

# **Azure Minerals Limited**

**ABN 46 106 946 918**

## **Interim Financial Statements**

**For the Period Ended 31 December 2007**

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2007 and any public announcements made by Azure Minerals Limited (previously Nickel Australia Limited) during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

# Azure Minerals Ltd

## Corporate Information

ABN 46 106 346 918

### Directors

Anthony Paul Rovira (Executive Chairman)

Wolf Gerhard Martinick (Non-Executive Director)

John Walter Saleeba (Non-Executive Director)

### Company Secretary

Brett Dickson

### Registered Office

Level 1, 30 Richardson Street

WEST PERTH WA 6005

(08) 9481 2555

### Solicitors

Salter Power Pty Ltd

Level 2, 6 Kings Park Road

WEST PERTH WA 6005

### Bankers

Commonwealth Bank of Australia Limited

### Share Register

Computershare Investor Services Pty Ltd

Level 2, 45 St. Georges Terrace

PERTH WA 6000

Telephone: (08) 9323 2000

Facsimile: (08) 9323 2033

### Auditors

BDO Kendalls Audit & Assurance (WA) Pty Ltd

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SUBIACO WA 6008

### Internet Address

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

### ASX Code

Shares

AZS

# Azure Minerals Ltd

## Interim Financial Statements

For the Half Year Ended 31 December 2007

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# Azure Minerals Ltd

## Directors' Report

31 December 2007

Your directors submit the financial report of the Group for the financial half-year ended 31 December 2007.

### 1. General information

#### Directors

The names of the directors in office at any time during, or since the end of, the period are:

#### Names

Anthony Rovira

John Saleeba

Wolf Martinick (appointed 1 September 2007)

Michael Fowler (resigned 1 September 2007)

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

### 2. Review of Operations and Results

Azure Minerals Limited ("Azure") is a mineral exploration company focused on Mexico.

During the half year the company:

- Acquired a number of new 100% owned projects in Mexico;
- Extended the molybdenum mineralisation at Pozo De Nacho;
- Identified extensive soil anomalies at Los Chinos;
- Commenced drilling at 100% owned La Providencia project.

During the period the company commenced preparations to dual list its shares on the Toronto Venture Exchange, however due to the volatility of and uncertainty in international stock markets the company has decided to postpone this process.

The Operating Loss for the half year amounted to \$2,403,512 (2006: loss of \$3,047,917)

# Azure Minerals Ltd

## Directors' Report

31 December 2007

### 3. Other items

#### (a) Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial period other than the issue of 20,000,000 fully paid ordinary shares at \$0.15 each.

#### (b) Changes in Controlled Entity

There have been no changes in controlled entities during the half year.

#### (c) After Balance Date Events

Subsequent to balance date the company has issued a total of 8,333,334 shares at \$0.12 each to raise \$1,000,000 to fund exploration activities in Mexico.

The financial effect of the above transactions have not been brought to account as at 31 December 2007.

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this financial report.

This report is made in accordance with a resolution of the Board of Directors:



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**Anthony Rovira**  
Chairman

West Perth  
Date: 12 March 2008

# Azure Minerals Ltd

## Income Statement

For the half year Ended 31 December 2007

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue from continuing operations</b>		-	-
Other income		61,984	84,125
Depreciation and amortisation		(24,883)	(26,725)
Exploration expenditure written off		(1,037,872)	(2,346,543)
Salaries and wages		(145,600)	(158,386)
Consultants		(3,950)	(139,353)
Director fees		(32,499)	(57,500)
Funds Misappropriated	8	-	(113,861)
Travel and accommodation		(108,155)	(34,716)
Promotion		(115,015)	(7,761)
Insurance		(26,172)	(20,476)
Administration expenses		(60,097)	(67,660)
Share based payments		(360,049)	(85,228)
Preparation for TSX-V Listing		(437,843)	-
Other expenses		(113,361)	(73,833)
		<hr/>	<hr/>
<b>Loss before income tax</b>		<b>(2,403,512)</b>	<b>(3,047,917)</b>
Income tax		-	-
<b>Loss after income tax</b>		<b>(2,403,512)</b>	<b>(3,047,917)</b>
		<hr/>	<hr/>
<b>Basic loss (cents per share)</b>	6	<b>(1.88)</b>	<b>(3.26)</b>

The above consolidated Income Statement should be read in conjunction with the accompanying notes.

# Azure Minerals Ltd

## Balance Sheet

31 December 2007

		Consolidated	
		31 December 2007	30 June 2007
	Note	\$	\$
<b>Current Assets</b>			
Cash and cash equivalents		1,667,148	737,646
Trade and other receivables		164,028	236,276
<b>Total Current Assets</b>		<b>1,831,176</b>	<b>973,922</b>
<b>Non-Current Assets</b>			
Other Financial Assets		22,308	22,308
Plant and equipment		183,487	190,095
<b>Total Non-Current Assets</b>		<b>205,795</b>	<b>212,403</b>
<b>TOTAL ASSETS</b>		<b>2,036,971</b>	<b>1,186,325</b>
<b>Current Liabilities</b>			
Trade and other payables		442,839	315,260
Provisions		163,440	235,077
<b>Total Current Liabilities</b>		<b>606,279</b>	<b>550,337</b>
<b>TOTAL LIABILITIES</b>		<b>606,279</b>	<b>550,337</b>
<b>NET ASSETS</b>		<b>1,430,692</b>	<b>635,988</b>
<b>Equity</b>			
Contributed Equity	5	23,179,782	20,329,782
Reserves	11	880,605	532,389
Accumulated losses		(22,629,695)	(20,226,183)
<b>TOTAL EQUITY</b>		<b>1,430,692</b>	<b>635,988</b>

The above consolidated Balance Sheet should be read in conjunction with the accompanying notes

# Azure Minerals Ltd

## Statement of Changes in Equity

For the half year Ended 31 December 2007

31 December 2007

	Consolidated				
	Ordinary Shares	Accumulated Losses	Option Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
<b>Equity as at beginning of period</b>	<b>20,329,782</b>	<b>(20,226,183)</b>	<b>538,565</b>	<b>(6,176)</b>	<b>635,988</b>
Foreign Currency	-	-	-	(11,833)	(11,833)
Loss for the period	-	(2,403,512)	-	-	(2,403,512)
Total income and expense recognized during the period	-	(2,403,512)	-	(11,833)	(2,415,345)
Shares issued during the period	3,000,000	-	-	-	3,000,000
Transaction Costs	(150,000)	-	-	-	(150,000)
Employee Options	-	-	360,049	-	360,049
Sub-total	2,850,000	(2,403,512)	360,049	(11,833)	794,704
<b>Equity as at 31 December 2007</b>	<b>23,179,782</b>	<b>(22,629,695)</b>	<b>898,614</b>	<b>(18,009)</b>	<b>1,430,692</b>

31 December 2006

	Consolidated				
	Ordinary Shares	Accumulated Losses	Option Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
<b>Equity as at beginning of period</b>	<b>17,952,332</b>	<b>(15,346,970)</b>	<b>404,170</b>	<b>-</b>	<b>3,009,532</b>
Loss for the period	-	(3,047,917)	-	-	(3,047,917)
Total income and expense recognized during the period	-	(3,047,917)	-	-	(3,047,917)
Shares issued during the period	1,275,000	-	-	-	1,275,000
Transaction costs	(76,500)	-	-	-	(76,500)
Employee Options	-	-	85,227	-	85,227
Sub-total	1,198,500	(3,047,917)	85,227	-	(1,764,190)
<b>Equity as at 31 December 2006</b>	<b>19,150,832</b>	<b>(18,394,887)</b>	<b>489,397</b>	<b>-</b>	<b>1,245,342</b>

The above consolidated statement of Changes in Equity should be read in conjunction with the accompanying notes



# Azure Minerals Ltd

## Cash Flow Statement

For the half year Ended 31 December 2007

	Notes	Consolidated	
		31 Dec 2007 \$	31 Dec 2006 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(700,785)	(618,875)
Payments for exploration expenditure		(968,493)	(2,503,561)
Interest received		62,908	84,125
		<hr/>	<hr/>
<b>Net cash (used in) operating activities</b>		<b>(1,606,370)</b>	<b>(3,038,311)</b>
<b>Cash flows from investing activities</b>			
Funds misappropriated	8	-	(227,722)
Security Deposit		-	(108)
Payment for plant and equipment		(21,321)	(93,044)
		<hr/>	<hr/>
<b>Net cash (used in) financing activities</b>		<b>(21,321)</b>	<b>(320,874)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issues		3,000,000	1,275,000
Capital raising costs		(435,002)	(76,500)
		<hr/>	<hr/>
<b>Net cash from financing activities</b>		<b>2,564,998</b>	<b>1,198,500</b>
<b>Net (decrease) / increase in cash and cash equivalents held</b>		<b>937,307</b>	<b>(2,160,685)</b>
Cash and cash equivalents at the beginning of the half year		737,646	3,642,826
Exchange Rate Adjustments		(7,805)	1,199
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the half year</b>		<b>1,667,148</b>	<b>1,483,340</b>

The above consolidated Cash Flow Statement should be read in conjunction with the accompanying notes

# Azure Minerals Ltd

## Notes to the Financial Statements

For the half year Ended 31 December 2007

### Basis of Preparation of Half-Year Financial Statements

This general purpose financial report for the interim half-year ended 31 December 2007 has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 134: Interim Financial Reporting. This half-year report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2007 and public announcements made by Azure Minerals Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

The principal accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the year ended 30 June 2007 and the corresponding interim reporting period.

### NOTE 2 DIVIDENDS

No dividends have been paid or provided for in the half year.

### NOTE 3 SEGMENT REPORTING

The Group operates in the mining industry in Australia and Mexico.

	AUSTRALIA		MEXICO		TOTAL	
	2007	2006	2007	2006	2007	2006
Revenue	61,328	84,125	656	-	61,984	84,125
Results	(1,327,930)	(2,235,271)	(1,075,582)	(812,647)	(2,403,512)	(3,047,917)

### NOTE 4 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to balance date the company has issued a total of 8,333,334 ordinary shares at \$0.12 to raise \$1,000,000 to fund exploration activities in Mexico.

The financial effect of the above transactions have not been brought to account as at 31 December 2007.

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

# Azure Minerals Ltd

## Notes to the Financial Statements

For the half year Ended 31 December 2007

### NOTE 5 ISSUED CAPITAL

	Shares	\$
• <b>Balance as at 1 July 2006</b>	97,750,004	17,952,332
Issued on 31 August 2006 (net of transaction costs)	12,750,000	1,198,500
• <b>Balance as at 31 December 2006</b>	<b>110,500,004</b>	<b>19,150,832</b>
• <b>Balance as at 1 July 2007</b>	112,350,004	20,329,782
Issued on 9 August 2007 (net of transaction costs)	20,000,000	2,850,000
• <b>Balance as at 31 December 2007</b>	<b>132,350,004</b>	<b>23,179,782</b>
• <b>Options on issue as at 31 December 2006</b>		
Exercisable at 25 cents on or before 30 November 2008	1,780,000	
Exercisable at 25 cents on or before 30 November 2009	3,560,000	
Exercisable at 25 cents on or before 30 November 2010	3,560,000	
Exercisable at 17.5 cents on or before 30 January 2011	1,000,000	
Exercisable at 25 cents on or before 30 January 2012	1,500,000	
Exercisable at 35 cents on or before 30 January 2013	1,500,000	
Exercisable at 15 cents on or before 30 November 2009	1,200,000	
Total	<b>14,100,000</b>	
• <b>Options on issue as at 31 December 2007</b>		
Exercisable at 25 cents on or before 30 November 2008	1,500,000	
Exercisable at 25 cents on or before 30 November 2009	3,000,000	
Exercisable at 25 cents on or before 30 November 2010	3,000,000	
Exercisable at 17.5 cents on or before 30 January 2011	800,000	
Exercisable at 25 cents on or before 30 January 2012	1,300,000	
Exercisable at 35 cents on or before 30 January 2013	1,300,000	
Exercisable at 15 cents on or before 30 November 2009	2,950,000	
Exercisable at 25 cents on or before 31 January 2010	200,000	
Exercisable at 25 cents on or before 31 January 2011	400,000	
Exercisable at 25 cents on or before 31 January 2012	400,000	
Total	<b>14,850,000</b>	

# Azure Minerals Ltd

## Notes to the Financial Statements

For the half year Ended 31 December 2007

### NOTE 6 EARNINGS PER SHARE

Weighted average number of ordinary shares used in calculation of basic earnings per share is 128,110,874. Diluted earnings per share is not calculated as it is not considered dilutive and therefore has not been disclosed.

### NOTE 7 CONTINGENT ASSETS AND LIABILITIES

The parent entity and group had contingent liabilities at 31 December 2007 in respect of:

#### Exploration Joint Venture in Mexico

Under the terms of the agreement, Azure Minerals can earn an initial 51% interest in all Geoinformatics' projects within the Strategic Alliance Area by expending US\$4 million within a period of four years, and can earn a further 24% (totaling a 75% interest) by carrying all further expenditure until the completion of a pre-feasibility study within six years. At 31 December 2007 approximately US\$3.77 million has been expended by Azure Minerals Limited.

### NOTE 8 FUNDS MISAPPROPRIATED

During the December 2006 period \$227,722 was fraudulently misappropriated from the company's bank account held in Hermosillo, the capital of the state of Sonora in Mexico. Investigations by both the bank and local police failed to identify those responsible. While the bank claimed no responsibility a settlement was reached with the bank whereby in an act of good faith it refunded half of the amount misappropriated. As a result, a loss of \$113,861 has been provided for in the accounts in the December 2006 half year.

### NOTE 9 COMMITMENTS

Since the last reporting date, there is no material change in the groups commitments.

### NOTE 10 RELATED PARTY

Arrangements with related parties continue to be in place. For details of these arrangements refer to 30 June 2007 financial report.

### NOTE 11 SHARE BASED PAYMENTS

During the reporting period the group issued options pursuant to an Employee and Consultants Option Plan and also Director Options issued pursuant to approval obtained by shareholders at a General Meeting. Details of each issue are 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.

# Azure Minerals Ltd

## Notes to the Financial Statements

For the half year Ended 31 December 2007

### NOTE 11 SHARE BASED PAYMENTS (continued)

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

Grant Date	Number Granted	Vesting Conditions	Expiry
3 August 2007	1,750,000	Nil	30 November 2009

*Fair value of options granted.*

The weighted average fair value of the options granted during the year was 14.35 cents. The price was calculated by using the Binominal Option valuation methodology applying the following inputs:

Share price (cents)	22.5
Weighted average exercise price (cents)	15.0
Weighted average life of the option (years)	2.33
Weighted average underlying share price (cents)	22.5
Expected share price volatility	90.2%
Risk free interest rate	6.05%
Expected dividend yield	Nil

#### (b) Directors options

On 28 November 2007 shareholders approved issue of 1,000,000 options to a director. Set out below is a summary of those options granted.

Grant Date	Number Granted	Vesting Conditions	Expiry
24 December 2007	200,000	Nil	31 January 2010
24 December 2007	400,000	Nil	31 January 2011
24 December 2007	400,000	Nil	31 January 2012

*Fair value of options granted.*

The weighted average fair value of director options granted during the year was 10.38 cents. The price was calculated by using the Binominal Option valuation methodology applying the following inputs:

Share price (cents)	18.5
Weighted average exercise price (cents)	25.0
Weighted average life of the option (years)	3.31
Weighted average underlying share price (cents)	18.5
Expected share price volatility	90.2%
Risk free interest rate	6.25%
Expected dividend yield	Nil

The basis for measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2007.

# Azure Minerals Ltd

## Directors Declaration

For the half year Ended 31 December 2007

### Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 3 to 10:

- (a) comply with Accounting Standard AASB 134:Interim Financial Reporting and the *Corporations Act 2001*; and
- (b) give a true and fair view of the financial position as at 31 December 2007 and of the performance for the half 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.

This declaration is made in accordance with a resolution of the Board of Directors.



Director .....

Anthony Rovira

Dated 12 March 2008



BDO Kendalls

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

We have reviewed the accompanying half-year financial report of Azure Minerals Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

### **Directors' Responsibility for the Half-Year Financial Report**

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Azure Minerals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Azure Minerals Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

## BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls  
Glyn O'Brien

**Glyn O'Brien**  
Director

Perth, Western Australia  
Dated this 12th day of March 2008





BDO Kendalls

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ABN 79 112 284 787

12 March 2008

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

Dear Sirs

## **DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF AZURE MINERALS LIMITED**

As lead auditor of Azure Minerals Limited for the half-year year ended 31 December 2007, 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 review; and
- any applicable code of professional conduct in relation to the review.

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

**Glyn O'Brien**

Director

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**

Perth, Western Australia