



# ACTIVITIES REPORT

For the Quarter ended 30 September 2011

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 and central Mexico. Azure's three key properties are the El Tecolote copper-zinc project, the San Francisco manganese project, and the Promontorio copper-gold-silver project.

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.

San Francisco has a JORC Resource of 1.05Mt @ 30% Mn, and offers Azure a near term pathway to production. Resource expansion drilling and 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.

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

## HIGHLIGHTS

### El Tecolote – Copper-Zinc

- Exploration for porphyry copper and skarn copper-zinc deposits continues in Joint Venture ('JV') with Japanese Government corporation JOGMEC
- Geophysical (VTEM, aeromagnetics, ground magnetics and IP) surveys identify numerous new targets
- Detailed mapping and sampling activities of new target areas are currently underway
- 3,000m diamond drilling program planned for Q4 2011

### Promontorio – Copper-Gold-Silver

- Drilling extends Promontorio mineralised strike length to 400m
- New high grade zone intersected, returning 3.7m @ 8.83% Copper, 6.6g/t Gold & 57g/t Silver from 18.0m
- Cascada zone identified as bulk tonnage gold-silver target with drill hole intersecting 137m of gold mineralisation

### San Francisco - Manganese

- Resource expansion drilling and further technical studies currently in progress
- Decision to finalise acquisition and proceed to mine development due in December

### Corporate

- Mr Peter Ingram appointed as a Non-Executive Director of the Company



## PROJECTS

### EL TECOLOTE JOINT VENTURE

**Copper-Zinc-Silver**

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

Situated between Azure's San Eduardo and La Tortuga project areas, El Tecolote is a 150km<sup>2</sup> property containing abundant evidence of base metal mineralisation with potential for both porphyry copper and skarn copper-zinc deposits. The intensive \$1.5 million, 2011 exploration program is continuing in JV with JOGMEC.

Activities undertaken in the quarter include:

- Analysis and interpretation of the aeromagnetic and electromagnetic (VTEM) surveys
- Detailed ground magnetic surveys - *completed*
- Induced Polarisation (IP) surveys - *Stage 1 completed, Stage 2 in progress*
- Geological mapping and surface sampling - *continuing*
- Target identification for diamond drilling - *scheduled to commence this quarter*

The VTEM, aeromagnetic and Stage 1 IP surveys identified numerous anomalies with signatures characteristic of massive and disseminated sulphide bodies, which the Company believes represent valid drill targets. On the ground, exploration is continuing with mapping, sampling, ground magnetics, and follow-up IP surveys facilitating further detailed targeting of the planned drill holes.

A 3,000m diamond drilling program is scheduled, with the first two targets being the skarn-hosted copper-zinc prospects Reyna del Cobre and El Tecolote Mine.

Located in the southern part of the property, Reyna del Cobre (loosely translated to mean 'Copper Queen') is a new discovery by Azure. Surface sampling returned grades up to 3.7% copper, 5.4% zinc and 26 g/t silver. First pass diamond drilling by Azure in early 2011 intersected multiple skarn zones containing massive sulphide copper and zinc mineralisation, with strong gold grades up to 2.3 g/t Au also present. The best mineralised intercepts included:

- **11.0m @ 1.3% Copper, 3.0% Zinc, 7.1 g/t Silver, 17.2 g/t Indium and 31.9% Iron**
- **4.0m @ 1.2% Copper, 4.6% Zinc, 3.8g/t Silver, 20.8 g/t Indium & 19.1% Iron**

Azure recently completed a detailed ground magnetic survey which has provided sufficient data to complete a 3-D model of the magnetic skarn host. This has allowed precise targeting of Reyna del Cobre with deeper diamond drilling.



The El Tecolote Copper-Zinc-Silver Mine operated between 1978-1984, producing 1.4 million tonnes @ 1.9% copper, 7.0% zinc and 47 g/t silver. Low commodity prices forced the mine to close in 1984, with unmined copper and zinc mineralisation remaining around the old mine workings.

Prior to Azure's involvement, no modern-day exploration had taken place around the mine and significant further potential exists along strike and at depth for mineralised extensions and new deposits. Ground magnetic and IP surveys, together with mapping and sampling, have enabled Azure to identify several targets which will be tested during the upcoming drilling campaign.

### **Background**

Azure entered into a JV agreement with the Japanese Government organisation, JOGMEC, to explore Azure's 100%-owned El Tecolote Project. JOGMEC can earn an initial 51% interest in El Tecolote by spending US\$5 million over the first three years, and can earn an additional 19% stake by spending a further US\$8 million during the following three years, taking its total project equity to 70%. The JV is managed and staffed by Azure out of the Company's Hermosillo office, with technical assistance provided by JOGMEC.

JOGMEC is a wholly-owned 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. In line with these objectives, JOGMEC entered into the El Tecolote JV with the aim of discovering large copper deposits.

## **SAN FRANCISCO**

### **Manganese**

#### **(Azure has right to acquire 100%)**

Azure has an option to acquire 100% ownership of the San Francisco Manganese Project, located in the central Mexican state of Jalisco. The agreement provides Azure with exclusivity to undertake a full technical and commercial evaluation.

As reported in the June quarter, Azure appointed Coffey Mining Pty Ltd to undertake the technical study and to produce an Independent Technical Report. 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.



The maiden JORC Mineral Resource (Inferred) for the San Francisco Project<sup>1</sup> is:

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

Work undertaken during the September quarter consisted of diamond drilling the potential extensions of the manganese mineralisation. To date seven holes have been completed for 1,592m and assays are awaited. The resource expansion drilling is continuing, with another two holes planned, bringing the total drilling program to approximately 2,000m.

## PROMONTORIO

**Copper - Gold - Silver**

**Promontorio Central (Azure has the right to acquire 100%)**

**Promontorio Regional (Azure 100%)**

The Promontorio Project contains a high grade copper-gold-silver deposit hosted in veins of massive and semi-massive sulphides, with significant additional exploration potential to expand the resource along strike to the north and south, as well as at the depth.

The JORC Mineral Resources (Indicated and Inferred) for the Promontorio Project<sup>2</sup> is:

CATEGORY	TONNES	GRADE (% Cu)	GRADE (g/t Au)	GRADE (g/t Ag)	CONTAINED COPPER (Tonnes)	CONTAINED GOLD (Ounces)	CONTAINED SILVER (Ounces)
Indicated	290,000	4.2	2.1	94	12,100	20,000	873,000
Inferred	212,000	5.3	2.1	106	11,300	14,000	724,000
<b>TOTAL</b>	<b>502,000</b>	<b>4.7</b>	<b>2.1</b>	<b>99</b>	<b>23,400</b>	<b>34,000</b>	<b>1,598,000</b>

A 12 hole diamond drilling program totalling 2,746m was completed in July. Drilling targeted the following locations:

- Along strike to the north of the Promontorio resource (six holes)
- Depth extensions beneath the middle of the resource (two holes)
- Along strike to the south of the resource (two holes)
- At the Cascada gold prospect (two holes)

<sup>1</sup>Details of the resources classification and estimation methodologies are contained in Azure's announcement to the ASX, released on 14<sup>th</sup> June 2011.

<sup>2</sup>Details of the resources classification and estimation methodologies are contained in Azure's announcement to the ASX, released on 7<sup>th</sup> January 2009.



Assay results from this drilling were encouraging, with mineralisation being intersected in the majority of holes. The Company considers it likely that with infill drilling, an upgrade of the existing Mineral Resource can be anticipated. Details of intercepts are contained below.

### **PROMONTORIO PROJECT – SIGNIFICANT DRILL HOLE INTERSECTIONS**

HOLE NO	FROM (m)	TO (m)	WIDTH (m)	COPPER (%)	GOLD (g/t)	SILVER (g/t)
<b>PROMONTORIO</b>						
<b>APR-DD-043</b>	151.2	152.9	2.7	0.83	4.0	40
<b>APR-DD-044</b>	116.2	116.5	0.3	1.39	8.5	107
<b>and</b>	142.5	143.9	1.4	1.87	2.2	44
<b>APR-DD-045</b>	122.6	123.9	1.3	0.12	1.3	20
<b>APR-DD-046</b>	75.7	78.0	2.3	2.90	6.0	106
<b>APR-DD-048</b>	200.55	201.3	0.75	5.16	0.4	190
<b>APR-DD-050</b>	18.0	21.7	3.7	8.83	6.6	57
<b>and</b>	193.7	195.4	1.7	1.59	0.5	18
<b>APR-DD-051</b>	218.3	223.9	5.6	2.53	0.4	26
<b>including</b>	218.3	220.45	2.15	1.86	0.5	18

Significant environmental approvals are required for Azure to move to the next stage of evaluation. The Company and its advisors are working with Government departments to determine the extent of studies required and the timing of approvals.

### **ESTACION LLANO**

**Gold**

**(Azure 100%)**

This 24km<sup>2</sup> property covers the interpreted western extension of the mineralised system which hosts the >1.3 million oz San Francisco Gold Mine (owned by Timmins Gold Corp and currently producing at a rate of 100,000oz gold per year). Drilling by Timmins between the mine and the Estacion Llano boundary has confirmed that the mineralised system extends west towards Azure's property.

Azure commenced its exploration with a program of ground magnetics and soil sampling. The ground magnetic survey identified a continuation of the highly magnetic rock sequence that hosts the San Francisco Mine and the soil sampling returned gold anomalism coincident with the magnetic high. These interpreted extensions of the San Francisco mineralised system will be the focus of the next exploration stage.

### **LA TORTUGA JOINT VENTURE**

**Copper-Zinc**

**(Azure 100% - JOGMEC earning 51%)**

The La Tortuga Project, consisting of Azure's 100% owned La Tortuga and Los Nidos properties, covers 213km<sup>2</sup>. In 2008, Azure entered into a JV whereby JOGMEC could earn



a 51% interest in the project by spending US\$3 million. At last update, JOGMEC has funded approximately US\$1.9 million of expenditure.

During the quarter, the aeromagnetic data was merged with data from the recently completed El Tecolote survey. Following interpretation of this compilation, new targets have been identified, providing further encouragement that La Tortuga continues to be prospective for porphyry copper deposits. Further work involving a deep seeking 3-D IP survey and follow-up diamond drilling are currently being planned for the forthcoming year.

## **CORPORATE**

The Company remains in a strong position to advance its projects with cash on hand at the end of the September quarter standing at \$3.5 million.

Post quarter end, Mr Peter Ingram was appointed to the Board as a Non-Executive Director. Mr Ingram has over forty years' experience as a geologist in the mining and mineral exploration industries, including over thirty years in public company management.

-ENDS-

### **For further information, please contact:**

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### **Competent Person Statements:**

*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 2011

### 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	(1,082)	(1,082)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(518)	(518)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	108	108
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (JV advances)	396	396
<b>Net Operating Cash Flows</b>		<b>(1,096)</b>	<b>(1,096)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(50)	(50)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	11	11
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>(39)</b>	<b>(39)</b>
1.13	Total operating and investing cash flows (carried forward)	(1,135)	(1,135)

1.13	Total operating and investing cash flows (brought forward)	(1,135)	(1,135)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
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	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(1,135)	(1,135)
1.20	Cash at beginning of quarter/year to date	4,689	4,689
1.21	Exchange rate adjustments to item 1.20	(39)	(39)
1.22	<b>Cash at end of quarter</b>	3,515	3,515

**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\$65,000 towards its US\$3 million earn-in in the Los Nidos – La Tortuga joint venture and US\$350,000 towards its US\$5 million earn-in in the El Tecolote 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	670
4.2 Development	-
4.3 Production	-
4.4 Administration	358
<b>Total</b>	1,028

### 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	342	272
5.2 Deposits at call	3,173	4,417
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	3,515	4,689

### 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 <b>Preference securities</b> (description)				
7.2 Changes during quarter				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	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 <b>+Convertible debt securities</b> (description)				
7.6 Changes during quarter				
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 <b>Options</b> (description and conversion factor)	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	30/11/12
	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 <b>Debentures</b> (totals only)				
7.12 <b>Unsecured notes</b> (totals only)				



## 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: 21<sup>st</sup> October 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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