning, scheduling and economic studies within the Mine Design taking into account geological structures and mineralisation, associated infrastructure and constraints, and other relevant aspects that span commissioning, operation and closure.

**Mineral** means any naturally occurring material found in or on the Earth's crust that is either useful to or has a value placed on it by humankind, or both. This excludes hydrocarbons, which are classified as Petroleum.

**Mineralisation** means any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest. The term is intended to cover all forms in which mineralisation might occur, whether by class of deposit, mode of occurrence, genesis or composition.

**Mineral Project** means any exploration, development or production activity, including a royalty or similar interest in these activities, in respect of Minerals.

**Mineral Securities** means those Securities issued by a body corporate or an unincorporated body whose business includes exploration, development or extraction and processing of Minerals.

**Mineral Resources** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to http://www.jorc.org for further information.

**Mining** means all activities related to extraction of Minerals by any method (e.g. quarries, open cast, open cut, solution mining, dredging etc).

**Mining Industry** means the business of exploring for, extracting, processing and marketing Minerals.

**Modifying Factors** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to http://www.jorc.org for further information.

**Ore Reserves** is defined in the current version of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Refer to http://www.jorc.org for further information.

**Petroleum** means any naturally occurring hydrocarbon in a gaseous or liquid state, including coal-based methane, tar sands and oil-shale.

**Petroleum Resource** and **Petroleum Reserve** are defined in the current version of the Petroleum Resources Management System (PRMS) published by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council and the Society of Petroleum Evaluation Engineers. Refer to http://www.spe.org for further information.

**Practitioner** is an Expert as defined in the Corporations Act, who prepares a Public Report on a Technical Assessment or Valuation Report for Mineral Assets. This collective term includes Specialists and Securities Experts.

**Preliminary Feasibility Study (Pre-Feasibility Study)** means a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the Modifying Factors and the evaluation of any other relevant factors that are sufficient for a Competent Person, acting reasonably, to determine if all or part of the Mineral Resources may be converted to an Ore Reserve at the time of reporting. A Pre-Feasibility Study is at a lower confidence level than a Feasibility Study.

**Professional Organisation** means a self-regulating body, such as one of engineers or geoscientists or of both, that:

(a) admits members primarily on the basis of their academic qualifications and professional experience;

(b) requires compliance with professional standards of expertise and behaviour according to a Code of Ethics established by the organisation; and

(c) has enforceable disciplinary powers, including that of suspension or expulsion of a member, should its Code of Ethics be breached.

**Public Presentation** means the process of presenting a topic or project to a public audience. It may include, but not be limited to, a demonstration, lecture or speech meant to inform, persuade or build good will.

**Public Report** means a report prepared for the purpose of informing investors or potential investors and their advisers when making investment decisions, or to satisfy regulatory requirements. It includes, but is not limited to, Annual Reports, Quarterly Reports, press releases, Information Memoranda, Technical Assessment Reports, Valuation Reports, Independent Expert Reports, website postings and Public Presentations. Also see Clause 5 for guidance on Public Reports.

**Quarterly Report** means a document published by public corporations on a quarterly basis to provide shareholders, the public and the government with financial data, a summary of ownership and the accounting practices used to prepare the report.

**Reasonableness** implies that an assessment which is impartial, rational, realistic and logical in its treatment of the inputs to a Valuation or Technical Assessment has been used, to the extent that another Practitioner with the same information would make a similar Technical Assessment or Valuation.

**Royalty or Royalty Interest** means the amount of benefit accruing to the royalty owner from the royalty share of production.

**Securities** has the meaning as defined in the Corporations Act.

**Securities Expert** are persons whose profession, reputation or experience provides them with the authority to assess or value Securities in compliance with the requirements of the Corporations Act, ASIC Regulatory Guides and ASX Listing Rules.

**Scoping Study** means an order of magnitude technical and economic study of the potential viability of Mineral Resources. It includes appropriate assessments of realistically assumed Modifying Factors together with any other relevant operational factors that are necessary to demonstrate at the time of reporting that progress to a Pre-Feasibility Study can be reasonably justified.

**Specialist** are persons whose profession, reputation or relevant industry experience in a technical discipline (such as geology, mine engineering or metallurgy) provides them with the authority to assess or value Mineral Assets.

**Status** in relation to Tenure means an assessment of the security of title to the Tenure.

**Technical Assessment** is an evaluation prepared by a Specialist of the technical aspects of a Mineral Asset. Depending on the development status of the Mineral Asset, a Technical Assessment may include the review of geology, mining methods, metallurgical processes and recoveries, provision of infrastructure and environmental aspects.

**Technical Assessment Report** involves the Technical Assessment of elements that may affect the economic benefit of a Mineral Asset.

**Technical Value** is an assessment of a Mineral Asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by a Practitioner, excluding any premium or discount to account for market considerations.

**Tenure** is any form of title, right, licence, permit or lease granted by the responsible government in accordance with its mining legislation that confers on the holder certain rights to explore for and/or extract agreed minerals that may be (or is known to be) contained. Tenure can include third-party ownership of the Minerals (for example, a royalty stream). Tenure and Title have the same connotation as Tenement.

**Transparency** or being **Transparent** requires that the reader of a Public Report is provided with sufficient information, the presentation of which is clear and unambiguous, to understand the report and not be misled by this information or by omission of Material information that is known to the Practitioner.

**Valuation** is the process of determining the monetary Value of a Mineral Asset at a set Valuation Date.

**Valuation Approach** means a grouping of valuation methods for which there is a common underlying rationale or basis.

**Valuation Date** means the reference date on which the monetary amount of a Valuation in real (dollars of the day) terms is current. This date could be different from the dates of finalisation of the Public Report or the cut-off date of available data. The Valuation Date and date of finalisation of the Public Report **must** not be more than 12 months apart.

**Valuation Methods** means a subset of Valuation Approaches and may represent variations on a common rationale or basis.

**Valuation Report** expresses an opinion as to monetary Value of a Mineral Asset but specifically excludes commentary on the value of any related Securities.

**Value** means the Market Value of a Mineral Asset.

# 10. Appendices

## Appendix A – Azure Tenement Schedule

**Table 31 Azure tenement schedule as at 17 April 2019**

| Tenement | Project | Location | Grant | Expiry | Area (ha) |
|---|---|---|---|---|---|
| T-245544 | EL TECOLOTE | EL TECOLOTE R2 | 12/10/2007 | 11/10/2057 | 2238.0 |
| T-234586 | EL TECOLOTE | EL TECOLOTE 3 | 14/07/2009 | 13/07/2059 | 74.0 |
| T-238325 | SAN AGUSTIN | SAN AGUSTIN 1 | 30/08/2011 | 29/08/2061 | 201.0 |
| T-165539 | SARA ALICIA | SARA ALICIA | 30/10/1979 | 29/10/2029 | 9.0 |
| T-246589 | 5 | TIZOC | 19/09/2018 | 17/09/2068 | 6.0 |
| T-180473 | OPOSURA | EL MONSTRUO DE PLOMO | 4/05/1987 | 3/05/2037 | 27.1 |
| T-180474 | OPOSURA | DON GENARO | 4/05/1987 | 3/05/2037 | 20.0 |
| T-180475 | OPOSURA | EL CRESTÓN DE PLOMO | 4/05/1987 | 3/05/2037 | 20.0 |
| T-180476 | OPOSURA | CANDELARIA | 4/05/1987 | 3/05/2037 | 50.0 |
| T-180477 | OPOSURA | EL HUECO | 4/05/1987 | 3/05/2037 | 24.9 |
| T-180602 | OPOSURA | CAMPO DE PLOMO | 13/07/1987 | 12/07/2037 | 10.0 |
| T-180603 | OPOSURA | OPOSURA NÚMERO 2 | 13/07/1987 | 12/07/2037 | 20.0 |
| T-180604 | OPOSURA | OPOSURA NÚMERO 4 | 13/07/1987 | 12/07/2037 | 20.0 |
| T-180605 | OPOSURA | OPOSURA NÚMERO 6 | 13/07/1987 | 12/07/2037 | 6.0 |
| T-223473 | OPOSURA | EL ENCINAL | 10/01/2005 | 9/01/2055 | 620.0 |
| T-246419 | 16 | NUEVO OPOSURA 2 | 19/06/2018 | 18/06/2068 | 20.0 |
| T-235269 | PROMONTORIO | PROMONTORIO | 4/11/2009 | 3/11/2059 | 20.0 |
| T-235270 | PROMONTORIO | HIDALGO | 4/11/2009 | 3/11/2059 | 25.0 |
| T-218881 | PROMONTORIO | EL MAGISTRAL | 23/01/2003 | 22/01/2053 | 142.0 |
| T-245495 | PROMONTORIO | AMPL. PROMONTORIO 1 | 30/06/2009 | 29/06/2059 | 960.0 |
| T-245496 | PROMONTORIO | AMPL. PROMONTORIO 2 | 30/06/2009 | 29/06/2059 | 864.0 |
| T-245497 | PROMONTORIO | AMPL. PROMONTORIO 3 | 30/06/2009 | 29/06/2059 | 778.1 |
| T-245505 | PROMONTORIO | AMPL. PROMONTORIO 4 | 30/06/2009 | 29/06/2059 | 984.0 |
| T-245500 | PROMONTORIO | AMPL. PROMONTORIO 5 | 30/06/2009 | 29/06/2059 | 840.0 |
| T-245498 | PROMONTORIO | AMPL. PROMONTORIO 6 | 30/06/2009 | 29/06/2059 | 665.0 |
| T-245506 | PROMONTORIO | AMPL. PROMONTORIO 7 | 30/06/2009 | 29/06/2059 | 702.0 |
| T-245507 | PROMONTORIO | AMPL. PROMONTORIO 8 | 30/06/2009 | 29/06/2059 | 897.0 |
| T-245501 | PROMONTORIO | AMPL. PROMONTORIO 9 | 30/06/2009 | 29/06/2059 | 708.0 |
| T-245499 | PROMONTORIO | AMPL. PROMONTORIO 10 | 30/06/2009 | 29/06/2059 | 956.7 |
| T-245502 | PROMONTORIO | AMPL. PROMONTORIO 11 | 30/06/2009 | 29/06/2059 | 347.1 |
| T-245503 | PROMONTORIO | AMPL. PROMONTORIO 12 | 30/06/2009 | 29/06/2059 | 853.2 |
| T-245504 | PROMONTORIO | AMPL. PROMONTORIO 13 | 30/06/2009 | 29/06/2059 | 956.6 |
| T-212767 | Panchita | DOÑA PANCHITA | 31/01/2001 | 30/01/2051 | 90.0 |
| T-192097 | Panchita | AMPLIACION DOÑA PANCHITA | 19/12/1991 | 18/12/2041 | 46.0 |
| T-243322 | Oso Negro | EL SAHUARO | 12/09/2014 | 11/09/2064 | 156.0 |
| 166312 | Alacran | KINO 3 | 26/05/1980 | 25/05/2030 | 100.0 |
| 166313 | Alacran | KINO 2 | 26/05/1980 | 25/05/2030 | 100.0 |
| 166314 | Alacran | KINO 4 | 26/05/1980 | 25/05/2030 | 100.0 |
| 166315 | Alacran | KINO 8 | 26/05/1980 | 25/05/2030 | 100.0 |
| 166316 | Alacran | KINO 9 | 26/05/1980 | 25/05/2030 | 100.0 |
| 166317 | Alacran | KINO 10 | 26/05/1980 | 25/05/2030 | 100.0 |
| 166318 | Alacran | KINO 11 | 26/05/1980 | 25/05/2030 | 100.0 |
| 166365 | Alacran | KINO 15 | 28/05/1980 | 27/05/2030 | 100.0 |
| 166366 | Alacran | HIDALGO No. 4 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166367 | Alacran | KINO 16 | 28/05/1980 | 27/05/2030 | 100.0 |
| 166368 | Alacran | HIDALGO No. 3 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166369 | Alacran | HIDALGO No. 2 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166370 | Alacran | HIDALGO No. 5 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166371 | Alacran | HIDALGO No. 6 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166372 | Alacran | HIDALGO No. 8 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166373 | Alacran | HIDALGO No. 7 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166374 | Alacran | HIDALGO | 28/05/1980 | 27/05/2030 | 99.0 |
| 166375 | Alacran | HIDALGO No. 9 | 28/05/1980 | 27/05/2030 | 99.0 |
| 166376 | Alacran | SAN SIMÓN | 28/05/1980 | 27/05/2030 | 100.0 |
| 166377 | Alacran | SAN SIMÓN No. 2 | 28/05/1980 | 27/05/2030 | 100.0 |
| 201817 | Alacran | EL ALACRÁN Porphyry | 11/10/1995 | 10/10/2045 | 3442.4 |
| 201817 | Alacran | EL ALACRÁN distal | | | 3442.4 |

Notes:

1. The tenements are 100% beneficially held by Azure through wholly owned subsidiaries.
2. This list was validated against original tenement certificates and has been compared to the Azure March 2019 Quarterly Report tenement schedule.

# Appendix B – Comparable Gold Transactions

The table below documents several transactions that were analysed to determine a suitable zinc and silver metal ratio (metal equivalent) resource multiple for recently completed transactions. The green transactions are considered comparable for the Zinc projects while the grey are suitable for the silver projects. Several projects included in this table are considered to be more advanced than the Azure projects and have therefore been excluded from the analysis and determining a suitable resource multiple for the valuations.

| Date | Project | Commodit | Country / Region | Buyer | Seller | $ (M) | Currency | Exchange Rate | A$ (million) | Equity | 100% Basis | Transaction Type | Area (ha) | Resources | Grades | | | | | Zn Eq% | Contained Zn | Resource Multiple | Area Multiples ($/km2) | Ag Equivalent | Contained Ag | Resource Multiple |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | (A$ Million) | | | (Mt) | Cu % | Zn % | Pb % | Au g/t | Ag g/t | | M lb Zn | $/lb | $/km2 | g/t | Moz | $/oz |
| 5/06/2018 | Sierra Mojada | Zn, Ag | Mexico | South 32 | Silver Bull | 100 | US | 0.76060 | 131.4749661 | 70% | 187.8213802 | JV | | 58.7 | | 3.6% | 0.3% | | 50 | 6% | 7,973 | $0.0236 | | 258 | 486 | $ 0.386 |
| | | | | | | | | | | | 187.8213802 | JV | | 10.03 | | 11.0% | | | 103 | 16% | 3,512 | $0.0535 | | 704 | 227 | |
| 18/06/2018 | Arizona Mining | Zn,Pb, Ag N | Arizona | South 32 | Arizona Mining | 1341 | US | 0.74179 | 1807.794374 | 83% | 2178.065511 | Takeover | | 15.2 | | 4.0% | 4.0% | | 50 | 9% | 2,933 | | | | | |
| | | | | | | | | 0.74179 | 0 | 83% | 0 | Takeover | | 85.8 | | 4.2% | 4.3% | | 68 | 10% | 18,956 | | | | | |
| | | | | | | | | 0.74179 | 0 | 83% | 0 | Takeover | | 43.6 | | 3.9% | 4.8% | | 106 | 12% | 11,340 | | | | | |
| | | | | South 32 | | | | 0.74179 | 0 | 83% | 0 | Takeover | | 144.6 | | 4.1% | 4.4% | 0 | 78 | 10% | 33,229 | $ - | | 461 | 2,143 | |
| 15/05/2017 | Arizona Mining | Zn,Pb, Ag I | Arizona | South 32 | Arizona Mining | 81 | US | 0.74252 | 109.0877401 | 15% | 727.2516006 | Investment | | 72.5 | | 4.4% | 4.4% | | 56 | 10% | 15,484 | $0.0470 | | 456 | 1,062 | |
| 14/09/2017 | Arizona Mining | Zn,Pb, Ag I | Arizona | South 32 | Arizona Mining | 23 | US | 0.79789 | 28.82614616 | 2% | 1441.307308 | Investment | | 72.5 | | 4.4% | 4.4% | | 56 | 10% | 15,484 | $0.0931 | | 456 | 1,062 | |
| 26/06/2018 | Sorby hills | Pb,Zn,Ag | Australia - WA | Pacifico | KBL Sorby Hill | 3.6 | AUS | 1.00000 | 3.6 | 75% | 4.8 | sale | | 16.7 | | 0.7% | 4.5% | | 52 | 6% | 2,157 | $0.0022 | | 253 | 136 | $ 0.035 |
| 15/03/2018 | Violin | Cu Au | Mexico | Pacifico | Minera GS S.A. de C.V. | 0.57 | US | 0.78142 | 0.72944141 | 100% | 0.72944141 | Option | 2707.2 | | | | | | | | | | $ 0.027 | | | |
| 18/05/2018 | El Cobre | Cu Au | Mexico | newcrest | Azucar | 19.074425 | CAD | 0.96798 | 19.70530923 | 20% | 99.02165441 | Investment | 7300 | | | | | | | | | | $ 0.270 | | | |
| 4/05/2018 | Grapevine | Co, Ni Cu | Arizona US | New World Cobalt | Grapevine Resource LLC | 0.23 | US | 0.75322 | 0.305356812 | 100% | 0.305356812 | Option | 800 | | | | | | | | | | $ 0.038 | | | |
| 9/04/2019 | Tererro | Cu, Au, Zn | New Mexico | New World Cobalt | Vendor Prospectors | 1.28 | US | 0.71130 | 1.799514202 | 100% | 1.799514202 | Option | 400 | 5.784 | 1.0% | 1.5% | 0.2% | | 21 | 0.046675 | 595 | $0.0030 | | 248 | 46 | $ 0.039 |
| 22/12/2014 | Plomosas | Zn, Pb, Ag | Mexico | Newera | Arena Exploration Pty Ltd | 2.05 | US | 0.81396 | 2.518550496 | 51% | 4.938334305 | Purchase | 3019 | 3.05 | | 10.0% | 10.0% | | 70 | 0.192901 | 1,297 | $0.0038 | | 978 | 96 | $ 0.051 |
| 30/10/2018 | Plomosas | Zn, Pb, Ag | Mexico | Cons Zinc | Arena Exploration Pty Ltd | 2.45 | AUS | 1.00000 | 2.45 | 39% | 6.282051282 | Purchase | 3019 | 1.178 | | 12.5% | 3.6% | | 22 | 0.157015 | 408 | $0.0154 | | 835 | 32 | $ 0.199 |
| 15/08/2017 | Oposura | Zn, Pb, Ag | Mexico | Azure | Grupo Minero Puma | 1.5 | US | 0.78216 | 1.917758884 | 100% | 1.917758884 | Purchase | 690 | | | | | | | | top project | $0.0247 | $ 0.278 | | | |
| 7/01/2015 | Alacran | Cu | Mexico | Azure | Teck | 5.24 | US | 0.80496 | 6.50964993 | 100% | 6.50964993 | Purchase | 5433.36 | 110 | | | | | | | | | $ 0.120 | | | |
| 19/12/2016 | Alacran | Cu | Mexico | Teck | Azure | 10.5 | US | 0.72643 | 14.45423737 | 51% | 28.3416419 | back-in | 5433.36 | 10.46 | | | | | 82 | | | | $ 0.266 | 82 | 27 | $ 0.602 |
| | | | | | | | | | | | | back-in | 5433.36 | 5.4 | | | | 0.9 | 28 | | | | | 113 | 20 | |
| future | Alacran | Cu | Mexico | Teck | Azure | 6.5 | US | | | 14% | 0 | back-in | 5433.36 | | | | | | | | | | | | | |
| 26/06/2014 | Promontorio | Cu, Au, Ag | Mexico | Azure | Vendors | 1.11 | US | 0.94046 | 1.18027598 | 100% | 1.18027598 | Purchase | 142 | | | | | | | | | | | | | |
| 18/08/2014 | Promontorio | Cu, Au, Ag | Mexico | Rio | Azure | 4 | US | 0.93298 | 4.28735728 | 51% | 8.406582903 | JV | | 0.84 | 2.5% | | | 1.6 | 56 | | | | | 545 | 15 | |
| 16/05/2019 | Alacran | Cu, Ag, Au | Mexico | Azure | Teck | | | | 3.04 | 51% | 5.960784314 | Purchase | 5433.36 | | | | | | | | | | | | | $ 0.127 |

Notes

The exchange rate is the exchange rate from the transaction currency to the AUD$ as at the transaction date.

The following commodity prices have been used in determining the metal ratio (metal equivalent) for both Zinc and Silver used in the resource multiple valuations above.

| Valuation Date | 17/04/2019 | | | |
|---|---|---|---|---|
| Commodity Price | $US | A$ | US$ | Source |
| Copper Price | $2.9588/lb | $4.13/lb | $6,522.97/t | Kitcometals.com |
| Zinc Price | $1.3283/lb | $1.85/lb | $2,928.37/t | Kitcometals.com |
| Lead Price | $0.8788/lb | $1.23/lb | $1,937.40/t | Kitcometals.com |
| Silver Price | $15.00/oz | $20.93/oz | $0.48/g | Kitco.com |
| Gold Price | $1,275.85/oz | $1,780.03/oz | $41.02/g | Kitco.com |
| Exchange Rate | 0.7167591 | | | Xe.com |

Therefore, VRM considers, based on these transactions that the following resource multiples are reasonable on a Zinc and Silver ratio basis;

Zinc project Resource Multiple lower valuation multiple based on the 25th Percentile of AUD$0.003/lb, median resource multiple AUD$0.004/lb and upper valuation multiple based on the 75th Percentile of AUD$0.015/lb

Silver project Resource Multiples are lower valuation multiple based on the 25th Percentile of AUD$0.038/oz, median resource multiple AUD$0.045/oz and upper valuation multiple based on the 75th Percentile of AUD$0.088/oz

The copper resource multiples are based on the sale of the Josemaria project in Argentina which transacted at a resource multiple of AUD$2.08/t of contained copper, the Los Calato project in Peru which transacted at a resource multiple of AUD$16/t, the Tererri project in New Mexico which transacted at AUD$17.1/t, the Alacran project in Mexico which based on an exploration target at the time transacted at AUD$19.7/t and the Haib project in Namibia which transacted at AUD$14/t. Therefore, VRM used a lower valuation resource multiple of AUD$14/t, a preferred valuation of AUD$17/t and an upper valuation multiple of AUD$19/t.

# Appendix C – Azure Projects Geoscientific (Kilburn) Ranking – Exploration Potential.

| Tenement | | | | Equity | Value | Off Property | | On Property | | Anomaly | | Geology | | Technical Valuation (AUD$) | | | Fair Market Valuation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Project | Location | Area | | | Low | High | Low | High | Low | High | Low | High | Lower | Preferred | Upper | Lower | Preferred | Upper |
| T-245544 | EL TECOLOTE | EL TECOLOTE R2 | 2238.0 | 100% | 100% | 1 | 1.2 | 1.5 | 2 | 1.5 | 2 | 1.5 | 2 | 671300 | 1290400 | 1909500 | 0.5135 | 0.9872 | 1.4608 |
| T-234586 | EL TECOLOTE | EL TECOLOTE 3 | 74.0 | 100% | 100% | 3 | 3.5 | 3.5 | 4 | 2.5 | 3 | 2 | 2.5 | 119800 | 179700 | 239600 | 0.0916 | 0.1375 | 0.1833 |
| T-238325 | SAN AGUSTIN | SAN AGUSTIN 1 | 201.0 | 100% | 100% | 3 | 4 | 1 | 1.2 | 1.5 | 2 | 1 | 1.5 | 26700 | 56100 | 85500 | 0.0204 | 0.0429 | 0.0654 |
| T-165539 | SARA ALICIA | SARA ALICIA | 9.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2.5 | 2.5 | 3 | 1.5 | 2 | 7100 | 14950 | 22800 | 0.0054 | 0.0114 | 0.0174 |
| T-246589 | 5 | TIZOC | 6.0 | 100% | 100% | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 300 | 500 | 700 | 0.0002 | 0.0004 | 0.0005 |
| T-180473 | OPOSURA | EL MONSTRUO DE | 27.1 | 100% | 100% | 3 | 3.5 | 3 | 3.5 | 3.5 | 4 | 2.5 | 3 | 71300 | 102150 | 133000 | 0.0545 | 0.0781 | 0.1017 |
| T-180474 | OPOSURA | DON GENARO | 20.0 | 100% | 100% | 3 | 3.5 | 3 | 3.5 | 3.5 | 4 | 2.5 | 3 | 59000 | 84600 | 110200 | 0.0451 | 0.0647 | 0.0843 |
| T-180475 | OPOSURA | EL CRESTÓN DE PLOMO | 20.0 | 100% | 100% | 3 | 3.5 | 3 | 3.5 | 3.5 | 4 | 2.5 | 3 | 59000 | 84600 | 110200 | 0.0451 | 0.0647 | 0.0843 |
| T-180476 | OPOSURA | CANDELARIA | 50.0 | 100% | 100% | 3 | 3.5 | 3 | 3.5 | 3.5 | 4 | 2.5 | 3 | 129800 | 186000 | 242200 | 0.0993 | 0.1423 | 0.1853 |
| T-180477 | OPOSURA | EL HUECO | 24.9 | 100% | 100% | 3 | 3.5 | 1.5 | 2 | 1.5 | 2 | 1 | 1.5 | 5800 | 11900 | 18000 | 0.0044 | 0.0091 | 0.0138 |
| T-180602 | OPOSURA | CAMPO DE PLOMO | 10.0 | 100% | 100% | 3 | 3.5 | 1.5 | 2 | 1.5 | 2 | 1 | 1.5 | 3600 | 7350 | 11100 | 0.0028 | 0.0056 | 0.0085 |
| T-180603 | OPOSURA | OPOSURA NÚMERO 2 | 20.0 | 100% | 100% | 3 | 3.5 | 2 | 2.5 | 1.5 | 2 | 1 | 1.5 | 6700 | 13200 | 19700 | 0.0051 | 0.0101 | 0.0151 |
| T-180604 | OPOSURA | OPOSURA NÚMERO 4 | 20.0 | 100% | 100% | 3 | 3.5 | 3 | 3.5 | 3.5 | 4 | 2.5 | 3 | 59000 | 84600 | 110200 | 0.0451 | 0.0647 | 0.0843 |
| T-180605 | OPOSURA | OPOSURA NÚMERO 6 | 6.0 | 100% | 100% | 3 | 3.5 | 1.5 | 2 | 1.5 | 2 | 1 | 1.5 | 3000 | 6150 | 9300 | 0.0023 | 0.0047 | 0.0071 |
| T-223473 | OPOSURA | EL ENCINAL | 620.0 | 100% | 100% | 3 | 3.5 | 1.5 | 2 | 1.5 | 2 | 2 | 2.5 | 450900 | 809950 | 1169000 | 0.3449 | 0.6196 | 0.8943 |
| T-246419 | 16 | NUEVO OPOSURA 2 | 20.0 | 100% | 100% | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 400 | 600 | 800 | 0.0003 | 0.0005 | 0.0006 |
| T-235269 | PROMONTORIO | PROMONTORIO | 20.0 | 100% | 0% | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 0 | 0 | 0 | 0 | 0 | 0 |
| T-235270 | PROMONTORIO | HIDALGO | 25.0 | 100% | 0% | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 0 | 0 | 0 | 0 | 0 | 0 |
| T-218881 | PROMONTORIO | EL MAGISTRAL | 142.0 | 100% | 0% | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 1 | 1.2 | 0 | 0 | 0 | 0 | 0 | 0 |
| T-245495 | PROMONTORIO | AMPL. PROMONTORIO 1 | 960.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 208300 | 381900 | 555500 | 0.1593 | 0.2922 | 0.425 |
| T-245496 | PROMONTORIO | AMPL. PROMONTORIO 2 | 864.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 187700 | 344100 | 500500 | 0.1436 | 0.2632 | 0.3829 |
| T-245497 | PROMONTORIO | AMPL. PROMONTORIO 3 | 778.1 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 169200 | 310250 | 451300 | 0.1294 | 0.2373 | 0.3452 |
| T-245505 | PROMONTORIO | AMPL. PROMONTORIO 4 | 984.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 213500 | 391400 | 569300 | 0.1633 | 0.2994 | 0.4355 |
| T-245500 | PROMONTORIO | AMPL. PROMONTORIO 5 | 840.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 182500 | 334650 | 486800 | 0.1396 | 0.256 | 0.3724 |
| T-245498 | PROMONTORIO | AMPL. PROMONTORIO 6 | 665.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 144900 | 265700 | 386500 | 0.1108 | 0.2033 | 0.2957 |
| T-245506 | PROMONTORIO | AMPL. PROMONTORIO 7 | 702.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 152900 | 280300 | 407700 | 0.117 | 0.2144 | 0.3119 |
| T-245507 | PROMONTORIO | AMPL. PROMONTORIO 8 | 897.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 194800 | 357100 | 519400 | 0.149 | 0.2732 | 0.3973 |
| T-245501 | PROMONTORIO | AMPL. PROMONTORIO 9 | 708.0 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 154200 | 282650 | 411100 | 0.118 | 0.2162 | 0.3145 |
| T-245499 | PROMONTORIO | AMPL. PROMONTORIO | 956.7 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 207600 | 380600 | 553600 | 0.1588 | 0.2912 | 0.4235 |
| T-245502 | PROMONTORIO | AMPL. PROMONTORIO | 347.1 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 51100 | 93650 | 136200 | 0.0391 | 0.0716 | 0.1042 |
| T-245503 | PROMONTORIO | AMPL. PROMONTORIO | 853.2 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 185400 | 339850 | 494300 | 0.1418 | 0.26 | 0.3781 |
| T-245504 | PROMONTORIO | AMPL. PROMONTORIO | 956.6 | 100% | 100% | 2.5 | 3 | 1.5 | 2 | 1.2 | 1.5 | 0.9 | 1.2 | 207600 | 380600 | 553600 | 0.1588 | 0.2912 | 0.4235 |
| T-212767 | Panchita | DOÑA PANCHITA | 90.0 | 100% | 100% | 3 | 3.5 | 2.5 | 3 | 1.5 | 2 | 1.5 | 2 | 45600 | 79600 | 113600 | 0.0349 | 0.0609 | 0.0869 |
| T-192097 | Panchita | AMPLIACION DOÑA | 46.0 | 100% | 100% | 3 | 3.5 | 2.5 | 3 | 1.5 | 2 | 1.5 | 2 | 26000 | 45400 | 64800 | 0.0199 | 0.0347 | 0.0496 |
| T-243322 | Oso Negro | EL SAHUARO | 156.0 | 100% | 100% | 3 | 3.5 | 2 | 2.5 | 1.5 | 2 | 2.5 | 3 | 79200 | 132000 | 184800 | 0.0606 | 0.101 | 0.1414 |
| 166312 | Alacran | KINO 3 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |

| Tenement | | | | Equity | Value | Off Property | | On Property | | Anomaly | | Geology | | Technical Valuation (AUD$) | | | Fair Market Valuation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Project | Location | Area | | | Low | High | Low | High | Low | High | Low | High | Lower | Preferred | Upper | Lower | Preferred | Upper |
| 166313 | Alacran | KINO 2 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 166314 | Alacran | KINO 4 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 166315 | Alacran | KINO 8 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 166316 | Alacran | KINO 9 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 166317 | Alacran | KINO 10 | 100.0 | 100% | 0% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| 166318 | Alacran | KINO 11 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 166365 | Alacran | KINO 15 | 100.0 | 100% | 0% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| 166366 | Alacran | HIDALGO No. 4 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166367 | Alacran | KINO 16 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 166368 | Alacran | HIDALGO No. 3 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166369 | Alacran | HIDALGO No. 2 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166370 | Alacran | HIDALGO No. 5 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166371 | Alacran | HIDALGO No. 6 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166372 | Alacran | HIDALGO No. 8 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166373 | Alacran | HIDALGO No. 7 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166374 | Alacran | HIDALGO | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166375 | Alacran | HIDALGO No. 9 | 99.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12500 | 22150 | 31800 | 0.0096 | 0.0169 | 0.0243 |
| 166376 | Alacran | SAN SIMÓN | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 166377 | Alacran | SAN SIMÓN No. 2 | 100.0 | 100% | 100% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 12700 | 22400 | 32100 | 0.0097 | 0.0171 | 0.0246 |
| 201817 | Alacran | EL ALACRÁN Porphyry | 3442.4 | 100% | 10% | 3.5 | 4 | 1.5 | 2 | 2 | 2.5 | 1 | 1.5 | 320500 | 618150 | 915800 | 0.2452 | 0.4729 | 0.7006 |
| 201817 | Alacran | EL ALACRÁN distal | 3442.4 | 100% | 90% | 3.5 | 4 | 1.5 | 2 | 1 | 1.5 | 0.9 | 1 | 129810 | 2297450 | 3296800 | 0.993 | 1.7575 | 2.5221 |
| | | | | | | | | | | | | **Alacran** | | **184540** | **3316550** | **4787700** | **1.41** | **2.54** | **3.66** |
| | | | | | | | | | | | | **Oposura** | | **450900** | **809950** | **1169000** | **0.34** | **0.62** | **0.89** |
| | | | | | | | | | | | | **Promontorio** | | **225970** | **4142750** | **6025800** | **1.73** | **3.17** | **4.61** |
| | | | | | | | | | | | | **Others** | | **976000** | **1798650** | **2621300** | **0.75** | **1.38** | **2.01** |

| | |
|---|---|
| Discount | |
| Location | 0.85 |
| Commodity | 0.9 |

Note the Oposura Kilburn valuation is limited to the value of the large tenement that surrounds the main tenements which are proximal to the resources, the Alacran valuation is excludes the valuation from the tenements which contain the resources while the Promontorio valuation excludes the tenements with the resources.

## Appendix D – Azure Projects PEM Valuation

| Tenement | Expenditure | PEM Low | Valuation Low | PEM High | Valuation High | Preferred Valuation – Average |
|---|---|---|---|---|---|---|
| Panchita | $149,793.00 | 1 | $149,793.00 | 1.3 | $194,730.90 | $172,261.95 |
| El Sahuaro | $38,752.00 | 1.3 | $50,377.60 | 1.5 | $58,128.00 | $54,252.80 |
| El Tecolote | $3,684,220.00 | 0.1 | $368,422.00 | 0.5 | $1,842,110.00 | $1,105,266.00 |
| San Augustin | $41,647.00 | 1 | $41,647.00 | 1.3 | $54,141.10 | $47,894.05 |
| Sara Alicia | $1,143,758.00 | 1 | $1,143,758.00 | 1.3 | $1,486,885.40 | $1,315,321.70 |
| Tizoc | $149.00 | 1 | $149.00 | 1.3 | $193.70 | $171.35 |
| **Total (AUD$ Million)** | | | **$1.8** | | **$3.6** | **$2.7** |

Note the expenditure on the resource projects has been excluded as VRM considers a Resource Multiple a preferred valuation technique once a Mineral Resource Estimate has been completed.

# Appendix 4: Economic analysis

## Global

Global expansion continues to lose momentum and is projected to ease further in 2019 and 2020 with downside risks continuing to build. Growth has been revised downwards in most G20 economies, particularly in the euro area. High policy uncertainty, ongoing trade tensions, and a further erosion of business and consumer confidence are all contributing to the slowdown.

## Mexico

Mexico is part of the G20 and one of Latin America's largest economies. Mexico's economy averaged annual growth of 2.5% in the five years to 2019 and growth rates are expected to gradually rise averaging about 2.1% in 2020 and reaching 2.8% per year by 2026. Largely positive, Mexico's economic performance has enjoyed growing consumer spending and low unemployment. Despite some recent uncertainty surrounding trade renegotiations and the 2018 general election, private investment is expected to grow. Strong growth in the domestic manufacturing and energy sectors has offset poor economic performance by the extractive and mining industries which contributed a substantial downward pressure on total industrial production. GDP for the mining sector declined 7.2% in 2018.

The outlook over the five years to 2024 predicts continued macroeconomic stability and economic growth expected in increase over time as uncertainty regarding the new administration's fiscal plans subside and the benefits of the structural reforms kick in. New structural reforms addressing key areas such as governance, transparency, accountability and fighting corruption as well as employment and rights and liberties have been passed in the Mexican congress, and implementation over the past five years has already resulted in observed positive outcomes in certain sectors. The anti-corruption system however, has been slower to enact change. To date, inflation has been elevated with prices rising 4.9% in 2018 and 4.2% expected in 2019 but the new reforms are intended to counter this.

## Commodity prices

Rising global commodity prices provide opportunities for Mexican miners to attract investments and boost exports. Mexico is endowed with metal and mineral resources and the country has been an important producer of silver, lead ore and copper ore. However, much of the country's reserves remain untapped and mining and quarrying (except energy) accounted for a small role in the economy. The government aims to boost the mining sector to take advantage of the country's high-grade mining deposits, while investors are also increasingly interested in Mexico's mines, give the country's competitive labour costs and favourable investment environment.

## Financial Markets

Mexico's trade and financial links make its economy highly dependent on US business cycles. Consequently, Mexico's output fluctuation has become closely synchronized with that of the US, especially since the country joined the North American Free Trade Agreement ('NAFTA') in the 1990s. Three key links with the US are through trade (especially manufacturing), remittance inflows and financial markets. A significant dependency on a single country adds an element of risk. According to the International Monetary Fund ('IMF'), a one standard deviation increase in the US GDP will raise Mexican GDP growth by 0.6 percentage points.

## Interest rates

Interest rates have been raised to a nine-year high of 7.75% in an effort to curb inflation and further increases are expected. Considering this, over the next five years Mexico's GDP is forecast to increase an annualised 2.5% with inflation expected to meet the 3% target range then reducing. Unfavourable global conditions however, are projected to slow export growth to an annualised 3.3%. Political uncertainty is also projected to impact private investment.

## Mexican Peso

A declining Peso has made its non-oil exports competitive in the international market. If the US embarks on an expansion and renovation of its infrastructure, Mexico will be the benefactor of a strong import demand from the US.

Source: OECD Global Outlook 2019 viewed pre-release online Apr 2019 (upcoming release date 21 May 2019)

# Appendix 5: Industry analysis

## Mining Industry Overview

The mining sector in Mexico faces a complicated security dynamic in both the Chihuahua and Sonora states, such as security risks presented by theft, kidnapping, and extortion, harassment of mining staff, logistic chain attacks and conflict with local communities. There are also mounting social protests over environmental issues in many parts of the country. Despite this, in recent decades Mexico's federal government has worked to attract foreign investment in mining and ratings suggest the government has succeeded in providing an attractive option to mining investors. Mexico reached a four year high in foreign direct investment in mining in 2018.

Following national elections held in July 2018, the industry faces some heightened political risk as Mexico's president-elect Andres Manuel Lopez Obrador has previously sent mixed signals regarding his view of the mining sector. However, many analysts believe that economic development and job creation rank higher on his list of priorities than environmental conservation. The new leader's focus on increasing trade channels is evident as government spending is focussed on enhancement of infrastructure to boost trade including the construction of a new airport at Mexico City and improving more than 100 ports. Recent surveys of global mining investors conducted by The Fraser Institute and the Mining Journal show Mexico in the top 20 percentile for foreign investment.

The Fraser Institute Annual Survey 2018 rated Mexico in the top three jurisdictions in the Latin American and Caribbean Basin, based on policy and increasing year on year. It ranked well in all areas that that were weighted to encourage investment such as, best practices mineral potential, certainty concerning environmental regulations, quality of infrastructure, and availability of labour/skills. They scored particularly low on security, but it does not appear to be a deterrent to investment.

The World Risk Report 2018 edition, produced by the Mining Journal, rated Mexico equal to Western Australia and Chile on their Hard Risk Rating Investment Risk Index. The index gives a score from five weighted risk categories: Legal, Governance, Social, Fiscal, and Infrastructure. A score of 73 puts Mexico in the very low risk category.

In accordance with the OECD Economic Outlook Mexico 2018, the federal corporate income tax (CIT) is currently 30.0% and applies to all corporate entities. Mexico's consumption tax (VAT) is payable at 16% on sales of goods, services, lease payments and imported goods. This rate varies in the northern region of the state, in which a 50% tax credit lowers the payable rate to 8%. Recent criticism of the tax structure has led to some changes including the new administration's proposal, in November last year, to introduce a new mining tax. To date, a commitment to introducing the new mining tax has not been realised possible so the policy makers can determine the impact on potential investment from abroad.

Under Mexican Mining Law and the Federal Duties law, mining concessionaires are required to pay a special surface mining fee. On a semi-annual basis, governmental mining fees, the payable amounts of which depend on the date on which the title document of a concession was register; and the surface (hectares) of the mining concession. Additionally, concessionaires are required to pay annually, the 7.5% positive difference that results from the income of the sale of the minerals extracted minus government royalty. An Extraordinary Government Royalty of 0.5% of income from the sale of gold or silver is also due. If the miner is inactively exploring the tenement, they are subject to 50% of the corresponding Government Mining Fees for up to 11 years from issuance, and 100% annually thereafter.

Other possible changes to the mining code include allowing the Ministry of Economy to name certain zones as not viable for mining, and to revoke permits and existing concessions deemed to have a negative social impact. The new government are also considering charging Mexican agencies with overseeing the social and environmental impact of mining activities on their communities. A Reuters report in December 2018 quotes the undersecretary of mining saying this would not be a retroactive policy.

## Zinc, Lead and Silver

Zinc, lead, and silver are typically mined together. The industry's largest product segment, zinc ore and concentrate, has expanded at a solid rate over the past five years, due to strong pricing growth and despite falling output. Declining output has coincided with weaker volumes of mined silver and lead ore. Silver production volumes and prices have declined over the past five years, as downstream companies using silver in manufacturing processes have increasingly turned to substitute metals. Furthermore, domestic

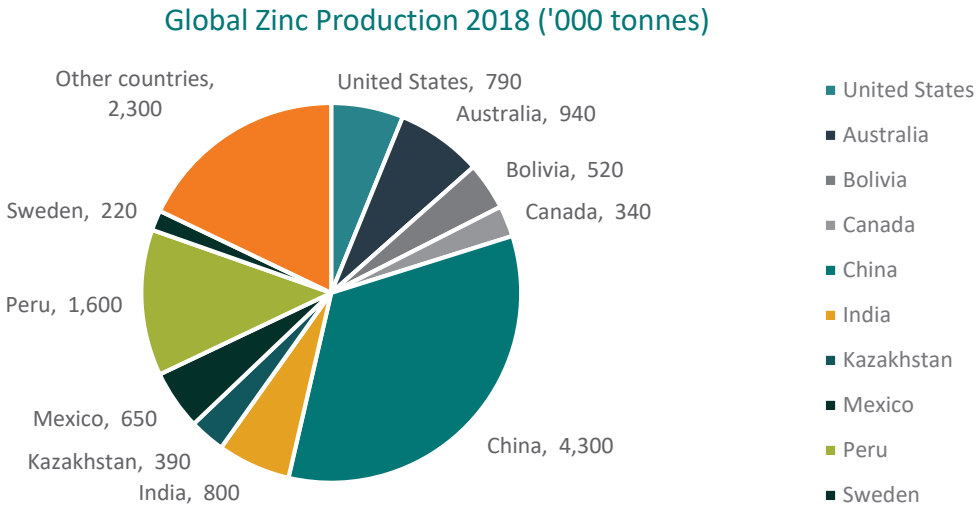
lead output volumes have decreased over the period, as higher output from China has affected demand for lead from other countries.

The zinc industry has two main types of user: first users, and end users. First users include galvanisers, die-casters, brass-makers and relatively smaller applications like chemicals manufacturing. Zinc coated steel is protected from corrosion, can tolerate higher loads and is fire resistant. Combining zinc and copper (Cu) creates brass, an alloy used for numerous mechanical and electrical products. End users of zinc take the output of the first users and in input of their manufacturing process and so is used in the construction, automotive, hardware/furniture, electronic, medical, toy and clothing industries.

Zinc is crushed when mined to concentrate the mineral as it only contains 5-15% zinc when first extracted. The zinc concentrate contains roughly 55% zinc. Roughly 25-30% of that is sulphur, which is removed either by roasting or sintering. The concentrate is heated and turned to zinc oxide when combined with oxygen. Zinc oxide is then dissolved in sulphuric acid to separate it from other minerals such as iron lead and silver to produce impure zinc sulphate. The solution is then purified, and zinc metal is extracted via electrolysis. The zinc metal is then removed from the aluminium cathodes, melted in a furnace and cast into zinc ingots. Secondary zinc is mostly recovered in the form of off-cuts from die-casting and dross from the hot baths used in galvanising.

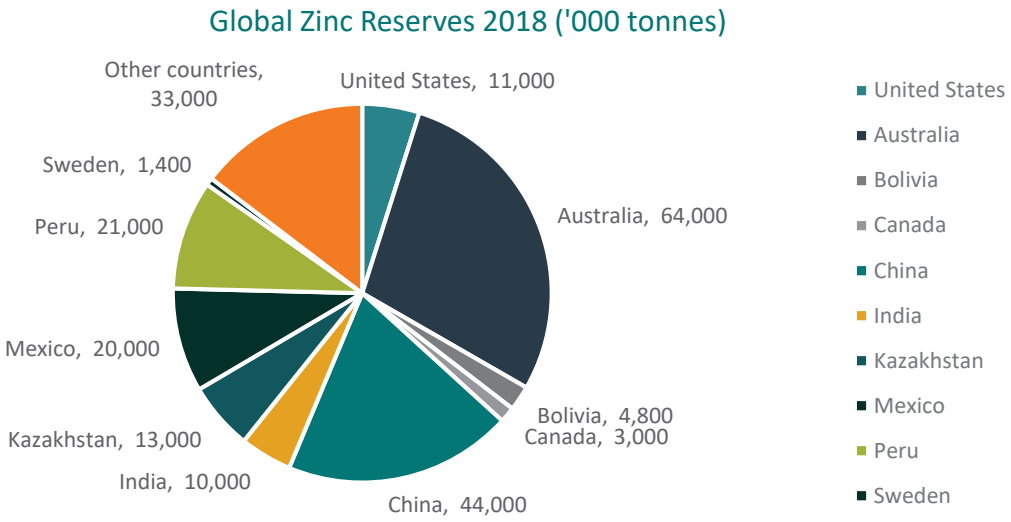
Zinc can repeatedly be recycled without any detriment to its chemical and physical properties. According to the International Zinc Association, 70% of the zinc produced worldwide originates from mined ores and the other 30% from recycled or secondary zinc.

Global zinc mine production in 2018 was estimated to be 13 million tons, a slight increase from that of 2017. The following chart shows the countries in which the majority of zinc was produced in 2018.



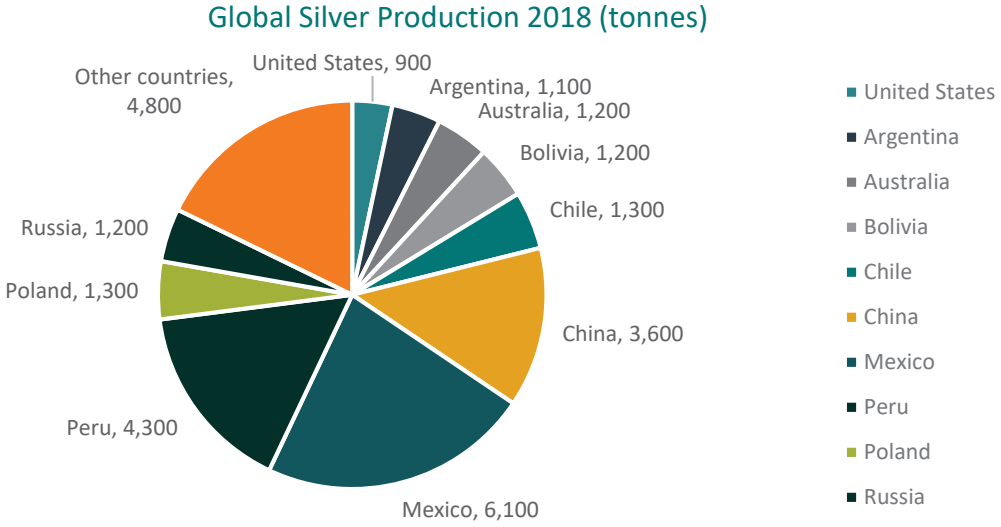

Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019

The following chart shows the location of the world's zinc reserves, with Australia and China accounting for nearly half the world's reserves.

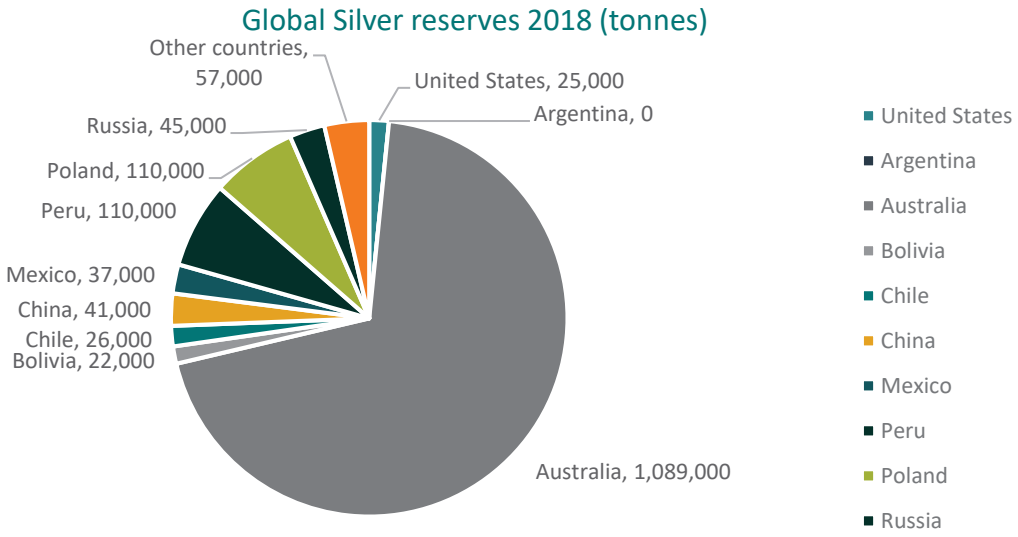



Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019

World silver mine production increased slightly in 2018 to an estimated 27,000 tons, principally as a result of increased production from mines in Argentina, China, and Russia. The following charts show the countries in which the majority of silver was produced in 2018, and the location of the world's silver reserves.

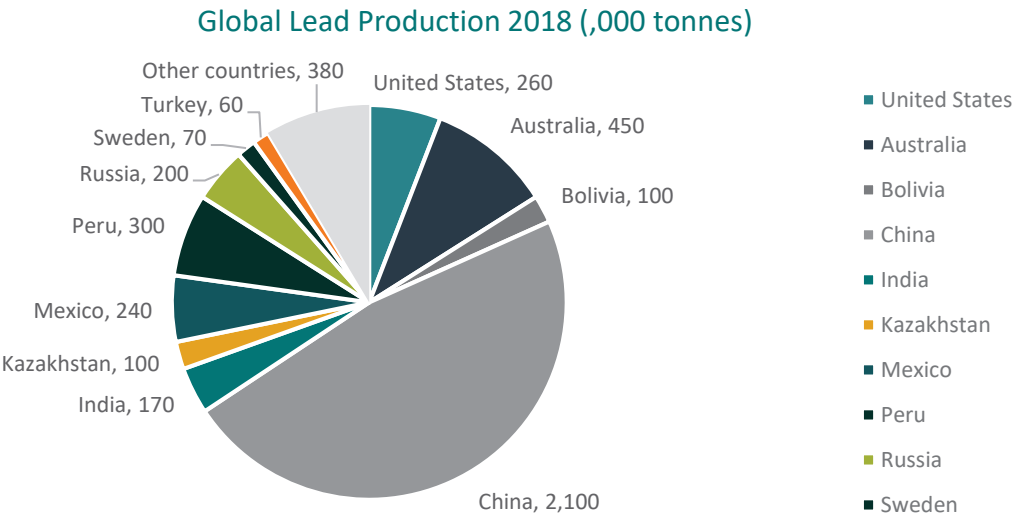



Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019



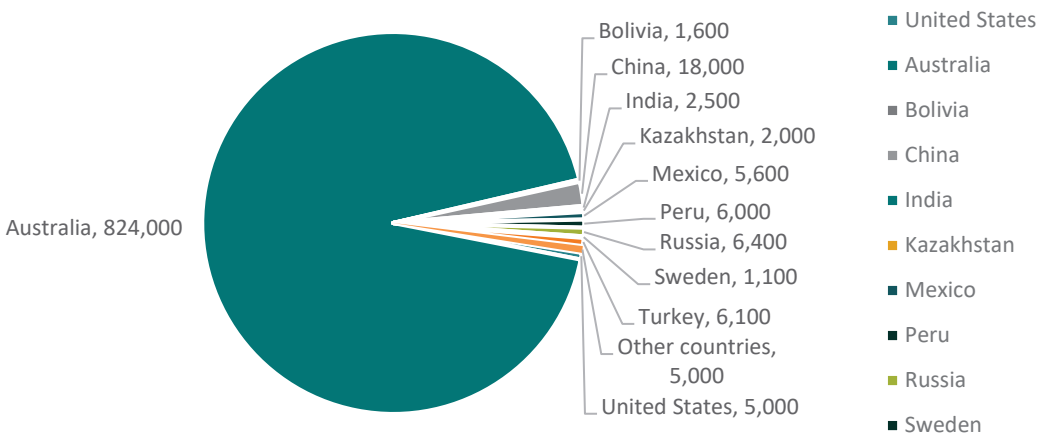

Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019

According to the International Lead and Zinc Study Group, 6 global, refined lead production in 2018 increased by 0.4% to 11.59 million tons, and metal consumption increased by 0.2% to 11.71 million tons, resulting in a production-to-consumption deficit of about 120,000 tonnes of refined lead. The following charts show the countries in which the majority of lead was produced in 2018 and the location of the world's lead reserves.




Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019

Global Lead Reserves 2018 (,000 tonnes)



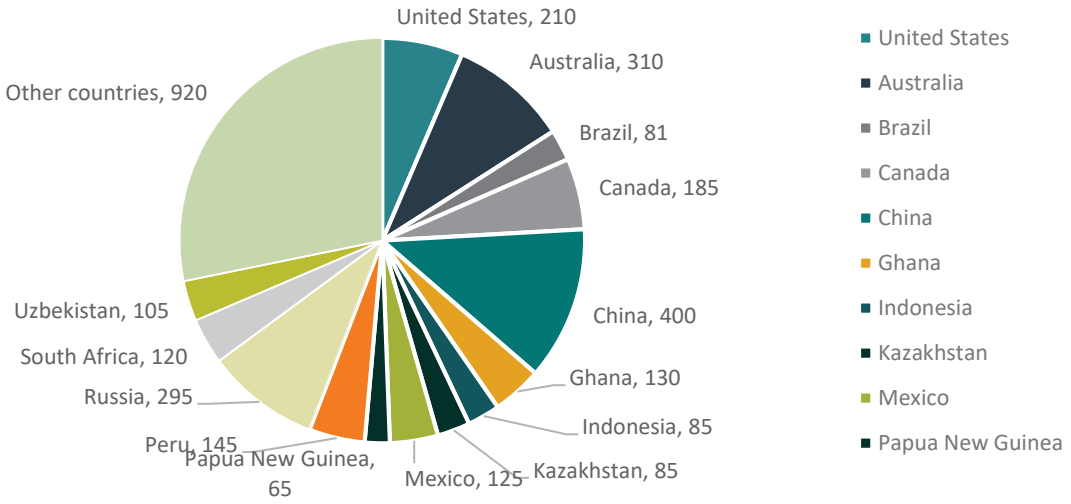

Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019

## Gold

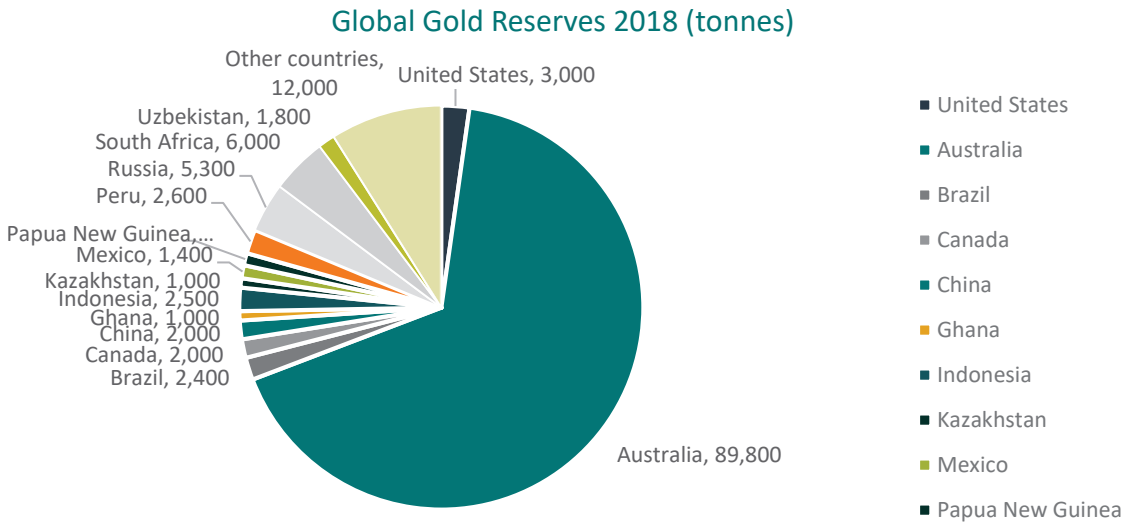
AZS has gold resources at six of their sites including Alacrán, Sara Alicia, and Oso Negro. In 2018, worldwide gold mine production was estimated to have increased slightly from that in 2017. New mine production in Canada and Russia and increased production from the Grasberg Mine in Indonesia more than offset decreased gold mine production in China, owing to increased environmental regulations, and in the United States. The charts below show the countries in which the majority of gold was produced in 2018 and the location of the world's gold reserves.

When determining the feasibility of a gold resource, the proximity to surface and grade are important. Near surface deposits will be extracted through open pit mining which is more affordable than underground. The decision to go underground reflects depth but also the amount of waste and consequent cost of moving the waste to access the ore. Grade becomes more important with underground mining as you need a certain grade, 3.5gt for example, to go underground. If you have a sizeable deposit underground, there are bulk tonnage options which reduce the price. With regards to production, recover is also important. When using cyanide, you would aim for greater than 90% recovery.

Global Gold Production 2018 (tonnes)




Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019



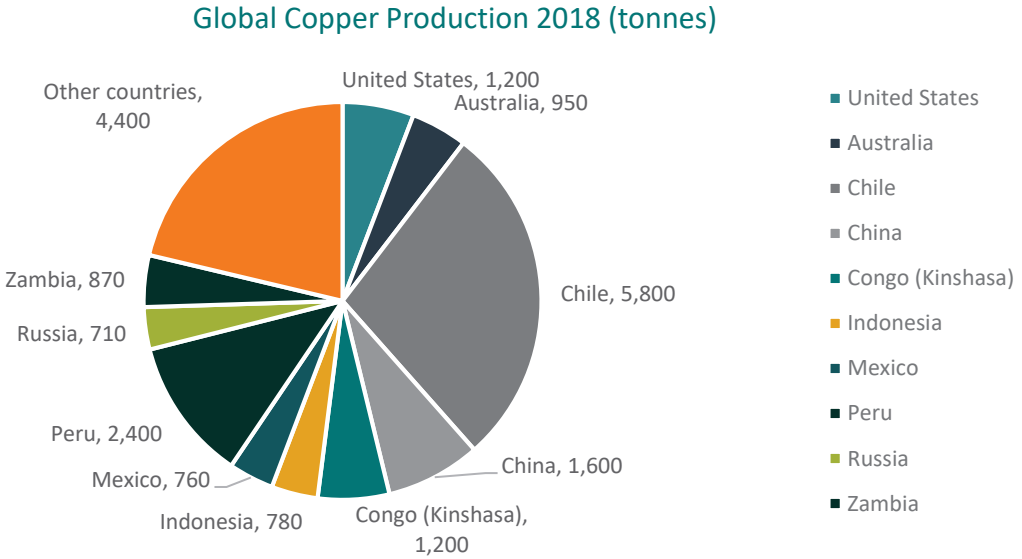

Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019

## Copper

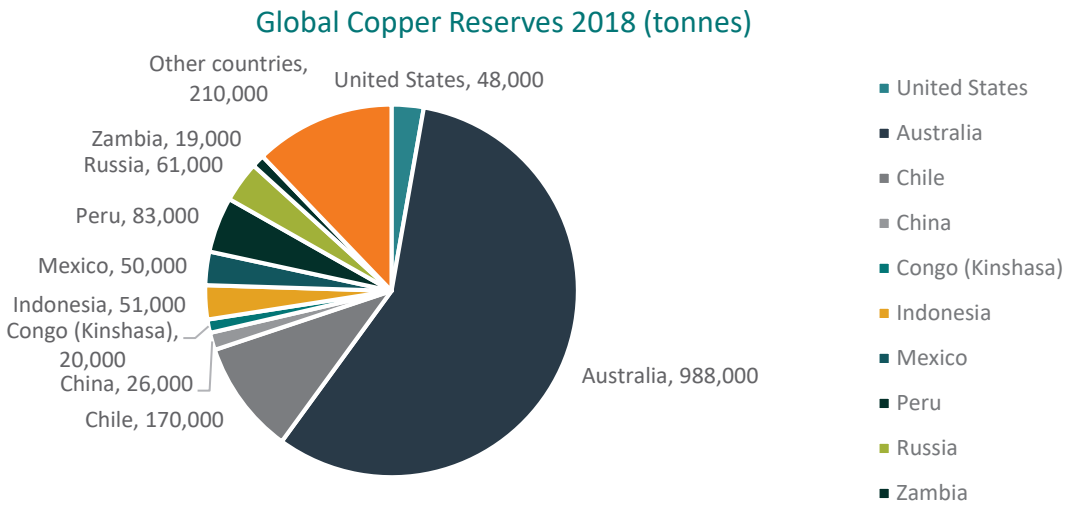
AZS has copper resources at their Alacrán, Promontorio, and El Tecolote projects.

In mining, copper bearing ores are extracted, it is crushed, and ground followed by a concentration by flotation. Sometimes the concentrates are roasted but all are transformed into a 'matte' during the smelting process, before being converted and refined to produce copper anodes. The anodes are further refined predominantly by electrolysis to create copper cathodes. This is classed as 'primary copper production'. During the semi-fabricated or finished product manufacturing stage copper scrape is sometimes generated and is regarded by the industry as 'secondary production'. Aluminum substitutes for copper in automobile radiators, cooling and refrigeration tube, electrical equipment, and power cable. Titanium and steel are used in heat exchangers. Optical fiber substitutes for copper in telecommunications applications, and plastics substitute for copper in drain pipes, plumbing fixtures, and water pipes.

The International Copper Study Group projected that global mine and refined production of copper would increase slightly in 2018, owing to a decrease in supply disruptions, restarting of temporarily closed mines and electrowon plants in Congo (Kinshasa) and Zambia, and recovery from planned smelter maintenance shutdowns in 2017. Global consumption of refined copper was also expected to rise slightly and to exceed global refined production by roughly 90,000 tons. The charts below show the countries in which the majority of copper was produced in 2018, and the location of the world's copper reserves.




Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019




Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019

## Global Market

- Zinc

The Zinc, Lead, and Silver mining industry is in a mature phase of its economic life cycle. Industry technology is well established and long-term industry participants account for the bulk of production. Output volumes have declined over the past five years but have been offset by higher prices for zinc and lead. The industry has rationalised over the past five years, as mines and companies have closed. However, industry profit margins have increased as a share of industry revenue due to higher prices over the past five years. These mixed factors result in the industry being in its mature life cycle phase.

On the supply side, some exceptionally large zinc mines have been depleted and shut down in recent years, affecting supply. MMG's Century mine for example, had been producing 4% of the world's zinc. That and the shutdown of Lisheen in Ireland, and Glencoe's Brunswick and Perseverance mines in Canada, global zinc production has lost over a million tonnes from global production representing 10-15% of the zinc market. The lack of replacements has led to a supply shortage. Additional supply issues have been created through the closure of smelters in various locations due to environmental concerns.

On the demand side, beyond the existing main uses for zinc new uses are shorting up demand. It is now being used in fertilisers and used extensively in infrastructure build-outs. Research is being conducted to produce a nickel-zinc battery for electric vehicles. Several significant infrastructure projects globally will need billions of tonnes of copper and steel containing zinc.

- Silver

A key determinate of the demand for silver is the variable price of gold. The value of silver relative to the price of gold has had a ratio averaging 60:1 over the past 20 years. Analysts note the importance of this ratio as an increase in this ratio has historically been during times of economic uncertainty and this has driven demand in recent times. The other influencers of the silver price are the Federal Reserve rate changes, an increase in demand in emerging markets such as electronic and solar markets, and the India and Thailand jewellery consumers. On the supply side, mined silver production is predicted to drop 2% in 2019 creating a demand-supply imbalance.

- Lead

Like copper and zinc, lead has been dragged into the trade war that affected base metals floundering for most of 2018. The most common application of lead now is automobile batteries, with additional demand coming from weaponry, marine ballast, aviation fuel, construction, electrical, medical applications and as a coolant in certain nuclear reactors. The demand for batteries is projected to grow over the next five years as wealth in developing countries drives increased demand for battery operated products. Additionally, increased emphasis on reducing greenhouse gas emissions will boost production.

- Gold

Global economic conditions and higher gold prices have boosted revenue for the Gold Ore Mining industry over the five years through 2018-19. This growth has stemmed from price increases and gold's status as a counter-cyclical commodity, meaning that it is viewed as a safe-haven asset during national and global economic uncertainty. Global expectations of higher inflation have kept global gold prices high by historical standards over the past five years. Increased gold prices have offset the higher cost of developing lower grade ores over the period leading to expanded production.

Changes in the world gold prices and the value of the Mexican Peso will continue to heavily influence the gold price in the coming years. Gold is a counter-cyclical asset. That is, global demand for gold is inversely related to global economic performance. Gold is regarded as a store of value, particularly during periods of weak economic growth and political turbulence. Stronger global GDP growth can therefore reduce demand for gold and threaten industry growth. Over 2018-19, global economic performance is expected to steadily improve. This prediction means that gold prices are forecast to decrease over the next five years. Higher gold output growth is likely to offset an improvement in global economic conditions, contributing to revenue increases.

Production costs for gold ore mining are typically high. Many of these costs are fixed, at least over the short term, as it is almost impossible to significantly alter costs once a mine is operating at or near capacity. In addition, the industry is highly capital-intensive and incurs many indirect costs for exploration, royalties, overheads, marketing, legal services, and research and development. Increases in industry production costs and decreases in ore quality can reduce industry profit margins over time. High gold prices will have a longer lasting effect on the industry, encouraging operators to re-examine techniques used to access lower grade ore.

- Copper

Copper is viewed as being closely connected to macroeconomic events due to its widespread use in industry. Its main uses are wiring, piping, electric product manufacturing, building construction, infrastructure, power generation, and transportation. Latest analysis by Bank of America Merrill Lynch analysts suggests new copper developments will not swamp the market and create oversupply any time soon. The analysts do not expect 'base case' projects moving through the development phase now to upset long-term copper market balance. They were aware of market concerns about an avalanche of supply creating surpluses and price weakness.

The mining industry has faced persistent headwinds, reflected in this year's global mine supply likely reaching 20.5 million tonnes, barely up from the 20.4Mt seen in 2016. Disruptions had over the past five years reduced global supply by a minimum of 2%. There appears also to be a common trend of overly optimistic project schedules, with the consensus in 2008 was that global copper mine output would exceed 20Mt by 2011, a level reached in 2016. It is predicted the 'base case' supply growth scenario to account for half of global supply growth in 2020. Yet new production is already needed to offset output losses at existing mines by 2021.

New mines in general have had lower head-grades and higher capital intensities. Average mine grades had fallen from 1.31% in 2000 to 0.94% in 2018, raising operating costs by around US$1,200/t (54c/lb) and slowing the enthusiasm to develop new mines. Similarly, average capital intensity has also been trending higher because miners are increasingly having to invest in remote regions.

In summary, regarding commodities in general, with the supply shortage on the horizon for some time it is probable that prices for these minerals will improve going forward. Mine closures and demand growth are good news for exploration companies with mineable deposits coming into production. This is expected to affect the market in the immediate term and then as almost 100 new projects commence operations globally between 2019 and 2022 the gap between supply and demand is expected to narrow.

Source: U.S. Geological Survey, Mineral Commodity Summaries, February 2019, Merrill Lynch Analysts Report April 2019.

## Price Trends

Overall, driving stimulus in the commodities market currently, mining shares are responding to property reforms in China with the goal to increase urbanization rates and support the property market and this follows solid US payroll data released on Friday. In the longer term, continuing demand will come from developing and modernising economies as well as the exploration of new applications in batteries.

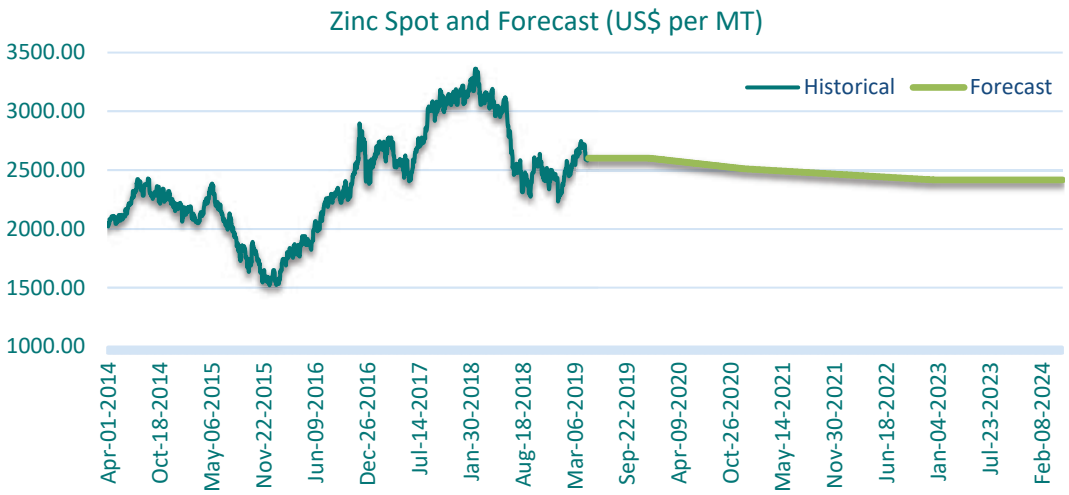
Source: Bell Potter Analyst Report April 2019

## Zinc

Zinc inventories have fallen as the refined zinc market remains tight. Zinc treatment charges have spiked higher due to increased concentrate availability; however, smelters remain the bottleneck following tighter environmental restrictions in China. It is expected this tightness to persist and support zinc prices for the next 12-18 months as it could take time to catch up and start rebuilding zinc inventories. Wood Mackenzie have reported that zinc smelter output in China to start in 2019 was down 11% y/y. While the trade war impacted commodities prices heavily in 2018, hitting a low in September, Zinc stockpiles, in particular, drew down and supply dwindled providing much need counter to the adverse effects of the trade war narrative.

Source: Wood Mackenzie Analyst Report April 2019

Historical zinc prices and forecast prices to 2024 are illustrated in the following chart.



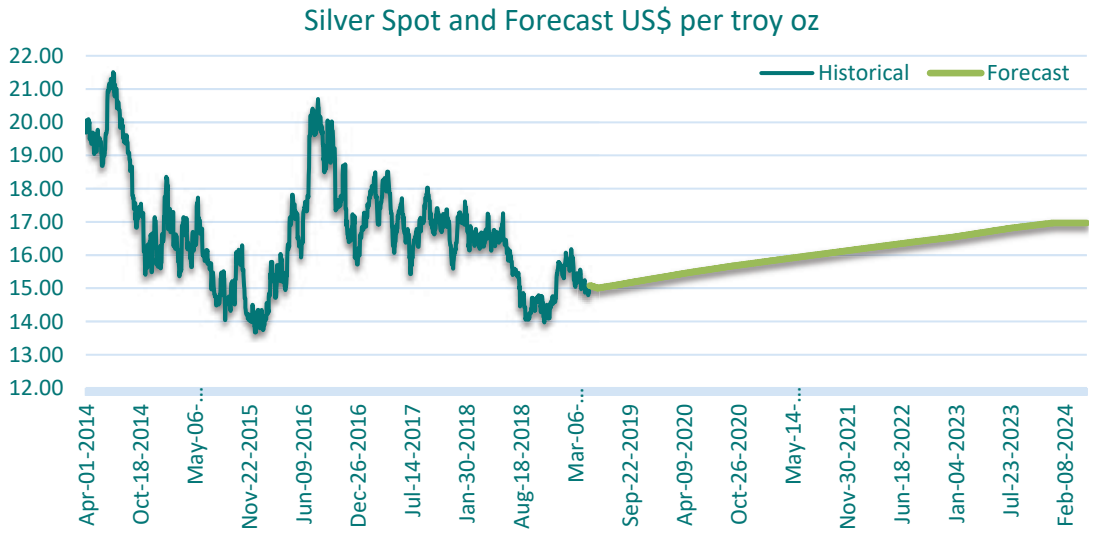

Source: S&P Capital IQ

## Silver

The estimated average silver price in 2018 was $15.30 per troy ounce, 10% lower than the average price in 2017. The price began the 2018 year at $17.15 per troy ounce, increased to a high of $17.52 per troy ounce on 25 January, and then fell to a low of $14.00 per troy ounce on 14 November. The silver price range over the course of 2018 remained consistent compared with that in 2017 from January through June when prices began declining into mid-November where they settled around $14.50 per troy ounce for the remainder of the year.

Source: LME Silver

Historical silver prices and forecast prices to 2024 are illustrated in the chart below.



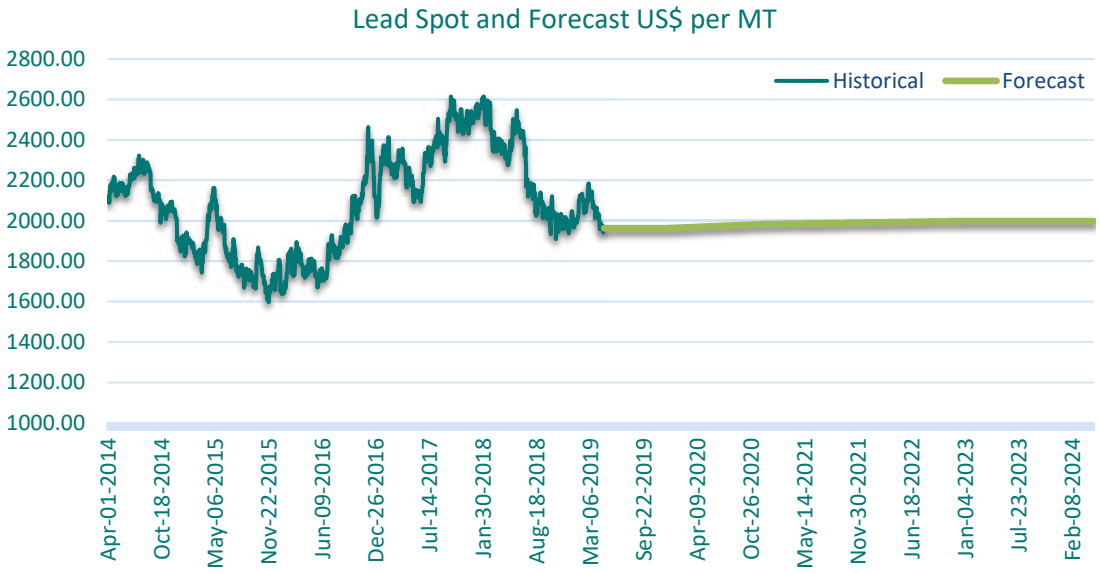

Source: S&P Capital IQ

## Lead

During the first 10 months of 2018, the average LME cash price for lead was $1.04 per pound, essentially unchanged from that in the same period of 2017. In the second half of 2017, prices reached a 6- year high owing to a tight supply of concentrate and increased demand for refined lead. During the first 10 months of 2018, prices decreased by 23%, bringing down the year average.

Source: LME Lead

Historical lead prices and forecast prices to 2024 are illustrated in the chart below.



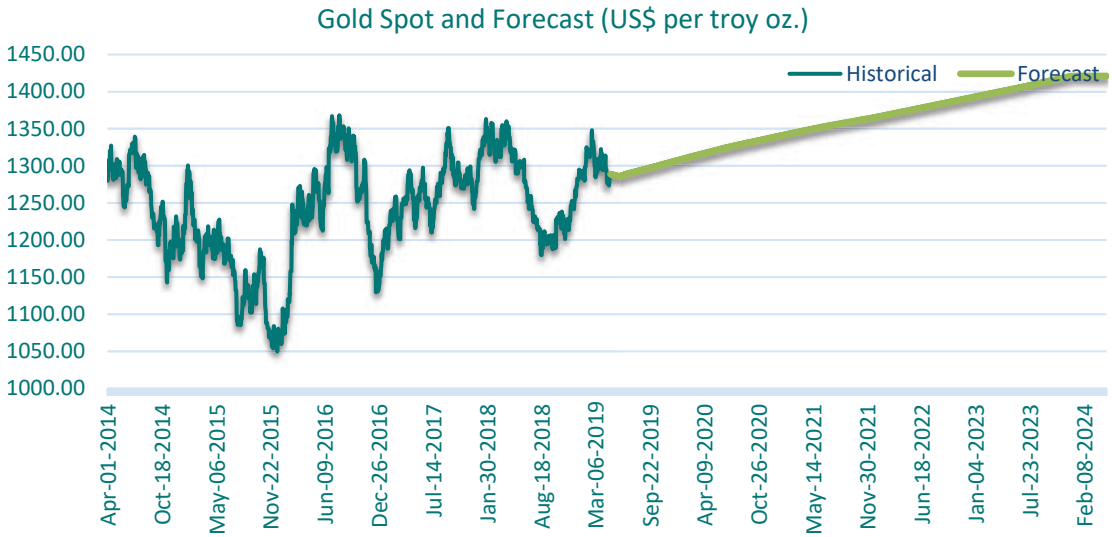

Source: S&P Capital IQ

## Gold

As gold is traded in US dollars, the depreciating Mexican Peso benefited the industry. Even with appreciating moments it was still relatively weak against the US dollar. The price of gold remains under pressure, with the price dipping below the US$1,300 per ounce level 2 weeks ago on 10 April. Gold has been heavily weighted on the downside owing to a stronger U.S. dollar and increased optimism over a U.S./China trade deal; the U.S. dollar index hit its highest level since May 2017. It appears that as global geopolitical concerns continue, they are having less of an effect on the gold price and U.S. dollar with Brexit still looming and the results of the Mueller investigation having minimal impact. Meanwhile, the performance of junior mining and exploration equities remains subdued, despite a healthy gold price that has been range-bound between US$1,170 and US$1,332 since the beginning of the new year.

Source: LME Gold

Historical gold prices and forecast prices to 2024 are illustrated in the following chart.




Source: S&P Capital IQ

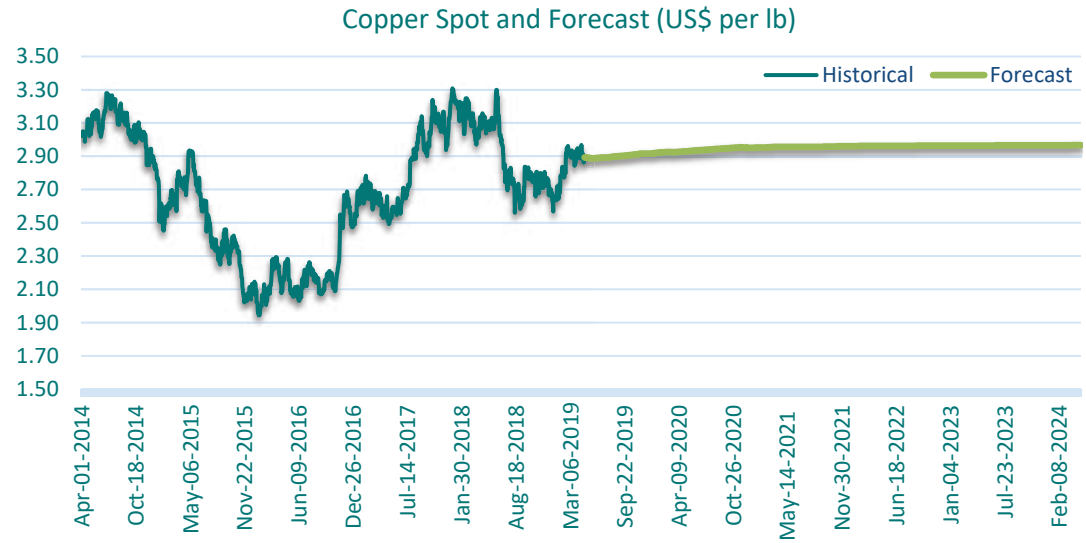
## Copper

The gains in copper were modest as the positive macro sentiment was offset by news that an agreement was reached to end blockades at Las Bambas in Peru (2% of global production) and copper inventories are up suggesting adequate near-term supplies. Although demand from China has been strong in the past five years, greater product substitution and increased supply has put downward pressure on copper prices. However, the world price of copper is projected to increase in 2018-19, providing the industry with an opportunity to expand.

Industry revenue is expected to increase at an annualised 2.6% over the five years through 2018-19. This includes projected growth of 10.7% in the current year, to $6.5 billion. Strong growth in 2018-19 is due to a projected increase in world and domestic copper prices, and strong growth in production output after falls in the prior two years.

Source: LME Copper

Historical copper prices and forecast prices to 2024 are illustrated in the following chart.




Source: S&P Capital IQ

# Appendix 6: Qualifications, Declarations and Consents

The report has been prepared at the request of the Directors of AZS and is to be incorporated in the Explanatory Memorandum to be given to Shareholders. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Explanatory Memorandum and should not be used for any other purpose.

The report represents solely the expression by Pitcher Partners Corporate of its opinion as to whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of AZS. Pitcher Partners Corporate consents to this report being incorporated in the Explanatory Memorandum.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Pitcher Partners Corporate has relied upon the information provided by the Independent Directors and Management of AZS. Pitcher Partners Corporate does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us other than as required in accordance with RG111.74 to RG111.78. Drafts of our report were issued to the Directors for confirmation of factual accuracy.

Furthermore, recognising that Pitcher Partners Corporate may rely on information provided by AZS and their respective officers and/or associates, AZS has agreed to make no claim by it or its officers and/or associates against Pitcher Partners Corporate to recover any loss or damage which AZS, or its associates may suffer as a result of that reliance and also has agreed to indemnify Pitcher Partners Corporate against any claim arising out of this engagement, except where the claim has arisen as a result of any proven willful misconduct or negligence by Pitcher Partners Corporate.

Pitcher Partners Corporate is a licensed corporate advisory entity of Pitcher Partners, Chartered Accountants. Pitcher Partners is a chartered accounting firm providing a full range of accounting and advisory services.

The Directors of Pitcher Partners Corporate involved in the preparation of this report were Piera Murone and Michael Sonego. Piera Murone and Michael Sonego are representatives of Pitcher Partners Corporate and have many years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Pitcher Partners Corporate, Pitcher Partners, nor any partner or executive or employee thereof has any financial interest in the outcome of the Offer. Pitcher Partners Corporate is to receive a fee relating to the preparation of this report of $23,000 plus GST based on time spent at normal professional rates.

AZURE
MINERALS LIMITED

ABN 46 106 346 918

**Lodge your vote:**

**Online:**
www.investorvote.com.au

**By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

**For all enquiries call:**
(within Australia) 1300 135 401
(outside Australia) +61 3 9415 4658

# Proxy Form

XX

## Vote online

- Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

## Your access information that you will need to vote:

**Control Number: 182685**

**SRN/HIN:**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

**For your vote to be effective it must be received by 11:00am (WST) Wednesday, 17 July 2019**

## How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

## Signing Instructions for Postal Forms

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

## Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

***GO ONLINE TO VOTE,***
***or turn over to complete the form*** ➔

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

# Proxy Form

**Please mark ☒ to indicate your directions**

## STEP 1 Appoint a Proxy to Vote on Your Behalf

**XX**

**I/We being a member/s of Azure Minerals Limited hereby appoint**

☐ **the Chairman of the Meeting** **OR** _____

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of Azure Minerals Limited to be held at The Celtic Club, 48 Ord Street, West Perth, Western Australia on Friday, 19 July 2019 at 11:00am (WST) and at any adjournment or postponement of that meeting.

## STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

| | | For | Against | Abstain |
|---|---|---|---|---|
| Resolution 1 | Approval of the Proposed Transaction including the acquisition of a Relevant Interest | ☐ | ☐ | ☐ |
| Resolution 2 | Issue of Shares to Teck | ☐ | ☐ | ☐ |

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

## SIGN Signature of Securityholder(s) *This section must be completed.*

**Individual or Securityholder 1** | **Securityholder 2** | **Securityholder 3**

**Sole Director and Sole Company Secretary** | **Director** | **Director/Company Secretary**

**Contact Name** _____ **Contact Daytime Telephone** _____ **Date** / /