

AZURE MINERALS LTD

Australia's Leading Explorer in Mexico

ASX: AZS

30 January 2015

QUARTERLY ACTIVITIES REPORT

FOR PERIOD ENDED 31 DECEMBER 2014

The Board of Mexican-focused copper explorer **Azure Minerals Limited** ("Azure" or "the Company") is pleased to provide its Quarterly Activities Report for the period ended 31 December 2014.

HIGHLIGHTS:

- **Formal execution of the Promontorio Earn-In and Joint Venture Agreement between Azure and Kennecott Mexico SA de CV ("Kennecott"), a subsidiary of the Rio Tinto Group**
 - Kennecott has remitted US\$250,000 to Azure
 - First stage exploration planning is complete and airborne geophysical surveying will commence shortly
 - Kennecott has committed to spend US\$2 million during 2015
- **Post period end, Azure secured the right to acquire 100% ownership of the Alacrán Copper Project from Minera Teck S.A. de C.V ("Teck"), a subsidiary of Teck Resources Limited, Canada's largest diversified resource company, subject to an underlying back-in right retained by Teck**
 - Rock chip and mine dump sampling of the old Palo Seco and El Alacrán mines returned high grade assays up to:
14.9% Zinc 1.4% Lead 309g/t Silver 0.5% Copper 1.5g/t Gold
 - Channel sampling of breccia zone at Palo Seco returned 12m @ 118g/t Silver
- **Cascada mineral resource estimate delayed – expected in March Quarter**

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PROMONTORIO PROJECT

(Azure 100%; Kennecott may earn up to an 80% interest)

Promontorio contains several different styles of precious and base metal mineralisation, including high sulphidation epithermal and porphyry copper, with potential for large, bulk-tonnage resources and smaller, high grade deposits. Azure's strong belief in Promontorio's potential was validated when Kennecott entered into a substantial Earn-In and Joint Venture Agreement to search for a very large copper deposit.

The overall Promontorio project area covers approximately 10,520ha. Modern exploration has focused solely on the central 200ha containing the historical high grade Promontorio Copper Mine, however there is excellent potential elsewhere in the property to identify large mineral deposits hidden under the cover of younger volcanic rocks.

With formal execution of the agreement completed, planning of the first phase of exploration was undertaken. This comprises an airborne geophysical survey consisting of magnetics, radiometrics and electromagnetics covering the entire 10,520ha Promontorio project area, to be carried out in the March Quarter. Follow-up work will include Induced Polarisation (IP) surveys over areas of interest, with identified targets to be tested by diamond drilling.

Azure will release exploration results from these activities to shareholders as they become available.

Key Terms of the Earn-In & Joint Venture Agreement

The key highlight for the quarter was Azure and Kennecott executing the legal documentation covering the Promontorio Earn-In and Joint Venture Agreement.

Not only will the Agreement with Kennecott significantly accelerate exploration at Promontorio and its surrounds, it will also bring the high level technical expertise and experience of the Rio Tinto Group to the project.

Stage 1

Kennecott will sole-fund a minimum expenditure of US\$2 million during CY2015 ("Minimum Commitment"). In addition, upon the signing of the Agreement in December 2014, Kennecott paid a non-refundable fee of US\$250,000 to Azure.

Azure will be Project Operator during the early stages of the Agreement, with Kennecott providing their technical expertise in exploration planning and evaluation of results.

Kennecott will earn no interest in the project during Stage 1 and may withdraw from the Agreement at any time, after satisfying the Minimum Commitment.

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Stage 2

At the end of the first 12 months of the Agreement (December 2015), Kennecott may elect to continue its exploration and, through spending a total of US\$20 million (inclusive of the Minimum Commitment) over a further five years, earn an initial 51% interest in the project. At this point a 51:49 Joint Venture ("JV") will be formed.

To account for the considerable value already created by Azure with the definition of the Promontorio and Cascada copper deposits, upon formation of the JV Kennecott will credit Azures' JV account with US\$50 million. This credit will cover Azures' joint venture contributions as the Project progresses.

Stage 3

Upon earning its 51% interest Kennecott may elect to earn an additional 29% interest (for a total interest in the JV of 80%) by spending a further US\$25 million within a further 6 year period, taking total earn-in expenditures to US\$45 million.

Cascada Resource Calculation

Due to the focus necessary to complete the Promontorio Joint Venture Agreement with Kennecott and factors outside the company's control, estimation of a resource for Cascada has been significantly delayed. This is now expected to be delivered in the March Quarter.

ALACRÁN COPPER PROJECT

(Azure to earn 100% ownership from Teck)

Post-quarter end, Azure announced it had signed an agreement with Teck, whereby Azure can acquire 100% ownership of the Alacrán Copper Project, subject to an underlying back-in right retained by Teck (full details of acquisition terms listed below).

Alacrán is located in the northern Mexican state of Sonora, approximately 50km south of the USA border. The property covers 54km² of highly prospective exploration ground in the middle of one of North America's most prolific copper-producing district that extends from northern Mexico into Arizona. The property lies close to several large copper mines, including being adjacent to the giant Cananea Copper Mine where annual copper production capacity is expected to reach 510,000 tonnes in 2015.

However, despite being located in a major copper-producing district, having large operating copper mines in its immediate surrounds, and containing historical mining operations, due to its ownership history very little exploration has been undertaken on Alacrán.

The property has excellent potential for hosting significant economic copper mineralisation, including large porphyry-style copper deposits and smaller, higher grade, epithermal, skarn and breccia deposits.

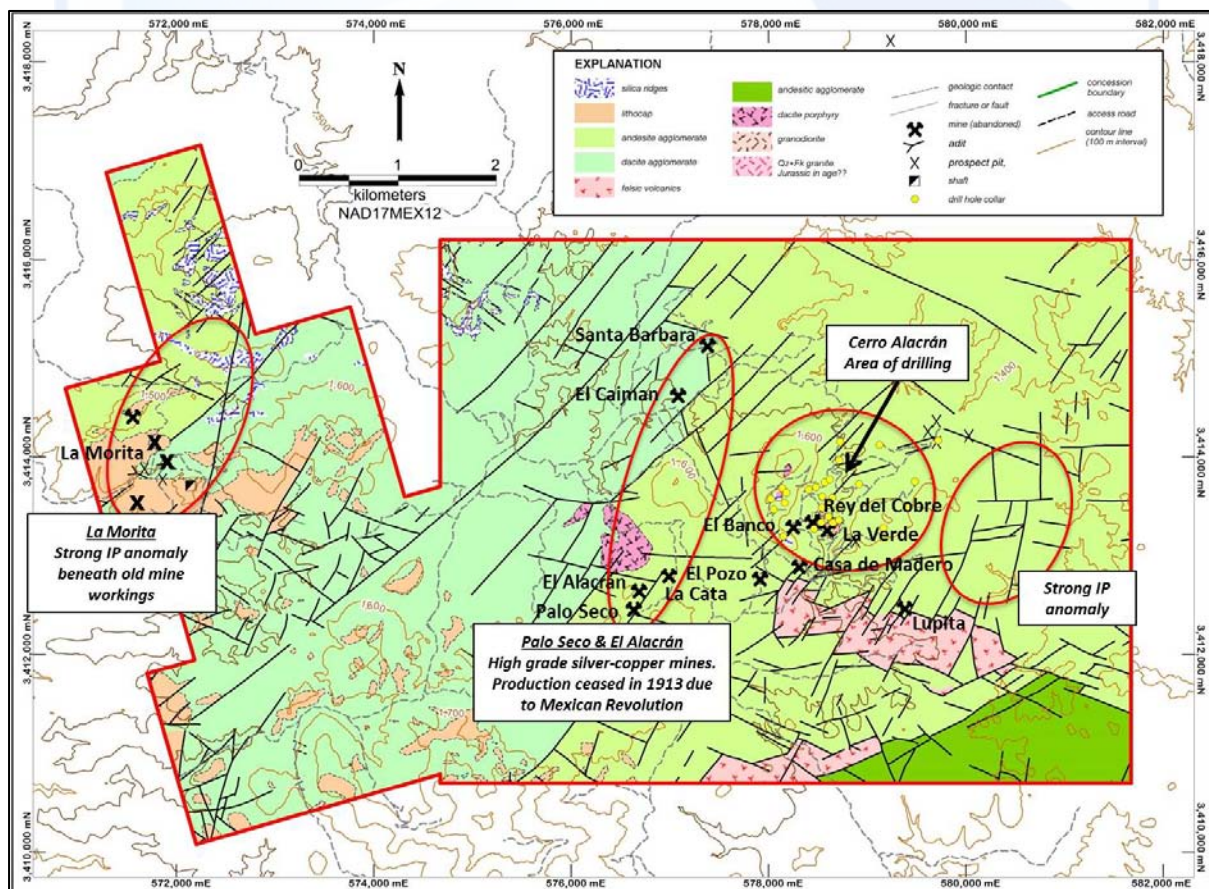
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To date, the only drilling identified on the property occurred at the Cerro Alacrán prospect (see Figure 1), which identified a large body of near-surface, supergene copper mineralisation. The potential here remains largely unquantified, as:

- the drilling (32 diamond core holes) tested a relatively small area of approximately 1,000m x 500m, with all holes intersecting supergene copper mineralisation;
- the overall size, grade and the extent of the Cerro Alacrán copper oxide and chalcocite mineralisation is yet to be defined, remaining open and untested along strike and at depth;
- most of the Cerro Alacrán drilling was relatively shallow and has not yet been tested the potential for primary, porphyry-hosted copper sulphide mineralisation;
- most of the drill core was assayed for copper only, and not for gold or molybdenum;
- a small scale IP survey carried out to the east of the Cerro Alacrán drilling in 2001 identified a strong anomaly which was not drill tested.

Figure 1: Alacrán geology plan showing locations of historical mines and drilling



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Additionally, based upon the historical production of high grade, silver-rich, polymetallic ore from epithermal and breccia deposits at the Palo Seco and El Alacrán mines (see Figure 1), there is good potential for identifying more and larger occurrences of this style of mineralisation.

These old mines were historically substantial underground mining operations, owned and operated by American companies in the early 20th Century. Production from these mines ceased in 1913 when mining was still in full production, due to turmoil during the Mexican Revolution. Operations did not recommence and no modern exploration has taken place in this area.

Three small-scale Induced Polarisation (IP) surveys have previously been undertaken on Alacrán. Two were completed in 1981 by the Mexican Geological Survey, covering the La Morita and Palo Seco-El Alacrán prospects. Both of these identified strong IP anomalies beneath and along strike from the old mine workings. A third survey in 2001 covered an area immediately east of the Cerro Alacrán mineralised body, and identified strong IP anomalism at depth. None of these IP anomalies or prospects have ever been drill-tested.

The discovery of the Cerro Alacrán body of copper mineralisation from limited exploration in a district where there are many large copper mines and deposits, supports the Company's belief that this property is significantly underexplored and that further exploration using modern techniques will identify more deposits.

Exploration

Azure is planning surface and underground mine sampling and IP surveys, to be followed up by drilling of identified targets. Exploration commenced with a first pass sampling program of outcrop and mine dumps undertaken at the historical mine workings of El Alacrán and Palo Seco (see ASX release dated 19 January 2015.).

Several high grade assays were received, and assay results (see Table 1) support historical accounts of high grade, silver-rich polymetallic ore being produced from El Alacrán and Palo Seco. The 12m channel sample grading 118g/t silver comprised a composite of three continuous, four metre long samples collected across the surface exposure of the breccia zone exposed within the Palo Seco open cut adjacent to the mine shaft.

Table 1: Assay results from sampling of old mine workings at Palo Seco and El Alacrán

LOCATION	SAMPLE TYPE	SAMPLE NUMBER	SAMPLE LENGTH	Ag (g/t)	Zn (%)	Pb (%)	Cu (%)	Au (g/t)
Palo Seco	Channel sample	ALR-1001	4m	79	0.07	0.99	0.10	0.10
Palo Seco	Channel sample	ALR-1002	4m	173	0.08	0.66	0.11	0.10
Palo Seco	Channel sample	ALR-1006	4m	101	0.07	0.80	0.10	0.10
Palo Seco	Composited continuous channel sample	ALR-1001,2,6	12m	118	0.07	0.82	0.10	0.10
Palo Seco	Mine dump grab sample	ALR-1003	Not applicable	309	14.9	1.44	0.51	1.48
El Alacrán	Mine dump grab sample	ALR-1004	Not applicable	64	0.13	0.12	0.06	0.28
El Alacrán	Mine dump grab sample	ALR-1005	Not applicable	81	0.65	0.20	0.10	0.55

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Key terms of the Option and Shareholders Agreement

1. Azure can acquire 100% ownership of Alacrán by:
 - a) Spending US\$5 million on the project within 4 years ("Required Expenditure");
 - b) Issuing 100,000 Azure shares to Teck on signing the formal documentation; and
 - c) Issuing 400,000 Azure shares to Teck on completing the Required Expenditure.
2. Azure must spend US\$2 million within the first 2 years before it can withdraw from the project ("Minimum Expenditure").
3. Teck retains a back-in right to re-acquire a 51% interest by sole funding US\$10 million of expenditure, including a US\$0.5 million cash reimbursement to Azure.
4. Additionally, Teck may increase its interest to 65% by sole funding a further US\$5 million of expenditure, including a US\$1.5 million cash reimbursement to Azure.
5. Grupo Mexico, owner of the adjoining Cananea Copper Mine, retains a 2% Net Smelter Royalty over future mineral production from Alacrán.

-ENDS-

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Competent Person Statement

Information in this report that relates to previously reported Exploration Results has been crossed-referenced in this report to the date that it was reported to ASX. Azure Minerals Limited confirms that it is not aware of any new information or data that materially affects information included in the relevant market announcement.

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Appendix 5B

Mining Exploration Entity Quarterly Report

Name of entity

Azure Minerals Limited

ABN

46 106 346 918

Quarter ended ("current quarter")

31 December 2014

Consolidated statement of cash flows

		Current quarter	Year to date (6 months)
		\$A'000	\$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for	(278)	(800)
	(a) exploration and evaluation	-	-
	(b) development	-	-
	(c) production	(274)	(614)
	(d) administration	-	-
1.3	Dividends received	5	8
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other - JV advances	-	-
	Net Operating Cash Flows	(547)	(1,406)
Cash flows related to investing activities			
1.8	Payment for purchases of:	(210)	(210)
	(a) prospects	-	-
	(b) equity investments	(1)	(1)
	(c) other fixed assets	308	308
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	97	97
1.13	Total operating and investing cash flows (carried forward)	(450)	(1,309)

Appendix 5B
Mining Exploration Entity Quarterly Report



1.13	Total operating and investing cash flows (brought forward)	(450)	(1,309)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	(20)	928
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	-	-
	Net financing cash flows	(20)	928
Net increase (decrease) in cash held			
		(470)	(381)
1.20	Cash at beginning of quarter/year to date	1,062	979
1.21	Exchange rate adjustments to item 1.20	(7)	(13)
1.22	Cash at end of quarter	585	585

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	108
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

-

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

N/A

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	200
4.2 Development	-
4.3 Production	-
4.4 Administration	280
Total	480

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	527	1,004
5.2 Deposits at call	58	58
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	585	1,062

Changes in interests in mining tenements

Refer to Annexure 1 for full list of 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	Refer Annexure 1. Option over the Alacran project acquired during the quarter	-	-



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 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	817,457,869	817,457,869		
7.3 +Ordinary securities				
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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>	25,000,000 25,924,075	Nil Nil	<i>Exercise price</i> \$0.058 \$0.045	<i>Expiry date</i> 30/06/17 30/11/16
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	3,000,000	Nil	\$0.049	30/11/14
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.

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

Sign here: Date: 30 January 2015
(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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Annexure 1
Schedule of interests in mining tenements

Project	Common Name		Tenement	Percentage held / earning
Pocho de Nacho	Pozo de Nacho	All Minerals	222873	100%
	Pozo de Nacho 2 - Fracc. 2	All Minerals	225058	100%
La Tortuga	La Tortuga	All Minerals	230422	100% ¹
	La Tortuga II	All Minerals	233462	100% ¹
El Tecolote	El Tecolote	All Minerals	230771	100%
	El Tecolte III	All Minerals	234586	100%
Promontorio	Hidalgo	All Minerals	235270	100% ¹
	Promontorio	All Minerals	235269	100%
	El Magistral	All Minerals	218881	100%
	Promontorio Regional	All Minerals	234447	100%
Panchita	Panchita	All Minerals	212767	100%
	Dona Panchita	All Minerals	192097	100%
Loreto	Loreto	All Minerals	TBA	100%
Alacran ²	Kino 3	All Minerals	166312	-
	Kino 2	All Minerals	166313	-
	Kino 4	All Minerals	166314	-
	Kino 8	All Minerals	166315	-
	Kino 9	All Minerals	166316	-
	Kino 10	All Minerals	166317	-
	Kino 11	All Minerals	166318	-
	Kino 15	All Minerals	166365	-
	Hidalgo No. 4	All Minerals	166366	-
	Kino 16	All Minerals	166367	-
	Hidalgo No. 3	All Minerals	166368	-
	Hidalgo No. 2	All Minerals	166369	-
	Hidalgo No. 5	All Minerals	166370	-
	Hidalgo No. 6	All Minerals	166371	-
	Hidalgo No. 8	All Minerals	166372	-
	Hidalgo No. 7	All Minerals	166373	-
	Hidalgo	All Minerals	166374	-
	Hidalgo No. 9	All Minerals	166375	-
	San Simon	All Minerals	166376	-
	San Simon No. 2	All Minerals	166377	-
El Alacran	All Minerals	201817	-	

1. Azure has an option to purchase 100%
2. Azure has acquired an option to purchase 100%