Azure Minerals Limited

ABN 46 106 346 918

Annual Report and Financial Statements

for the year ended 30 June 2010

Corporate Information

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
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
Level 2, 45 St Georges Terrace
PERTH WA 6000
Telephone: (08) 9445 7000
Facsimile: (08) 9445 7677

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

Internet Address
www.azureminerals.com.au

ASX Code
Shares AZS

Highlights

2010 was a strong year for Azure with significant progress achieved across the portfolio of projects.

The Company focused heavily on developing its portfolio of projects during the course of 2010 and undertook the following activities:

Corporate

- Rationalised and terminated the Joint Venture with Kiska Metals Corp (formerly Geoinformatics Exploration Inc), with full ownership of seven additional exploration properties transferred to Azure
- Entered Joint Venture over Azure's fully owned San Eduardo Project with Australian copper miner OZ Minerals Ltd
- Entered into an option to sell Azure's 100%-owned Tabisco Project to Canadian junior company StoneShield Capital Corp

Promontorio

- Completed follow-up bulk metallurgical testwork which returned significantly higher concentrate grades for copper, silver and gold
- Delivered bulk samples of Promontorio concentrate to third party smelters for evaluation
- Commenced discussions with smelters regarding potential concentrate off-take arrangements
- Identified new epithermal gold-silver vein systems at the Creston Colorado and Sehue prospects
- Designed diamond drilling programs to extend the Promontorio deposit and to test the gold-silver mineralised epithermal veins systems at Creston Colorado, Sehue and Cascada prospects
- Commenced Environmental Base Line Study and Environmental Impact Statement required for further intensive drilling operations and project development

La Tortuga (Joint Venture with JOGMEC)

- Completed six hole (2,245 m) diamond drilling program which intersected very encouraging zones of porphyry copper and skarn copper-zinc mineralisation
- Continued field exploration with further mapping, sampling and geophysical activities identifying additional drill targets
- IP survey and more diamond drilling undertaken in 2nd Half of 2010

San Eduardo (Joint Venture with OZ Minerals)

- OZ may spend US$13 million to earn 70% interest in San Eduardo Project with an initial budget of US$300,000 to fund exploration activities in 2010
- Commenced field work comprising airborne magnetic and radiometric survey, and surface mapping and sampling
- IP survey and diamond drilling undertaken in 2nd Half of 2010

El Tecolote

- Acquired this property following rationalisation of JV with Kiska Metals
- El Tecolote is situated in a prime position between San Eduardo and La Tortuga properties
- Property has potential for porphyry-hosted copper and skarn copper-zinc mineralisation
- Reconnaissance exploration identifies outcropping porphyry copper mineralisation and also a large zone of shear-hosted gold mineralisation
- Further exploration including drilling planned for 4th Quarter 2010 and 2011

Contents

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 2010.

This has been a successful year for Azure at both the corporate and project level, with the establishment of a strong platform for future exploration and project development success. The Company has proven its ability to withstand difficult economic and market conditions and is now well positioned for future growth with a portfolio of high quality projects, strong interest from international mining companies, and a healthy balance sheet.

Investment in Mexico

Our projects are located in Mexico, an accessible, under-explored and world class mineral destination. We are very pleased to be conducting business in this country with low sovereign risk, an established mining culture, and strong public and government acceptance and support of the mining industry. The attractiveness and stability of Mexico as an exploration and mining destination has been highlighted by the recent and ongoing uncertainty regarding the taxation of the resources sector in Australia.

Active Project Portfolio Management

Over the last year we have made significant progress in consolidating our portfolio of projects, including the rationalisation of the Joint Venture with Kiska Metals Corp which resulted in the transfer of seven additional projects to 100% Azure ownership.

A major development during the year was the partnership with Australian copper miner, OZ Minerals Ltd for the exploration and development of the San Eduardo Project. This represents another significant step forward for Azure, strongly endorsing the Company's ability to recognise and acquire high quality exploration assets attractive to third parties, and reflecting our strategy of utilising third party relationships and capital to explore greenfields projects.

Further highlighting the attractiveness of our projects to other companies keen to enter the Mexican mining scene, we entered into an option to sell our 100%-owned Tabisco Project to the Canadian junior company StoneShield Capital Corp. To acquire the option, which is open for six months, StoneShield issued 100,000 of its shares to Azure. To exercise the option StoneShield must pay Azure US$100,000 and issue up to a further 1,000,000 StoneShield shares.

These deals continue our approach of adding value to our non-core properties by attracting external sources of project funding. Azure's wider portfolio remains very prospective with a number of promising early stage projects poised for further exploration with drilling planned in 2010 and 2011.

Promontorio

We continue to progress our flagship project, Promontorio, towards a development and production decision. Studies indicate the project is financially robust, especially at current metals prices, and there is significant potential for a resource upgrade through further drilling. We are well advanced in preparing an Environmental Impact Statement to submit to the Mexican Federal Government necessary to undertake further development work.

El Tecolote District

We own a significant strategic holding in this district and have established Joint Ventures to accelerate the exploration and development of two of our projects in this area. Earlier this year, Azure entered into the Joint Venture on the San Eduardo Project with OZ Minerals Limited whereby OZ may earn a 70% interest in the project by sole funding US$13 million over 8 years.

We also entered into a similar agreement with JOGMEC in 2009 in relation to the nearby La Tortuga Project, whereby JOGMEC may earn a 51% interest by sole funding US$3 million expenditure over three years. A second stage of diamond drilling program has commenced at La Tortuga to follow up the previous year's encouraging results.

The El Tecolote Project is situated between and adjoining La Tortuga and San Eduardo, and in its own right is very prospective for gold, porphyry copper and skarn copper-zinc mineralisation. We are exploring this project ourselves, with very encouraging results to date.

Balance Sheet

Despite the very volatile nature of the capital markets during the last year, we were very pleased to successfully raise more than A$6.0 million in fresh capital to continue funding the Company's exploration activities. The continuing support of our loyal shareholders and the strong interest of new institutional backers will enable us to implement significant exploration activities on our 100% owned properties, while continuing to advance greenfields projects such as San Eduardo and La Tortuga through funding raised by way of Joint Venture agreements.

We are delighted to have the opportunity to report to shareholders the results of a very productive period, on both the corporate and project development fronts. This continues our stated vision towards becoming an independent minerals producer through exploration success and selective acquisition of new projects.

We thank our shareholders and partners for their ongoing support and look forward to continuing success in the coming year.

Tony Rovira
Executive Chairman

Review of Operations

<u>Promontorio (Copper-Gold-Silver)</u>

The Promontorio Project, Azure's most advanced project, is located in the richly mineralised Sierra Madre mining province in Chihuahua, Mexico.

Promontorio contains a high grade copper-gold-silver deposit hosted in veins of massive and semi-massive sulphides, and has outstanding further exploration potential. Using a 1% copper cut-off, the following JORC Code compliant mineral resource has been produced.

CLASSIFICATION	TONNES	Copper (%)	Gold (g/t)	Silver (g/t)
INDICATED	290,000	4.2	2.1	94
INFERRED	212,000	5.3	2.1	106
TOTAL	502,000	4.7	2.1	99

Using a bulk sample of Promontorio ore, Azure carried out a two stage program of metallurgical testwork. Initial bench-scale work comprised head grade analysis, mineralogical examination, comminution testing and sulphide flotation testwork. The second stage, operating at a pilot plant scale, produced a bulk copper concentrate for evaluation by commercial smelters. The very positive metallurgical results returned from the Stage 2 testwork, detailed below, have attracted interest from 3rd party smelters.

PRODUCT	MASS	COPPER		SILVER		GOLD	
	Recovery (%)	Grade (%)	Recovery (%)	Grade (g/t)	Recovery (%)	Grade (g/t)	Recovery (%)
Copper Concentrate	15	39.5	94.2	773	88.2	9.6	52.4

Comminution Testing Results

- Optimum Grind Size: P80 @ 75µm (medium)
- Rod Mill Work Index (kWh/t): 18.5 (moderate)
- Ball Mill Work Index (kWh/t): 17.2 (moderate)
- Abrasion Index: 0.6 (moderate)

Indicative Processing Route

- Selective underground mining at 150,000tpa
- Conventional crushing, grinding, flotation & filtration process
- Transport & sale of copper concentrate to 3rd party smelter
- Transport & sale of gold-rich pyrite concentrate to 3rd party gold treatment facility

The Promontorio Project comprises a central group of three granted mining concessions totalling 187 hectares (Promontorio Central) which Azure maintains an option to purchase and a surrounding mining concession 100% owned by Azure covering 105km^2 (Promontorio Regional).

As a portion of the Promontorio project area is located within the boundaries of a "Protected Natural Area" (an "ANP"), and the project is advancing towards development, the Environment Department of the Mexican Federal Government ("SEMARNAT") has requested Azure submit an Environmental Impact Statement and an Environmental Base Line Study. These studies are a necessary precursor to obtaining approval to carry out further intensive drilling operations and project development, and are being undertaken by Clifton Associates Ltd, Mexico's largest environmental consultancy. Azure anticipates approvals necessary for further exploration work to be granted within the following quarter.

Azure has designed a diamond drilling program to extend the Promontorio resource and to test gold-silver mineralised epithermal veins systems elsewhere within the project area. The program will commence upon receipt of requisite environmental approvals.

Review of Operations

During the past year, Azure has maintained its early stage exploration effort by undertaking a program of reconnaissance mapping and sampling over the Promontorio leases. This work successfully identified several targets of gold and silver mineralisation which warrant follow-up drilling.

A quartz-hematite breccia gossan after massive sulphides, located 50m north of the Promontorio resource boundary in an area yet to be drilled, returned grades of 25.7g/t gold and 9.2g/t silver. Follow-up work will involve drilling to test this zone and to extend the Promontorio resource further to the north.

A further 200m to the northwest is the Cascada prospect. Drilling by previous explorers intersected wide zones (>10m) of moderate grade gold (1-2g/t) indicating the potential for a bulk tonnage gold deposit. A best intercept of 7.6m @ 19.8g/t gold also highlights the potential for bonanza-grade gold mineralisation. This is a high priority drilling target.

The Creston Colorado and Sehue prospects, located approximately 3km southwest of Promontorio, are new targets. They comprise zones of epithermal quartz veining containing gold and silver mineralisation which have never been drill tested. These targets will be further explored and drilled during the forthcoming year.

San Eduardo (Copper & Zinc)

San Eduardo, a 238 km² property wholly-owned by Azure, is prospective for porphyry-hosted copper and skarn copper-zinc mineralisation. During the year, Azure entered into a Joint Venture with Australian copper miner OZ Minerals Ltd (OZ) to accelerate exploration on this key project. Under the terms of the agreement, OZ can sole fund the first US$13M million of exploration and development expenditure to earn a 70% interest in the project. The Joint Venture is managed and staffed by Azure with technical assistance from OZ.

Numerous occurrences of breccia and skarn mineralisation containing anomalous grades of copper, lead and zinc, indicative of a porphyry copper association, occur throughout the property. Many have been exploited by small scale historical mine workings.

The Joint Venture's first phase of exploration focused on the very prospective south of the property, and comprised helicopter borne magnetic and radiometric surveys and geological mapping and sampling. Two areas, El Venado and Plomosa, were identified as having very good potential to host significant porphyry and skarn copper mineralisation, with surface sampling returning grades up to 3.24% Copper and 11.30% Zinc. Further exploration on these prospects will comprise Induced Polarisation surveys, to be followed by drilling in late 2010.

In the north of the property significant old mine workings are present at the Alejandra prospect. Historical sampling by the Mexican Geological Survey at Alejandra collected a total of 40 channel samples of wall-rock, returning an average grade of 25 g/t silver, 78.34% lead and 1.89% zinc, with maximum values of 80.9 g/t silver, 20.04% lead and 5.45% zinc. Exploration will be undertaken in this area during 2011.

La Tortuga (Copper & Zinc)

The La Tortuga Project consists of Azure's 100% owned La Tortuga and Los Nidos properties which cover 213km^2. The project is in Joint Venture with the Japan Oil, Gas and Metals National Corporation ("JOGMEC"). Under the terms of the agreement, JOGMEC can sole fund the first US$3 million of exploration expenditure to earn a 51% interest in the project, and to date JOGMEC has funded approximately US$1.32 million of expenditure. The Joint Venture is managed and staffed by Azure with technical assistance from JOGMEC.

JOGMEC is a wholly-owned Japanese Government corporation established to assist in the stable supply of oil, gas and mineral resources to the Japanese economy. It seeks to gain entry into high-potential mineral exploration projects through providing funding and technical assistance, with a view to the later introduction of commercial Japanese interests. To assist with those objectives it has entered into the La Tortuga joint venture with an objective to discover large copper deposits.

To date, the joint venture has completed 6 deep diamond drill holes totalling 2,245m. Drilling targets were identified by a combination of geological mapping, surface sampling, and various geophysical surveys (aeromagnetic, radiometric and IP surveys).

Drilling has intersected porphyry and limestone skarn rock types containing strong phyllic (quartz-sericite-pyrite) alteration and stockworked quartz veining, together with significant amounts of oxide copper and disseminated copper, zinc and molybdenum sulphide mineralisation. A best intercept of 26.9m @ 0.5% copper, 0.4% zinc & 12g/t silver was returned from a depth of 130.0m, within an overall interval of 156.9m @ 0.2% copper and 0.2% zinc from surface. Highest grades include 2.0m @ 1.6% copper, 1.7% zinc & 48g/t silver. This skarn mineralisation is similar to the nearby El Tecolote Copper-Zinc-Silver Mine.

Review of Operations

LA TORTUGA SIGNIFICANT DRILL INTERCEPTS

<table>
<tr><th>HOLE NO.</th><th>FROM (m)</th><th>TO (m)</th><th>INTERVAL (m)</th><th>COPPER (%)</th><th>Comments</th></tr>
<tr><td>TOR-DD-001#</td><td>48.0</td><td>86.0</td><td>38.0</td><td>0.2</td><td rowspan="2">Copper oxide mineralisation hosted in strongly altered and quartz vein stockworked porphyry</td></tr>
<tr><td>TOR-DD-001#</td><td>112.6</td><td>126.6</td><td>14.0</td><td>0.2</td></tr>
<tr><td>TOR-DD-002</td><td colspan="5">Geophysical Target - Magnetite-rich conglomerate – no significant intercepts</td></tr>
<tr><td>TOR-DD-003</td><td colspan="5">Geophysical Target - Pyrite-rich sediment - no significant intercepts</td></tr>
<tr><td>TOR-DD-004</td><td>152.2</td><td>182.1</td><td>29.9</td><td>0.3</td><td>Copper oxide mineralisation hosted in strongly altered and quartz vein stockworked porphyry</td></tr>
<tr><td>TOR-DD-005</td><td colspan="5">Minor copper mineralisation in weakly altered porphyry</td></tr>
<tr><td>TOR-DD-006</td><td>0.0</td><td>156.9</td><td>156.9</td><td>0.2</td><td rowspan="2">Copper-zinc mineralised skarn</td></tr>
<tr><td>Including</td><td>130.0</td><td>156.9</td><td>26.9</td><td>0.5</td></tr>
<tr><td>TOR-DD-007</td><td colspan="5">Minor copper mineralisation in weakly altered porphyry</td></tr>
</table>

Results of this drilling are encouraging, and the Joint Venture partners evaluated the geology, geophysical and geochemical results to vector in to higher grade areas of the porphyry system. Follow-up work comprising mapping and IP surveys identified enhanced prospectivity further to the west and this is the area where the next stage of diamond drilling will be carried out.

El Tecolote (Gold, Copper & Zinc)

Azure's 100% owned El Tecolote project, covering approximately 138km², was acquired for its historical mine production, its excellent porphyry copper and skarn copper-zinc potential, and due to its strategic location between and adjacent to the San Eduardo and La Tortuga properties. No significant exploration has been undertaken on the property since the 1980's.

The project area contains the historical El Tecolote Copper-Zinc-Silver Mine. This significant mining and processing venture operated during the periods 1939-1944 and 1978-1984, with total production recorded as approximately 1.4 million tonnes @ 1.9% copper, 7.0% zinc and 47g/t silver. Operations ceased due to low metals prices at the time, with unmined copper and zinc mineralisation remaining around the old mine workings. Potential also exists for additional deposits along strike and at depth, with exploration by Grupo Mexico in the 1980's identifying mineralisation separate from the El Tecolote deposit.

Elsewhere within the property there is potential for porphyry copper mineralisation, with Azure personnel discovering the altered and mineralised Tecolote Porphyry. Reconnaissance exploration identified strongly altered porphyry containing quartz vein stockwork, oxidised sulphides and copper oxide mineralisation. This confirms the project's potential to host porphyry copper mineralisation.

First stage geochemical sampling returned encouraging results from rock chip and stream sediment sampling. Numerous significant copper values were returned, including 2.4% Cu, 0.98% Cu and 0.44% Cu, hosted within strong phyllic altered zones which increase in intensity towards the north and northeast of the outcropping portion of the porphyry. Anomalous values of zinc and molybdenum are coincident with the elevated copper values, indicating the potential for this mineralized porphyry outcrop to be part of a major porphyry copper system.

Recently, encouraging results have been received from reconnaissance exploration over the northern part of the property. A gold mineralised shear zone at least 500m long and averaging 50m in width hosting numerous historical mine workings with shafts as deep as 30m has been identified. This area has been named Monarca.

Review of Operations

Sampling returned grades up to 7.7g/t gold from quartz veins near the old mine workings, and grades up to 1.3g/t gold from the surrounding host rocks. Extensive alluvial gold workings nearby indicate that significant gold has been shed by this mineralised system, providing further encouragement to explore this prospect. A detailed mapping and sampling program over the Monarca prospect has been completed, and Azure expects to drill test the mineralised system before the end of 2010.

Pozo de Nacho (molybdenum)

Pozo de Nacho, 100%-owned by Azure, contains a substantial body of molybdenum mineralisation within an intrusive porphyry system and the surrounding sediments. During 2006/07 Azure drilled mineralisation over an area of 800 by 250 metres, from surface to depths in excess of 300 metres, and it remains open-ended in most directions. Follow-up work has been delayed by funding restrictions, however the recent capital raising will enable the next stage of work to commence. An IP survey, planned for late in 2010, is designed to identify the extent of the mineralised system and assist in the targeting of the next phase of deep diamond drilling, which is planned for early 2011.

ESTACION LLANO (gold)

This 24km^2 property, 100% owned by Azure, covers the interpreted western extension of the mineralised system hosting the +1.3 million ounce San Francisco Gold Mine (currently producing at a rate of 100,000oz gold per year), where recent drilling by Canadian owner Timmins Gold Corp confirms the mineralised system extends west towards Azure's property.

The entire Estacion Llano property is coved with a veneer of alluvial sand, and no drilling has been carried out within Azure's project area. Azure has commenced exploration with a program of geochemical surface sampling. Drilling to test the extensions of the San Francisco mineralised system is expected to commence in late 2010 once the geochemical results have been evaluated.

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 2010.

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 2010 was $2,058,068 (2009: $3,355,760). Included in this loss figure is $1,536,522 (2009: $3,241,555) of exploration expenditure written off. Refer notes to the financial statements note 1(d).

Shareholder Returns

	2010	2009
Basic loss per share (cents)	**(0.9)**	**(1.9)**
Diluted loss per share (cents)	**(0.9)**	**(1.9)**

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, $5,791,730 (after capital raising costs) was raised through the issue of 126,005,177 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.

Directors' Report

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 $5,791,130 (from $ 29,459,548 to $35,250,678) as a result of:

	2010 $
Issue of 100,005,177 fully paid ordinary shares at $0.05 each	5,000,258
Issue of 26,000,000 fully paid ordinary shares at $0.04 each	1,040,000
	6,040,258
Less expenses associated with the above issue of shares	(249,128)
Total	**5,791,130**

Net cash received from the increase in contributed equity amounting to $5,791,730 was raised principally to continue the company's exploration programme in Mexico.

(c) The Company reached agreement with joint venture partner Kiska Metals Corp (formerly Geoinformatics Exploration Inc) to rationalise and dissolve its Mexican Joint Venture. Under the terms of the agreement, Azure has gained 100% ownership of five of the former joint venture projects. The remainder will revert to Kiska or be relinquished. Furthermore, as part consideration for the rationalisation, Kiska has transferred full ownership of two of its 100%-owned Mexican properties to Azure:

El Tecolote – A 112km^2 property containing the El Tecolote Copper-Zinc-Silver Mine, once a significant mining and processing venture operated by Grupo Mexico, Mexico's largest mining company. Historical production is recorded as approximately **1.4 million tonnes @ 1.9% copper, 7.0% zinc and 47g/t silver**. Production ceased in the early 1980's due to low metals prices at the time, with substantial unmined copper and zinc mineralisation remaining around the old mine workings. Potential also exists for additional deposits within the property.

San Juan – Peripheral to the high grade Cumobabi porphyry-hosted molybdenum-copper mine, San Juan is prospective for epithermal silver-gold mineralisation. Previous drilling intersected 22m @ 92g/t silver and potential exists for a typical silver-rich epithermal precious metal deposit.

(d) Entering into a joint venture with Australian mining company OZ Minerals Ltd on Azure's 100%-owned San Eduardo property, located in Sonora Mexico.

To earn an initial 51% participating interest in San Eduardo, OZ Minerals Ltd will spend US$3,000,000 over the next 3 years, with a minimum commitment of US$300,000 to be expended within the first year. OZ Minerals can earn an additional 19% participating interest in the project by spending a further US$10,000,000, taking its total equity to 70%.

(e) The signing of an option to sell the company's 100%-owned Tabisco project ("Option") to TSX Venture Exchange listed StoneShield Capital Corp (TSX-V: STS). To acquire the Option, which will be open for six months, StoneShield will issue Azure with 100,000 StoneShield shares, subject to receiving TSX-V approval for the transaction. To exercise the option, and acquire 100% of the project, StoneShield must pay Azure US$100,000 and issue a further 300,000 StoneShield shares to Azure. The option period may be extended to a maximum of two years by Stoneshield making a series of additional share issues to Azure at six monthly intervals. Should Stoneshield extend the option period to the maximum period of two years and then exercise the option to purchase Azure would have been paid US$100,000 and issued with 1,300,000 Stoneshield shares. As at the date of this report the option has not been exercised.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Since year end TSX-V approval was received for the Tabisco option agreement referred to in (d) above and Azure has been issued with 100,000 shares in Stoneshield Capital Corp.

No other 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.

Directors' Report

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

6,500,000 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 – Chairman since July 2005

Uran Limited – Non-Executive Director since November 2006

Former Directorships in the last 3 years

Windimurra Vanadium Limited – resigned 2 October 2009

Carbine Resources Limited – resigned 4 November 2008

Special Responsibilities

Chairman Remuneration Committee

Member of Audit Committee

Interests in Shares and Options

1,540,000 ordinary shares in Azure Minerals Limited
2,800,000 options over ordinary shares in Azure Minerals Limited

Directors' Report

INFORMATION ON DIRECTORS (cont'd)

Names, qualifications, experience and special responsibilities (cont'd)

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.

VDM Group Limited – Non-Executive Director and Chairman since October 2005.

Former Directorships in the last 3 years

Centrepoint Alliance Limited from May 2002 – November 2007

Special Responsibilities

Chairman of Audit Committee

Member of Remuneration Committee

Interests in Shares and Options

2,669,600 ordinary shares in Azure Minerals Limited

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

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: Audit		Meetings of Committees: Remuneration	
	A	**B**	**A**	**B**	**A**	**B**
Anthony Paul Rovira	9	9	*	*	*	*
John Walter Saleeba	9	9	2	2	-	-
Wolf Gerhard Martinick	8	9	2	2	-	-

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

Wolf Martinick is the director retiring by rotation who, being eligible offers himself for re-election.

Directors' Report

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.

Mr P Manouge Exploration Manager – Australia appointed 5 January 2004 (resigned 30 March 2009)

In addition the Company Secretary, Mr B Dickson is an executive whose remuneration must be disclosed under the Corporations Act 2001.

Directors' Report

Key management personnel of the Group

	Short-Term			Post Employment		Share-based Payments	Total	Percentage Consisting of
Name	Cash, salary & fees	Cash Bonus	Non monetary benefits	Super-annuation	Retirement benefits	Options		Options %
Directors								
Anthony Paul Rovira – *Executive Chairman*								
2010	**258,500**	**-**	**-**	**23,265**	**-**	**144,500**	**426,264**	**33.9**
2009	264,935	-	-	60,177	-	-	325,112	-
John Walter Saleeba – *Non executive*								
2010	**32,500**	**-**	**-**	**2,925**	**-**	**57,800**	**93,225**	**62.0**
2009	32,500	-	-	2,925	-	-	35,425	-
Wolf Gerhard Martinick –*Non Executive (Appointed 1 September 2007)*								
2010	**24,375**	**-**	**-**	**11,050**	**-**	**57,800**	**93,225**	**62.0**
2009	-	-	-	35,425	-	-	35,425	-
Executives								
Brett Dickson – *Company Secretary*								
2010	**132,000**	**- -**		**-**	**-**	**101,150**	**233,150**	**43.4**
2009	132,000	- -		-	-	-	132,000	-
Patrick Manouge – *Exploration Manager(resigned 30 March 2009)*								
2010		**-**	**-**	**-**	**-**	**-**	**-**	**-**
2009	152,152	-	-	13,694	-	-	165,846	-
Total								
2010	**447,375**	**-**	**-**	**37,240**	**-**	**361,250**	**845,865**	**42.7**
2009	581,587	-	-	112,221	-	-	693,808	-

Compensation options

No options were granted during the 2009 year. During the 2010 the following options were issued.

	Granted				Terms and conditions for each grant				Vested	
2010	**Number**	**Date**	**Fair Value Per option**	**Fair value $**	**Exercise Price $**	**Expiry date**	**First exercise date**	**Last exercise date**	**Number**	**%**
Directors										
A P Rovira	5,000,000	9 Dec 09	.0289	144,500	0.088	30 Nov 12	9 Dec 09	30 Nov 12	5,000,000	100
J W Saleeba	2,000,000	9 Dec 09	.0289	57,800	0.088	30 Nov 12	9 Dec 09	30 Nov 12	2,000,000	100
W Martinick	2,000,000	9 Dec 09	.0289	57,800	0.088	30 Nov 12	9 Dec 09	30 Nov 12	2,000,000	100
Executives										
B Dickson	3,500,000	9 Dec 09	.0289	101,150	0.088	30 Nov 12	9 Dec 09	30 Nov 12	3,500,000	100
Total	12,500,000		.0289	361,250					12,500,000	100

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

2010	**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**
	$	$	$	$	%
Directors					
A P Rovira	0.029	144,500	-	-	33.9
J W Saleeba	0.029	57,800	-	-	62.0
W G Martinick	0.029	57,800	-	(16,400)	62.0
Executives					
B Dickson	0.029	101,150	-	(182,760)	43.4

Directors' Report

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures nor shares issued on exercise of Compensation Options during 2010 or 2009.

The Company's remuneration policy prohibits directors and executives from entering into transactions or arrangements which limit the economic risk of participating in unvested 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 (2009: Nil)

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 - 2 years commencing 1 July 2009.
- Base salary, exclusive of superannuation, of $258,500 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 – 2 years commencing 1 July 2009
- Fixed fee, $11,000 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 12,500,000 exercisable at $0.088 before 30 November 2012 options were issued to Directors and Executives (2009: Nil)

No options were exercised during the financial year and no options have been exercised since the end of the financial year. During the year 7,250,000 (2009: 4,300,000) 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 2010/11 financial year.

End of Audited Remuneration Report

Directors' 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 14,800,000 unissued ordinary shares in respect of which options are outstanding.

			Total Number of options
Balance at the beginning of the year			10,550,000
Share option movements during the year	*Issued*	*Lapsed*	
Exercisable at 8.8 cents, on or before 30 November 2012	12,500,000		12,500,000
Exercisable at 25 cents, on or before 30 November 2009		(2,800,000)	(2,800,000)
Exercisable at 25 cents, on or before 30 November 2010		(2,800,000)	(2,800,000)
Exercisable at 25 cents, on or before 31 January 2010		(200,000)	(200,000)
Exercisable at 15 cents, on or before 30 November 2009		(2,450,000)	(2,450,000)
Total options issued and lapsed in the year to 30 June 2010			4,250,000
Total number of options outstanding as at 30 June 2010 and at the date of this report			14,800,000

The balance is comprised of the following

Date granted	Expiry date	Exercise price (cents)	Number of options
6 Dec 2006	31 Jan 2011	17.5	500,000
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 2011	25.0	400,000
24 Dec 2007	30 Jan 2012	25.0	400,000
9 Dec 2012	30 Nov 2012	8.8	12,500,000
Total number of options outstanding at the date of this report			**14,800,000**

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 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 mat 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.*

Directors' Report

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	
	2010	2009
1. Audit Services	$	$
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	37,018	36,657
2. Non audit Services		
Audit-related services		
BDO Audit (WA) Pty Ltd		
Attendance at Annual General Meeting	542	-
Taxation Services		
BDO Audit (WA) Pty Ltd		
Tax compliance services	11,110	10,916
Total remuneration for non-audit services	11,652	10,916

AUDITOR INDEPENDENCE

A copy of the auditors independence declaration as required under section 307c of the *Corporations Act 2001* is set out on page 58.

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, 29 September 2010

Corporate Governance Statement

Statement

Azure Minerals Limited ("**Company**") has made it a priority to adopt 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 ("**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. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

Disclosure of Corporate Governance Practices

Summary Statement

	ASX P & R[1]	If not, why not[2]		ASX P & R[1]	If not, why not[2]
Recommendation 1.1	✓		Recommendation 4.3	✓	
Recommendation 1.2	✓		Recommendation 4.4[3]	n/a	n/a
Recommendation 1.3[3]	n/a	n/a	Recommendation 5.1	✓	
Recommendation 2.1	✓		Recommendation 5.2[3]	n/a	n/a
Recommendation 2.2		✓	Recommendation 6.1	✓	
Recommendation 2.3		✓	Recommendation 6.2[3]	n/a	n/a
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2	✓	
Recommendation 2.6[3]	n/a	n/a	Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4[3]	n/a	n/a
Recommendation 3.2	✓		Recommendation 8.1	✓	
Recommendation 3.3[3]	n/a	n/a	Recommendation 8.2	✓	
Recommendation 4.1	✓		Recommendation 8.3[3]	n/a	n/a
Recommendation 4.2		✓			

1 Indicates where the Company has followed the Principles & Recommendations.
2 Indicates where the Company has provided "if not, why not" disclosure.
3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Website Disclosures

Further information about the Company's charters, policies and procedures may be found at the Company's website at www.azureminerals.com.au, under the section marked Corporate Governance. A list of the charters, policies and procedures which are referred to in this Corporate Governance Statement, together with the recommendations to which they relate, are set out below.

Charters	**Recommendation(s)**
Board	1.3
Audit Committee	4.4
Nomination Committee	2.6
Remuneration Committee	8.3
Policies and Procedures	
Policy and Procedure for Selection and (Re)Appointment of Directors	2.6
Process for Performance Evaluation	1.2, 2.5
Policy on Assessing the Independence of Directors	2.6
Policy for Trading in Company Securities (summary)	3.2, 3.3
Code of Conduct (summary)	3.1, 3.3
Policy on ASX Listing Rule Compliance (summary) and Compliance Procedures (summary)	5.1, 5.2
Procedure for Selection, Appointment and Rotation of External Auditor	4.4
Shareholder Communication Strategy	6.1, 6.2
Risk Management Policy (summary)	7.1, 7.4

Corporate Governance Statement

Disclosure – Principles & Recommendations

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2009/2010 financial year ("**Reporting Period**").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Disclosure:

The Company has established the functions reserved to the Board 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.

The Company has established the functions delegated to senior executives and has set out these functions in its Board Charter. 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, then directly to the Chair or the lead independent director, as appropriate.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

Disclosure:

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.

Recommendation 1.3:

Companies should provide the information indicated in the *Guide to reporting on Principle 1.*

Disclosure:

During the Reporting Period an evaluation of senior executives took place in accordance with the process disclosed at Recommendation 1.2.

Please refer to the section above marked Website Disclosures.

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the Board should be independent directors.

Disclosure:

The Board has a majority of directors who are independent.

The independent directors of the Board are Dr Wolf Martinick and Mr John Saleeba. The non-independent director of the Board is Mr Anthony Rovira.

Recommendation 2.2:

The Chair should be an independent director.

Notification of Departure:

The Chair is not an independent director.

Explanation for Departure:

Mr Rovira is not independent by virtue of his executive role. The Board considers that Mr Rovira is the most appropriate person for the position of Chair given his industry experience, and the size and current activities of the Company. The Board also believes that Mr Rovira's appointment as Chair is in line with shareholder expectations.

Corporate Governance Statement

Recommendation 2.3:

The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

Notification of Departure:

The roles of Chair and Managing Director are exercised by the same individual, Mr Rovira.

Explanation for Departure:

While the Board recognises the importance of the need for the division of responsibilities between the

Chair and the Managing Director, the existing structure is considered appropriate to the Company's present circumstances. It provides a unified leadership structure which the Board believes is important given the Company's early stage of exploration. Further, the Board believes this structure is in line with shareholder expectations.

Recommendation 2.4:

The Board should establish a Nomination Committee.

Notification of Departure:

The Company has not established a separate Nomination Committee.

Explanation for Departure:

The full Board considers those matters that would usually be the responsibility of a Nomination Committee. Given that the Board comprises only three directors, the Board considers that no efficiencies or other benefits would be gained by establishing a separate 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 in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of Nomination Committee by ensuring the director with conflicting interests is not party to the relevant discussions.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

Disclosure:

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The Nomination Committee (or equivalent) is responsible for evaluating the Executive Chair.

The Chair evaluates the Board and, when deemed appropriate, Board committees and individual directors by utilising questionaries 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.

The Nomination Committee evaluates the performance of the Chair each year by personal interview. In reviewing the Chair the performance of the company against predetermined budgets and evaluation criteria (if any) is assessed.

Recommendation 2.6:

Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

Disclosure:

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

Identification of Independent Directors

The independent directors of the Company are Dr Wolf Martinick and Mr 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.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The materiality thresholds are set out below.

Corporate Governance Statement

Company's Materiality Thresholds

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter:

- 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, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 5% or more on balance sheet or profit and loss items, or they 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 of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

Statement concerning availability of Independent Professional Advice

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 for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Nomination Matters

The full Board carries out the role of the Nomination Committee. 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 is available on the Company's website).

The explanation for departure set out under Recommendation 2.4 above explains how the functions of the Nomination Committee are performed.

Performance Evaluation

During the Reporting Period an evaluation of the Board and its committees took place in accordance with the process disclosed at Recommendation 2.5. However, there were no performance evaluations held in the Reporting Period for individual directors.

Selection and (Re)Appointment of Directors

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed procedure whereby it evaluates the range of skills, experience and expertise of the existing Board, considers the balance of independent directors on the Board as well identifying the particular skills that will best increase the Board's effectiveness. A potential candidate is considered with reference to their skills and expertise in relation to other Board members. If relevant, the Nomination Committee recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next annual general meeting. The Company's Policy and Procedure for Selection and (Re)Appointment of Directors is available on the Company's website.

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 a 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.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

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

Corporate Governance Statement

Recommendation 3.2:

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Disclosure:

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees.

Recommendation 3.3:

Companies should provide the information indicated in the *Guide to reporting on Principle 3.*

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1:

The Board should establish an Audit Committee.

Disclosure:

The Company has established an Audit Committee.

Recommendation 4.2:

The Audit Committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent Chair, who is not Chair of the Board; and
- has at least three members.

Notification of Departure:

The Audit Committee has two members, Wolf Martinick and John Saleeba, both of whom are independent non-executive directors. The Audit Committee is chaired by John Saleeba, who is not chair of the Board.

Explanation for Departure:

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.

Recommendation 4.3:

The Audit Committee should have a formal charter.

Disclosure:

The Company has adopted an Audit Committee Charter.

Recommendation 4.4:

Companies should provide the information indicated in the *Guide to reporting on Principle 4.*

Disclosure:

The Audit Committee held two meetings during the Reporting Period. The following table identifies those directors who are members of the Audit Committee and shows their attendance at Committee meetings:

Name	No. of meetings attended
Dr Wolf Martinick	2
Mr John Saleeba	2

Details of each of the director's qualifications are set out in the Directors' Report.

Corporate Governance Statement

Both members of the Audit Committee consider themselves to be financially literate and have industry knowledge. Further, Mr John Saleeba has a Bachelor of Commerce and is a Certified Practicing 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, which is available of the Company's website. 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.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

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

Recommendation 5.2:

Companies should provide the information indicated in the *Guide to reporting on Principle 5.*

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Disclosure:

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

Recommendation 6.2:

Companies should provide the information indicated in the *Guide to reporting on Principle 6.*

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Executive Chair, who is responsible for identifying, assessing, monitoring and managing risks. The Executive Chair is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Executive Chair may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

Corporate Governance Statement

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 exceeded, will require 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

During the Reporting Period, the Company managed its material business risks as outlined above. In addition, the Board received a report from management each month which enabled an assessment by the Board of activities that may impact on the risk profile of the Company. Specific areas of risk that were identified in the report included operational activities, asset management (including title to exploration and mining leases) and staff. Any matter identified from the monthly report was then discussed at the following Board meeting.

In June 2010, the Company undertook a review of its risk management policy and procedures, and formalised and documented its system to manage its material business risks. The Board adopted a revised Risk Management Policy and Risk Management Procedures.

Under the revised Risk Management Policy, the Board will oversee the processes by which risks are managed. This will include 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.

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.

Recommendation 7.2:

The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Disclosure:

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. Further, the Board has received a report from management as to the effectiveness of the Company's management of its material business risks.

Recommendation 7.3:

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act 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.

The Board has established a separate Audit Committee to monitor and review the integrity of financial reporting and the

Disclosure:

The Executive Chair and the Chief Financial Officer (or equivalent) 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 risk.

Recommendation 7.4:

Companies should provide the information indicated in the *Guide to reporting on Principle 7.*

Disclosure:

The Board has received the report from management under Recommendation 7.2.

The Board has received the assurance from the Executive Chair and the Chief Financial Officer (or equivalent) under Recommendation 7.3.

Corporate Governance Statement

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The Board should establish a Remuneration Committee.

Disclosure:

The Company has established a Remuneration Committee.

Recommendation 8.2:

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Disclosure:

Non-executive directors are remunerated at market rates (for comparable companies) for time, commitment and responsibilities. Fees for non executive directors are not linked to the performance of the Company. From time to time the Company may grant options to non-executive directors. The grant of options is designed to attract and retain appropriately qualified non-executive directors to the Board.

Pay and rewards for executive directors and senior executives 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.

Recommendation 8.3:

Companies should provide the information indicated in the *Guide to reporting on Principle 8.*

Disclosure:

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report.

The Remuneration Committee held one meeting during the Reporting Period. The following table identifies those directors who are members of the Remuneration Committee and shows their attendance at Committee meeting:

Name	No. of meetings attended
Dr Wolf Martnick	1
Mr John Saleeba	1

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.

Statements of Comprehensive Income

YEAR ENDED 30 JUNE 2010	Notes	Consolidated		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
Revenue from continuing activities	5	**39,650**	64,881	**39,650**	54,549
Expenditure					
Depreciation	6	**(39,806)**	(46,655)	**(17,334)**	(16,710)
Salaries and employee benefits expense		**(473,619)**	(493,583)	**(473,619)**	(493,583)
Directors fees		**(65,000)**	(65,000)	**(65,000)**	(65,000)
Exploration expenses	6	**(1,536,522)**	(3,241,555)	**(156,085)**	(11,094)
Exploration expenses reimbursed	6	**871,672**	957,042	**871,672**	957,042
Travel expenses		**(115,341)**	(83,183)	**(115,341)**	(83,183)
Promotion expenses		**(26,358)**	(35,361)	**(26,358)**	(35,361)
Administration expenses		**(97,953)**	(135,156)	**(97,953)**	(135,156)
Consulting expenses		**(14,533)**	(5,000)	**(14,533)**	(5,000)
Insurance expenses		**(44,654)**	(46,857)	**(24,329)**	(29,294)
Impairment on loan to subsidiary		**-**	-	**-**	(4,636,848)
Share based payment expense	27	**(361,250)**	-	**(361,250)**	-
Loss from equipment sales		**(1,873)**	-	**(1,270)**	-
Preparation for TSX Listing		**-**	(3,075)	**-**	(3,075)
Other expenses		**(192,481)**	(222,258)	**(192,479)**	(200,778)
Loss from continuing operations before income tax		**(2,058,068)**	(3,355,760)	**(634,229)**	(4,703,491)
Income tax benefit/(expense)	7	**-**	-	**-**	-
Loss from continuing operations after income tax		**(2,058,068)**	(3,355,760)	**(634,229)**	(4,703,491)
Other comprehensive income					
Exchange differences on translation of foreign operations		**(14,808)**	(184,942)	**-**	-
Other comprehensive income for the year net of tax		**(14,808)**	(184,942)	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(2,072,876)**	(3,540,702)	**(634,229)**	(4,703,491)

	Notes	2010	2009
Basic loss per share (cents per share)	22	**(0.9)**	(1.9)
Diluted loss per share (cents per share)		**(0.9)**	(1.9)

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

Statements of Financial Position

AT 30 JUNE 2010

	Notes	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
ASSETS					
Current Assets					
Cash and cash equivalents	18	**5,242,755**	1,345,997	**5,063,872**	1,272,504
Trade and other receivables	8	**153,391**	130,407	**6,214,634**	4,244,210
Total Current Assets		**5,396,146**	1,476,404	**11,278,506**	5,516,714
Non-Current Assets					
Plant and equipment	9	**100,894**	143,398	**40,500**	57,561
Capitalised exploration expenditure	10	**1,109,034**	709,602	**-**	-
Other financial assets	11	**22,308**	22,308	**22,535**	22,535
Total Non-Current Assets		**1,232,236**	875,308	**63,035**	80,096
TOTAL ASSETS		**6,628,382**	2,351,712	**11,341,541**	5,596,810
LIABILITIES					
Current Liabilities					
Trade and other payables	13	**319,523**	136,819	**250,035**	37,917
Provisions	14	**35,758**	23,692	**35,758**	23,692
Total Current Liabilities		**355,281**	160,511	**285,793**	61,609
Non-Current Liabilities					
Provisions	14	**105,176**	102,780	**105,176**	102,780
Total Non-Current Liabilities		**105,176**	102,780	**105,176**	102,780
TOTAL LIABILITIES		**460,457**	263,291	**390,969**	164,389
NET ASSETS		**6,167,925**	2,088,421	**10,950,572**	5,432,421
EQUITY					
Contributed equity	15	**35,250,678**	29,459,548	**35,250,678**	29,459,548
Reserves	16(a)	**1,038,408**	691,966	**1,264,942**	903,692
Accumulated losses	16(b)	**(30,121,161)**	(28,063,093)	**(25,565,048)**	(24,930,819)
TOTAL EQUITY		**6,167,925**	2,088,421	**10,950,572**	5,432,421

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

Statements of Changes in Equity

CONSOLIDATED

30 JUNE 2010

	Issued Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
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)
Other comprehensive income					
Exchange differences on translation of foreign operations	-	-	(14,808)	-	(14,808)
Total other comprehensive loss	-	-	(14,808)	-	(14,808)
Total comprehensive loss for the period	-	-	(14,808)	(2,058,068)	(2,072,876)
Transactions with owners in their capacity as owners:					
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
Balance as at 30 June 2010	**35,250,678**	**1,264,942**	**(226,534)**	**(30,121,161)**	**6,167,925**

30 JUNE 2009

	Issued Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
Balance at 1 July 2008	**25,129,782**	**903,692**	**(26,784)**	**(24,707,333)**	**1,299,357**
Loss for period	-	-	-	(3,355,760)	(3,355,760)
Other comprehensive income					
Exchange differences on translation of foreign operations	-	-	(184,942)	-	(184,942)
Total other comprehensive loss	-	-	(184,942)	-	(184,942)
Total comprehensive loss for the period	-	-	(184,942)	(3,355,760)	(3,540,702)
Transactions with owners in their capacity as owners:					
Issue of share capital, net of transaction costs	4,329,766	-	-	-	4,329,766
Total transaction with owners	4,329,766	-	-	-	4,329,766
Balance at 30 June 2009	**29,459,548**	**903,692**	**(211,726)**	**(28,063,093)**	**2,088,421**

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

Statements of Changes in Equity

PARENT ENTITY

30 JUNE 2010

	Issued Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
Balance at 1 July 2009	**29,459,548**	**903,692**	**-**	**(24,930,819)**	**5,432,421**
Loss for period	-	-	-	(634,229)	(634,229)
Other comprehensive income					
Exchange differences on translation of foreign operations	-	-	-	-	-
Total other comprehensive loss	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(634,229)	(634,229)
Transactions with owners in their capacity as owners:					
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
Balance as at 30 June 2010	**35,250,678**	**1,264,942**	**-**	**(25,565,048)**	**10,950,572**

30 JUNE 2009

	Issued Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
Balance at 1 July 2008	**25,129,782**	**903,692**	**-**	**(20,227,328)**	**5,806,146**
Loss for period	-	-	-	(4,703,491)	(4,703,491)
Other comprehensive income					
Exchange differences on translation of foreign operations	-	-	-	-	-
Total other comprehensive loss	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(4,703,791)	(4,703,491)
Transactions with owners in their capacity as owners:					
Issue of share capital, net of transaction costs	4,329,766	-	-	-	4,329,766
Total transaction with owners	4,329,766	-	-	-	4,329,766
Balance at 30 June 2009	**29,459,548**	**903,692**	**-**	**(24,930,819)**	**5,432,421**

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

Statements of Cash Flows

YEAR ENDED 30 JUNE 2010	Notes	Consolidated		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		**(1,000,807)**	(1,163,739)	**(980,482)**	(1,146,176)
Interest received		**28,875**	47,587	**28,875**	47,587
Expenditure on mining interests		**(584,634)**	(2,492,575)	**824,109**	952,810
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	18(b)	**(1,556,566)**	(3,608,727)	**(127,498)**	(145,779)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		**(2,807)**	(16,791)	**(1,544)**	-
Proceeds from sale of equipment		**-**	11,432	**-**	1,100
Option payments for projects		**(422,945)**	(530,131)	**-**	-
Loans to controlled entities		**-**	-	**(1,947,053)**	(4,180,786)
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		**(425,752)**	(535,490)	**(1,948,597)**	(4,179,686)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		**6,040,259**	4,458,909	**6,040,259**	4,458,909
Share issue costs		**(172,796)**	(129,143)	**(172,796)**	(129,143)
Preparation for TSX listing		**-**	(103,075)	**-**	(103,075)
NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES		**5,867,463**	4,226,691	**5,867,463**	4,226,691
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,885,145**	82,474	**3,791,368**	(98,774)
Cash and cash equivalents at the beginning of the financial year		**1,345,997**	1,420,067	**1,272,504**	1,371,278
Effect of exchange rate changes on cash and cash equivalents		**11,613**	(156,544)	**-**	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	18(a)	**5,242,755**	1,345,997	**5,063,872**	1,272,504

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

Notes to the Financial Statements

1. 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 authoritive 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.

Financial Statement Presentation
The Group has applied revised AASB 101 *Presentation of Finacial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the groupo had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(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.

Changes in accounting policy
The group has changed its accounting policy for transactions with non-controlling interests and the accounting loss of control, joint control or significant influence from 1 July 2009 when a revised AASB127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in* Associates and AASB 131 *Interests in Joint Ventures*.

The group has applied the new policy prospectively to transactions occurring after 1 July 2009. As a consequence no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(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.

Notes continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 balance sheet 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.

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 balance sheet 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.

Notes continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 balance sheet. 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 balance 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)**

(k) Revenue recognition

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

Notes continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 balance sheet.

(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 balance sheet.

(q) Segment reporting

Operating segments are reported in a meaner 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.

Changes in accounting policy
The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a decrease in the number of segments reported. There has been no other impact on the measurement of the company's assets and liabilities.

(r) 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.

(i) 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 balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance 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 balance 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.

Notes continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 balance 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 determined 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 balance sheet 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 balance sheet 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 accounting standards and interpretations

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ending 30 June 2010. These are outlined below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	The amendments are expected to only affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current AASB 2009-5	1 July 2010

Notes continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	There is expected to be no affect on the Group's financial statements.	1 July 2010
AASB 2009-9	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards.*	The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. Specifically, the amendments: • exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* when the application of their national accounting requirements produced the same result.	1 January 2010	There is expected to be no affect on the Group's financial statements	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	There is expected to be no affect on the Group's financial statements	1 July 2010
AASB 9 (issued December 2009)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.	1 July 2013

Notes continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Interpretation 19 (issued December 2009)	Extinguishing Financial Liabilities with Equity Instruments	Equity instruments issued to a creditor to extinguish all or part of a financial liability are 'consideration paid' to be recognised at the fair value of the equity instruments issued, unless their fair value cannot be measured reliably, in which case they are measured at the fair value of the debt extinguished. Any difference between the carrying amount of the financial liability extinguished and the 'consideration paid' is recognised in profit or loss.	Periods beginning on or after 1 July 2010	There will be no impact as the entity has not undertaken any debt for equity swaps.	1 July 2010
AASB 2010-3 (issued June 2010)	AASB 3 - Business Combinations	Confirms that any balances of contingent consideration that relate to acquisitions under the superseded AASB 3 must be accounted for under the superseded standard, i.e. not via profit or loss.	Periods commencing on or after 1 July 2010	There will be no impact on initial adoption as adjustments to contingent consideration on acquisitions prior to 1 July 2009 have been accounted for in accordance with the superseded AASB 3.	1 July 2010
AASB 2010-4 (issued June 2010)	AASB 7 - Financial Instruments: Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	Periods commencing on or after 1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.	1 July 2011
ASB 2010-4 (issued June 2010)	AASB 101 - Presentation of Financial Statements	A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements.	Periods commencing on or after 1 January 2011	There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in equity.	1 July 2011

Notes continued

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 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 balance sheet 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:

		Consolidated Carrying amount	
	Note	**2010**	**2009**
Trade and other receivables	8	136,752	114,125
Cash and cash equivalents	18	5,242,755	1,345,997
Security deposits	11	22,308	22,308

		Parent Entity Carrying amount	
	Note	**2010**	**2009**
Trade and other receivables	8	34,964	10,815
Receivable from controlled entity	25	10,797,797	8,850,744
Allowance for impairment from controlled entity	25	(4,630,744)	(4,630,744)
Cash and cash equivalents	18	5,063,872	1,272,504
Security deposit	11	22,308	22,308

Impairment losses

None of the Company's other receivables are past due (2009: 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. Refer to note 25 for more information on the receivable from controlled entity. At 30 June 2010 the Group does not have any collective impairments on its other receivables (2009: nil).

Notes continued

2 . FINANCIAL RISK MANAGEMENT (Cont'd)

Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. There are no guarantees outstanding (2008: Nil)

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
30 June 2010							
Trade and other payables	319,523	-	319,523	-	-	-	-
30 June 2009							
Trade and other payables	136,819	-	136,819	-	-	-	-

Company

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
30 June 2010							
Trade and other payables	250,035	-	250,035	-	-	-	-
30 June 2009							
Trade and other payables	37,917	-	37,917	-	-	-	-

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 Sates 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 balance date was as follows, based on notional amounts:

	30 June 2010	30 June 2009
	USD	USD
Trade receivables	50,894	51,655
Trade payables	34,744	49,452
Gross balance sheet exposure	85,638	101,107
Forward exchange contracts	-	-
Net exposure	85,638	101,107

Notes continued

2 . FINANCIAL RISK MANAGEMENT (Cont'd)

Exposure to currency risk

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

	30 June 2010	30 June 2009
	USD	USD
Trade receivables	50,894	51,655
Trade payables	34,744	49,452
Gross balance sheet exposure	85,638	101,107
Forward exchange contracts	-	-
Net exposure	85,638	101,107

The Company's exposure to foreign currency risk at 30 June 2010 was nil (2009:Nil).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	2010	2009	2010	2009
USD	0.8822	0.74803	0.8567	0.8048

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 2009.

	Consolidated		Company	
	Equity	Profit or loss	Equity	Profit or loss
30 June 2010				
USD	8,564	8,564	-	-
30 June 2009				
USD	10,111	10,111	-	-

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		Company	
	Carrying amount		Carrying amount	
	2010	2009	2010	2009
Variable rate instruments				
Short term cash deposits	5,265,064	1,368,606	5,086,180	1,295,112

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, though in the current economic environment interest rates are unlikely to decrease any further.

Group Sensitivity

At 30 June 2010 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 $52,651 higher /lower (2009 – change of 100 basis points: $13,686 higher/lower).

Parent Sensitivity

At 30 June 2010 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 $50,862 higher /lower (2009 – change of 100 basis points: $12,951 higher/lower).

Notes continued

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 2010		30 June 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	153,391	153,391	130,047	130,047
Cash and cash equivalents	5,242,755	5,242,755	1,345,997	1,345,997
Other financial assets	22,308	22,308	22,308	22,308
Trade and other payables	(319,523)	(319,523)	(136,819)	(136,819)

Company	30 June 2010		30 June 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	6,214,634	6,214,634	4,244,210	4,244,210
Cash and cash equivalents	5,063,872	5,063,872	1,272,504	1,272,504
Other Financial assets	22,535	22,535	22,535	22,535
Trade and other payables	(250,035)	(250,035)	(37,917)	(37,917)

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 dependant 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.

Loan to subsidiary company

In the current financial year the Parent Entity made a significant judgement about the impairment of its loan to its Mexican based subsidiary. Refer to note 25 for further information.

Notes continued

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 2010 $	30 June 2009 $
Revenue from external sources	-	-
Reportable segment loss	(664,850)	(2,284,513)
Reportable segment assets	1,170,329	796,989
Reportable segment liabilities	(69,488)	

Reconciliation of reportable segment loss

	30 June 2010 $	30 June 2009 $
Reportable segment loss	(664,850)	(2,284,513)
Other profit	39,650	53,449
Unallocated:		
- Salaries and wages	(473,619)	(493,583)
- Travel and accommodation	(115,341)	(118,544)
- Office costs	(97,953)	(135,156)
- Other corporate expenses	(343,026)	(330,758)
- Share based payments	(361,250)	-
- loss on asset sales	(1,873)	-
- Depreciation	(39,806)	(46,655)
Loss before tax	**(2,058,068)**	**(3,355,760)**

Reconciliation of reportable segment assets

	30 June 2010 $	30 June 2009 $
Reportable segment assets	1,170,329	796,989
Unallocated:		
- Cash	5,242,755	1,345,998
- Trade and other receivables	153,391	130,406
- Security deposits	22,308	22,308
- Office plant and equipment	39,599	56,011
Total segment asset	**6,628,382**	**2,351,712**

Reconciliation of reportable segment liabilities

	30 June 2010 $	30 June 2009 $
Reportable segment liabilities	(69,488)	(98,903)
Unallocated:		
- Trade and other payables	(250,035)	(37,916)
- Provisions	(140,934)	(126,472)
Total segmentliabilities	**(460,457)**	**(263,291)**

Notes continued

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
5. REVENUE FROM CONTINUING OPERATIONS				
Other revenues				
Interest				
Bank interest	**39,650**	53,449	**39,650**	53,449
Proceeds from equipment sales	**-**	11,432	**-**	1,100
Total revenues from continuing operations	**39,650**	64,881	**39,650**	54,549

6. EXPENSES

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Loss before income tax includes the following specific expenses				
Depreciation of plant and equipment	**39,806**	46,655	**17,334**	16,710
Exploration expenditure	**1,536,522**	3,241,555	**156,085**	98,739
Exploration expenditure reimbursement	**(871,672)**	(957,042)	**(871,672)**	(957,042)
Operating lease expenses	**46,357**	98,739	**46,357**	11,094
Superannuation	**29,299**	49,955	**29,299**	49,955

7. INCOME TAX

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Adjustment for current tax of prior periods	-	-	-	-
	-	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	**(2,058,068)**	(3,355,760)	**(634,229)**	(4,703,491)
Tax at the Australian tax rate of 30% (2008: 30%)	**(617,420)**	(1,006,728)	**(190,269)**	(1,411,047)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	**108,375**	-	**108,375**	-
Foreign Exploration	**-**	-	**(261,502)**	-
Preparation for TSX listing	**-**	923	**-**	923
Sundry items	**29,802**	21,824	**29,802**	21,824
	(479,243)	(983,981)	**(313,594)**	(1,388,300)
Movement in unrecognised temporary differences	**(97,756)**	(108,901)	**(97,756)**	1,282,154
Tax effect of current year foreign tax losses for which no deferred tax asset has been recognised	**152,630**	986,736	**-**	-
Difference in overseas tax rates	**(3,053)**	(19,534)	**-**	-
Tax effect of current year tax losses for which no deferred tax asset has been recognised	**427,422**	125,680	**411,350**	106,146
Income tax expense	**-**	-	**-**	-

Notes continued

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
7. INCOME TAX (Cont'd)				
(c) Unrecognised temporary differences				
Deferred Tax Assets (at 30%)				
On Income Tax Account				
Capital raising costs	**108,758**	86,728	**108,758**	86,728
Prepayments	**(3,785)**	(4,019)	**(3,785)**	(4,019)
Depreciation of plant and equipment	**(18,713)**	21,413	**(18,713)**	21,413
Provisions	**49,780**	34,942	**49,780**	34,942
Carry forward tax losses	**3,606,891**	2,919,242	**3,606,891**	2,919,242
Carry forward tax losses – foreign	**1,719,959**	1,570,382	**-**	-
Other – tenement	**850,600**	915,933	**850,600**	915,933
	6,313,490	5,544,621	**4,593,531**	3,974,239
Deferred Tax Liabilities (at 30%)		-		-

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.

8. TRADE AND OTHER RECEIVABLES

Current	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Prepayments	**16,639**	16,282	**12,617**	13,395
Sundry receivables (a)	**136,752**	114,125	**34,964**	10,815
Receivable from controlled entity (b) – at cost	**-**	-	**10,079,797**	8,850,744
- allowance for non-recovery	**-**	-	**(4,630,441)**	(4,630,744)
	153,391	130,407	**6,214,634**	4,244,210

(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) The fair value of receivable from the controlled entity is the same as the carrying value. The loan is non-interest bearing with no other terms agreed. Refer to note 25 for further information.

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

9. PLANT AND EQUIPMENT

Consolidated	**Furniture, fittings and equipment $**	**Motor Vehicles $**	**Exploration Equipment $**	**Total**
At 1 July 2008				
Cost	326,237	88,321	52,368	466,926
Accumulated Depreciation	(219,857)	(22,982)	(27,195)	(270,034)
Net Book Amount	106,380	65,339	25,173	196,892
Year ended 30 June 2009				
Opening net book value	106,380	65,339	25,173	196,892
Additions	1,580	5,731	9,480	16,791
Disposals	(8,438)	(19,753)	(13,536)	(41,727)
Depreciation on disposals	1,462	7,819	11,516	20,797
Depreciation Charge	(21,551)	(20,910)	(4,194)	(46,655)
Foreign exchange translation adjustment	(961)	(692)	(1,047)	(2,700)
Closing net book amount	78,472	37,534	27,392	143,398

Notes continued

9. PLANT AND EQUIPMENT (cont'd)

At 30 June 2009				
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
Year ended 30 June 2010				
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
At 30 June 2010				
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

Parent Entity	**Furniture, fittings and equipment $**	**Motor Vehicles $**	**Exploration Equipment $**	**Total**
At 1 July 2008				
Cost	279,920	-	33,000	312,920
Accumulated Depreciation	(210,520)	-	(26,109)	(236,629)
Net Book Amount	69,400	-	6,891	76,291
Year ended 30 June 2009				
Opening net book value	69,400	-	6,891	76,291
Additions	-	-	-	-
Disposals	-	-	(13,536)	(13,536)
Depreciation on disposals	-	-	11,516	11,516
Depreciation Charge	(14,659)	-	(2,051)	(16,710)
Foreign exchange translation adjustment	-	-	-	-
Closing net book amount	54,741	-	2,820	57,561
At 30 June 2009				
Cost	279,920	-	19,464	299,384
Accumulated Depreciation	(225,179)	-	(16,644)	(241,823)
Net Book Amount	54,741	-	2,820	57,561
Year ended 30 June 2009				
Opening net book value	54,741	-	2,820	57,561
Additions	1,544	-	-	1,544
Disposals	-	-	(7,701)	(7,701)
Depreciation on disposals	-	-	6,431	6,431
Depreciation Charge	(16,686)	-	(649)	(17,335)
Foreign exchange translation adjustment	-	-	-	-
Closing net book amount	39,599	-	901	40,500
At 30 June 2010				
Cost	281,463	-	11,763	293,226
Accumulated Depreciation	(241,864)	-	(10,862)	(252,726)
Net Book Amount	39,599	-	901	40,500

Notes continued

		Consolidated		Parent Entity	
		2010	2009	2010	2009
		$	$	$	$
10. CAPITALISED EXPLORATION EXPENDITURE (NON-CURRENT)					
At Cost		**1,109,034**	709,602	-	-
Reconciliations					
Movement in the carrying amounts of capitalised exploration expenditure between the beginning and end of the current financial year					
Opening net book amount		**709,602**	193,270	-	-
Additions		**399,432**	516,332	-	-
Disposals		-	-	-	-
Closing net book amount		**1,109,034**	709,602	-	-

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

11. OTHER FINANCIAL ASSETS (NON-CURRENT)	Notes				
Security Deposit		**22,308**	22,308	**22,535**	22,308
Shares in subsidiaries – at cost	12	-	-	-	227
		22,308	22,308	**22,535**	22,535

These financial assets are carried at cost.

12. 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*	
			2010	2009
			%	%
Azure Mexico Pty Ltd	Australia	Ordinary	**100**	100
Minera Piedra Azul, S.A. de C.V	Mexico	Ordinary	**100**	100

*Percentage of voting power is in proportion to ownership

Notes continued

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
13. TRADE AND OTHER PAYABLES (CURRENT)				
Trade payables	**319,52**	136,819	**250,035**	37,917

Information about the Groups financial risk management policies is disclosed in note 2.

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
14. PROVISIONS				
CURRENT				
Employee benefits	**35,758**	23,692	**35,758**	23,692
NON-CURRENT				
Employee benefits	**28,165**	25,769	**28,165**	25,769
Non-executive directors retirement benefits	**77,011**	77,011	**77,011**	77,011
	105,176	102,780	**105,176**	102,780

15. CONTRIBUTED EQUITY

(a) Share capital

	Consolidated and Parent Entity 2010 Number of shares	2010 $	2009 Number of shares	2009 $
Ordinary shares fully paid	**343,217,666**	**35,250,678**	217,212,489	29,459,548
Total consolidated contributed equity	**343,217,666**	**35,250,678**	217,212,489	29,459,548

(b) Movements in ordinary share capital

	2010 Number of shares	2010 $	2009 Number of shares	2009 $
1 July opening balance	**217,212,489**	**29,459,548**	149,016,672	25,129,782
Issue at $0.15 per share	**100,005,177**	**5,000,258**	-	-
Issue at $0.125 per share	-	-	20,365,600	2,545,700
Issue at $0.04 per share	**26,000,000**	**1,040,000**	47,830,217	1,913,209
Share issue expenses	-	**(249,128)**	-	(129,143)
30 June closing balance	**343,217,666**	**35,250,678**	217,212,489	29,459,548

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.

(c) Movements in unlisted options on issue

	Number of options 2010	Number of options 2009
1 July Opening Balance	**10,550,000**	14,850,000
Issued during the year		
- Exercisable at 8.8 cents, on or before 30 Nov 2012	**12,500,000**	-
Forfeited during the year		
- Exercisable at 15 cents on or before 30 Nov 2009	**(2,450,000)**	(500,000)
- Exercisable at 25 cents, on or before 30 Nov 2008	-	(1,500,000)
- Exercisable at 25 cents, on or before 30 Nov 2009	**(2,800,000)**	(200,000)
- Exercisable at 25 cents, on or before 30 Nov 2010	**(200,000)**	(200,000)
- Exercisable at 17.5 cents, on or before 31 Jan 2011	-	(300,000)
- Exercisable at 25 cents, on or before 31 Jan 2012	-	(800,000)
- Exercisable at 25 cents, on or before 30 Jan 2010	**(2,800,000)**	-
- Exercisable at 35 cents, on or before 31 Jan 2013	-	(800,000)
30 June closing balance	**14,800,000**	10,550,000

Further information on options issued is set out in note 27.

Notes continued

15. CONTRIBUTED EQUITY (cont'd)

(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.

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$

16. RESERVES AND RETAINED PROFITS

(a) Reserves

	2010 $	2009 $	2010 $	2009 $
Share-based payments reserve	**1,264,942**	903,692	**1,264,942**	903,692
Foreign currency translation reserve	**(226,534)**	(211,726)	**-**	-
	1,038,408	691,966	**1,264,942**	903,692

(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.

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.

17. 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.

18. STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents

Cash and cash equivalents comprises:

	2010 $	2009 $	2010 $	2009 $
– cash at bank and in hand	**418,760**	146,011	**239,877**	72,518
– short-term deposits	**4,823,995**	1,199,986	**4,823,995**	1,199,986
Closing cash and cash equivalents balance	**5,242,755**	1,345,997	**5,063,872**	1,272,504

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.

Notes continued

	Notes	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $

18. STATEMENT OF CASH FLOWS (cont'd)

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

	Notes	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Net loss		**(2,058,066)**	(3,355,760)	**(634,229)**	(4,703,491)
Depreciation of non-current assets		**37,659**	46,656	**17,334**	16,710
Share based payment expense		**361,250**	-	**361,250**	-
Loss (Profit) on equipment sales		**1,873**	12,069	**1,270**	920
Foreign exchange differences		**3,111**	(26,005)		-
Preparation for TSX listing included in Financing Activities		**-**	103,075	**-**	103,075
Changes in operating assets and liabilities					
(Increase)/decrease in trade and other receivables		**(26,051)**	(115,460)	**(24,149)**	(9,891)
(Increase)/decrease in prepayments		**(452)**	4,194	**778**	2,218
Increase/(decrease) in trade and other payables		**109,648**	(325,147)	**135,786**	(239,819)
Increase/(decrease) in provisions		**14,462**	47,651	**14,462**	4,684,499
Net cash outflow from operating activities		**(1,556,566)**	(3,608,727)	**(127,498)**	(145,779)

(c) Non-cash financing and investing activities

There have been no non-cash financing and investing activities during the 2010 year (2009:Nil).

19. 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:

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Not later than one year	**82,176**	1,500,962	**-**	-

(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:

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Not later than one year	**373,696**	397,614	**-**	-
Later than one year and not later than five years	**3,713,604**	4,348,907	**-**	-
	4,087,300	4,746,521	**-**	-

(c) Lease expenditure commitments

Operating leases (non-cancellable):

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Minimum lease payments				
not later than one year	**122,837**	44,509	**122,837**	44,509
later than one year and not later than five years	**184,255**	-	**184,255**	-
Aggregate lease expenditure contracted for at reporting date	**307,092**	44,509	**307,092**	44,509

The property lease is a non-cancellable lease with a three-year term ending 31 December 2012, with rent 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 24(d).

(d) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in note 24 that are not recognised as liabilities and are not included in the key management personnel compensation.

	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Not later than one year	**413,765**	390,500	**413,765**	-
later than one year and not later than five years	**-**	390,500	**-**	-
	413,765	781,000	**413,765**	-

Notes continued

20. CONTINGENCIES

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

21. EVENTS OCCURING AFTER BALANCE SHEET DATE

Prior to year end Azure entered into an option agreement to sell the company's 100%-owned Tabisco project ("Option") to TSX Venture Exchange listed StoneShield Capital Corp (TSX-V: STS). To acquire the Option, which will be open for six months, StoneShield was to issue Azure with 100,000 StoneShield shares, subject to receiving TSX-V approval for the transaction. Since year end TSX-V approval was received and Azure has been issued with 100,000 shares in Stoneshield Capital Corp.

No other 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

22. LOSS PER SHARE

	2010 $	2009 $
(a) Reconciliation of earnings to profit or loss		
Net loss	**(2,058,066)**	(3,355,760)
Loss used in calculating basic loss per share	**(2,058,066)**	(3,355,760)

	CONSOLIDATED	
	Number of shares 2010	Number of shares 2009
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share		
Weighted average number of ordinary shares used in calculating basic loss per share	**238,152,785**	175,080,909

(c) Effect of dilutive securities

Options on issue at balance 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.

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
23. AUDITORS' REMUNERATION				
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd or associated entities for:				
Tax compliance services	**11,110**	12,008	**11,110**	12,008
Other	**592**	-	**592**	-
An audit or review of the financial report of the entity	**37,018**	37,200	**37,018**	37,200
	48,670	49,208	**48,670**	49,208

24. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Compensation of key management personnel by compensation

	Consolidated		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
Short-term	**447,375**	581,587	**447,755**	581,587
Post employment	**37,240**	112,221	**37,240**	112,221
Share-based payment	**361,250**	-	**361,250**	-
	845,865	693,808	**845,865**	693,808

(b) Shares issued on exercise of compensation options

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

Notes continued

24. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(c) Option holdings of key management personnel

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
Directors							
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	-
Executives							
Brett Dickson	2,400,000	3,500,000	-	(2,400,000)	3,500,000	3,500,000	-
Total	**9,700,000**	**12,500,000**	**-**	**7,400,000**	**14,800,000**	**14,800,000**	**-**

2009	Balance at beginning of year 1 July 2008	Granted as Remuneration	Options Exercised	Options Lapsed	Balance at end of year 30 June 2009	Vested at 30 June 2009	
						Vested & Exercisable	Unvested
Directors							
Wolf Gerhard Martinick	1,000,000	-	-	-	1,000,000	1,000,000	-
Anthony Paul Rovira	6,500,000	-	-	(1,000,000)	5,500,000	5,500,000	-
John Walter Saleeba	1,000,000	-	-	(200,000)	800,000	800,000	-
Executives							
Brett Dickson	2,400,000	-	-	-	2,400,000	2,400,000	-
Patrick Manouge							
- Resigned 31 March 2009	1,700,000	-	-	(1,700,000)	-	-	-
Total	**12,600,000**	**-**	**-**	**(2,900,000)**	**9,700,000**	**9,700,000**	**-**

(d) Shareholdings of key management personnel

	Balance 1 July Ord	Granted Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June Ord	Balance Indirectly Held Ord
2010						
Directors						
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
Executives						
Brett Dickson	274,000	-	-	(162,000)	112,000	40,000
Total	**5,406,000**	**-**	**-**	**2,115,600**	**7,521,600**	**4,589,600**

Notes continued

24. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(d) Shareholdings of key management personnel (cont'd)

	Balance 1 July Ord	Granted Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June Ord	Balance Indirectly Held Ord
2009						
Directors						
Wolf G Martinick	500,000	-	-	600,000	1,100,000	-
Anthony Paul Rovira	2,000,000	-	-	982,000	2,982,000	1,880,000
John Walter Saleeba	770,000	-	-	280,000	1,050,000	1,050,000
Executives						
Brett Dickson	200,000	-	-	74,000	274,000	210,000
Patrick Manouge - *resigned 31 March 2009*	10,000	-	-	-	10,000	-
Total	**3,480,000**	**-**	**-**	**1,936,000**	**5,416,000**	**3,140,000**

25. RELATED PARTY DISCLOSURES

(a) Parent entity

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

(b) Subsidiaries

Loans to subsidiaries	Consolidated 2010 $	Consolidated 2009 $	Parent Entity 2010 $	Parent Entity 2009 $
Beginning of the year	**-**	-	**8,850,744**	4,676,062
Loans advanced	**-**	-	**1,953,157**	4,180,786
Loans Repaid	**-**	-	**-**	-
Allowance for impairment	**-**	-	**(4,636,848)**	(4,636,848)
End of year	**-**	-	**6,167,053**	4,220,000

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 24.

(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 (2009: Nil).

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. During the year Rox Resources Limited paid sub-lease fees totalling $59,010 (2009: Nil).

Notes continued

26. INTERESTS IN JOINT VENTURES

The company has interests in the following joint ventures:

	Joint Venture	Activities	Interest	Carrying Value $
(a)	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 2010 JOGMEC had spend approximately US$1,266,982 (2009: US$656,938).

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

The Group has entered into a joint venture with OZ Minerals Limited (OZ Minerals) covering the San Eduardo projects Pursuant to the agreement OZ Minerals may earn a 51% interest in the projects by spending US$3 million. OZ Minerals may earn a further 19% interest by spending a further US$10 million. At 30 June 2010 OZ Minerals had spend approximately US$83,253 (2009: Nil)

27. 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.

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
Consolidated and parent entity – 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	-	-
				3,950,000	**-**	**-**	**2,450,000**	**1,500,000**	**1,500,000**
Weighted average exercise price				$0.191			$0.150	$0.258	$0.258
Consolidated and parent entity – 2009									
30 Nov '03	30 Nov '08	25.0	-	100,000	-	-	100,000	-	-
30 Nov '03	30 Nov '09	25.0	-	200,000	-	-	200,000	-	-
30 Nov '03	30 Nov '10	25.0	-	200,000	-	-	200,000	-	-
22 Mar '06	31 Jan '11	17.5	6.81	300,000	-	-	300,000	-	-
22 Mar '06	31 Jan '12	25.0	6.60	300,000	-	-	300,000	-	-
22 Mar '06	31 Jan '13	35.0	6.47	300,000	-	-	300,000	-	-
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
10 Jan '07	31 Jan '12	25.0	3.03	500,000	-	-	500,000	-	-
10 Jan '07	31 Jan '13	35.0	2.82	500,000	-	-	500,000	-	-
6 Dec '06	30 Nov '09	15.0	0.93	1,200,000	-	-	-	1,200,000	1,200,000
3 Aug '07	30 Nov '09	15.0	14.3	1,750,000	-	-	500,000	1,250,000	1,250,000
				6,850,000	**-**	**-**	**2,900,000**	**3,950,000**	**3,950,000**
Weighted average exercise price				$0.217	-	-	$0.253	$0.191	$0.191

Notes continued

27. SHARE-BASED PAYMENTS (cont'd)

No options were exercised during the periods covered by the above tables. During the 2010 financial year 50,000 options were forfeited due to employees leaving the Group and not exercising their options with 90 days of their resignation date and 2,400,000 lapsed (2009: 2,900,000 and Nil).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.59 years (2008: 2.58 years).

Fair value of options granted.

Options are granted for no consideration. No options were granted pursuant to the Plan during the 2010 or 2009 financial years.

(b) Directors and executive options

Set out below are summaries of Directors options granted.

Grant Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Balance at 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
Consolidated and parent entity – 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
				6,600,000	**12,500,000**	**-**	**-**	**13,300,000**	**13,300,000**
Weighted average exercise price				$0.25	$0.088	-	$0.25	$0.098	$0.098
Consolidated and parent entity – 2009									
30 Nov '03	30 Nov '08	25.0	-	1,400,000	-	-	(1,400,000)	-	-
30 Nov '03	30 Nov '09	25.0	-	2,800,000	-	-	-	2,800,000	2,800,000
30 Nov '03	30 Nov '10	25.0	-	2,800,000	-	-	-	2,800,000	2,800,000
24 Dec '07	31 Jan '10	25.0	8.2	200,000	-	-	-	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
				8,000,000	**-**	**-**	**(1,400,000)**	**6,600,000**	**6,600,000**
Weighted average exercise price				$0.25	-	$0.25	$0.25	$0.25	$0.25

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.3 years (2009: 1.5 years).

Fair value of director options granted.

Options are granted for no consideration. No options were granted during the 2009 financial year. During the 2010 financial year the weighted average fair value of the options granted was 2.9 cents. The price was calculated by using the Binominal Option valuation methodology applying the following inputs:

	2010	2009
Weighted average exercise price	**8.8 cents**	-
Weighted average life of the option	**3 years**	-
Weighted average underlying share price	**5.0 cents**	-
Expected share price volatility	**110%**	-
Risk free interest rate	**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		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Options issued to directors and executives	**361,250**	-	**361,250**	-

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 2010 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 remuneration disclosures included in pages 13 to 15 of the director’s report (as part of the audited Remuneration Report) for the year ending 30 June 2009, comply with section 300A of the *Corporations Act 2001*.

(4) 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*.

(5) 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:

Anthony Paul Rovira
Executive Chairman

Perth, 29 September 2010

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Australia

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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 and fair presentation of the financial report 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 opinions.

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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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our 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 company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 14 of the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Azure Minerals Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001.*

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien
Director

Perth, Western Australia
Dated this 29th day of September 2010

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38 Station Street
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PO Box 700 West Perth WA 6872
Australia

29 September 2010

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 2010, 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

Glyn O'Brien
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 9 September 2010.

(a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

	Ordinary shares	
	Number of holders	**Number of shares**
1 - 1,000	88	10,004
1,001 - 5,000	216	792,926
5,001 - 10,000	676	6,041,857
10,001 - 100,000	1,670	69,085,465
100,001 and over	532	267,287,414
	3,182	343,217,666
The number of shareholders holding less than a marketable parcel of shares are:	1048	7,596,920

(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	Tempo Capital Pty Ltd	36,643,428	10.68
2	Yandal Investments Pty Ltd	29,152,200	8.49
3	Welas Pty Ltd	6,530,000	1.90
4	Investec Bank (Australia) Ltd	5,600,000	1.63
5	ANZ Nominees Limited	5,186,237	1.51
6	Poluru Pty Ltd	2,900,000	0.84
7	Mr Peter Murray Nicholas	2,500,000	0.73
8	Mr Kim Robinson	2,500,000	0.73
9	Dr Lyndsay George McDonald Gordon	2,232,833	0.65
10	Novacarta Pty Ltd	2,103,000	0.61
11	Fleurbow Pty Ltd	2,067,140	0.60
12	Stadjoy Pty Ltd	2,038,400	0.59
13	Mr David Alistair Cadwallader	2,011,200	0.59
14	Alchemy Securities Pty Ltd	2,000,000	0.58
15	Mr Robert Hastings Smythe	2,000,000	0.58
16	Mr David Alistair Cadwallader	1,750,000	0.51
17	Mr Richard Eric James + Mrs Margaret Anne James	1,730,000	0.50
18	Mr Kevin Chan	1,636,625	0.48
19	Vanwhile Pty Ltd	1,568,000	0.46
20	Dr Wolf Gerhard Martinick	1,540,000	0.45
		113,689,063	**33.12**

(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
Tempo Capital Pty Ltd	36,643,428
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%
San Nicolas	San Nicolas	All Minerals	225315	100%
Estacion Llano	Estacion Llano	All Minerals	227017	100%
Los Chinos	Los Chinos	All Minerals	229035	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 Tecolte III	All Minerals	234586	100%
San Juan	San Juan	All Minerals	222952	100%
	San Juan II	All Minerals	230422	100%
El Carnero	Carnero	All Minerals	231326	100%
Las Viboras	Viboras	All Minerals	232429	100%
San Eduardo	San Eduardo	All Minerals	232387	100%
Promontorio	Hidalgo	All Minerals	14966	100%*
	Promontorio	All Minerals	28521	100%*
	El Magistral	All Minerals	218881	100%*
	Promontorio Regional	All Minerals	234447	100%