

# AZURE MINERALS LTD

## *Australia's Leading Explorer in Mexico*

ASX: AZS

31 OCTOBER 2012

### QUARTERLY ACTIVITIES REPORT

For the period ended 30 September 2012

The Board of **Azure Minerals Limited** (ASX: AZS) ("Azure" or 'the Company') is pleased to provide its Quarterly Activities Report for the period ended 30 September 2012.

#### HIGHLIGHTS:

##### Promontorio – Copper-Gold-Silver

Pre-Feasibility Study published in August, demonstrated the robust technical and economic viability of the Promontorio project, with positive financial results including<sup>1</sup>:

- Gross revenue = US\$195 million
- Free cash = US\$54 million
- Cash costs (C1: net of credits) = US\$1.16 pound / Copper
- NPV (10%) = US\$32 million with IRR = 42%

Initial Exploration Target<sup>2</sup> to double the Mineral Resource at Promontorio and, if achieved, the project could potentially deliver (Upside Case)<sup>3</sup>:

- Gross revenue = US\$395 million
- Free cash = US\$155 million
- Cash costs (C1: net of credits) = US\$1.00 pound / Copper
- NPV (10%) = US\$86 million

Priority resource expansion targets identified outside the existing JORC defined resource and the next phase of diamond drilling will commence in early November

By way of update, using metals prices as of 3 October 2012 and assuming a doubling of the existing JORC resource, Promontorio will generate an impressive **\$205 million free cash flow** and have a **C1 copper cash cost of 75c/lb** over a nine year mine life.

<sup>1</sup> Using PFS Study Prices of: US\$3.42/lb Copper, US\$1,612/oz Gold & US\$28/oz Silver (at 8 August 2012)

<sup>2</sup> The potential quantity and grade of the Exploration Target is conceptual in nature, and there has been insufficient exploration to define the increased Mineral Resource and it is uncertain if further exploration will result in the determination of an increased Mineral Resource.

<sup>3</sup> The Upside Case uses PFS Study Prices and assumes future exploration success sufficient to double the existing Resource and realise a mining inventory of 1.3Mt at the same metal grades and recoveries as used in the PFS. While realising the potential quantity and grade is conceptual in nature, it includes material that has not yet been discovered or defined and is considered an Exploration Target.

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### El Tecolote – Copper-Zinc

- Diamond drilling continuing with approximately half of 4,000m program completed
- Assay results expected to be received in November

### La Tortuga

- Deep (665m) drill hole intercepts strong alteration and anomalous base and precious metal values
- Ongoing discussions with JOGMEC regarding additional expenditure required for exploration to continue

### Corporate Activities

- \$2,826,000 raised through oversubscribed Share Purchase Plan (“SPP” or “the Plan”) to shareholders and Share Placement (“Placement”) to sophisticated and institutional investors
- Managing Director Tony Rovira presented at several investor conferences in Melbourne and Sydney

**Azure’s Managing Director, Tony Rovira, commented:** *“This quarter has marked a number of milestones for the Company, both on the ground in Mexico and from a corporate perspective. The Pre-Feasibility Study at our Promontorio project was completed in August with positive results and has demonstrated the excellent technical and economic potential of the project.*

*“In addition to this, our Share Purchase Plan finished oversubscribed and in conjunction with a share placement, we have raised \$2,826,000 – an outstanding result given the current market conditions and a testament to the confidence our valued shareholders have in the Company.*

*“We look forward to another highly successful quarter in what will be an excellent year overall for the Company.”*

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### Promontorio – Copper-Gold-Silver

The Company announced in August that the Pre-Feasibility Study (“PFS” or “the Study”) at its Promontorio copper-gold-silver project in Chihuahua State, Mexico, delivered positive results demonstrating the robust technical and economic viability of the project with the current mining inventory of 656,000 tonnes supporting a 150,000tpa mining and processing operation over an initial mine life of 4½ years.

Azure commissioned the Australian engineering consultancy Como Engineers Pty Ltd (“Como Engineers”), a subsidiary of VDM Group Ltd, to undertake the PFS. As is normal practice, Como Engineers prepared several alternative scenarios to assess the impact of variances in metal prices, mining inventories, recovery, grade and costs.

Importantly, the scenarios demonstrated that the project retained a positive cash flow within all the range of options studied. Table 1 below illustrates the significant positive impact that additional resources and higher metals prices have on Promontorio’s value.

The Upside Case assumes a future exploration success sufficient to double the existing resource and realise a mining inventory of 1.3Mt at the same metal grades and recoveries. Specifically, an operation based upon the Upside Case scenario could return Gross Revenue of US\$395 million and Free Cash of US\$155 million.

ITEM	UNITS	LOW PRICE CASE <sup>4</sup>	PFS STUDY PRICE CASE <sup>5</sup>	UPSIDE CASE <sup>6</sup>
Mine Life	Years	4.5	4.5	8.8
Initial Capital Cost	US\$(M)	\$34.5	\$34.5	\$34.5
Gross Revenue	US\$(M)	\$179.7	\$195	\$395
Free Cash (pre-tax)	US\$(M)	\$36.9	\$54	\$155
NPV (pre-tax)	US\$(M)	\$19	\$32	\$86
IRR (pre-tax)	%	29%	42%	55%
C1 Cash Cost	US\$/lb Cu	\$1.12	\$1.16	\$1.00

Table 1: Alternative Economic Scenarios

The Promontorio Mineral Resource is defined over a strike length of 200m and remains open in all directions. The most recent drilling undertaken by Azure intersected high grade copper-gold-silver mineralisation outside of the current resource boundaries. These intercepts extend the north-south strike length of the mineralised system to 400m and confirm that significant additional mineral resources may be defined by further drilling.

<sup>4</sup> Low Price Case uses metals prices of: US\$3.00/lb Copper, US\$1,500/oz Gold & US\$30/oz Silver

<sup>5</sup> PFS Study Price Case uses metals prices of: US\$3.42/lb Copper, US\$1,612/oz Gold & \$28/oz Silver (at 8 August 2012)

<sup>6</sup> Upside Case: see Footnote 3 referenced on Page 1

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Based upon these additional drilling results, Azure has identified the Exploration Target<sup>7</sup> for the Promontorio deposit as 1–2 million tonnes at grades of 4– 5% Copper, 1.5–2.5g/t Gold and 80-120g/t Silver.

Azure has identified priority drill targets outside the existing mineral resource and a local drilling contractor has been booked. Site preparations and other logistics have been finalised and drilling will commence in the first week of November. A 3,500 metre, 23 hole diamond drilling program has been planned in order to achieve the Company's short-term goal of doubling the existing JORC resource.

The turnaround for assay results is expected to be about four weeks and as such a steady stream of news flow on the back of the aggressive drill program can be expected through to the end of the year.

### El Tecolote – Copper-Zinc

Drilling at the El Tecolote Joint Venture (“JV”) is continuing with approximately half of the anticipated 4,000 metre drilling program completed to date. This program is targeting porphyry copper and skarn copper-zinc styles of mineralisation and is particularly focused on the area around the historical El Tecolote Copper-Zinc-Silver Mine. This mine produced 1.4 million tonnes @ 1.9% copper, 7.0% zinc and 47 g/t silver, and closed in 1984 due low commodity prices, with unmined copper and zinc mineralisation remaining around the old mine workings.

Assays are expected to be received next quarter in November and significant results will be released to the market at that time.

Drilling is being sole funded by JV partner JOGMEC as part of their agreement to spend US\$13m in order to earn a 70% interest in the project. Approximately US\$2.5 million has been spent to date.

### La Tortuga – Copper-Zinc

In the past quarter, Azure completed a single diamond core hole at La Tortuga designed to test a geophysical target which has been interpreted to represent a potential deeply buried porphyry copper body.

The combined results of Azure's aeromagnetic and magneto-telluric modelling indicate the anomalies are hosted within basement rocks commencing at approximately 600m below surface and extending to depths in excess of 1,500m. After passing through the overlying post-mineral cover rocks, the drill hole entered basement rocks at 635m and drilled through 30 metres of promising strongly haematite-altered, veined and brecciated, intrusive rock, prior to the hole being prematurely terminated due to unstable ground conditions in the cover rocks causing drilling problems.

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<sup>7</sup> Exploration Target: see Footnote 2 referenced on Page 1

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However, the fact that the strong alteration and anomalous base and precious metal values were found to be present across the 30 metres is very encouraging. Discussions are ongoing with the JOGMEC to determine their position with regard to spending the additional \$600,000 required to fulfil their obligations under the JV terms of spending US\$3 million to earn 51% by March 2013.

Azure sees this as a high priority drill target and potentially company transforming opportunity, and as such, it is the Company's intention to prioritise further exploration at La Tortuga in 2013.

### Corporate Activities

In August, Azure announced its intention to offer eligible shareholders an opportunity to participate in its Share Purchase Plan, with the aim of providing additional funding to advance the Promontorio project.

Upon completion in September, the SPP closed oversubscribed and in conjunction with a Share Placement to sophisticated and institutional investors, the Company raised a total of \$2,826,000.

This means the Company is now fully funded for the foreseeable future based on currently planned exploration spending.

### Stakeholder Engagement Activities

This past quarter, Tony Rovira presented Azure's investment case to investors and brokers at the Symposium conferences in Sydney and Melbourne in July and at the RIU Melbourne Resources Round-Up in September.

Azure recently joined Twitter in order to connect with a wider audience of relevant stakeholders including potential investors, brokers and media. The Company encourages existing and potential investors to follow it by adding **@AzureMinerals** to their watch lists.

Azure furthered its social media strategy with the development of its LinkedIn account in the past quarter, in order to further connect with relevant stakeholders such as trade and financial press, existing and potential shareholders and brokers.

Both of Azure's social media outlets are proactively managed to rapidly disseminate news and information. Azure encourages existing and potential investors to connect with the Company through these outlets in order to follow the Company's updates in conjunction with its ASX releases.

**-ENDS-**

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### About the Company:

*Azure Minerals Limited is an Australian mineral exploration company focused on developing mining projects in the richly mineralised Sierra Madre Occidental mining province in northern Mexico. Azure's key projects are the high grade **Promontorio** copper-gold-silver project, the **El Tecolote** copper-zinc project and the **La Tortuga** porphyry copper project.*

***Promontorio** has a JORC Mineral Resource of 502,000 tonnes @ 4.7% Cu, 2.1g/t Au & 99g/t Ag. Metallurgical testwork produced high grade copper-gold-silver concentrate with excellent metal recoveries. Economic modelling indicates Promontorio could be developed and operated profitably. Exploration has identified further high grade copper mineralisation as well as additional potential for large, bulk tonnage gold mineralisation.*

*Exploration for skarn copper-zinc and porphyry copper deposits is continuing on the **El Tecolote** and **La Tortuga** joint ventures with the Japanese Government corporation JOGMEC. JOGMEC may earn a 70% interest in the **El Tecolote** project by spending US\$13 million, with total expenditure to 30 September 2012 of US\$2.5M. JOGMEC may earn a 51% interest in the **La Tortuga** project by spending US\$3 million, with total expenditure to 30 September 2012 of US\$2.4M. Azure is the operator and manager of both joint ventures.*

### Competent Person Statement:

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



# Appendix 5B

## Mining Exploration Entity Quarterly Report

Name of entity

Azure Minerals Limited

ABN

46 106 346 918

Quarter ended ("current quarter")

30 September 2012

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter	Year to date (3 months)
		\$A'000	\$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration and evaluation	(735)	(735)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(153)	(153)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	3	3
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other - JV advances	525	525
<b>Net Operating Cash Flows</b>		<b>(360)</b>	<b>(360)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
<b>Net investing cash flows</b>		<b>-</b>	<b>-</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(360)</b>	<b>(360)</b>



1.13	Total operating and investing cash flows (brought forward)	(360)	(360)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	2,700	2,700
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	<b>Net financing cash flows</b>	2,700	2,700
	<b>Net increase (decrease) in cash held</b>	2,340	2,340
1.20	Cash at beginning of quarter/year to date	644	644
1.21	Exchange rate adjustments to item 1.20	(3)	(3)
1.22	<b>Cash at end of quarter</b>	2,981	2,981

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	113
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

N/A

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

During the quarter JOGMEC contributed US\$250,000 towards its US\$3 million earn-in in The Los Nidos – La Tortuga joint venture and US\$300,000 towards its US\$5 million earn-in in the El Tecolote joint venture both in Mexico.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	NIL	NIL
3.2 Credit standby arrangements	NIL	NIL

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	788
4.2 Development	-
4.3 Production	-
4.4 Administration	344
<b>Total</b>	1,132

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,814	27
5.2 Deposits at call	167	617
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	2,981	644

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-		
6.2	Interests in mining tenements acquired or increased	-		

### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	551,000,097	551,000,097		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	157,000,097	157,000,097	\$0.018	\$0.018
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	500,000 12,500,000 4,500,000 3,000,000 19,500,000	Nil Nil Nil Nil Nil	<i>Exercise price</i> \$0.35 \$0.088 \$0.13 \$0.049 \$0.02	<i>Expiry date</i> 30/01/13 30/11/12 30/11/13 30/11/14 30/09/14
7.8 Issued during quarter	19,500,000	Nil	\$0.02	30/09/14
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				



## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

A handwritten signature in black ink, appearing to read "Brett Dickson".

Sign here: ..... Date: 31 October 2012  
(Director/Company secretary)

Print name: Brett Dickson

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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