

# ANNUAL REPORT 2011



AZURE  
MINERALS LIMITED



# CORPORATE DIRECTORY

ABN 46 106 346 918

## **DIRECTORS**

**Anthony Paul Rovira**  
*(Executive Chairman)*

**Dr Wolf Martinick**  
*(Non-Executive Director)*

**John Walter Saleeba**  
*(Non-Executive Director)*

## **COMPANY SECRETARY**

**Brett Dickson**

## **REGISTERED OFFICE**

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WEST PERTH WA 6005  
(08) 9481 2555

## **SOLICITORS**

**Middletons**

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PERTH WA 6000

## **BANKERS**

**Commonwealth Bank of  
Australia Limited**

## **SHARE REGISTER**

**Computershare**

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PERTH WA 6000  
Telephone: (08) 9445 7000  
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## **AUDITORS**

**BDO Audit (WA) Pty Ltd**  
38 Station Street  
SUBIACO WA 6008

## **INTERNET ADDRESS**

[www.azureminerals.com.au](http://www.azureminerals.com.au)

## **ASX CODE**

Shares AZS



**AZURE**  
MINERALS LIMITED



## HIGHLIGHTS

- Operating in the world-renowned Sierra Madre Occidental Mineral Province in Mexico
- Areas of focus:
  - El Tecolote District
  - San Francisco Manganese Project
  - Promontorio Copper Project
- El Tecolote District host to three adjoining 100% owned projects totaling 600km<sup>2</sup>
- Second JV with Japanese Government organisation, JOGMEC, entered into on the El Tecolote Project with US\$1.5M exploration budget for 2011
- La Tortuga JV with JOGMEC progressing with 13 drill holes and 4,560m drilling undertaken to date
- OZ Minerals spends US\$700,000 on San Eduardo JV prior to departing
- Signed acquisition deal on the San Francisco Manganese Project which has recent production history and significant upside potential
- Announced maiden JORC Mineral Resource Estimate (Inferred) of 1,045,000 tonnes @ 30% Mn for 312,000 tonnes contained manganese at San Francisco
- Diamond drilling program completed at Promontorio and Cascada
- Promontorio strike length doubled to 400m
- Cascada new bulk tonnage gold-silver zone identified intersecting 137m gold mineralisation, open at depth
- Significant opportunities to increase resource base in Mexico
- Positive Company outlook for the coming year

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### Competent Person Statement:

Information in this report 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.



## CHAIRMAN'S LETTER

### **Dear Fellow Shareholders,**

On behalf of the Board of Azure Minerals, it is my pleasure to present to you the Annual Report for 2011.

Over the past 12 months the Company has focused its efforts on three significant properties; the El Tecolote District, the San Francisco Manganese Mine and the Promontorio Copper Project. Each of these key areas offers an opportunity to increase our resource base, thereby advancing Azure towards its goal of becoming an independent minerals producer Mexico.

### **Mexican focus taking shape**

Our projects are located in the world-renowned Sierra Madre Occidental Mineral Province in northern and central Mexico. Even today, this remains a relatively under-explored yet richly mineralised part of the world that I believe offers outstanding growth opportunities for Azure.

Key factors that contribute to Mexico being considered one of the most favourable countries in the world for mining investment include low sovereign risk, strong public and government support for mining and an established mining culture. The past year has strengthened our view that Mexico is an outstanding location for exploration and mining and with Azure's long in-country experience and strong working relationships with industry and government, we believe that the Company will have significant growth opportunities in the years to come.

### **El Tecolote District**

Our large land holding within the El Tecolote District is home to three key 100%-owned projects. Situated adjacent to one another, the San Eduardo, El Tecolote and La Tortuga properties host abundant evidence of base metal mineralisation with potential for both porphyry copper and skarn copper-zinc deposits.

In April this year, we entered into our second Joint Venture ('JV') with the Japanese Government organisation, JOGMEC, covering the El Tecolote project. Under the terms of the JV, JOGMEC may earn up to 70% project equity by spending US\$13 million within a six year period. Following on from our La Tortuga JV, this new agreement has further strengthened our good relationship with this dynamic organisation.

The El Tecolote property contains the now-closed El Tecolote Mine, a large scale copper-zinc-silver mining and processing venture. It is the Company's belief that there is very strong potential for additional brownfields discoveries within this district and this view is shared by our JV partner.

Azure has also identified other copper occurrences within El Tecolote, notably the Reyna del Cobre prospect. Recent drilling by Azure intersected multiple mineralized zones, with a best intercept of **11.0m @ 1.3% Copper, 3.0% Zinc, 7.1g/t Silver, 17.2g/t Indium & 31.9% Iron.**

The JV has allowed Azure to commence an intensive US\$1.5 million exploration program for 2011, including:

- Geological mapping and surface sampling
- Airborne magnetic and electromagnetic surveys
- Induced Polarisation and ground magnetic surveys
- Diamond core drilling

Exploration has also continued at the La Tortuga JV, where JOGMEC is earning 51% through \$3m expenditure. To date, 13 diamond drill holes totalling 4,560 metres have tested several copper targets and widespread anomalous mineralisation continues to provide encouragement for this project while several promising targets remain to be tested.

At San Eduardo, we were disappointed to announce the departure of OZ Minerals Ltd from the JV. With total expenditure of US\$700,000, numerous targets were identified, and whilst this JV has come to an end, we strongly believe that the San Eduardo project remains very prospective. Azure retains 100% project equity and other potential JV partners have expressed interest. Meanwhile exploration of key targets showing significant potential is ongoing.



## **San Francisco**

During the course of the year Azure entered into an option agreement to acquire 100% of the San Francisco Manganese Project, located in Jalisco State, Mexico. With a recent production history, significant upside potential and located close to key transport infrastructure, San Francisco is a prime focus for Azure.

Following completion of the initial Due Diligence study and drilling program, Azure announced a maiden JORC Mineral Resource estimate (Inferred) of 1,045,000 tonnes @ 30% Mn for 312,000 tonnes of contained manganese. Post year end we commenced resource expansion drilling and additional feasibility study activities, and these are continuing to assist the Company in determining whether to proceed to exercise the option to purchase.

## **Promontorio**

We have continued to progress our Promontorio Copper Project which contains a JORC Mineral Resource (Indicated and Inferred) of 502,000 tonnes @ 4.7% Copper, 2.1g/t Gold and 99g/t Silver.

Azure recently completed a diamond drilling program testing extensions of the Promontorio deposit and the nearby Cascada gold prospect. A number of impressive intersections were yielded and the Company announced a doubling of the Promontorio strike length to 400 metres and a new high grade copper-gold bearing vein located to the west of the existing resource. At Cascada a new bulk tonnage gold-silver zone has been identified and drilling intersected 137m of gold mineralisation, which remains open at depth.

In closing I look forward to next year bringing further success in Mexico as we continue in our quest to become an independent minerals producer.

I thank our shareholders, partners and employees for their ongoing support and look forward to bringing you more good news throughout the course of the coming year.



**Tony Rovira**

Executive Chairman



## REVIEW OF OPERATIONS

Azure Minerals Limited ('Azure') has had another successful 12 months on the ground in Mexico. Exploration activities focused on three key areas: the El Tecolote District, the San Francisco Manganese Project and the Promontorio Copper-Gold-Silver Project.

### EL TECOLOTE DISTRICT (Copper & Zinc)

Azure has 100% ownership of a 600km<sup>2</sup> strategic tenement holding in the El Tecolote District, located in Sonora State, Mexico. The area comprises three adjoining properties: El Tecolote, La Tortuga and San Eduardo which are prospective for porphyry-hosted copper and skarn copper-zinc deposits.

A joint venture agreement (JV) between the Japan Oil, Gas and Metals National Corporation ('JOGMEC') and Azure was established in 2008 for the La Tortuga Project with JOGMEC having the right to earn a 51% interest by sole funding US\$3 million expenditure over a three year period.

In this financial year, JOGMEC signed a second JV with Azure to acquire a potential 70% interest in the El Tecolote Project by spending a total of US\$13 million.

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. The Company's mission is to gain entry into high-potential mineral exploration projects through providing funding and technical assistance. JOGMEC's involvement in two of our projects demonstrates their belief in the strength of our Mexican assets and our Mexican team, and we look forward to further cementing this belief through ongoing exploration success.

#### El Tecolote

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. It contains the historic skarn-hosted El Tecolote Copper-Zinc-Silver Mine which operated between 1939-1944 and 1978-1984, producing 1.4 million tonnes @ 1.93% copper, 7.02% 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.

During the course of the year, exploration, including geological mapping, rock chip sampling, geophysical surveys and diamond drilling returned encouraging results at several prospects within the El Tecolote project area.

In the southern part of the property, sampling at the Reyna del Cobre prospect (loosely translated to mean 'Copper Queen') returned grades at surface of up to 3.7% copper, 5.4% zinc and 26 g/t silver. Follow-up diamond drilling intersected multiple skarn zones containing massive sulphide copper and zinc mineralisation in all four holes, good gold grades up to 2.3 g/t Au were also present. The best mineralised intercepts included:

- 11m @ 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, 20.8g/t Indium & 19.1% Iron

A detailed ground magnetic survey has been completed to provide a 3-D model of the magnetic skarn host at Reyna del Cobre which will be tested further by deep diamond drilling.

The Monarca gold mineralised shear zone was identified in the northern part of the project area. Historical mine workings with shafts up to 30m deep and nearby alluvial gold workings indicate the presence of significant gold in this mineralised system. Results from three drill holes confirmed the presence of a narrow shear zone containing gold values of up to 5.4 g/t Au.

Most notably, in April Azure agreed to enter into a US\$13 million farm-in JV agreement with JOGMEC covering this project. Under the terms of the JV, JOGMEC may spend US\$5 million on exploration over the next three years to earn an initial 51% interest, and an additional 19% stake can then be earned if they elect to spend a further US\$8 million throughout the subsequent three years, taking total project equity to 70% for US\$13 million in expenditure.

This JV has enabled Azure to commence an active US\$1.5M exploration program including:

Geological mapping and surface sampling

Airborne magnetic and electromagnetic surveys

Induced Polarisation (IP) and ground magnetic surveys

Diamond core drilling

This exploration program will continue throughout the remainder of 2011 and, pending positive results, Azure anticipates that a further US\$1.5M exploration program will be undertaken on El Tecolote in 2012, as per the agreed conditions of the JV.

## La Tortuga

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 year the JV completed drilling six diamond drill holes totaling 1,815m which tested several separate targets identified by anomalous surface geochemistry and geophysical (IP and aeromagnetic) surveys. Zones of altered and quartz veined porphyry were intersected returning anomalous grades of copper. These results provide encouragement that La Tortuga remains prospective for porphyry copper deposits and further works is being planned for the forthcoming year.

## San Eduardo

San Eduardo, a 234km<sup>2</sup> property wholly owned by Azure, is prospective for porphyry-hosted copper and skarn copper-zinc mineralisation and adjoins the western boundary of the El Tecolote project.

Throughout this year, exploration was undertaken on San Eduardo through the JV with Australian copper mining company, OZ Minerals Ltd. Exploration activities comprised geological mapping, surface geochemical sampling, and numerous geophysical surveys (airborne and ground magnetics, radiometrics, and IP). From this work, a porphyry copper target was identified and tested by drilling one 600m deep diamond drill hole. This drill hole intersected wide zones of strongly altered and quartz veined porphyry containing substantial quantities of pyrite, with minor amounts of copper oxide and copper sulphide mineralisation.

OZ Minerals considered that the geophysical and geochemical anomalism which identified the target was explained by the presence of the pyrite and copper mineralisation observed in the drill core, and withdrew from the JV on 30th June 2011. Upon withdrawal, OZ Minerals retained no interest in the project and Azure retains its 100% project ownership.

During the period of the JV, OZ Minerals spent approximately \$700,000 on exploration activities. The large amount of technical data collected through this work highlighted the extensive prospectivity of San Eduardo with numerous porphyry copper and skarn copper-zinc targets identified. These targets remain untested to date and follow-up exploration is continuing.

## SAN FRANCISCO (Manganese)

Azure has entered into an option, subject to a satisfactory technical and commercial evaluation, to acquire 100% ownership of the San Francisco Manganese Project, located in Jalisco State, Mexico.

Azure appointed Coffey Mining Pty Ltd ('Coffey') to undertake a high level 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 as well as an estimation of operating and capital costs.

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

### Resource Estimation

The maiden JORC Mineral Resource estimate for the San Francisco Manganese Project<sup>1</sup> stands at:

CATEGORY	TONNES	GRADE (% Mn)	CONTAINED MANGANESE (Tonnes)
Inferred	1,045,000	30	312,000

### Exploration Potential

Results of the drilling were positive, with the resource remaining 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% Mn<sup>2</sup>. Resource expansion drilling is currently in progress.

### 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 of 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.

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

<sup>2</sup>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



## REVIEW OF OPERATIONS (CONT'D)

### Project Economics

The study, which was completed at a concept study level, 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 terms of the option and acquisition agreement, Azure can gain 100% ownership of the project for a total consideration of US\$15 million payable across six tranches between December 2011 and December 2014. It is expected that the majority of the consideration will be funded from project cash flow following the commencement of production.

### The Way Ahead

Azure's Project Manager, Mr Gary Leighton, is a very experienced mine development engineer and will lead the development of the San Francisco Project. This program will comprise further drilling to expand the resource base, to be followed by essential feasibility study activities, including advanced stage metallurgical testwork and process engineering design.

Azure retains the right to withdraw from the project and the payment schedule at any time during the acquisition process, in which case the project ownership will revert back to the vendor and Azure will have no further obligations.

## PROMONTORIO (Copper-Gold-Silver)

The Promontorio Project is located in the richly mineralised Sierra Madre Occidental mining province in Chihuahua State, Mexico. It contains a high grade copper-gold-silver deposit hosted in veins of massive and semi-massive sulphides, with significant additional exploration potential.

The JORC Mineral Resources (Indicated and Inferred) for the Promontorio Project<sup>3</sup> currently stands at:

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>

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

The Promontorio project area is located within the boundaries of the Tutuaca Protect Natural Area. The Ministry of Environment and Natural Resources ('SEMARNAT') of the Mexican Federal Government requested an Environmental Impact Statement ('EIS') be submitted prior to the commencement of drilling activities. SEMARNAT granted approval for the drilling program in March and the drilling of a 12 hole, program for 2,746m was completed in July 2011.

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)

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 drill hole intercepts and locations are contained in Tables 1 & 2.

<sup>3</sup> Details of the resources classification and estimation methodologies are contained in Azure's announcement to the ASX, released on 7th January 2009.



**TABLE 1 – PROMONTORIO PROJECT – SIGNIFICANT DRILL HOLE INTERSECTIONS**

HOLE NO	FROM (m)	TO (m)	WIDTH (m)	COPPER (%)	GOLD (g/t)	SILVER (g/t)
<b>PROMONTORIO</b>						
APR-DD-043	151.2	152.9	2.7	0.83	4.0	40
APR-DD-044	116.2	116.5	0.3	1.39	8.5	107
And	142.5	143.9	1.4	1.87	2.2	44
APR-DD-045	122.6	123.9	1.3	0.12	1.3	20
APR-DD-046	75.7	78.0	2.3	2.90	6.0	106
APR-DD-048	200.55	201.3	0.75	5.16	0.4	190
APR-DD-050	18.0	21.7	3.7	8.83	6.6	57
And	193.7	195.4	1.7	1.59	0.5	18
APR-DD-051	218.3	223.9	5.6	2.53	0.4	26
Including	218.3	220.45	2.15	1.86	0.5	18
And	223.0	223.9	0.9	9.85	1.0	75
<b>CASCADA</b>						
APR-DD-054	48.3	185.6	137.3	-	0.42	6

Further exploration at Promontorio is planned during the forthcoming year and Azure remains confident of continued positive results.

**TABLE 2 – PROMONTORIO PROJECT - DRILL HOLE DETAILS**

DRILL HOLE	EASTING (mE)	NORTHING (mN)	ELEVATION (mASL)	DIP	AZIMUTH	DEPTH (m)
<b>PROMONTORIO</b>						
APR-DD-043	9976.7	10324.4	2071.9	-45o	092o	208.4
APR-DD-044	9991.5	10261.7	2074.5	-45o	085o	203.8
APR-DD-045	10028.1	10212.1	2075.9	-45o	090o	200.9
APR-DD-046	9935.3	10219.1	2027.8	-45o	090o	202.5
APR-DD-047	9926.7	10254.2	2028.4	-45o	087o	204.5
APR-DD-048	9905.7	10331.0	2021.6	-45o	088o	250.1
APR-DD-049	9821.9	10121.3	2011.2	-55o	088o	334.2
APR-DD-050	9910.1	10068.3	2004.4	-65o	090o	301.9
APR-DD-051	10001.7	9917.2	2038.7	-75o	088o	249.8
APR-DD-052	9996.6	9917.4	2039.4	-57o	268o	200.5
<b>CASCADA</b>						
APR-DD-053	9869.1	10427.2	1999.6	-75o	180o	202.5
APR-DD-054	9868.5	10427.2	1999.6	-45o	210o	185.6



## REVIEW OF OPERATIONS (CONT'D)

### **POZO DE NACHO (Molybdenum)**

Pozo de Nacho contains a substantial body of molybdenum mineralisation hosted within an intrusive porphyry system and surrounding sediments. Azure has drilled mineralisation over an area of 800m by 250m, from surface to depths in excess of 300m and the mineralised system remains open-ended in most directions. An IP and resistivity survey of the property was completed in late 2010 with several strong anomalies identified. Azure is contemplating various strategies to advance this promising property.

### **ESTACION LLANO (Gold)**

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 (currently producing at a rate of 100,000oz gold per year). Drilling between the mine and the Estacion Llano boundary by Canadian owner, Timmins Gold Corp, 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.

# DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as “the Group”) consisting of Azure Minerals Limited and the entities it controlled at the end of or during the year ended 30 June 2011.

## DIRECTORS

The following persons were directors of Azure Minerals Limited during the whole of the financial year and up to the date of this report.

Anthony Rovira  
John Saleeba  
Wolf Martinick

## PRINCIPAL ACTIVITIES

During the year the principal continuing activity of the Group was exploration for precious and base minerals in Mexico.

## DIVIDENDS

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

## REVIEW OF OPERATIONS

### Group Overview

Azure Minerals Limited was incorporated on 19 September 2003. Its principal focus on exploration for gold, copper, silver and zinc in Mexico. The company has twelve 100% owned projects, two of which have been joint ventured. The company's principal project is the Promontorio project where a modest size but high grade copper-gold—silver deposit has been identified. The Company will continue to seek opportunities either 100% owned or in joint venture in Mexico.

### Operating Results for the Year

The operating loss after income tax of the company for the year ended 30 June 2011 was \$4,461,805 (2010: \$2,058,068). Included in this loss figure is \$3,982,806 (2010: \$1,536,522) of exploration expenditure written off. Refer to notes 1(d) and 5 to the financial statements.

### Shareholder Returns

	2011	2010
Basic loss per share (cents)	(1.2)	(0.9)
Diluted loss per share (cents)	(1.2)	(0.9)

### Investments for Future Performance

The future performance of the group is dependant upon exploration success and the continued progress of development of those projects where precious and base metals are already present. To this end the group has budgeted to continue exploration at its Mexico projects.

### Review of Financial Condition

The consolidated entity has a sound capital structure and is in an excellent position to progress its mineral properties. During the year, \$4,341,890 (after capital raising costs) was raised through the issue of 50,782,334 shares via private placements, share purchase plan and an entitlements issue to shareholders.

### Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee. The Board has adopted a Risk Management Policy.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which covers strategy statements designed to meet stakeholders' needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

The company undertakes risk review meetings as required with the involvement of senior management. Identified risks are weighed with action taken to mitigate key risks.



## DIRECTOR'S REPORT (CONT'D)

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

(a) An increase in contributed equity of \$4,341,890 (from \$35,250,678 to \$39,592,568) as a result of:

	2011 \$
Issue of 50,782,334 fully paid ordinary shares at \$0.09 each	4,570,410
Less expenses associated with the above issue of shares	(228,520)
<b>Total</b>	<b>4,341,890</b>

Net cash received from the increase in contributed equity amounting to \$4,341,890 was raised principally to continue the company's exploration programme in Mexico.

### SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No matter or circumstance has arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The group expects to maintain the present status and level of operations.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The company is subject to significant environmental regulation in respect to its exploration activities.

The company aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the company are not aware of any breach of environmental legislation for the year under review. The directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. The directors have assessed that the Company has no current reporting requirements, but may be required to report in the future.

### INFORMATION ON DIRECTORS

*Names, qualifications, experience and special responsibilities*

#### **Mr. Anthony Paul Rovira**

BSc Flinders University, BSc (Hons) Flinders University, MAusIMM (Appointed Executive Chairman 6 June 2007)

#### *Experience and Expertise*

Tony Rovira has 25 years technical and management experience in the mining industry, as an exploration and mining geologist, and as a company executive at Board level. Since graduating from Flinders University in South Australia in 1983, Tony has worked for companies both large and small, including BHP, Barrack Mines, Pegasus Gold and Jubilee Mines.

From 1997-2003 Tony was the General Manager of Exploration with Jubilee Mines, during which time he led the team that discovered and developed the world class Cosmos and Cosmos Deeps nickel sulphide deposits in Western Australia. In the year 2000, the Association of Mining and Exploration Companies awarded Tony the "Prospector of the Year Award" for these discoveries.

Tony joined Azure Minerals as the inaugural CEO in December 2003 and was appointed Executive Chairman in June 2007. He is responsible for the decision to focus Azure Minerals' activities on the world class mineral provinces in Mexico, where the company has been operating since 2005.

#### *Other Current Directorships*

None.

#### *Former Directorships in the last 3 years*

None.

#### *Special Responsibilities*

Chairman of the Board and Managing Director

#### *Interests in Shares and Options*

3,200,000 ordinary shares in Azure Minerals Limited, of which 1,880,000 are held indirectly.  
8,000,000 options over ordinary shares in Azure Minerals Limited

### **Dr Wolf Martinick**

PhD, BSc (agric) (Appointed 1 September 2007)

#### ***Experience and Expertise***

Dr Martinick is an environmental scientist with over 40 years experience in mineral exploration and mining projects around the world, attending to environmental, water, land access and indigenous people issues. He has conducted due diligence on mining projects around the world on behalf of international financial institutions and resource companies for a variety of transactions including listings on international stock exchanges, mergers and debt financing. He is a Fellow of the Australian Institute of Mining and Metallurgy.

He is a founding director and chairman of Weatherly International plc, an AIM listed company with copper mines in Namibia. He was also a founding director of Basin Minerals Limited, an ASX listed mineral exploration company that discovered a world-class mineral project in Victoria, Australia, that was acquired by Iluka Resources Limited in 2003.

#### ***Other Current Directorships***

Sun Resources NL – Non-Executive Director since February 1996

Ezenet Limited – Chairman since January 2003

Weatherly International Plc – Director since July 2005

#### ***Former Directorships in the last 3 years***

Windimurra Vanadium Limited – resigned 2 October 2009

Carbine Resources Limited – resigned 4 November 2008

Uran Limited – resigned 12 November 2010

#### ***Special Responsibilities***

Chairman Remuneration Committee

Member of Audit Committee

#### ***Interests in Shares and Options***

1,540,000 ordinary shares in Azure Minerals Limited

2,900,000 options over ordinary shares in Azure Minerals Limited

### **Mr. John Walter Saleeba**

BCom, LLB, CPA, FAICD (Non Executive Director, chairman audit committee, remuneration committee member)

#### ***Experience and Expertise***

Mr Saleeba was formerly a partner in the law firm Clayton Utz. He is a Fellow of the Australian Institute of Company Directors and is currently Chairman of Resource Equipment Limited and VDM Group Limited. Mr Saleeba has held directorships with a number of other public companies, covering a wide range of business activities.

#### ***Other Current Directorships***

Resource Equipment Limited – Non-Executive Director and Chairman since February 2002.

#### ***Former Directorships in the last 3 years***

VDM Group Limited – resigned 26 November 2010.

#### ***Special Responsibilities***

Chairman of Audit Committee

Member of Remuneration Committee

#### ***Interests in Shares and Options***

2,669,600 ordinary shares in Azure Minerals Limited, all of which are held indirectly.

2,500,000 options over ordinary shares in Azure Minerals Limited





## DIRECTOR'S REPORT (CONT'D)

### Company Secretary

#### Brett Dickson

BBus, CPA (Appointed 21 November 2006)

Mr Dickson is a Certified Practising Accountant with a Bachelors degree in Economics and Finance from Curtin University and has over 20 years experience in the financial management of companies, principally companies in early stage development of its resource or product, and offers broad financial management skills. He has been Chief Financial Officer for a number of successful resource companies listed on the ASX. In addition he has had close involvement with the financing and development of a number of greenfield resources projects.

### DIRECTORS' MEETINGS

The number of directors' meetings held (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year are:

	Directors' Meetings		Meetings of Committees			
	A	B	Audit		Remuneration	
	A	B	A	B	A	B
Anthony Paul Rovira	7	7	*	*	*	*
John Walter Saleeba	7	7	2	2	1	1
Wolf Gerhard Martinick	7	7	2	2	1	1

#### Notes

A Number of meetings attended.

B Number of meetings held during the time the director held office or was a member of the committee during the year.

\* Not a member of the relevant committee.

#### Retirement, Election And Continuation In The Office Of Directors

John Saleeba is the director retiring by rotation who, and has advised he will not be seeking re-election.

## REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional Information

The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporation Act 2001.

### A Principles used to determine the nature and amount of remuneration

The remuneration policy of Azure Minerals Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and where appropriate offering specific long term incentives based on key performance areas affecting the Groups results. At present the Company has not implemented any specific long-term incentives and as such the remuneration policy is not impacted by the Groups performance, including earnings in shareholder wealth (dividends, changes in share price or return on capital to shareholders). The board of Azure Minerals Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the Groups performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9% of cash salary, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive; to date no shares have been awarded to directors or executives. Options are valued using either the Black Scholes or Binomial methodologies.

The board policy is to remunerate non executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for non executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in employee option plans.

In the 2005/2006 financial year Azure Minerals Limited established a Directors Retirement Benefit Policy whereby each non-executive director is entitled to a retirement benefit in accordance with the maximum amount ascertained pursuant to section 200G(2)(b) of the Corporations Act 2001. In the 2006/2007 financial year the Directors Retirement Benefit Policy was terminated and the retirement benefit entitlement has been frozen as of 30 June 2006.

### B Details of remuneration

#### *Amount of remuneration*

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 Related Party Disclosures) of Azure Minerals Limited are set out below in the following tables.

The key management personnel of Azure Minerals Limited includes the directors as disclosed earlier in this report and the following who have authority and responsibility for planning, directing and controlling the exploration activities of the entity and the Company Secretary, Mr B Dickson is an executive whose remuneration must be disclosed under the Corporations Act 2001.



## DIRECTOR'S REPORT (CONT'D)

### Key management personnel of the Group

Name	Short-Term			Post Employment		Share-based Payments	Total	Percentage Consisting of Options %
	Cash, salary & fees	Cash Bonus	Non monetary benefits	Super-annuation	Retirement benefits	Options		
<b>Directors</b>								
Anthony Paul Rovira – Executive Chairman								
2011	300,000	-	-	27,000	-	109,260	436,260	25.0
2010	258,500	-	-	23,265	-	144,500	426,265	33.9
John Walter Saleeba – Non executive								
2011	45,000	-	-	4,050	-	27,315	76,365	35.8
2010	32,500	-	-	2,925	-	57,800	93,225	62.0
Wolf Gerhard Martinick – Non Executive								
2011	45,000	-	-	4,050	-	27,315	76,365	35.8
2010	24,375	-	-	11,050	-	57,800	93,225	62.0
<b>Executives</b>								
Brett Dickson – Company Secretary								
2011	153,120	-	-	-	-	81,945	235,065	34.9
2010	132,000	-	-	-	-	101,150	233,150	43.4
<b>Total</b>								
2011	543,120	-	-	35,100	-	245,835	824,055	29.8
2010	447,375	-	-	37,240	-	361,250	845,865	42.7

## Compensation options

During the 2011 and 2010 the following options were issued.

2011/2010	Granted				Terms and conditions for each grant				Number	
	Number	Date	Fair Value Per option	Fair value \$	Exercise Price \$	Expiry date	First exercise date	Last exercise date		
<b>Directors</b>										
A P Rovira	2011	2,000,000	14 Dec 10	.0546	109,260	0.130	30 Nov 13	14 Dec 10	30 Nov 13	2,000,000
	2010	5,000,000	9 Dec 09	.0289	144,500	0.088	30 Nov 12	9 Dec 09	30 Nov 12	5,000,000
JW Saleeba	2011	500,000	14 Dec 10	.0546	27,315	0.130	30 Nov 13	14 Dec 10	30 Nov 13	500,000
	2010	2,000,000	9 Dec 09	.0289	57,800	0.088	30 Nov 12	9 Dec 09	30 Nov 12	2,000,000
W Martinick	2011	500,000	14 Dec 10	.0546	27,315	0.130	30 Nov 13	14 Dec 10	30 Nov 13	500,000
	2010	2,000,000	9 Dec 09	.0289	57,800	0.088	30 Nov 12	9 Dec 09	30 Nov 12	2,000,000
<b>Executives</b>										
B Dickson	2011	1,500,000	14 Dec 10	.0546	81,945	0.130	30 Nov 13	14 Dec 10	30 Nov 13	1,500,000
	2010	3,500,000	9 Dec 09	.0289	101,150	0.088	30 Nov 12	9 Dec 09	30 Nov 12	3,500,000
<b>Total</b>	2011	<b>4,500,000</b>		<b>0.546</b>	<b>245,835</b>					<b>4,500,000</b>
	2010	12,500,000		.0289	361,250					12,500,000

Value of Options granted as part of remuneration was calculated in accordance with AASB 2: Share Based Payments.

		Fair Value per options granted during the year \$	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
<b>Directors</b>						
A P Rovira	2011	0.055	109,260	-	-	25.0
	2010	0.029	144,500	-	-	33.9
JW Saleeba	2011	0.055	27,315	-	-	35.8
	2010	0.029	57,800	-	-	62.0
W G Martinick	2011	0.055	27,315	-	(16,400)	35.8
	2010	0.029	57,800	-	(16,400)	62.0
<b>Executives</b>						
B Dickson	2011	0.055	81,945	-	-	34.9
	2010	0.029	101,150	-	(182,760)	43.4

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were neither forfeitures nor shares issued on exercise of Compensation Options during 2011 or 2010.

The Company's remuneration policy prohibits directors and executives from entering into transactions or arrangements which limit the economic risk of participating in invested entitlements.

Retirement benefits provided for the non-executive directors in the financial statements do not form part of the above remuneration until such time as the amount is paid to the retiring director.

Apart from the issue of options the company currently has no performance based remuneration component built into director and executive remuneration (2010: Nil)



## DIRECTOR'S REPORT (CONT'D)

### C Service Agreements

Remuneration and other terms of employment for the following key management personnel are formalised in service agreements, the terms of which are set out below:

#### Anthony Rovira, Managing Director:

- Term of agreement - 1 years commencing 1 July 2011.
- Base salary, exclusive of superannuation, of \$300,000 to be reviewed annually by the remuneration committee.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, includes an amount equal to the amounts due for the balance of the term of the contract from the date of termination.

#### Brett Dickson, Company Secretary/Chief Financial Officer:

- Term of agreement – 1 years commencing 1 July 2011
- Fixed fee, \$12,760 per month.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, includes an amount equal to the amounts due for the balance of the term of the contract from the date of termination.

#### Retirement Benefits

Other retirement benefits may be provided directly by the company if approved by shareholders.

### D Share based compensation

Options over shares in Azure Minerals Limited may be issued to directors and executives. The options are not issued based on performance criteria, but are issued to directors and executives of Azure Minerals Limited; where appropriate, to increase goal congruence between executives, directors and shareholders. There are no standard vesting conditions to options awarded with vesting conditions, if any, at the discretion of Directors at the time of grant. Options are granted for nil consideration.

During the year 4,500,000 options exercisable at \$0.13 on or before November 2013 were issued to Directors and Executives. (2010: 12,500,000 exercisable at \$0.088 on or before 30 November 2012)

No options were exercised during the financial year and no options have been exercised since the end of the financial year. During the year 900,000 (2010: 7,250,000) options exercisable at various prices with various expiry dates lapsed. The value of the options at lapse date was nil as the exercise price of the option was significantly in excess of the market price of the underlying share. The value is determined at the time of lapsing, but assuming the condition was satisfied.

The Company's remuneration policy prohibits executives from entering into transactions or arrangements which limit the "at risk" aspect of participating in unvested entitlements.

### E Additional Information

Performance based remuneration

Details of remuneration: options

The company currently has no performance based remuneration component built into director and executive remuneration packages.

Performance Income as a proportion of total compensation

No performance based bonuses have been paid to key management personnel during the financial year. It is the intent of the board to review the inclusion of performance bonuses as part of remuneration packages during the 2011/12 financial year.

**- End of Audited Remuneration Report -**



## LOANS TO DIRECTORS AND EXECUTIVES

No loans have been provided to directors or executives.

## SHARES UNDER OPTION

At the date of this report there are 18,400,000 unissued ordinary shares in respect of which options are outstanding.

			Total Number of options
Balance at the beginning of the year			14,800,000
Share option movements during the year	Issued	Lapsed	
Exercisable at 13.0 cents, on or before 30 November 2013	4,500,000		4,500,000
Exercisable at 17.5 cents, on or before 30 November 2011		(500,000)	(500,000)
Exercisable at 25 cents, on or before 31 January 2011		(400,000)	(400,000)
<b>Total options issued and lapsed in the year to 30 June 2011</b>			<b>3,600,000</b>
<b>Total number of options outstanding as at 30 June 2011 and at the date of this report</b>			<b>18,400,000</b>

The balance is comprised of the following

Date granted	Expiry date	Exercise price (cents)	Number of options
6 Dec 2006	31 Jan 2012	25.0	500,000
6 Dec 2006	31 Jan 2013	35.0	500,000
24 Dec 2007	30 Jan 2012	25.0	400,000
9 Dec 2009	30 Nov 2012	8.8	12,500,000
14 Dec 2010	30 Nov 2013	13.0	4,500,000
<b>Total number of options outstanding at the date of this report</b>			<b>18,400,000</b>

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

No options were exercised during the financial year and since the end of the financial year no options have been exercised.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Azure Minerals Limited paid a premium of \$19,092 (2010: \$19,092) to ensure the directors and secretary of the company and its Australian based controlled entities.

The liabilities insured and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### *Proceedings on behalf of the company*

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No Proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001



## DIRECTOR'S REPORT (CONT'D)

### NON AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amount paid or payable to the auditor (BDO Audit (WA) Pty Ltd) for audit and non-audit services provided during the year are set out below.

The Board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provisions of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services underline the general principals relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-audit firms:

	Consolidated	
	2011 \$	2010 \$
<b>1. Audit Services</b>		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	35,435	37,018
<b>2. Non audit Services</b>		
Audit-related services		
BDO Audit (WA) Pty Ltd		
Attendance at Annual General Meeting	325	542
<b>Taxation Services</b>		
BDO Audit (WA) Pty Ltd		
Tax compliance services	8,989	11,110
Total remuneration for non-audit services	<u>9,314</u>	<u>11,652</u>

### AUDITOR INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307c of the Corporations Act 2001 is set out on page 59.

### AUDITOR

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.

### Anthony Paul Rovira

Executive Chairman  
Perth, 23 September 2011

# CORPORATE GOVERNANCE STATEMENT

## Approach to Corporate Governance

Azure Minerals Limited (Company) has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd edition (Principles & Recommendations), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

Further information about the Company's corporate governance practices may be found on the Company's website at [www.azureminerals.com.au](http://www.azureminerals.com.au), under the section marked "Corporate - Corporate Governance".

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2010/2011 financial year (Reporting Period). The Principles & Recommendations were amended in 2010, and these amendments apply to the Company's first financial year commencing on or after 1 January 2011. Accordingly, disclosure against the Principles & Recommendations as amended in 2010 will be made in relation to the Company's financial year ending 30 June 2012. The report below is made against the Principles & Recommendations prior to their amendment in 2010.

However, the Company has made a partial early transition to the amended Principles & Recommendations by adopting a Diversity Policy in accordance with the new Recommendation 3.2.

## Board

### Roles and responsibilities of the Board and Senior Executives

*(Recommendations: 1.1, 1.3)*

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter.

The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Senior executives are responsible for supporting the Executive Chair and assisting the Executive Chair in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Executive Chair or, if the matter concerns the Executive Chair, directly to the Chair or the lead independent director, as appropriate.

The Company's Board Charter is available on the Company's website.

### Skills, experience, expertise and period of office of each Director

*(Recommendation: 2.6)*

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report.

### Director independence

*(Recommendations: 2.1, 2.2, 2.3, 2.6)*

The Board has a majority of directors who are independent.

The independent directors of the Company are Wolf Martinick and John Saleeba. These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

The Board considers the independence of directors having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The Board has agreed on, and set out in the Company's Board Charter, the following guidelines for assessing the materiality of matters:

- Balance sheet items are material if they have a value of more than 5% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 5% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a



## CORPORATE GOVERNANCE STATEMENT (CONT'D)

contingent liability that would have a probable effect of 5% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 5%.

- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The non-independent Executive Chair of the Board is Anthony Rovira. Anthony Rovira is not independent by virtue of his executive role. While the Board recognises the importance of the need for the division of responsibilities between the Chair and Managing Director, the Board considers that Anthony Rovira is the most appropriate person for the position of Executive Chair given his industry experience, and the size and current activities of the Company. The Board also believes that Antony Rovira's appointment as Chair is in line with shareholder expectation.

### **Independent professional advice**

*(Recommendation: 2.6)*

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

### **Selection and (Re)Appointment of Directors**

*(Recommendation: 2.6)*

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed process whereby it evaluates the mix of skills, experience, expertise and diversity of the existing Board. In particular, the Nomination Committee (or equivalent) is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or one third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

The Company's Policy and Procedure for the Selection and (Re)Appointment of Directors is available on the Company's website.

## **Board committees**

### **Nomination Committee**

*(Recommendations: 2.4, 2.6)*

The composition of the Board does not make the establishment of a separate Nomination Committee practicable, and the Board believes that there would be no efficiencies or other benefits gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of the Nomination Committee. Items that are usually required to be discussed by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it carries out those functions which are delegated to it in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring that the director with conflicting interests is not party to the relevant discussions.

The full Board did not officially convene as a Nomination Committee during the Reporting Period, however nomination-related discussions occurred from time to time during the year as required.

To assist the Board to fulfil its function as the Nomination Committee, it has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Nomination Committee. A copy of the Nomination Committee Charter is available on the Company's website.

## **Audit Committee**

*(Recommendations: 4.1, 4.2, 4.3, 4.4)*

The Board has established an Audit Committee comprised of Wolf Martinick and John Saleeba, both of whom are independent non-executive directors. The Audit Committee is chaired by John Saleeba. Given the size and structure of the Board, the Company is unable to structure the Audit Committee in accordance with Recommendation 4.2. However, the Audit Committee has been structured so that it is in accordance with Recommendation 4.2, except that it only has two members.

The Board has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee.

The Audit Committee held two meetings during the Reporting Period. Details of the directors' attendance at Audit Committee meetings are set out in the Directors' Report.

Details of each of the director's qualifications are set out in the Directors' Report. Both members of the Audit Committee consider themselves to be financially literate and have industry knowledge. Further, John Saleeba has a Bachelor of Commerce and is a Certified Practising Accountant. Mr Saleeba's qualifications bring the necessary financial expertise to the Audit Committee.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

The Company's Audit Committee Charter and the Company's Procedure for Selection, Appointment and Rotation of External Auditor are available on the Company's website.

## **Remuneration Committee**

*(Recommendations: 8.1, 8.2, 8.3)*

The Board has established a Remuneration Committee comprising Wolf Martinick (Chair) and John Saleeba.

The Remuneration Committee held one meeting during the Reporting Period. Details of the directors' attendance at the Remuneration Committee meeting are set out in the Directors' Report.

The Board has adopted a Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee.

Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms part of the Directors' Report. The Company's policy is to remunerate non-executive directors at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to individual performance. From time to time the Company may grant options to non-executive directors. The grant of options is designed to recognise and reward efforts as well as to provide non-executive directors with additional incentive to continue those efforts for the benefit of the Company. The maximum aggregate amount of fees (including superannuation payments) that can be paid to non-executive directors is subject to approval by shareholders at general meeting.

Executive pay and reward consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Remuneration Committee and subject to obtaining the relevant approvals. The grant of options is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles.

In the 2005/2006 financial year the Company established a Directors Retirement Benefit Policy whereby each non-executive director is entitled to a retirement benefit in accordance with the maximum amount ascertained pursuant to section 200G(2)(b) of the Corporations Act 2001 (Cth). In the 2006/2007 financial year, the Directors Retirement Benefit Policy was terminated and the retirement benefit entitlement does not apply to any non-executive director appointed from 30 June 2006. However, it does apply to John Saleeba.

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

The Company's Remuneration Committee Charter is available on the Company's website.





## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Performance evaluation

#### Senior executives

*(Recommendations: 1.2, 1.3)*

The Executive Chair is responsible for evaluating the performance of senior executives. The evaluations are performed by conducting interviews with the senior executives as required. During the interview key performance indicators are set and agreed on, which will form the basis for the following years' review.

The Nomination Committee (or equivalent), at least annually, evaluates the performance of the Executive Chair by formal interview. In reviewing the performance of the Executive Chair, performance against pre-determined budgets and performance criteria set the previous year (if any) is assessed.

During the Reporting Period an evaluation of senior executives took place in accordance with the process disclosed above.

#### Board, its committees and individual directors

*(Recommendations: 2.5, 2.6)*

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors.

The Chair evaluates the Board and, when deemed appropriate, Board committees and individual directors by utilising questionnaires which are completed by each director. The Chair, in consultation with the Company Secretary, then reviews the questionnaires and holds round table discussions with the Board to discuss the questionnaires. The Chair holds discussions with individual directors, if required.

During the Reporting Period an evaluation of the Board took place in accordance with the process disclosed above. An evaluation of individual directors did not take place during the Reporting Period.

### Ethical and responsible decision making

#### Code of Conduct

*(Recommendations: 3.1, 3.3)*

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders, and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A summary of the Company's Code of Conduct is available on the Company website.

#### Policy for Trading in Company Securities

*(Recommendations: 3.2, 3.3)*

The Company has established a Policy for Trading in Company Securities by directors, officers and employees, and their connected persons (which includes spouses and controlled entities).

A copy of the Company's Policy for Trading in Company Securities is available on the Company's website.

#### Continuous Disclosure

*(Recommendations: 5.1, 5.2)*

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a senior executive level for that compliance.

Summaries of the Company's Policy on Continuous Disclosure and of Compliance Procedures are available on the Company's website.

#### Shareholder Communication

*(Recommendations: 6.1, 6.2)*

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

A copy of the Company's Shareholder Communication Policy is available on the Company's website.

#### Risk Management

*Recommendations: 7.1, 7.2, 7.3, 7.4)*

The Board has adopted a Risk Management Policy and Risk Management Procedures. Under the Risk Management Policy, the Board oversees the processes by which risks are managed. This includes defining the Company's risk appetite, monitoring of risk performance and those risks that may have a material impact to the business. Management is responsible for the implementation of the risk management and internal control system to manage the Company's risks and to report to the Board whether those risks are being effectively managed.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management, which, if proposed to be exceeded, requires prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

The Company's system to manage its material business risks includes the preparation of a risk register by management to identify the Company's material business risks, analyse those risks, evaluate those risks (including assigning a risk owner to each risk) and treat those risks. Risks and their management are to be monitored and reviewed at least half yearly by senior management. The risk register is to be updated and a report submitted to the Executive Chair. The Executive Chair is to provide a risk report at least half yearly to the Board and an annual review of the risk profile is to be undertaken to ensure relevancy. Specific areas of risk that were identified in the report included operational activities, asset management (including title to exploration and mining leases) and staff.

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. The Board has received a report from management as to the effectiveness of the Company's management of its material business risks for the Reporting Period.

The Executive Chair and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

A summary of the Company's Risk Management Policy is available on the Company's website.



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
Revenue from continuing activities	5	209,669	39,650
<b>Expenditure</b>			
Depreciation	6	(32,440)	(39,806)
Salaries and employee benefits expense		(558,148)	(473,619)
Directors fees		(90,000)	(65,000)
Exploration expenses	6	(3,982,806)	(1,536,522)
Exploration expenses reimbursed	6	1,145,538	871,672
Travel expenses		(209,491)	(115,341)
Promotion expenses		(48,626)	(26,358)
Administration expenses		(120,207)	(97,953)
Consulting expenses		(261,340)	(14,533)
Insurance expenses		(48,079)	(44,654)
Share based payment expense	28	(245,835)	(361,250)
Loss from equipment sales		-	(1,873)
Other expenses		(220,040)	(192,481)
<b>Loss from continuing operations before income tax</b>		<b>(4,461,805)</b>	<b>(2,058,068)</b>
<b>Income tax benefit/(expense)</b>	7	<b>-</b>	<b>-</b>
<b>Loss from continuing operations after income tax</b>		<b>(4,461,805)</b>	<b>(2,058,068)</b>
<b>Other comprehensive income</b>			
Change to available-for –sale financial assets, net of tax		8,336	-
Exchange differences on translation of foreign operations		(126,411)	(14,808)
<b>Other comprehensive income for the year net of tax</b>		<b>(118,075)</b>	<b>(14,808)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(4,579,880)</b>	<b>(2,072,876)</b>
Basic loss per share (cents per share)	23	(1.2)	(0.9)
Diluted loss per share (cents per share)		(1.2)	(0.9)

The above Consolidated Statements of Comprehensive Income are to be read in conjunction with the Notes to the Financial Statements.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### AT 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	19	4,689,383	5,242,755
Trade and other receivables	8	879,826	153,391
<b>Total Current Assets</b>		<b>5,569,209</b>	<b>5,396,146</b>
<b>Non-Current Assets</b>			
Available for sale investments	9	49,280	-
Plant and equipment	10	1,18,598	100,894
Capitalised exploration expenditure	11	1,331,811	1,109,034
Other financial assets	12	45,378	22,308
<b>Total Non-Current Assets</b>		<b>1,545,067</b>	<b>1,232,236</b>
<b>TOTAL ASSETS</b>		<b>7,114,276</b>	<b>6,628,382</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	14	766,861	319,523
Provisions	15	133,959	35,758
<b>Total Current Liabilities</b>		<b>900,820</b>	<b>355,281</b>
<b>Non-Current Liabilities</b>			
Provisions	15	37,686	105,176
<b>Total Non-Current Liabilities</b>		<b>37,686</b>	<b>105,176</b>
<b>TOTAL LIABILITIES</b>		<b>938,506</b>	<b>460,457</b>
<b>NET ASSETS</b>		<b>6,175,770</b>	<b>6,167,925</b>
<b>EQUITY</b>			
Contributed equity	16	39,592,568	35,250,678
Reserves	17(a)	1,166,168	1,038,408
Accumulated losses		(34,582,966)	(30,121,161)
<b>TOTAL EQUITY</b>		<b>6,175,770</b>	<b>6,167,925</b>

The above Consolidated Statements of Financial Position are to be read in conjunction with the Notes to the Financial Statements



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued Share Capital \$	Share Option Reserve \$	Available for Sale Assets Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
<b>30 JUNE 2011</b>						
Balance at 1 July 2010	35,250,678	1,264,942	-	(226,534)	(30,121,161)	6,167,925
Loss for period	-	-	-	-	(4,461,805)	(4,461,805)
<b>Other comprehensive income</b>						
Exchange differences on translation of foreign operations	-	-	-	(126,411)	-	(118,075)
Change in fair value of available-for-sale financial assets	-	-	8,336	-	-	8,336
<b>Total other comprehensive loss</b>	-	-	8,336	(126,411)	-	(118,075)
<b>Total comprehensive loss for the period</b>	-	-	8,336	(126,411)	(4,461,805)	(4,579,880)
<b>Transactions with owners in their capacity as owners:</b>						
Issue of share capital net of transaction costs	4,341,890	-	-	-	-	4,341,890
Share based payments	-	245,835	-	-	-	245,835
Total transactions with owners	4,341,890	245,835	-	-	-	4,587,725
<b>Balance as at 30 June 2011</b>	<b>39,592,568</b>	<b>1,510,777</b>	<b>8,336</b>	<b>(352,945)</b>	<b>(34,582,966)</b>	<b>6,175,770</b>

	Issued Share Capital \$	Share Option Reserve \$	Available for Sale Assets Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
<b>30 JUNE 2010</b>						
Balance at 1 July 2009	29,459,548	903,692	-	(211,726)	(28,063,093)	2,088,421
Loss for period	-	-	-	-	(2,058,068)	(2,058,068)
<b>Other comprehensive income</b>						
Exchange differences on translation of foreign operations	-	-	-	(14,808)	-	(14,808)
<b>Total other comprehensive loss</b>	-	-	-	(14,808)	-	(14,808)
<b>Total comprehensive loss for the period</b>	-	-	-	(14,808)	(2,058,068)	(2,072,876)
<b>Transactions with owners in their capacity as owners:</b>						
Issue of share capital net of transaction costs	5,791,130	-	-	-	-	5,791,130
Share based payments	-	361,250	-	-	-	361,250
Total transactions with owners	5,791,130	361,250	-	-	-	6,152,380
<b>Balance as at 30 June 2010</b>	<b>35,250,678</b>	<b>1,264,942</b>		<b>(226,534)</b>	<b>(30,121,161)</b>	<b>6,167,925</b>

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(1,247,350)	(1,000,807)
Interest received		166,075	28,875
Expenditure on mining interests		(3,317,751)	(584,634)
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	19(b)	<u>(4,399,026)</u>	<u>(1,556,566)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant and equipment		(56,882)	(2,807)
Option payments for projects		(357,264)	(422,945)
Security deposits		(23,070)	-
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		<u>(437,216)</u>	<u>(425,752)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		4,570,410	6,040,258
Share issue costs		(304,853)	(172,795)
NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES		<u>4,265,557</u>	<u>5,867,463</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(570,685)	3,885,145
Cash and cash equivalents at the beginning of the financial year		5,242,755	1,345,997
Effect of exchange rate changes on cash and cash equivalents		17,313	11,613
CASH AND CASH EQUIVALENTS AT END OF YEAR	19(a)	<u>4,689,383</u>	<u>5,242,755</u>

The above Consolidated Statements of Cash Flows are to be read in conjunction with the Notes to the Financial Statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Azure Minerals Limited as an individual entity and the consolidated entity consisting of Azure Minerals Limited and its subsidiaries.

#### **BASIS OF PREPARATION**

This general purpose financial report has been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

#### *Compliance with AIFRSs*

The consolidated financial statements of Azure Minerals Limited and the separate financial statements of Azure Minerals Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention.

#### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### *Going Concern*

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Consolidated Entity has incurred a net loss after tax for the year ended 30 June 2011 of \$4,461,805 (2010: \$2,058,068) and experienced net cash outflows from operating activities of \$4,399,026 (2010: \$1,556,566). At 30 June 2011, the Consolidated Entity had net current assets of \$4,668,389 (30 June 2010: net current assets of \$5,040,865).

The Directors believe there are sufficient funds to meet the Consolidated Entity's working capital requirements and as at the date of this report the directors believe they can meet all liabilities as and when they fall due. However the Directors recognise that additional funding either through the issue of further shares, convertible notes or a combination of both may be required for the Consolidated Entity to continue to actively explore its mineral properties in the long term.

The Directors have reviewed the business outlook and the assets and liabilities of the Consolidated Entity and are of the opinion that the use of the going concern basis of accounting is appropriate.

However, if the Consolidated Entity is unable to achieve the above, there is significant uncertainty whether the Consolidated Entity will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, nor the amounts or classification of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

#### **(a) Principles of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising Azure Minerals Limited (the parent entity) and all entities which Azure Minerals Limited controlled from time to time during the year and at balance date ("the Group"). A controlled entity is any entity Azure Minerals Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the acquisition method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.



Investments in subsidiaries are accounted for at cost in the individual financial statements of Azure Minerals Limited.

## **(b) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

### ***Plant and equipment***

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

### ***Depreciation***

Depreciation of plant and equipment is calculated on a reducing balance basis so as to write off the net costs of each asset over the expected useful life. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

## **(d) Exploration and evaluation costs**

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or; where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

## **(e) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged on a straight line basis over the period of the lease.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

## **(f) Income tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the statement of financial position date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### (g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### (h) Foreign currency translation

##### *Functional and presentation currency*

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is Azure Minerals Limited's functional and presentation currency. The functional currency of Australian subsidiary (Azure Mexico Pty Ltd) is the Australian dollar. The functional currency of the Mexican overseas subsidiary (Minera Piedra Azul CV de SA) is the Mexican Peso.

##### *Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

##### *Group companies*

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

#### (i) Trade and other payables

Liabilities for trade creditors are recognised initially at fair value and subsequently at amortised cost.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

#### (j) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

### **Share-based payments**

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Binomial option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

### **(k) Revenue recognition**

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

### **(l) Contributed Equity**

Ordinary shares are classified as equity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

### **(m) Earnings per share (EPS)**

#### ***Basic earnings per share***

Basic EPS is calculated as the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

#### ***Diluted earnings per share***

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **(n) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the statement of financial position.

### **(o) Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### **(p) Interests in joint ventures**

The Groups share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated income statement and statement of financial position.

### **(q) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Chairman.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### (r) Investments and Financial assets

##### *Classification*

The Group classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designed as hedges. Assets in this category are classified as current assets if they are expected to be settled with 12 months; otherwise they are classified as non-current.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised at fair value on initial recognition. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position sheet (note 8).

##### *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### *Subsequent measurement*

Loans and receivables are carried at amortised cost using effective interest method.

##### *Impairment*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are recognised in the profit or loss. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

#### (s) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivative, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flow, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### (t) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### **(u) New and amended standards adopted by the Group**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions;
- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues; and
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

#### **(v) New accounting standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods and have not yet been applied in the financial report. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011). Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010, introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.
- AASB 10 Consolidated Financial Statements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 10 introduces certain changes to the consolidation principles, including the concept of de facto control and changes in relation to the special purpose entities. Azure Minerals Limited is continuing to assess the impact of the standard.
- AASB 11 Joint Arrangements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 11 introduces certain changes to the accounting for joint arrangements. Joint arrangements will be classified as either joint operations (where parties with joint control have rights to assets and obligations for liabilities) or joint ventures (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method. Azure Minerals Limited is continuing to assess the impact of the standard.
- AASB 13 Fair Value Measurement (effective for annual reporting periods commencing on or after 1 January 2013). AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value on the balance sheet or disclosed in the notes to the financial statements. Azure Minerals Limited is continuing to assess the impact of the standard.
- AASB 2011-9 Presentation of Financial Statements (effective for annual reporting periods commencing on or after 1 July 2013). AASB 101, amended in June 2011, introduces amendments to align the presentation items of other comprehensive income with US GAAP. Azure Minerals Limited will apply the amended standard from 1 July 2013. When the standard is first adopted, there will be changes to the presentation of the statement of comprehensive income. However, there will be no impact on any of the amounts recognised in the financial statements.
- AASB 1054 Australian Additional Disclosures (effective for annual reporting periods beginning on or after 1 July 2011). AASB 1054, issued in May 2011, moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of Trans-Tasman Convergence Project. AASB 1054 Australian Additional Disclosures removes the requirement to disclose each class of capital commitments contracted for at the end of the reporting period (other than commitments for the supply of inventories). When the standard is adopted for the first time for the financial year ending 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.
- AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2013). AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. Azure Minerals Limited is continuing to assess its full impact.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

- Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011). In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. Azure Minerals Limited will apply the amended standard from 1 July 2011. When the amendments are applied, Azure Minerals Limited will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.
- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Azure Minerals Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.
- AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012). In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets and liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The amendment is not expected to have any significant impact on Azure Minerals Limited's financial statements. Azure Minerals Limited intends to apply the amendment from 1 July 2012.
- AASB 119 - Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans, actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods, subtle amendments to timing for recognition of liabilities for termination benefits, and employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability. This standard has no impact as there are no annual leave provision amounts that are non-current. Azure Minerals Limited will apply this from 1 July 2013.

## 2. FINANCIAL RISK MANAGEMENT

### Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents. For the Company it arises from receivables due from subsidiaries.

### Cash and Cash Equivalents

The Group manages its credit risk on cash and cash equivalents by only dealing with banks licensed to operate in Australia.

### Trade and other receivables

As the Group operates in the mining exploration sector; it generally does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

Presently, the Group undertakes exploration and evaluation activities exclusively in Mexico. At the reporting date there were no significant concentrations of credit risk.

### Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Note	Consolidated Carrying amount	
		2011	2010
Trade and other receivables	8	863,332	136,752
Cash and cash equivalents	19	4,689,383	5,242,755
Security deposits	12	45,378	22,308

### Impairment losses

None of the Company's other receivables are past due (2010: nil).

The Group operates in the mining exploration sector and generally does not have trade receivables and is therefore not materially exposed to credit risk in relation to trade receivables. Other receivables are principally value added taxes withheld by third parties and due to the Group from sovereign governments, as such the Group does not consider it is exposed to any significant credit risk.

The allowance accounts in respect of other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. At 30 June 2011 the Group does not have any collective impairments on its other receivables (2010: nil).

### Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. There are no guarantees outstanding (2010: Nil)





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**2 . FINANCIAL RISK MANAGEMENT (Cont'd)****Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The Company anticipates no need to raise additional capital in the next 12 months to meet forecasted operational activities. The decision on how the Company will raise future capital will depend on market conditions existing at that time.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 180 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters

The following are the contractual maturities of financial liabilities at amortised cost:

Consolidated	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
<b>30 June 2011</b>							
Trade and other payables	766,861	-	766,861	-	-	-	-
<b>30 June 2010</b>							
Trade and other payables	319,523	-	319,523	-	-	-	-

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Currency risk**

The Group is exposed to currency risk on purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the United States Dollar (USD) and Mexican Peso (MxP). The currencies in which the transactions primarily are denominated are USD and MxP.

The Group has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency.

Group's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

**Exposure to currency risk**

The Group's exposure to foreign currency risk at reporting date was as follows, based on notional amounts:

	30 June 2011 USD	30 June 2010 USD
Trade receivables	581,906	50,894
Trade payables	207,831	34,744
Gross statement of financial position	789,737	85,638
Forward exchange contracts	-	-
Net exposure	789,737	85,638

The Company's exposure to foreign currency risk at 30 June 2011 was nil (2010:Nil).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
AUD				
USD	0.9892	0.8822	1.0596	0.8567

#### Sensitivity analysis

Over the reporting period there have been significant movements in the Australian dollar when compared to other currencies, it is therefore considered reasonable to review sensitivities base on a 10% movement in the Australian dollar: A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased equity and decrease loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	Consolidated	
	Equity	Profit or loss
<b>30 June 2011</b>		
USD	78,974	78,974
<b>30 June 2010</b>		
USD	8,564	8,564

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### Interest rate risk

Interest rate risk is the risk that the Groups financial position will be adversely affected by movements in interest rates that will increase the costs of floating rate debt or opportunity losses that may arise on fixed rate borrowings in a falling interest rate environment. The Group does not have any borrowings therefore is not exposed to interest rate risk in this area. Interest rate risk on cash and short term deposits is not considered to be a material risk due to the short term nature of these financial instruments.

At the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments was:

	Consolidated Carrying amount	
	2011	2010
<b>Variable rate instruments</b>		
Short term cash deposits	4,474,954	4,823,995

#### Cash flow sensitivity analysis for variable rate instruments

The Group has reviewed the likely movements in interest rates and considers that a movement of +/- 100 basis points is reasonable.

#### Group Sensitivity

At 30 June 2011 if interest rates had changes +/- 100 basis points from year end rates with all other variables held constant, equity and post tax profit would have been \$44,749 higher /lower (2010 – change of 100 basis points: \$48,240 higher/lower).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**2. FINANCIAL RISK MANAGEMENT (Cont'd)****Fair values***Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Consolidated	30 June 2011		30 June 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	879,826	879,826	153,391	153,391
Cash and cash equivalents	4,689,383	4,689,383	5,242,755	5,242,755
Other financial assets	45,378	45,378	22,308	22,308
Trade and other payables	(766,861)	(766,861)	(319,523)	(319,523)

The methods and assumptions used to estimate the fair value of instruments are:

**Capital Management**

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits of other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**3. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**Share based payment transactions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Binomial option pricing model.

**Exploration and evaluation costs**

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current. The future recoverability of exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation assets through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

#### 4. SEGMENT INFORMATION

The Company currently does not have production and is only involved in exploration. As a consequence, activities in the operating segments are identified by management based on the manner in which resources are allocated, the nature of the resources provided and the identity of service line manager and country of expenditure. Discrete financial information about each of these areas is reported to the executive management team on a monthly basis.

Based on this criteria, management has determined that the company has one operating segment being mineral exploration in Mexico. As the company is focused on mineral exploration, the Board monitors the company based on actual versus budgeted exploration expenditure incurred by area of interest. These areas of interest meet aggregating criteria and are aggregated into one reporting sector. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the company and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

	30 June 2011 \$	30 June 2010 \$
Revenue from external sources	-	-
Reportable segment loss	(2,837,268)	(664,850)
Reportable segment assets	1,410,312	1,170,329
Reportable segment liabilities	(415,662)	(69,488)
<b>Reconciliation of reportable segment loss</b>		
Reportable segment loss	(2,837,268)	(664,850)
Other profit	209,669	39,650
Unallocated:		
- Salaries and wages	(648,148)	(473,619)
- Travel and accommodation	(209,491)	(115,341)
- Office costs	(120,207)	(97,953)
- Other corporate expenses	(578,085)	(343,026)
- Share based payments	(245,835)	(361,250)
- loss on asset sales	-	(1,873)
- Depreciation	(32,440)	(39,806)
<b>Loss before tax</b>	<b>(4,461,805)</b>	<b>(2,058,068)</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

## 4. SEGMENT INFORMATION (CONT'D)

	30 June 2011 \$	30 June 2010 \$
<b>Reconciliation of reportable segment assets</b>		
Reportable segment assets	1,410,312	1,170,329
Unallocated:		
- Cash	4,689,383	5,242,755
- Trade and other receivables	879,826	153,391
- Investments	49,280	-
- Security deposits	45,378	22,308
- Office plant and equipment	40,097	39,599
<b>Total assets</b>	<b>7,114,276</b>	<b>6,628,382</b>
<b>Reconciliation of reportable segment liabilities</b>		
Reportable segment liabilities	(415,662)	(69,488)
Unallocated:		
- Trade and other payables	(351,200)	(250,035)
- Provisions	(171,644)	(140,934)
<b>Total liabilities</b>	<b>(938,506)</b>	<b>(460,457)</b>

## 5. REVENUE FROM CONTINUING OPERATIONS

	2011 \$	2010 \$
<b>Other revenues</b>		
Interest		
Bank interest	209,669	39,650
<b>Total revenues from continuing operations</b>	<b>209,669</b>	<b>39,650</b>

## 6. EXPENSES

Loss before income tax includes the following specific expenses

Depreciation of plant and equipment	32,440	39,806
Exploration expenditure	3,982,806	1,536,522
Exploration expenditure reimbursement	(1,145,538)	(871,672)
Operating lease expenses	60,401	46,357
Superannuation	35,100	29,299

## 7. INCOME TAX

	2011 \$	2010 \$
<b>(a) Income tax expense</b>		
Current tax	-	-
Deferred tax	-	-
Adjustment for current tax of prior periods	-	-
	<u>-</u>	<u>-</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Loss from continuing operations before income tax expense	(4,461,805)	(2,058,068)
Tax at the Australian tax rate of 30% (2010: 30%)	(1,338,542)	(617,420)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	73,751	108,375
Sundry items	57,477	29,802
	<u>(1,207,314)</u>	<u>(479,243)</u>
Movement in unrecognised temporary differences	(110,770)	(97,756)
Tax effect of current year foreign tax losses for which no deferred tax asset has been recognised	1,046,138	152,630
Difference in overseas tax rates	(20,923)	(3,053)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	292,869	427,422
Income tax expense	<u>-</u>	<u>-</u>
<b>(c) Unrecognised temporary differences</b>		
Deferred Tax Assets (at 30%)		
<i>On Income Tax Account</i>		
Capital raising costs	68,556	108,758
Prepayments	(3,737)	(3,785)
Depreciation of plant and equipment	(16,675)	(18,713)
Provisions	57,493	49,780
Carry forward tax losses	4,875,606	3,606,891
Carry forward tax losses – foreign	2,745,174	1,719,959
Other – tenement	785,267	850,600
	<u>8,511,684</u>	<u>6,313,490</u>
Deferred Tax Liabilities (at 30%)	<u>-</u>	<u>-</u>

Deferred income tax assets have not been recognised as it is not probable that future profit will be available against which deductible temporary differences can be utilised.

In addition to the above Australian estimated future income tax benefits the consolidated entity has incurred significant expenditure in Mexico, some of which should give rise to taxable deductions. At this stage the company is unable to reliably estimate the quantity of such future tax benefits.

There are no franking credits available.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**8. TRADE AND OTHER RECEIVABLES**

	2011 \$	2010 \$
<b>Current</b>		
Prepayments	16,494	16,639
Sundry receivables (a)	863,332	136,752
	<b>879,826</b>	<b>153,391</b>

(a) These amounts generally arise from activities outside the usual operating activities. Interest is not usually charged and collateral is not obtained. For the Group the receivable principally arises from consumption taxes paid to third party suppliers for which a refund from tax authorities is expected.

There are no impaired sundry receivables and no past due but not impaired receivables.

(b) Refer to note 2 for information on the risk management policy of the Group and the credit quality of the Groups receivables.

**9. AVAILABLE FOR SALE INVESTMENTS**

Listed shares at fair value (a)

Stoneshield Capital Corp.	49,280	-
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(a) Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate. Stoneshield Capital Corp. is listed on the Toronto Venture Exchange. Fair value has been determined directly by reference to published quotations on active markets.

At Cost	40,944	-
Impairment	-	-
Fair value adjustment to reserve	8,336	-
Fair value at 30 June	<b>49,280</b>	<b>-</b>



## 10. PLANT AND EQUIPMENT

Consolidated	Furniture, fittings and equipment \$	Motor Vehicles \$	Exploration Equipment \$	Total
<b>At 1 July 2009</b>				
Cost	317,094	70,382	46,929	434,405
Accumulated Depreciation	(238,622)	(32,848)	(19,537)	(291,007)
Net Book Amount	78,472	37,534	27,392	143,398
<b>Year ended 30 June 2010</b>				
Opening net book value	78,472	37,534	27,392	143,398
Additions	2,943	-	-	2,943
Disposals	(1,616)	-	(7,701)	(9,317)
Depreciation on disposals	239	-	6,431	6,670
Depreciation Charge	(21,511)	(15,028)	(3,268)	(39,807)
Foreign exchange translation adjustment	(922)	(1,756)	(315)	(2,993)
Closing net book amount	57,605	20,750	22,539	100,894
<b>At 30 June 2010</b>				
Cost	317,210	68,050	38,908	424,168
Accumulated Depreciation	(259,605)	(47,300)	(16,369)	(323,274)
Net Book Amount	57,605	20,750	22,539	100,894
<b>Year ended 30 June 2011</b>				
Opening net book value	57,605	20,750	22,539	100,894
Additions	55,274	-	2,849	58,123
Disposals	-	-	-	-
Depreciation on disposals	-	-	-	-
Depreciation Charge	(22,796)	(6,757)	(2,887)	(32,440)
Foreign exchange translation adjustment	(3,160)	(2,275)	(2,544)	(7,979)
Closing net book amount	86,923	11,718	19,957	118,598
<b>At 30 June 2011</b>				
Cost	366,908	59,798	38,465	465,171
Accumulated Depreciation	(279,985)	(48,080)	(18,508)	(346,573)
Net Book Amount	86,923	11,718	19,957	118,598



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**11. CAPITALISED EXPLORATION EXPENDITURE (NON-CURRENT)**

	2011 \$	2010 \$
At Cost	1,331,811	1,109,034
<i>Reconciliations</i>		
Movement in the carrying amounts of capitalised exploration expenditure between the beginning and end of the current financial year		
Opening net book amount	1,109,034	709,602
Additions	222,777	399,432
Disposals	-	-
Closing net book amount	<u>1,331,811</u>	<u>1,109,034</u>

Recovery of the capitalised amount is dependent upon successful development and commercial exploitation, or alternatively, sale.

**12. OTHER FINANCIAL ASSETS (NON-CURRENT)**

Security Deposit	45,378	22,308
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These financial assets are carried at cost.

**13. SUBSIDIARIES**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(a):

Name	Country of incorporation	Class of shares	Equity Holding*	
			2011 %	2010 %
Azure Mexico Pty Ltd	Australia	Ordinary	100	100
Minera Piedra Azul, S.A. de C.V	Mexico	Ordinary	100	100
Minera Capitana S.A. de C.V	Mexico	Ordinary	100	-

\*Percentage of voting power is in proportion to ownership

**14. TRADE AND OTHER PAYABLES (CURRENT)**

Trade payables	766,861	319,523
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Information about the Groups financial risk management policies is disclosed in note 2.

## 15. PROVISIONS

	2011 \$	2010 \$
<b>CURRENT</b>		
Employee benefits	56,948	35,758
Non-executive directors retirement benefits	77,011	-
	<b>133,959</b>	<b>35,758</b>
<b>NON-CURRENT</b>		
Employee benefits	37,686	28,165
Non-executive directors retirement benefits	-	77,011
	<b>37,686</b>	<b>105,176</b>

## 16. CONTRIBUTED EQUITY

### (a) Share capital

	Consolidated			
	2011		2010	
	Number of shares	\$	Number of shares	\$
Ordinary shares fully paid	394,000,000	39,592,568	343,217,666	35,250,678
Total consolidated contributed equity	<b>394,000,000</b>	<b>39,592,568</b>	<b>343,217,666</b>	<b>35,250,678</b>

### (b) Movements in ordinary share capital

	2011		2010	
	Number of shares	\$	Number of shares	\$
1 July opening balance	343,217,666	35,250,678	217,212,489	29,459,548
Issue at \$0.09 per share	50,782,334	4,570,410	-	-
Issue at \$0.15 per share	-	-	100,005,177	5,000,258
Issue at \$0.125 per share	-	-	-	-
Issue at \$0.04 per share	-	-	26,000,000	1,040,000
Share issue expenses	-	(228,520)	-	(249,128)
30 June closing balance	<b>394,000,000</b>	<b>39,592,568</b>	<b>343,217,666</b>	<b>35,250,678</b>

Funds raised from the two share issues during the year were used to progress the company's exploration in activities and for general working capital.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**16. CONTRIBUTED EQUITY (CONT'D)****(c) Movements in unlisted options on issue**

	Number of options	
	2011	2010
1 July Opening Balance	14,800,000	10,550,000
Issued during the year		
- Exercisable at 13.0 cents, on or before 30 Nov 2013	4,500,000	-
- Exercisable at 8.8 cents, on or before 30 Nov 2012	-	12,500,000
Forfeited during the year		
- Exercisable at 25 cents, on or before 30 Nov 2008	(400,000)	-
- Exercisable at 17.5 cents, on or before 31 Jan 2011	(500,000)	-
- Exercisable at 15 cents on or before 30 Nov 2009	-	(2,450,000)
- Exercisable at 25 cents, on or before 30 Nov 2009	-	(2,800,000)
- Exercisable at 25 cents, on or before 30 Nov 2010	-	(200,000)
- Exercisable at 25 cents, on or before 30 Jan 2010	-	(2,800,000)
30 June closing balance	18,400,000	14,800,000

Further information on options issued is set out in note 28.

**(d) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

## 17. RESERVES AND ACCUMULATED LOSSES

	2011 \$	2010 \$
<b>Accumulated losses</b>		
Balance at beginning of year	30,121,161	28,063,093
Loss for the year	4,461,805	2,058,068
Balance at end of year	<u>34,582,966</u>	<u>30,121,161</u>
<b>Share-based payments reserve</b>		
Balance at beginning of year	1,264,942	903,692
Movement during the year	245,835	361,250
Balance at end of year	<u>1,510,777</u>	<u>1,264,942</u>
<b>Available-for-sale assets reserve</b>		
Balance at beginning of year	-	-
Revaluation	8,336	-
Balance at end of year	<u>8,336</u>	<u>-</u>
<b>Foreign currency translation reserve</b>		
Balance at beginning of year	(226,534)	(211,726)
Movement during the year	(126,411)	(14,808)
Balance at end of year	<u>(352,945)</u>	<u>(226,534)</u>

### (b) Nature and purpose of reserves

#### *Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

#### *Available-for-sale assets reserve*

This reserve records fair value changes on available-for-sale investments. Amounts are recognised in profit and loss when the associated assets are sold or impaired.

#### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the statements of foreign subsidiaries.

## 18. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**19. STATEMENT OF CASH FLOWS****(a) Cash and cash equivalents**

	2011 \$	2010 \$
Cash and cash equivalents comprises:		
cash at bank and in hand	214,429	418,760
short-term deposits	4,474,954	4,823,995
Closing cash and cash equivalents balance	4,689,383	5,242,755

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

**(b) Reconciliation of the net loss after income tax to the net cash flows from operating activities**

Net loss	(4,461,805)	(2,058,066)
Depreciation of non-current assets	32,440	37,659
Share based payment expense	245,835	361,250
Loss (Profit) on equipment sales	-	1,873
Foreign exchange differences	(3,644)	3,111
Investments – non cash	(40,944)	-
<b>Changes in operating assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(723,435)	(26,051)
(Increase)/decrease in prepayments	145	(452)
Increase/(decrease) in trade and other payables	523,671	109,648
Increase/(decrease) in provisions	28,711	14,462
Net cash outflow from operating activities	(4,399,026)	(1,556,566)

**(c) Non-cash financing and investing activities**

There have been no non-cash financing and investing activities during the 2011 year (2010:Nil).

**20. COMMITMENTS****(a) Exploration commitments**

The company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments which are expected to be met in the normal course of business are as follows:

Not later than one year	118,747	82,176
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**(b) Option payments**

The company has entered into option agreements to acquire a 100% interest in the Promontorio project located in the northern Mexican state of Chihuahua within the richly mineralised Sierra Madre Occidental mining province. In order to retain the right to acquire the Promontorio project option payments must be made as follows:

Not later than one year	3,000,966	373,696
Later than one year and not later than five years	-	3,713,604
	3,000,966	4,087,300

### (c) Lease expenditure commitments

	2011 \$	2010 \$
<i>Operating leases (non cancellable):</i>		
Minimum lease payments		
not later than one year	146,421	122,837
later than one year and not later than five years	61,930	184,255
Aggregate lease expenditure contracted for at reporting date	<u>208,351</u>	<u>307,092</u>

The property lease is a non-cancellable lease with a three-year term ending 31 December 2012, rent is payable monthly in advance. The lease allows for subletting of all leased areas and excess off space has been sub-let the related third parties as disclosed in Note 25(d).

### (d) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in note 25 that are not recognised as liabilities and are not included in the key management personnel compensation.

Not later than one year	480,120	413,765
later than one year and not later than five years	-	-
	<u>480,120</u>	<u>413,765</u>

## 21. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the company at reporting date.

## 22. EVENTS OCCURRING AFTER BALANCE SHEET DATE

No matter or circumstance has arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years

## 23. LOSS PER SHARE

### (a) Reconciliation of earnings to profit or loss

Net loss	(4,461,805)	(2,058,068)
Loss used in calculating basic loss per share	<u>(4,461,805)</u>	<u>(2,058,068)</u>

### (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share

	Consolidated	
	Number of shares 2011	Number of shares 2010
Weighted average number of ordinary shares used in calculating basic loss per share	<u>359,680,071</u>	<u>238,152,785</u>

### (c) Effect of dilutive securities

Options on issue at reporting date could potentially dilute basic earnings per share in the future. The effect in the current year is to decrease the loss per share hence they are considered antidilutive. Accordingly diluted loss per share has not been disclosed.





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**24. AUDITORS' REMUNERATION**

	Consolidated	
	2011 \$	2010 \$
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd or associated entities for:		
Tax compliance services	8,989	11,110
Other	325	592
An audit or review of the financial report of the entity	35,435	37,018
	<b>44,749</b>	<b>48,720</b>
Remuneration of other auditors of subsidiaries		
Audit or review of financial report of subsidiaries	10,201	7,813

**25. KEY MANAGEMENT PERSONNEL DISCLOSURES**

**(a) Compensation of key management personnel by compensation**

	Consolidated	
	2011 \$	2010 \$
Short-term	543,120	447,375
Post employment	35,100	37,240
Share-based payment	245,835	361,250
	<b>824,055</b>	<b>845,865</b>

**(b) Shares issued on exercise of compensation options**

There were no shares issued on exercise of compensation options during the year.

**(c) Option holdings of key management personnel**

2011	Balance at beginning of year 1 July 2010	Granted as Remuneration	Options Exercised	Options Lapsed	Balance at end of year 30 June 2011	Vested at 30 June 2011	
						Vested & Exercisable	Unvested
<b>Directors</b>							
Wolf Gerhard Martinick	2,800,000	500,000	-	(400,000)	2,900,000	2,900,000	-
Anthony Paul Rovira	6,500,000	2,000,000	-	(500,000)	8,000,000	8,000,000	-
John Walter Saleeba	2,000,000	500,000	-	-	2,500,000	2,500,000	-
<b>Executives</b>							
Brett Dickson	3,500,000	1,500,000	-	-	5,000,000	5,000,000	-
<b>Total</b>	<b>14,800,000</b>	<b>4,500,000</b>	<b>-</b>	<b>(900,000)</b>	<b>18,400,000</b>	<b>18,400,000</b>	<b>-</b>

2010	Balance at beginning of year 1 July 2009	Granted as Remuneration	Options Exercised	Options Lapsed	Balance at end of year 30 June 2010	Vested at 30 June 2010	
						Vested & Exercisable	Unvested
<i>Directors</i>							
Wolf Gerhard Martinick	1,000,000	2,000,000	-	(200,000)	2,800,000	2,800,000	-
Anthony Paul Rovira	5,500,000	5,000,000	-	(4,000,000)	6,500,000	6,500,000	-
John Walter Saleeba	800,000	2,000,000	-	(800,000)	2,000,000	2,000,000	-
<i>Executives</i>							
Brett Dickson	2,400,000	3,500,000	-	(2,400,000)	3,500,000	3,500,000	-
<b>Total</b>	<b>9,700,000</b>	<b>12,500,000</b>	<b>-</b>	<b>(7,400,000)</b>	<b>14,800,000</b>	<b>14,800,000</b>	<b>-</b>

**(d) Shareholdings of key management personnel**

2011	Balance 1 July	Granted	On Exercise of Options	Net Change Other	Balance 30 June	Balance Indirectly Held
	Ord	Ord	Ord	Ord	Ord	Ord
<i>Directors</i>						
Wolf G Martinick	1,540,000	-	-	-	1,540,000	-
Anthony Paul Rovira	3,200,000	-	-	-	3,200,000	1,880,000
John Walter Saleeba	2,669,600	-	-	-	2,669,600	2,669,600
<i>Executives</i>						
Brett Dickson	112,000	-	-	-	112,000	40,000
<b>Total</b>	<b>7,521,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,521,600</b>	<b>4,589,600</b>

**2010**

<i>Directors</i>						
Wolf G Martinick	1,100,000	-	-	440,000	1,540,000	-
Anthony Paul Rovira	2,982,000	-	-	218,000	3,200,000	1,880,000
John Walter Saleeba	1,050,000	-	-	1,619,600	2,669,600	2,669,600
<i>Executives</i>						
Brett Dickson	274,000	-	-	(162,000)	112,000	40,000
<b>Total</b>	<b>5,406,000</b>	<b>-</b>	<b>-</b>	<b>2,115,600</b>	<b>7,521,600</b>	<b>4,589,600</b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**26. RELATED PARTY DISCLOSURES**

**(a) Parent entity**

The ultimate parent entity within the Group is Azure Minerals Limited.

**(b) Subsidiaries**

*Loans to subsidiaries*

	Parent Entity	
	2011 \$	2010 \$
Beginning of the year	6,167,053	8,850,744
Loans advanced	3,772,742	1,953,157
Loans Repaid	-	-
Allowance for impairment	-	(4,636,848)
End of year	<u>9,939,795</u>	<u>6,167,053</u>

It is the intention of each subsidiary to repay outstanding loans through the successful exploitation or sale of its mineral assets. During 2009 market conditions deteriorated which led to a review of the value of the mineral assets held by Minera Piedra Azul S.A. de C.V. As a result of that review the Parent Entity made an allowance of \$4,636,848 against loans advanced to its Mexican subsidiary Minera Piedra Azul, S.A. de C.V.

No other provision for doubtful debts have been raised in relation other outstanding balances, and no other expense has been recognised in respect of bad or doubtful debts due from related parties.

**(c) Key management personnel**

Disclosures relating to key management personnel are set out in note 25.

**(d) Other Related Transactions**

The Company has entered into a sub-lease agreement on normal commercial terms with Ezenet Limited, a company of which Wolf Martinick is a director and Brett Dickson is Company Secretary. During the year Ezenet Limited paid sub-lease fees totalling \$4,800 (2010: \$4,800).

The Company has also entered into a sub-lease agreement on normal commercial terms with Rox Resources Limited, a company of which Brett Dickson is Company Secretary and Director. During the year Rox Resources Limited paid sub-lease fees totalling \$68,520 (2010: \$59,100).

**27. INTERESTS IN JOINT VENTURES**

The company has interests in the following joint ventures:

	Joint Venture	Activities	Interest	Carrying Value \$
(a)	JOGMEC	Copper	100%	NIL
(b)	OZ Minerals	Copper	100%	NIL
(c)	JOGMEC	Copper	100%	NIL

Under the joint venture agreement JOGMEC may earn a 51% interest in the La Tortuga and Los Nidos projects by spending US\$3 million by 31 March 2012. At 30 June 2011 JOGMEC had spend approximately US\$1,858,753 (2010: US\$1,266,982).

During 2010 the Group entered into a joint venture with OZ Minerals Limited (OZ Minerals) covering the San Eduardo projects Pursuant to the agreement OZ Minerals could earn a 51% interest in the projects by spending US\$3 million. OZ Minerals could then earn a further 19% interest by spending a further US\$10 million. At 30 June 2011 OZ Minerals withdrew from the joint venture after spending approximately US\$699,913.

The Group has entered into a joint venture with JOGMEC covering the El Tecolote project. Pursuant to the agreement JOGMEC may earn a 51% interest in the project by spending US\$5 million. JOGMEC may earn a further 19% interest by spending a further US\$8 million. At 30 June 2011 JOGMEC had spent approximately US\$341,387.

## 28. SHARE-BASED PAYMENTS

The group has issued options pursuant to an Employee Share plan and also Director Options Issued pursuant to approval obtained by shareholders at a General Meeting. Details of each issue is set out below:

### (a) Employee and consultants option plan

The establishment of the Azure Minerals Limited – Employees and Contractors Option Incentive Plan ("Plan") was approved by shareholders at the 2004 Annual General Meeting. The plan is designed to provide long-term incentives for employees and certain contractors to deliver long term shareholder returns. Participation in the plan is at the Boards discretion and no individual has a contractual right to participate in the plan or to receive guaranteed benefits. In addition, under the Plan, the Board determines the terms of the options including exercise price, expiry date and vesting conditions, if any.

Options granted under the plan carry no dividend or voting rights. When exercised, each option is convertible into an ordinary share of the company with full dividend and voting rights.

Set out below are summaries of options granted under the plan.

2011									
Grant Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Balance of the start of the year Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
6 Dec '06	31 Jan '11	17.5	3.74	500,000	-	-	(500,000)	-	-
6 Dec '06	31 Jan '12	25.0	3.64	500,000	-	-	-	500,000	500,000
6 Dec '06	31 Jan '13	35.0	3.45	500,000	-	-	-	500,000	500,000
				<b>1,500,000</b>	<b>-</b>	<b>-</b>	<b>(500,000)</b>	<b>1,000,000</b>	<b>1,000,000</b>
Weighted average exercise price				\$0.258			\$0.175	\$0.30	\$0.30
2010									
6 Dec '06	31 Jan '11	17.5	3.74	500,000	-	-	-	500,000	500,000
6 Dec '06	31 Jan '12	25.0	3.64	500,000	-	-	-	500,000	500,000
6 Dec '06	31 Jan '13	35.0	3.45	500,000	-	-	-	500,000	500,000
6 Dec '06	30 Nov '09	15.0	0.93	1,200,000	-	-	1,200,000	-	-
3 Aug '07	30 Nov '09	15.0	14.3	1,250,000	-	-	1,250,000	-	-
				<b>3,950,000</b>	<b>-</b>	<b>-</b>	<b>2,450,000</b>	<b>1,500,000</b>	<b>1,500,000</b>
Weighted average exercise price				\$0.191			\$0.150	\$0.258	\$0.258

No options were exercised during the periods covered by the above tables. During the year 500,000 lapsed (2010: 2,400,000).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.09 years (2010: 1.59 years). Fair value of options granted.

Options are granted for no consideration. No options were granted pursuant to the Plan during the 2011 or 2010 financial years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

28. SHARE-BASED PAYMENTS (CONT'D)

(b) Directors and executive options

Set out below are summaries of Directors options granted.

2011									
Grant Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Balance of the start of the year Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
24 Dec '07	31 Jan '11	25.0	10.2	400,000	-	-	(400,000)	-	-
24 Dec '07	31 Jan '12	25.0	11.7	400,000	-	-	-	400,000	400,000
9 Dec '09	30 Nov '12	8.8	2.9	12,500,000	-	-	-	12,500,000	12,500,000
14 Dec '10	30 Nov '13	13.0	5.5	-	4,500,000	-	-	4,500,000	4,500,000
				<b>13,300,000</b>	<b>4,500,000</b>	<b>-</b>	<b>(400,000)</b>	<b>17,400,000</b>	<b>17,400,000</b>
Weighted average exercise price				\$0.10	\$0.13	-	\$0.25	\$0.10	\$0.10
2010									
30 Nov '03	30 Nov '09	25.0	-	2,800,000	-	-	2,800,000	-	-
30 Nov '03	30 Nov '10	25.0	-	2,800,000	-	-	2,800,000	-	-
24 Dec '07	31 Jan '10	25.0	8.2	200,000	-	-	200,000	-	-
24 Dec '07	31 Jan '11	25.0	10.2	400,000	-	-	-	400,000	400,000
24 Dec '07	31 Jan '12	25.0	11.7	400,000	-	-	-	400,000	400,000
9 Dec '09	30 Nov '12	8.8	2.9	-	12,500,000	-	-	12,500,000	12,500,000
				<b>6,600,000</b>	<b>12,500,000</b>	<b>-</b>	<b>5,800,000</b>	<b>13,300,000</b>	<b>13,300,000</b>
Weighted average exercise price				\$0.25	-	\$0.25	\$0.088	-	\$0.25

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.6 years (2010: 2.3 years).

Fair value of director options granted.

Options are granted for no consideration. During the 2011 financial year the weighted average fair value of the options granted was 5.5 cents (2010: 2.9 cents). The price was calculated by using the Binomial Option valuation methodology applying the following inputs:

	2011	2010
Weighted average exercise price	13.0 cents	8.8 cents
Weighted average life of the option	3 years	3 years
Weighted average underlying share price	8.6 cents	5.0 cents
Expected share price volatility	115%	110%
Risk free interest rate	5.25%	4.83%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated	
	2011 \$	2010 \$
Options issued to directors and executives	245,835	361,250

## 29. PARENT ENTITY FINANCIAL INFORMATION

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 \$	2010 \$
<b>Statement of Financial Position</b>		
Current assets	14,959,150	5,396,146
Total assets	15,094,796	6,628,382
Current liabilities	487,159	355,281
Total liabilities	522,845	460,457
<b>Shareholder's equity</b>		
Issued capital	39,592,568	35,250,678
Reserves		
Share-based payments	1,519,113	1,264,942
Accumulated losses	(26,539,730)	(25,565,048)
	<u>14,571,951</u>	<u>10,950,572</u>

### (b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010.

### (c) Contracted commitments for the acquisition of property, plants or equipment

The parent entity did not have any commitments for the acquisition of property, plants or equipment.



## DIRECTORS' DECLARATION

The directors of the company declare that:

- (1) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (a) complying with Accounting Standards and the Corporations Regulations 2001; and
  - (b) giving a true and fair view of the consolidated entity's as at 30 June 2011 and of its performance for the year ended on that date.
- (2) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (3) The directors have been given the declaration by the chief executive officer and chief financial officer as required by section 295A of the Corporations Act 2001.
- (4) The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

A handwritten signature in black ink, appearing to read 'APR', written over a light blue horizontal line.

**Anthony Paul Rovira**  
Executive Chairman

Perth, 23 September 2011

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AZURE MINERALS LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Azure Minerals Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Azure Minerals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.





## Opinion

- (a) the financial report of Azure Minerals Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to note 1 in the financial report which indicates that the company incurred a net loss of \$4,461,805 for the year ended 30 June 2011, and, as at that date, the company experienced net cash outflows from operating activities of \$4,399,026. These conditions along with other matters as set forth in note 1 of the financial report indicate the existence of a material uncertainty which may cast significant doubt on the entity's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Azure Minerals Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit (WA) Pty Ltd**

**Glyn O'Brien**  
Director

Perth, Western Australia  
Dated this 23<sup>rd</sup> day of September 2011



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Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

23 September 2011

Board of Directors  
Azure Minerals Limited  
Level 1, 30 Richardson Street  
WEST PERTH WA 6005

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF AZURE MINERALS LIMITED**

As lead auditor of Azure Minerals Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Azure Minerals Limited and the entities it controlled during the period.

**Glyn O'Brien**  
Director

**BDO Audit (WA) Pty Ltd**  
Perth, Western Australia

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## ASX ADDITIONAL INFORMATION

The number of shareholders, by size of holding, in each class of share as at 12 September 2011 are:

	Ordinary shares	
	Number of holders	Number of shares
1 - 1,000	136	12,295
1,001 - 5,000	204	759,288
5,001 - 10,000	693	6,167,168
10,001 - 100,000	1842	79,309,201
100,001 and over	588	307,752,048
	3,463	394,000,000
	644	3,053,941

The number of shareholders holding less than a marketable parcel of shares are:

### (b) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

	Listed ordinary shares	
	Number of shares	Percentage of ordinary shares
1 Yandal Investments Pty Ltd	29,152,200	7.40
2 HSBC Custody Nominees <Australia>	20,376,928	5.17
3 Tempo Capital Pty Ltd	16,396,920	4.16
4 Citicorp Nominees Pty Limited	6,422,055	1.63
5 ASIPAC Group Pty Ltd	5,555,555	1.41
6 International Commodity Finance Limited	5,555,555	1.41
7 Alchemy Securities Pty Ltd	5,526,785	1.40
8 JP Morgan Nominees Australia Limited <Cash Income A/C>	4,988,763	1.27
9 Mr Thomas Fritz Ensmann	4,160,816	1.06
10 Investec Bank (Australia) Ltd	3,100,000	0.79
11 Fleurbow Pty Ltd	3,087,500	0.78
12 Mr Kevin Chan + Miss Renata Hiu Fong Jian	3,036,694	0.77
13 Novacarta Pty Ltd	2,912,500	0.74
14 Poluru Pty Ltd <Kent Superfund A/C>	2,900,000	0.74
15 Mr Peter Murray Nicholas	2,700,000	0.69
16 Dr Lyndsay George McDonald Gordon	2,501,833	0.63
17 Mr Phillip Wood	2,400,000	0.61
18 Forsyth Barr Custodians Ltd <Nominee A/C>	2,237,058	0.57
19 Stadjoy Pty Ltd	2,038,400	0.52
20 Mr David Alistair Cadwallader	2,011,200	0.51
	<b>127,060,762</b>	<b>32.26</b>

### (c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of shares
Yandal Investments Pty Ltd	29,152,200

#### (d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction..

#### (e) Schedule of interests in mining tenements

Common Name			Tenement	Percentage held / earning
El Llano del Nogal	Llano del Nogal - Fraccion 1	All Minerals	224717	100%
	Llano del Nogal - Fraccion 2	All Minerals	224718	100%
	Llano del Nogal - Fraccion 3	All Minerals	224719	100%
	Llano del Nogal 2	All Minerals	230186	100%
	Llano del Nogal 3	All Minerals	232390	100%
Tabisco	Tabisco - Fraccion 2	All Minerals	220663	100%
	Tabisco 2 - Fraccion 1	All Minerals	229008	100%
	Tabisco 2 - Fraccion 2	All Minerals	229009	100%
Pozo de Nacho	Pozo de Nacho	All Minerals	222873	100%
	Pozo de Nacho 2 - Fracc. 1	All Minerals	225057	100%
	Pozo de Nacho 2 - Fracc. 2	All Minerals	225058	100%
	Pozo de Nacho 3	All Minerals	228563	100%
Estacion Llano	Estacion Llano	All Minerals	227017	100%
Los Chinos	Los Chinos	All Minerals	231815	100%
La Tortuga	La Tortuga	All Minerals	230422	100%
	La Tortuga II	All Minerals	233462	100%
Los Nidos	Los Nidos	All Minerals	231051	100%
	Los Nidos II	All Minerals	234294	100%
El Tecolote	El Tecolote	All Minerals	230771	100%
	El Tecolote II	All Minerals	236795	100%
	El Tecolote III	All Minerals	234586	100%
San Juan	San Juan	All Minerals	222952	100%
	San Juan II	All Minerals	222952	100%
San Eduardo	San Eduardo	All Minerals	232387	100%
	San Eduardo 2 Frac 1	All Minerals	236796	100%
	San Eduardo 2 Frac 2	All Minerals	236797	100%
	San Eduardo 2 Frac 3	All Minerals	236798	100%
Promontorio	Hidalgo	All Minerals	235270	100%*
	Promontorio	All Minerals	235269	100%*
	El Magistral	All Minerals	218881	100%*
	Promontorio Regional	All Minerals	234447	100%

\* option to acquire 100%



## NOTES

## NOTES



## NOTES







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