



ACTIVITIES REPORT

For the period ended 30 September 2010

Azure Minerals Ltd is an Australian mineral 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.

Azure currently holds 100%-ownership of 12 projects covering an impressive area of 1,690 km² in the northern Mexican states of Sonora and Chihuahua.

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.

To accelerate exploration and bring forward potential value-adding activities, Azure has entered into joint venture exploration for large porphyry copper deposits on the La Tortuga project (in JV with JOGMEC) and on the San Eduardo project (in JV with OZ Minerals Ltd). Initial results are encouraging and work is ongoing.

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The Board of Azure Minerals Limited (ASX: AZS, "Azure") is pleased to provide the Quarterly Report for the period ended 30 September 2010.

HIGHLIGHTS

- Drilling underway on the La Tortuga Project, where joint venture partner JOGMEC can earn a 51% interest by sole-funding US\$3 million over 3 years.
- Exploration continuing on the San Eduardo Project, where joint venture partner OZ Minerals can earn a 70% interest by sole-funding US\$13 million over 8 years.
- Drilling at San Eduardo expected to commence in late 2010.
- New zone of gold mineralisation identified on the El Tecolote Project, with drilling planned for late 2010.
- Soil geochemical sampling at Estacion Llano identifies gold anomalism along strike from operating San Francisco Gold Mine.
- Environmental Impact Statement for Promontorio is nearing completion and will shortly be submitted to the Environment Department.
- Cash on hand at end of September Quarter is \$4.5 million.
- Azure continues to seek and evaluate further project opportunities in Mexico.





PROJECTS

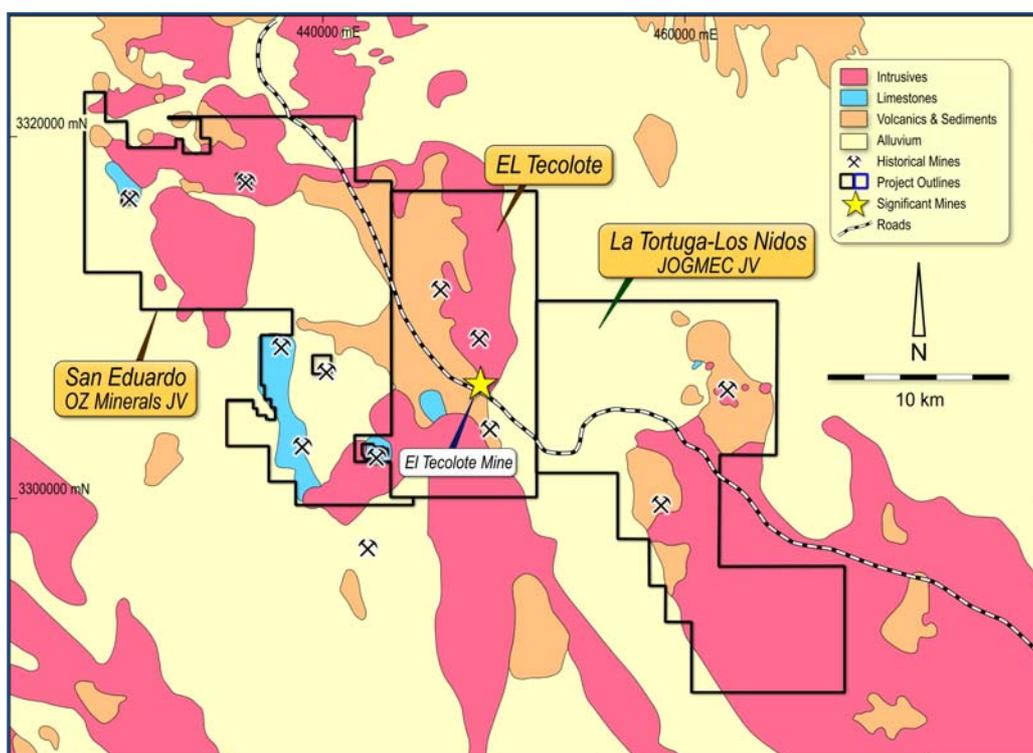
EL TECOLOTE DISTRICT

Azure has 100% ownership of a 585km² strategic tenement holding, prospective for porphyry-hosted copper and skarn copper-zinc deposits. The area comprises three adjoining projects (see figure below); the Company has established Joint Ventures on two of the projects with major copper mining companies to accelerate exploration and development and retains 100% control of the third and central project. Both Joint Ventures are managed and staffed by Azure, with funding and technical assistance provided by the respective Joint Venture partner.

Earlier this year, Azure entered into a Joint Venture on the San Eduardo Project with OZ Minerals Limited (OZ Minerals) whereby OZ Minerals can earn a 70% interest in the project by sole funding US\$13 million over 8 years. This is an area where no modern exploration has been carried out but abundant old mine workings indicate prospectivity is high.

The Company also entered into a similar agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) in 2009 on the nearby La Tortuga Project, whereby JOGMEC may earn a 51% interest by sole funding US\$3 million expenditure over three years.

The El Tecolote Project is situated between and adjoining the La Tortuga and San Eduardo project areas. It contains a now-closed, large copper-zinc-silver mine and is also prospective for shear hosted gold and porphyry copper mineralisation.





El Tecolote

Gold-Copper-Zinc-Silver

(Azure 100%)

This 138km² property contains the skarn-hosted El Tecolote Copper-Zinc-Silver Mine, a significant mining and processing venture which operated in the periods 1939-1944 and 1978-1984. Historical production is recorded as 1,405,396 Tons @ 1.93% copper, 7.02% zinc & 47g/t silver. Production ceased due to low metals prices with unmined copper and zinc mineralisation remaining around the old mine workings, with further potential existing along strike and at depth. No modern exploration has been undertaken around this mine.

During the Quarter, encouraging results were received from reconnaissance exploration over the northern part of the property which identified a gold mineralised shear zone hosting numerous historical mine workings with shafts as deep as 30m. Extensive alluvial gold workings nearby indicate that significant gold has been shed by this mineralised system, providing further encouragement to explore this prospect. This area has been named **Monarca**.

Monarca comprises Precambrian gneisses which show strong hydrothermal alteration, with abundant quartz veining and brecciation associated with intense shearing over at least a 500m strike length. The low-angle shear zone (dipping 40° to the west) varies in thickness from 30m to 50m, and returned gold values up to 8.0g/t Au from the major vein structures. Monarca is similar to other shear-hosted gold mineralised systems located along the regional Mojave-Sonora Megashear. This is one of North America's major gold producing belts, within which many of the gold mines in California, Arizona and northern Sonora occur, including multimillion ounce deposits: Mesquite (5Moz Au), La Herradura (3Moz Au) and San Francisco (1.3Moz Au), and other bulk minable deposits such as Picacho (500,000oz Au), La Choya (350,000oz Au), Noche Buena (877,000oz Au), El Chanate (500,000oz Au) and Lluvia de Oro (267,000oz Au).

Azure expects to drill test the Monarca mineralised system before the end of 2010.

Elsewhere within the property there is potential for porphyry copper mineralisation, with the discovery of the altered and mineralised Tecolote Porphyry. Reconnaissance exploration identified strongly altered porphyry containing quartz vein stockwork, oxidised sulphides and copper oxide mineralisation. Geochemical sampling returned encouraging copper results from rock chip and stream sediment sampling, including 2.4% Cu, 0.98% Cu and 0.44% Cu. Anomalous values of zinc and molybdenum are coincident with the elevated copper values, indicating the potential for this mineralized porphyry outcrop to be part of a major porphyry copper system.



San Eduardo Joint Venture

Copper-Zinc

(Azure 100% - OZ Minerals Limited earning up to 70%)

Exploration on the San Eduardo Joint Venture continued during the Quarter with geological mapping and geochemical sampling carried out on two prospects situated in the southern half of the project area. Field work at Venado and Plomosa identified several promising occurrences of copper and zinc mineralisation, including significant geochemical results from rock chip and soil samples.

Follow up exploration on these prospects comprises an Induced Polarisation and Resistivity survey, which is currently in progress. Meanwhile, the program of reconnaissance mapping and sampling is continuing in the northern half of the property.

A first phase of approximately 1,500 metres of diamond drilling is planned to commence in late 2010 to test targets identified by the surface exploration.

La Tortuga Joint Venture

Copper-Zinc

(Azure 100% - JOGMEC earning 51%)

Phase III of the La Tortuga Joint Venture exploration program continued during the Quarter with commencement of the diamond drilling program targeting skarn copper-zinc and porphyry hosted copper mineralisation. Targets were located by geological mapping identifying outcropping, copper mineralised and altered porphyry and limestone associated with enhanced geophysical (IP and aeromagnetic) anomalism. It is planned to drill 4-5 holes totaling approximately 1,500 metres in this current program.

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.

PROMONTORIO

Copper - Gold - Silver

Promontorio Central (Azure has right to acquire 100%)

Promontorio Regional (Azure 100%)

A portion of the Promontorio project area is located within the boundaries of a "Protected Natural Area" (an "ANP"), and as the project is advancing towards development, the Environment Department ("SEMARNAT") of the Mexican Federal Government has requested Azure submit an Environmental Impact Statement ("EIS") before approval is given for the next stage of drilling and project development. This environmental study is nearing completion and Azure expects to submit it to SEMARNAT shortly.

In addition to the EIS, Azure continued other activities towards the development of the Promontorio Project. The Company despatched bulk samples of the high grade copper concentrate for smelting testwork at two smelters which have expressed interest in the Promontorio product. Azure will report more fully on these activities when completed.



ESTACION LLANO

Gold

(Azure 100%)

This 24km² property covers the interpreted western extension of the mineralised system hosting the +1.3 million ounce San Francisco Gold Mine (currently producing at a rate of 100,000oz gold per year). Recent drilling by Canadian owner Timmins Gold Corp confirms the mineralised system extends west towards Azure's property, however no significant historical exploration activities, including drilling, have occurred on Estacion Llano.

Azure has commenced exploration with a program of reconnaissance soil sampling which has returned gold anomalism coincident with the interpreted extensions of the San Francisco mineralised system. Further evaluation of these results will be carried out prior to drill testing which is expected to commence in late 2010 or early 2011.

POZO DE NACHO

Molybdenum

(Azure 100%)

Pozo de Nacho contains a substantial body of molybdenum mineralisation hosted within an intrusive porphyry system and the surrounding sediments. During 2006/07 Azure drilled mineralisation over an area of 800 by 250 metres, from surface to depths in excess of 300 metres, and it remains open-ended in most directions. Follow-up work has been delayed by funding restrictions, however this is no longer the case.

An Induced Polarisation and Resistivity survey covering 24km² of the property is planned for later in 2010. This is designed to identify the extent of the mineralised system and assist in the targeting the next phase of deep diamond drilling, which is planned for early 2011.

CORPORATE

The Company remains in a strong position to advance its exploration projects with cash on hand at the end of the September quarter standing at \$4.5 million. In addition to advancing its current projects Azure continues to evaluate new opportunities in Mexico that have the potential to quickly add value to the Company.

-ENDS-

For further information, please contact:

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Or visit www.azureminerals.com.au

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")

30 September 2010

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	(418)	(418)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(268)	(268)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	69	69
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (JV advances)	-	-
Net Operating Cash Flows		(617)	(617)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(6)	(6)
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		(6)	(6)
1.13	Total operating and investing cash flows (carried forward)	(623)	(623)



1.13	Total operating and investing cash flows (brought forward)	(623)	(623)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	(76)	(76)
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)	(22)
	Net financing cash flows	(98)	(98)
Net increase (decrease) in cash held			
		(721)	(721)
1.20	Cash at beginning of quarter/year to date	5,243	5,243
1.21	Exchange rate adjustments to item 1.20	(15)	(15)
1.22	Cash at end of quarter	4,507	4,507

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

Nil

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	400
4.2 Development	-
4.3 Production	-
4.4 Administration	200
Total	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	217	476
5.2 Deposits at call	4,290	4,767
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	4,507	5,243

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	343,217,666	343,217,666		
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> \$0.175	<i>Expiry date</i> 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
	800,000	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 blue ink, appearing to read "Brett Dickson".

Sign here: Date: 26 October 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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