



ACTIVITIES REPORT

For the period ended 30 June 2011

Azure Minerals is an Australian mineral exploration company focused on developing mining projects in the richly mineralised Sierra Madre Occidental mining province in northern and central Mexico. Azure's most advanced properties are the **San Francisco** manganese project, the **Promontorio** copper-gold-silver project and the **El Tecolote** copper-zinc project.

Hosting a high grade JORC Resource of 1.05Mt @ 30% Mn, **San Francisco** offers Azure a near term pathway to production, with the Company aiming to develop a mining operation by the end of 2012. Drilling is targeting a resource expansion to 2-4Mt @ 30-40% Mn. Additional feasibility study activities are currently in progress.

Promontorio has a JORC resource of 502,000 tonnes @ 4.7% Cu, 2.1g/t Au & 99g/t Ag. Metallurgical testwork produced excellent metal recoveries into a high grade copper-gold-silver concentrate, and economic evaluation shows Promontorio can be developed and operated profitably.

Exploration for porphyry copper and skarn copper-zinc deposits is underway on **El Tecolote** in joint venture with Japanese Government corporation JOGMEC. El Tecolote hosted an historical mining operation which produced 1.4Mt @ 1.9% copper, 7.0% zinc & 47g/t silver, and potential for similar deposits is present throughout the property. JOGMEC may earn a 70% interest in this project by expending US\$13 million.

The Board of Azure Minerals Limited (ASX: AZS, "Azure") is pleased to provide the Quarterly Report for the period ended 30 June 2011.

HIGHLIGHTS

San Francisco - Manganese

- Technical due diligence completed
- Maiden JORC Mineral Resource estimate of **1,045,000 tonnes grading 30% Mn**
- Significant resource expansion potential with an identified Exploration Target of an additional **2 to 4 million tonnes @ 30% Mn to 40% Mn**
- Excellent metallurgical results - simple beneficiation process produces a premium export standard product of +43% Mn
- Road transport and port infrastructure immediately available for San Francisco, including bulk mineral loading facilities with spare capacity at the nearby Manzanillo Port, Mexico's largest deep-water Pacific port
- Acquisition terms renegotiated with majority of payments delayed until after the expected commencement of production and subsequent cash flow
- Resource expansion drilling and further technical studies at San Francisco to commence in August, 2011

Promontorio – Copper-Gold-Silver

- Completed 12 hole (2,746m) diamond drilling program
- Assay results are pending

El Tecolote – Copper-Zinc

- Exploration commences in joint venture with Japanese Government corporation JOGMEC
- Airborne VTEM and magnetic survey completed
- Ground geophysical survey (IP and resistivity) in progress and diamond drilling to commence in the 4th Quarter

Corporate

- OZ Minerals withdrew from the San Eduardo Project effective June 30, reverting it to 100% Azure ownership
- Exploration is ongoing



PROJECTS

SAN FRANCISCO

Manganese

(Azure has right to acquire 100%)

Azure has agreed to acquire 100% ownership of the San Francisco Manganese Project, located in Jalisco State, Mexico. The Agreement provided Azure with a six month period of exclusivity to undertake a detailed project review and due diligence. This due diligence study was completed during the June Quarter to the satisfaction of Azure, and the Company is proceeding towards finalising the acquisition.

Azure appointed Coffey Mining Pty Ltd (“Coffey”) to undertake a high level technical study and to produce an Independent Technical Report (ITR). This included estimation of a Mineral Resource reported in accordance with the JORC Code, metallurgical testwork, mining, process and infrastructure design, and an estimation of operating and capital costs.

To assist with the resource calculation and to test additional exploration potential, Azure completed a 10 hole (1,966m) diamond drilling program into and around the deposit.

Due Diligence Results

Resource Estimation

The maiden JORC Mineral Resource estimate for the San Francisco Manganese Project¹ is:

CATEGORY	TONNES	GRADE	CONTAINED MANGANESE
Inferred	1,045,000	30%	312,000 tonnes

Exploration Potential

Results of the exploration drilling were very positive, indicating the resource remains open to the north and northwest at high manganese grades. Additional exploration success in this area is likely to add significantly to the resource base, with an Exploration Target identified of an additional **2 to 4 million tonnes @ 30% - 40% Mn²**.

Drilling to the south of the resource area intersected the host manto, however it mostly comprised hematite rather than manganese.

Mining

Several mining methods were investigated, with Coffey recommending that the deposit can be effectively mined by mechanised room and pillar underground mining methods.

Processing

Metallurgical testing indicated that the ore can be successfully beneficiated to produce a final concentrate grade between 35% Mn to 50% Mn using a crushing and Dense Media Separation circuit with recoveries of 88% to 67% respectively. An average final product grade of 43% Mn was indicated at a 75% Mn recovery.

¹Details of the resources classification and estimation methodologies are contained in Appendix A.

² The potential quantity and grade of the Exploration Target is conceptual in nature, and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource



Project Economics

The study, which was completed at a concept study level with an accuracy of +50%/-30%, returned the following initial estimates of operating and capital costs:

- Mine operating costs of approximately US\$20/t ore
- Process operating costs of approximately US\$2.60/t of mill feed
- Transport of concentrate from site to FOB at the Manzanillo Port of approximately US\$25/t of concentrate
- Total operating costs of approximately US\$100/t of concentrate
- Concentrate value of approximately US\$300/t at 43% Mn and a \$7/dmtu Mn price

Acquisition Agreement

Under the revised terms of the acquisition agreement, Azure will gain 100% ownership of the project for a total consideration of US\$15 million payable across six tranches (see Table 1). It is expected that the majority of the consideration will be funded from project cash flow following the commencement of production.

Azure has mandated corporate advisors RFC Corporate Finance to assist in the completion of the acquisition and the Company has already received a number of approaches from parties interested in both purchasing off-take production and joint venture participation.

The Way Ahead

Azure's Project Manager, Mr Gary Leighton, will continue to lead the development of the San Francisco Project. Initially this will comprise further drilling to expand the resource base, to be followed by additional drilling for the conversion of resources to reserves and additional exploration. Essential feasibility study activities, including advanced stage metallurgical testwork and process engineering design, will then follow.

PROMONTORIO

Copper - Gold - Silver

Promontorio Central (Azure has right to acquire 100%)

Promontorio Regional (Azure 100%)

A 12 hole diamond drilling program comprising 2,746 metres commenced on the Promontorio Project during the Quarter and was completed in late July.

Promontorio contains a JORC Mineral Resource estimate (Indicated + Inferred) of:

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

The deposit is open in all directions and Azure believes that drilling along strike to the north and south, as well as deeper drilling of the depth extensions of the high grade veins, has the potential to expand the resource.

The drilling program targeted the following locations:

- Along strike to the north of the resource (6 holes)
- Depth extensions beneath the middle of the resource (2 holes)



- Along strike to the south of the resource (2 holes)
- At the Cascada gold prospect (2 holes)

All holes have been sampled and samples dispatched to the laboratory. Assay results are awaited.

EL TECOLOTE JOINT VENTURE

Copper-Zinc-Silver

(Azure 100% - JOGMEC earning up to 70%)

Azure has entered into a joint venture agreement with the Japanese Government organisation, Japan Oil, Gas and Metals National Corporation (“JOGMEC”), to explore Azure’s 100%-owned El Tecolote Project. JOGMEC can earn an initial 51% interest in El Tecolote by spending US\$5.0 million over the next three years, and can earn an additional 19% stake by spending a further US\$8.0 million during the following three years, taking its total project equity to 70%.

The property contains the now-closed El Tecolote Mine, a significant skarn-hosted, massive sulphide copper-zinc-silver deposit which was mined and processed by Grupo Mexico in the period 1978-1984. Historical production is recorded as **1.4Mt @ 1.9% copper, 7.0% zinc & 47g/t silver**. Operations ceased in 1984 due to low commodity prices, leaving unmined copper and zinc mineralisation surrounding the old mine workings. It is the Company’s belief that further potential exists along strike of the Mine and at depth, however no modern exploration has occurred in the district to date.

With potential for additional skarn-hosted copper-zinc deposits as well as porphyry copper and structurally-controlled gold deposits, an intensive \$1.5 million exploration program has commenced, including:

- Geological mapping and surface sampling (in progress)
- Airborne magnetic and electromagnetic (VTEM) surveys (completed)
- Induced Polarisation and resistivity surveys (in progress)
- Diamond core drilling

The VTEM survey has identified several strong electromagnetic conductors with signatures characteristic of massive sulphide bodies. These anomalies are being followed up by the IP surveys currently in progress. Confirmed targets will be drill tested later in 2011.

SAN EDUARDO JOINT VENTURE

Copper-Zinc

(Azure 100%)

OZ Minerals has withdrawn from the joint venture on the San Eduardo Project following expenditure of approximately US\$700,000. Exploration activities comprised geological mapping, surface geochemical sampling, geophysical surveys (aeromagnetics, radiometrics and Induced Polarisation), and drilling of one diamond drill hole. This hole intersected wide zones of very strongly altered and veined porphyry containing significant quantities of pyrite, however only weakly anomalous copper mineralisation was intersected.



OZ Minerals concluded that the target they identified had been adequately tested. However Azure believes that the new exploration data has identified other targets worthy of follow-up on this property. Exploration is continuing.

LA TORTUGA JOINT VENTURE

Copper-Zinc

(Azure 100% - JOGMEC earning 51%)

Surface geochemical sampling and IP surveying carried out in 2010 identified a strong chargeability and resistivity response and geochemical anomalism coincident with an aeromagnetic anomaly typical of porphyry copper signatures. Drill testing of this target was undertaken with a 500 metre deep diamond core hole. Altered and quartz veined porphyry was intersected however no significant copper assays were returned.

CORPORATE

The Company remains in a strong position to advance its projects with cash on hand at the end of the June Quarter standing at \$4.69 million.

-ENDS-

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Competent Person Statements:

Information in this document that relates to Exploration Results and the Promontorio Mineral Resource 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.

Information in this document that relates to the San Francisco Mineral Resource is based on information compiled by Mr Ingvar Kirchner, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Kirchner is employed by Coffey Mining Pty Ltd, and 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 Kirchner consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



APPENDIX A

San Francisco Manganese Project
JORC Compliant Resource Estimate

CATEGORY	TONNES	GRADE	CONTAINED MANGANESE
Inferred	1,045,000	30%	312,000 tonnes

Ordinary Kriged Whole Block Estimates using an accumulation method with back-calculated grades for Mn.

20mE x 20mN x 500mRL Parent Block Dimensions. Seam model prototype used to generate a single vertical subcell across the width of the subhorizontal mineralised zone.

Reported using a Mn>5% lower cutoff grade, unconstrained and using rounded figures.

Mn Grade-Tonnage Distributions subdivided by JORC Resource Categories.

Depleted for historical underground mining where significant mining has occurred.



Appendix 5B

Mining Exploration Entity Quarterly Report

Name of entity

Azure Minerals Limited

ABN

46 106 346 918

Quarter ended ("current quarter")

30 June 2011

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter	Year to date (12 months)
		\$A'000	\$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration and evaluation	(1,876)	(4,463)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(212)	(1,247)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	2	166
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (JV advances)	361	1,146
Net Operating Cash Flows		(1,725)	(4,398)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	(170)	(357)
	(b) equity investments	-	-
	(c) other fixed assets	(11)	(57)
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		(181)	(414)
1.13	Total operating and investing cash flows (carried forward)	(1,906)	(4,812)

1.13	Total operating and investing cash flows (brought forward)	(1,906)	(4,812)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	4,265
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 – security deposits	-	(22)
	Net financing cash flows	-	(4,243)
	Net increase (decrease) in cash held	(1,906)	(569)
1.20	Cash at beginning of quarter/year to date	6,560	5,243
1.21	Exchange rate adjustments to item 1.20	35	15
1.22	Cash at end of quarter	4,689	4,689

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	106
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\$70,000 towards its US\$3 million earn-in in the Los Nidos – La Tortuga joint venture and US\$150,000 towards its US\$5 million earn-in in the El Tecolote joint venture. In addition OZ Minerals contributed US\$166,000 towards its initial US\$3 million earn-in in the San Eduardo 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	1,517
4.2 Development	-
4.3 Production	-
4.4 Administration	306
Total	1,823

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	272	435
5.2 Deposits at call	4,417	6,125
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	4,689	6,560

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	394,000,000	394,000,000		
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>	500,000	Nil	<i>Exercise price</i> \$0.25	<i>Expiry date</i> 30/01/12
	500,000	Nil	\$0.35	30/01/13
	12,500,000	Nil	\$0.088	30/01/12
	4,500,000	Nil	\$0.13	30/11/13
	400,000	Nil	\$0.25	Various dates
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
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: 29 April 2011
(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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