

ACTIVITIES REPORT

For the period ended 31 December 2009

Azure Minerals is an Australian mining and exploration company focused on developing precious and base metal mining projects in Mexico. The Company operates in the richly mineralised Sierra Madre Occidental mining province in northern Mexico.

The Company is committed to value-added growth by becoming an independent minerals producer at its high grade Promontorio copper-gold-silver project in Chihuahua, Mexico.

Promontorio has a JORC resource of 502Kt @ 4.7% Cu, 2.1g/t Au & 99g/t Ag. Metallurgical test work produced excellent metal recoveries into a high grade copper-gold-silver concentrate.

High level evaluation of the project economic potential shows the project could be developed and operated at a profit, with a significant positive margin over operating costs. The deposit also shows a noticeable trend of increasing grade with depth.

Joint venture exploration for large porphyry copper deposits is underway on the La Tortuga project. Initial results are encouraging and work is ongoing. JOGMEC is earning a 51% interest by sole funding the first US\$3m of exploration expenditure.

Azure currently holds seven 100%-owned projects and a further 13 projects in joint venture with Kiska Metals Corp, in which Azure holds a 60% interest.

Azure's project portfolio now covers an impressive area of 175,424 hectares (1,754 km²).

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Quarterly Overview

The Board of Azure Minerals Limited (ASX: AZS, "Azure") is pleased to provide the Quarterly Report for the period ended 31 December 2009.

Highlights

Promontorio

- Detailed geological mapping and surface sampling continued on the Promontorio group of tenements with new vein systems identified.
- At the Creston Colorado prospect, the epithermal vein system has been defined over a one kilometre strike length with individual veins up to 20 metres thick. Drill targets identified with drilling planned for the March 2010 Quarter.
- A second epithermal gold-silver vein system identified at the Sehue prospect, located two kilometres east of Creston Colorado, returning grades up to 3.6g/t gold & 26g/t silver. Further exploration to define drill targets will be undertaken next Quarter.
- Several new mineralised structures identified around the Promontorio deposit. Drill testing of these targets is planned for the March 2010 Quarter.

La Tortuga Joint Venture

- Six hole (2,245m) diamond drilling program completed and assays received.
- Porphyry copper and skarn copper-zinc mineralisation intersected.
- Best intercept of **26.9m @ 0.5% copper, 0.4% zinc & 12g/t silver** returned from a depth of 130.0m, within an overall interval of **159.6m @ 0.2% copper and 0.2% zinc** from surface.
- Encouraging results to be followed up by further evaluation of the geology and geochemistry to assist with vectoring in to higher grade areas of the porphyry system.
- Sole-funding by JOGMEC of US\$3.0 million exploration expenditure over 3 years will earn it a 51% interest in the La Tortuga and Los Nidos properties (both currently 100%-owned by Azure).

Corporate

- Successfully completed a \$1.0 million capital raising.
- Review of project portfolio underway, specifically targeting proposals which would allow Azure to apply greater exploration resources to a number of prospects.



Projects

Promontorio Central (Azure has right to acquire 100%)
Promontorio Regional (Azure 100%)

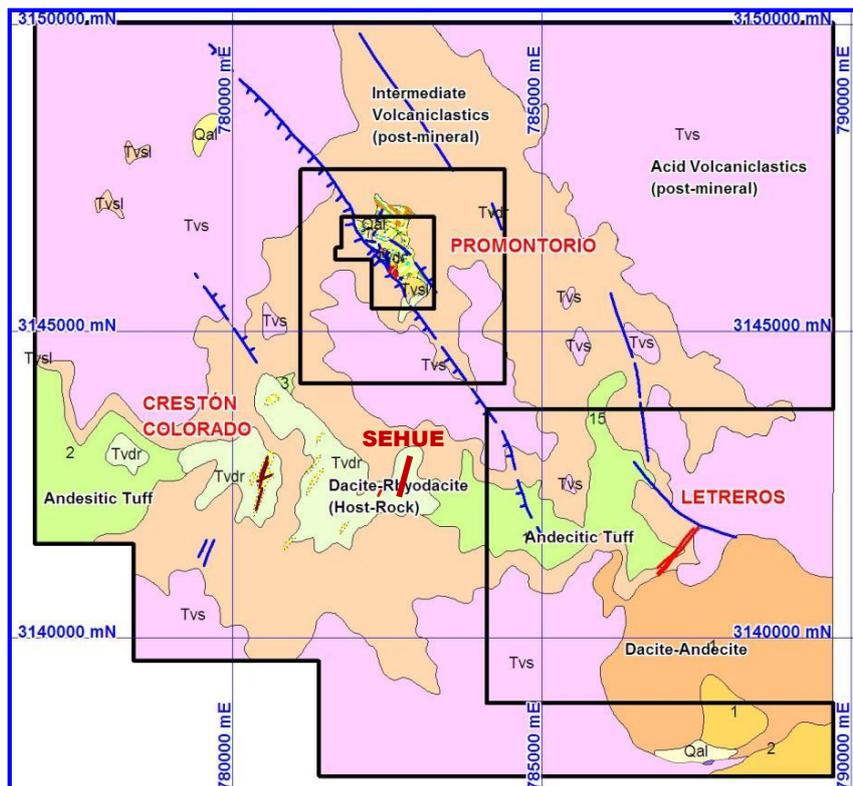
Copper - Gold - Silver

During December Azure completed additional detailed geological mapping and geochemical sampling over the Promontorio Central leases and around the Creston Colorado prospect on the Promontorio Regional tenement (see Figure 1). This work successfully identified numerous targets which warrant follow-up exploration, including drilling.

The Creston Colorado prospect is located 3.5km southwest of the high grade copper-gold-silver deposit at Promontorio. Identified during previous reconnaissance exploration by Azure, it consists of a north-south striking zone of strongly altered rocks containing quartz veining and breccia-iron oxide mineralisation. The vein system strikes over a one kilometre length with individual veins ranging up to 20 metres in width within a 100 metre wide alteration zone. This is considered likely to be the surface expression of the upper portion of a low-sulphidation epithermal gold-silver system. Two diamond core holes are planned to be drilled in the forthcoming Quarter as an initial test of this mineralised system.

Azure also identified the Sehue prospect, where surface sampling returned encouraging gold and silver values up to 3.6g/t gold and 26g/t silver. Sehue is located about two kilometres east of Creston Colorado. Sehue consists of an outcropping zone of epithermal quartz veining which strikes parallel to the Creston Colorado vein system. Further detailed mapping and sampling will be undertaken at this prospect to provide drilling targets.

Figure 1: Geological Plan of Promontorio Project





At Promontorio Central, the detailed sampling program focused on discovering new zones of mineralisation previously untested by drilling. Four prospects have been identified, containing consistently anomalous gold grades. Follow-up exploration will comprise diamond core drilling to test the potential of these mineralised structures.

In addition, the northern and southern extensions of the Promontorio deposit will be drill tested during the March Quarter.

Background

The Promontorio project in Chihuahua, Mexico, is Azure's most advanced project. It contains a high grade copper-gold-silver deposit with excellent additional exploration potential. Azure has completed a 42-hole drill out of the central part of the mineralised system to produce an initial mineral resource, and a program of metallurgical testwork.

The JORC Code compliant mineral resource for the Promontorio deposit comprises:

502,000 tonnes @ 4.7% Copper, 2.1 g/t Gold and 99 g/t Silver

at a 1% copper cut off, containing a total of 23,400 tonnes of copper, 34,000 ounces of gold and 1.6 million ounces silver. Full details of the resources classification and estimation methodologies are contained in Azure's ASX announcement released on 7th January 2009.

Metallurgical testwork included head grade analysis, mineralogical examination, comminution testing and sulphide flotation testwork. The optimum processing route is flotation to produce a high grade copper-gold-silver concentrate. Various downstream processing options are currently being evaluated.

Positive metallurgical test results were returned, producing a concentrate grade of 33.9% copper with a recovery of 98.2% of the total copper, a gold grade of 6.9g/t (83.2% recovery) and a silver grade of 377g/t (93.5% recovery).

The Promontorio Project comprises a central group of three granted mining concessions totalling 187 hectares (Promontorio Central) and a surrounding mining concession covering 105km² (Promontorio Regional). Azure can purchase 100% ownership of the central tenements by paying the vendors a total of US\$4.0 million staged over four years. To date, Azure has paid US\$640,000 in vendor payments. Azure holds 100% ownership of the surrounding Promontorio Regional mining lease.

La Tortuga Joint Venture

(Azure 100% - JOGMEC earning 51%)

Copper - Gold - Molybdenum

The La Tortuga Project is a joint venture with Japan Oil, Gas and Metals National Corporation ("JOGMEC") which is sole funding the first US\$3 million of exploration expenditure to earn it a 51% interest in the project.

During the December Quarter the joint venture completed a 6 hole diamond drilling program totaling 2,245m. Drilling targets were identified by a combination of mapping, sampling, and geophysics (aeromagnetic, radiometric and IP surveys), and Azure is pleased to confirm that porphyry copper and skarn copper-zinc mineralisation was intersected.



A best intercept of **26.9m @ 0.5% copper, 0.4% zinc & 12g/t silver** was returned from a depth of 130.0m, within an overall interval of **156.9m @ 0.2% copper and 0.2% zinc** from surface.

Four holes tested the La Tortuga porphyry and adjoining limestone skarn on an east-west hole spacing of 500 metres. Two holes tested blind targets identified by coincident aeromagnetic and IP anomalies further to the north.

Drilling of the La Tortuga porphyry intersected copper oxide, copper sulphide and molybdenum mineralisation hosted within strong phyllic (quartz-sericite-pyrite) alteration and stockworked quartz veining. The mineralised porphyry system is large, with an extent of at least 2.5km east-west by 1km north-south. The system remains open to the east and south and to depths in excess of 400m.

Strong iron-copper skarn mineralisation is developed in limestones around the western end of the La Tortuga porphyry. Copper mineralisation is present on surface and throughout the limestone intersected in drill hole TOR-DD-006. **An interval of 159.6m @ 0.2% copper and 0.2% zinc was intersected from surface, with the bottom 26.9m of limestone skarn returning 0.5% copper, 0.4% zinc & 12g/t silver.** Highest grades include **2.0m @ 1.6% copper, 1.7% zinc & 48g/t silver.** This style of mineralisation is similar to the nearby Tecolote Copper-Zinc-Silver Mine.

Results of this drilling are encouraging, and the joint venture has commenced evaluation of the geology and geochemistry to assist with vectoring in to higher grade areas of the porphyry system.

TABLE 1 - SIGNIFICANT DRILL INTERCEPTS AT LA TORTUGA

| Hole No | From (m) | To (m) | Interval (m) | Copper (%) | Comments |
|------------------|--|--------|--------------|------------|---|
| TOR-DD-001# | 48.0 | 86.0 | 38.0 | 0.2 | Copper oxide mineralisation hosted in strongly altered and quartz vein stockworked porphyry |
| TOR-DD-001# | 112.6 | 126.6 | 14.0 | 0.2 | |
| TOR-DD-002 | Geophysical Target - Magnetite-rich conglomerate – no significant intercepts | | | | |
| TOR-DD-003 | Geophysical Target - Pyrite-rich sediment - no significant intercepts | | | | |
| TOR-DD-004 | 152.2 | 182.1 | 29.9 | 0.3 | Copper oxide mineralisation hosted in strongly altered and quartz vein stockworked porphyry |
| TOR-DD-005 | Minor copper mineralisation in weakly altered porphyry | | | | |
| TOR-DD-006 | 0.0 | 156.9 | 156.9 | 0.2 | Copper-zinc mineralised skarn |
| <i>including</i> | 130.0 | 156.9 | 26.9 | 0.5 | |
| TOR-DD-007 | Minor copper mineralisation in weakly altered porphyry | | | | |

Note: TOR-DD-001 drilled previously by Azure Minerals in February 2009

Background

The La Tortuga Project is a joint venture with Japan Oil, Gas and Metals National Corporation (JOGMEC) which is sole funding the first US\$3 million of exploration expenditure to earn a 51% interest in the project. The objective of the joint venture is the discovery of large porphyry copper deposits.

JOGMEC is a Japanese Government corporation established to assist in the stable supply of oil, gas and mineral resources to the Japanese economy. JOGMEC seeks to gain entry into high-potential mineral exploration projects through providing funding and technical assistance, with a view to the later introduction of commercial Japanese interests.



La Tortuga covers 207km², and is situated only three kilometres east of the El Tecolote copper-zinc-silver mine. The project area is located 90 kilometres northwest of Hermosillo, the capital of Sonora State, where Azure has its exploration and administration base. The Joint Venture is managed and staffed by Azure with technical assistance from JOGMEC.

Corporate

Azure successfully raised \$1.0 million in fresh capital during the. The capital was raised through Bell Potter Securities Limited with investment by sophisticated and institutional investors.

Funds will be used to continue advancing the Promontorio project and for general working capital. Azure is encouraged by the continued willingness of investors to support the development of the company's high quality portfolio of Mexican assets.

During the quarter, the company also initiated a strategic review of the Company's project portfolio. The strategic review is aimed evaluating a number of proposals which would allow Azure to apply greater exploration resources to the large amount of highly prospective prospects identified, whilst retaining control of the overall project direction and potential shareholder upside. Results from the review will be reported once completed.

Azure currently holds seven 100%-owned projects and a further 13 projects in joint venture with Kiska Metals Corp, in which Azure holds a 60% interest.

-ENDS-

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Competent Person Statement:

Information in these documents that relates to Exploration Results 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")

| |
|------------------|
| 31 December 2009 |
|------------------|

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| Cash flows related to operating activities | | |
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for (a) exploration and evaluation | (490) | (946) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (303) | (523) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | - | 14 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (JV advances) | 325 | 615 |
| Net Operating Cash Flows | (468) | (840) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a) prospects | (205) | (205) |
| (b) equity investments | - | - |
| (c) other fixed assets | 1 | (1) |
| 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) | - | - |
| Net investing cash flows | (204) | (206) |
| 1.13 Total operating and investing cash flows (carried forward) | (672) | (1,046) |

| | | | |
|------|--|-------|---------|
| 1.13 | Total operating and investing cash flows (brought forward) | (672) | (1,046) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 1,029 | 1,029 |
| 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 – capital raising expenses | - | (31) |
| | Net financing cash flows | 1,029 | 998 |
| | Net increase (decrease) in cash held | 357 | (48) |
| 1.20 | Cash at beginning of quarter/year to date | 929 | 1,346 |
| 1.21 | Exchange rate adjustments to item 1.20 | 2 | (10) |
| 1.22 | Cash at end of quarter | 1,288 | 1,288 |

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 | 81 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 includes aggregate amounts paid to directors including salary, directors' fees and superannuation.

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\$299,000 towards its US\$3million earn-in in the Los Nidos – La Tortuga joint venture.

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 | 150 |
| 4.2 Development | - |
| Total | 150 |

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 | 215 | 273 |
| 5.2 Deposits at call | 1,073 | 656 |
| 5.3 Bank overdraft | | |
| 5.4 Other (provide details) | | |
| Total: cash at end of quarter (item 1.22) | 1,288 | 929 |

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) (cents) | Amount paid up per security (see note 3) (cents) |
|--|--------------|---------------|---|--|
| 7.1 Preference +securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 243,212,489 | 243,212,489 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 26,000,000 | 26,000,000 | \$0.04 | \$0.04 |
| 7.5 +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | 2,800,000 | Nil | <i>Exercise price</i> \$0.25 | <i>Expiry date</i> 30/11/10 |
| | 500,000 | Nil | \$0.175 | 30/01/11 |
| | 500,000 | Nil | \$0.25 | 30/01/12 |
| | 500,000 | Nil | \$0.35 | 30/01/13 |
| | 12,500,000 | Nil | \$0.088 | 30/11/12 |
| | 1,000,000 | Nil | \$0.25 | <i>Various dates</i> |
| 7.8 Issued during quarter | 12,500,000 | Nil | \$0.088 | 30/11/12 |
| 7.9 Exercised during quarter | | | | |
| 7.10 Expired during quarter | 2,800,000 | Nil | \$0.25 | 30/11/09 |
| | 2,450,000 | Nil | \$0.15 | 30/11/09 |
| 7.11 Debentures <i>(totals only)</i> | | | | |
| 7.12 Unsecured notes <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.



Sign here: Date: 29 January 2010
(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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