

# AZURE MINERALS LTD

## *Australia's Leading Explorer in Mexico*

ASX: AZS

31 October 2014

## **QUARTERLY ACTIVITIES REPORT**

### **FOR PERIOD ENDED 30 SEPTEMBER 2014**

The Board of Mexican-focused copper and gold explorer **Azure Minerals Limited** ("Azure" or "the Company") is pleased to provide its Quarterly Activities Report for the period ended 30 September 2014.

#### **HIGHLIGHTS:**

- **Earn-In & Joint Venture Agreement with Kennecott Promontorio S.A. de C.V., a subsidiary of the Rio Tinto group ("Rio")**
  - Azure agrees terms with Rio for an Earn-In and Joint Venture Agreement on the Promontorio Project
  - Rio can earn a 51% interest in the JV by spending US\$20 million and an 80% interest by spending US\$45 million
  - Rio commits to US\$2 million expenditure in first 12 months
  - Azure can independently continue exploring Cascada and Promontorio deposits during Rio's earn-in phase
- **Completion of 11 hole diamond drilling program at Cascada, extending the large gold mineralised zone; including intercepts of:**
  - 187m @ 1.1g/t Au in APR-DD-110
  - 105m @ 2.1g/t Au in APR-DD-120
- **Cascada mineral resource estimate underway and due for completion in November 2014**

#### **RIO TINTO EARN-IN & JOINT VENTURE AGREEMENT**

The key highlight for the quarter was reaching agreement on commercial terms<sup>1</sup> and advancing the documentation of the definitive Earn-in and Joint Venture agreement with Kennecott Promontorio S.A. de C.V., a subsidiary of the Rio Tinto group ("Rio"). Rio can earn up to an 80% interest in Azure's flagship Promontorio Project by spending US\$45 million on exploring and developing the significant copper potential identified by Azure on this property.

<sup>1</sup> Reported previously: refer ASX announcement dated 18 August 2014

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**Azure's Managing Director, Tony Rovira, commented:** *Reaching agreement with Rio Tinto to partner Azure in exploring for large copper deposits on the Promontorio Project is a major achievement for our Company. Rio's expertise, along with its commitment to spend at least US\$2 million over the next 12 months, will enable us to rapidly progress exploration for porphyry-hosted copper at Promontorio and test the wider regional potential. There has also been a strong positive reaction within Mexico to Rio's return to the country, endorsing the country's overall mineral potential."*

### **DETAILS OF EARN-IN AND JOINT VENTURE AGREEMENT WITH RIO TINTO**

#### **Stage 1**

Rio has committed to sole-fund an initial, minimum expenditure commitment of US\$2 million to be completed within the first 12 months of the Agreement. In addition, upon signing of the Agreement, Rio will pay to Azure US\$250,000.

Azure will be Project Operator during the early stages of the Agreement, managing and staffing activities out of the Company's Mexican office, under the direction of and with technical assistance from Rio. Planning of work programs has commenced and field work will start as soon as practicable after the Agreement is signed.

The initial work program will comprise regional scale, deep-seeking geophysical surveys including aeromagnetics, Induced Polarisation ("IP") and magneto-telluric ("MT") surveys covering the 10,520ha Promontorio Project. Identified targets will then be tested with diamond drilling.

Rio will earn no interest in the project during Stage 1 and may withdraw from the Agreement at any time after satisfying the minimum commitment.

#### **Stage 2**

At the end of the first 12 months of the Agreement, Rio may elect to continue its exploration and, through spending a total of US\$20 million (inclusive of the Stage 1 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 deposits, upon the formation of the JV Rio will credit Azures' JV account with an amount equal to five times Azures' total exploration and acquisition expenditure at Promontorio to the date of the formation of the JV.

Total Azure expenditure to date is approximately US\$10 million, leading to approximately US\$50 million being credited to the Company's JV account. The amounts to be credited will cover Azures' cash contributions to the JV as the Project progresses.

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Additionally, until such time as Rio has earned its initial 51% interest, Azure may continue its ongoing exploration activities on the Cascada and Promontorio deposits.

### **Stage 3**

Upon earning its 51% interest Rio 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.

### **PROMONTORIO PROJECT**

Successful exploration continues to progress the Promontorio Project. Initially considered a high grade but relatively small copper-gold-silver deposit, Azure's discoveries of the Cascada copper deposit, the surrounding large-scale gold mineralisation, and the underlying porphyry-hosted copper mineralisation, signal that this project is now of a quality and scale where it can be considered as a potential company-making project.

Hosting several different styles of precious and base metal mineralisation, Promontorio's potential ranges from large, bulk-tonnage resources to smaller, high grade bodies, which augurs well for large scale, long-life mining operations. Azure's belief in the merits of the project and its upside potential has been validated by the strong interest shown by Rio in entering into a substantial farm-in agreement to search for a large porphyry copper deposit.

Cascada is a high sulphidation epithermal, high grade copper-gold-silver deposit with mineralised zones up to 40m wide. Mineralisation starts near surface and has a strike length of at least 200m, extending down-dip for over 150m. Azure believes the Cascada deposit could potentially be developed as a bulk-tonnage open pit mining operation or as an underground mine.

### **Cascada Drilling**

At the Cascada deposit, Azure completed a 1,541m diamond drilling program, comprising one hole extension (APR-DD-110ext) and ten new holes (APR-DD-114 to 123). The program had three objectives:

- Test for mineralised extensions of the Cascada copper-gold-silver deposit
- Test the gold-mineralised halo to the west and south of Cascada
- Finalise data requirements for the maiden Cascada mineral resource estimate.

Two holes intersected very wide zones of gold mineralisation, indicating potential for bulk tonnage mining operations:

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- APR-DD-110<sup>2</sup> was extended by an additional 41m, returning a total intercept of **187.25m @ 1.06g/t Au** from 21.55m, which includes a higher grade zone of 43.28m @ **2.48g/t Au** from 133.30m.
- APR-DD-120<sup>3</sup> returned **105.2m @ 2.05g/t Au** from surface, which includes a near-surface higher grade gold intercept of **26.5m @ 5.7g/t Au**, and

Holes testing for shallow extensions to the east of the Cascada copper deposit intersected narrow zones copper oxide and sulphide mineralisation with low to moderate copper and gold grades returned, suggesting the mineralised system is weakening to the east. It is possible that this drilling was too shallow, therefore further work is needed to determine whether higher grade mineralisation continues to the east at depth beneath the near surface depletion zone.

To assist with visualisation of the Cascada mineralised zones, three dimensional models are shown in Figures 1 and 2.

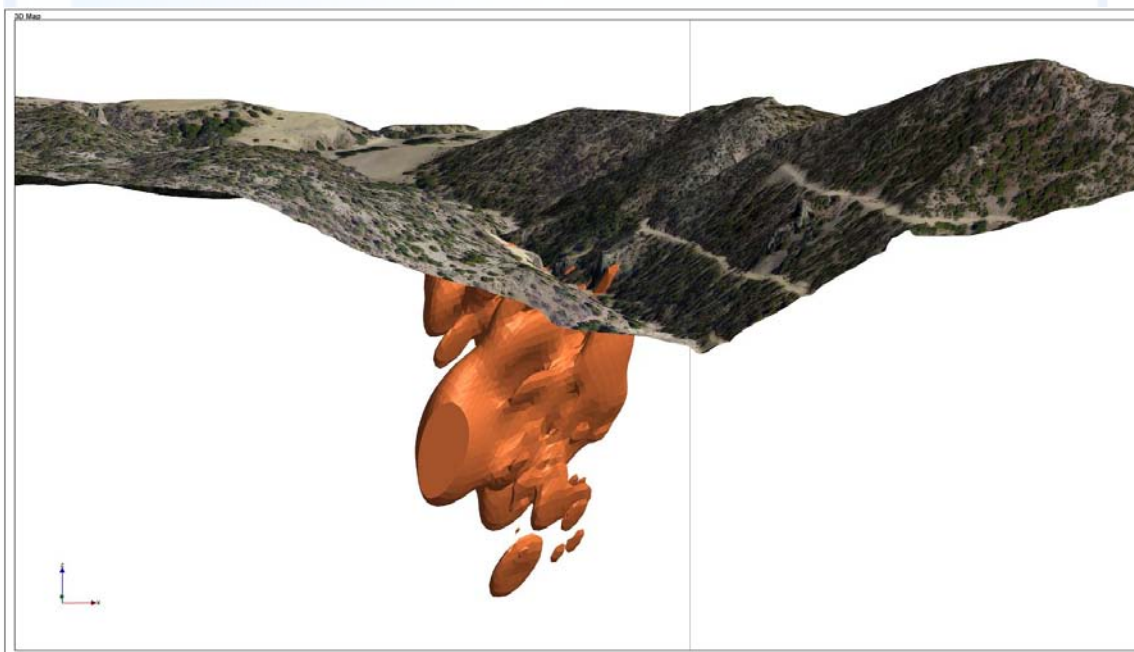


Figure 1: 3D model of Cascada mineralised zone (cut-off = 1% CuEq) looking northeast

<sup>2</sup> Results from APR-DD-110 reported previously: refer ASX announcement dated 21 August 2014

<sup>3</sup> Results from APR-DD-120 reported previously: refer ASX announcement dated 17 September 2014

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Figure 2: 3D model of Cascada mineralised zone (cut-off = 1% CuEq) looking southwest

Azure has completed collection of bulk density measurements from the most recent drilling and a Mineral Resource estimation for the Cascada deposit is currently in progress, with completion expected in November 2014.

### CORPORATE

#### **Entitlement Issue**

In September the Company advised that an Entitlements Issue to shareholders had raised \$643,000 through the issue of 21.4 million fully paid ordinary shares at \$0.03. The primary purpose of the capital raising was to support further drilling at the highly prospective Cascada and Promontorio projects in Mexico.

**-ENDS-**

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#### **Competent Person Statement**

*Information in this report that relates to previously reported Exploration Results has been cross-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.*



# Appendix 5B

## Mining Exploration Entity Quarterly Report

Name of entity

**Azure Minerals Limited**

ABN

46 106 346 918

Quarter ended ("current quarter")

30 September 2014

### Consolidated statement of cash flows

		Current quarter	Year to date (3 months)
		\$A'000	\$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for	(522)	(522)
	(a) exploration and evaluation		
	(b) development	-	-
	(c) production	-	-
	(d) administration	(340)	(340)
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	-	-
	<b>Net Operating Cash Flows</b>	<b>(859)</b>	<b>(859)</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>(859)</b>	<b>(859)</b>

**Appendix 5B**  
**Mining Exploration Entity Quarterly Report**



1.13	Total operating and investing cash flows (brought forward)	(859)	(859)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	948	948
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>	948	948
<b>Net increase (decrease) in cash held</b>			
		89	89
1.20	Cash at beginning of quarter/year to date	979	979
1.21	Exchange rate adjustments to item 1.20	(6)	(6)
1.22	<b>Cash at end of quarter</b>	1,062	1,062

**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	82
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**

**Appendix 5B**  
**Mining Exploration Entity Quarterly Report**



*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	300
4.2 Development	-
4.3 Production	-
4.4 Administration	300
<b>Total</b>	600

**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	1,004	921
5.2 Deposits at call	58	58
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	1,062	979

**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	-	-	-





**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	817,457,869	817,457,869		
7.3 <b>+Ordinary securities</b>				
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	21,435,545 16,995,833	21,435,545 16,995,833	\$0.03 \$0.02	\$0.03 \$0.02
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>	3,000,000 25,000,000 25,924,075	Nil Nil Nil	<i>Exercise price</i> \$0.049 \$0.058 \$0.045	<i>Expiry date</i> 30/11/14 30/06/17 30/11/16
7.8 Issued during quarter				
7.9 Exercised during quarter	16,995,833	Nil	\$0.02	30/09/14
7.10 Expired during quarter	277,778	Nil	\$0.02	30/09/14
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 2014  
(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**

<b>Project</b>	<b>Common Name</b>		<b>Tenement</b>	<b>Percentage held / earning</b>
Pocho de Nacho	Pocho de Nacho	All Minerals	222873	100%
	Pocho de Nacho 2 - Fracc. 2	All Minerals	225058	100%
La Tortuga	La Tortuga	All Minerals	230422	100% <sup>1</sup>
	La Tortuga II	All Minerals	233462	100% <sup>1</sup>
El Tecolote	El Tecolote	All Minerals	230771	100%
	El Tecolte III	All Minerals	234586	100%
Promontorio	Hidalgo	All Minerals	235270	100% <sup>1</sup>
	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%

1. Azure has an option to purchase 100%