# Azure Minerals Limited

**ABN 46 106 346 918**

Annual Report and Financial Statements

for the year ended 30 June 2014

# Corporate Information

ABN 46 106 346 918

## Directors
Mr. Peter Ingram (Chairman)
Mr. Anthony Rovira (Managing Director)
Dr Wolf Martinick (Non-Executive Director)

## Company Secretary
Mr. Brett Dickson

## Registered Office
Level 1, 30 Richardson Street
WEST PERTH WA 6005
(08) 9481 2555

## Solicitors
K & L Gates
Level 32
44 St Georges Terrace
Perth WA 6000

## 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

# Contents

# Chairman's Letter

Dear Shareholder,

On behalf of the Board of Directors, I am pleased to present the Annual Report for Azure Minerals Limited ('Azure' or the 'Company') for the year ended 30 June 2014.

The 2013-14 financial year has been one of strong progress for the Company, marked by the achievement of a number of significant milestones. A highlight of the year was the interest the Company received from a number of major mining companies seeking farm-in opportunities at our flagship Promontorio Project. Pleasingly, post financial year end, the Company was able to announce that terms had been agreed for an Earn-in and Joint Venture Agreement with Kennecott Exploration, a subsidiary of Rio Tinto Plc. The highly favourable deal terms are testament not only to the quality of Promontorio and its potential to become a high-grade, low-cost copper-gold-silver project, but also to the excellent work completed by the Managing Director, Mr Tony Rovira, and his team. The Company looks forward to updating shareholders as the work program agreed to under the Earn-in and Joint Venture commences in coming months.

During the year your Company raised an additional $3.9 million of equity capital to fund the Company's ongoing exploration and development operations. These capital raisings were strongly supported by shareholders generally and notably by Drake Private Investments and other North American institutions. In addition, a recent Rights Issue undertaken in September 2014 raised a further $643,066.

Activity at the Company's flagship Promontorio Project continued to focus on geophysical surveys and diamond drilling activities to extend and further define the resource.  The primary focus of activity during the year was at the Cascada deposit, with two drilling campaigns being conducted, both of which returned very encouraging results.

In addition to drilling on the Cascada deposit, Induced Polarisation (IP) and magnetic surveying indicated the potential for a large porphyry copper body to be hosted at depth beneath the Cascada deposit. A diamond drill program during the March quarter, to test these IP anomalies, successfully intersected porphyry-hosted copper mineralisation, validating the Company's technical modelling.

In conjunction with the drilling programs, a 100kg bulk sample was collected from Cascada to enable metallurgical test work to be performed, testing both flotation recoveries and concentrate grades. Results from this test work were received during the June 2014 quarter, and returned excellent recovery rates of >90%, with grades of >37% copper in concentrate. This confirms that a high quality concentrate, with excellent recovery rates can be achieved using a conventional sulphide flotation process.

Azure's focus for the next 12 months will be on commencing operations under our agreement with Kennecott Exploration. This landmark agreement will see Kennecott spend a minimum of $US2million on exploration over Azure's entire Promontorio Project area. Azure will be the Project Operator during this initial phase with Kennecott providing technical assistance and will include geophysical surveys followed by a minimum of 1,000 metres of drilling.  While the Joint Venture undertakes its work over Promontorio, Azure is able to continue to explore the Cascada deposit, with the aim of defining a mineral resource and completing the preliminary stages of a pre-feasibility study.

In addition to this, the Company continues to assess opportunities to expand the asset portfolio via the acquisition of new projects. A number of very high quality assets have been identified by the Company for either pegging or acquisition/farm-in. At the date of this report no formal agreements have been concluded, with negotiations on-going.

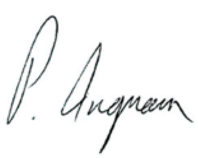
The Board and management team remain focussed on enhancing shareholder value by developing high quality, low cost, high margin mineral projects in Mexico. The joint-venture with Rio Tinto is a significant milestone for the Company validating the quality of the Promontorio Project, and our management team.  We are encouraged that Mexico continues to be a world-class jurisdiction to operate in.

The junior resources sector remains a challenging environment within which to operate, but the Company is well positioned to capitalise on a number of exciting opportunities and we are looking forward to a more rewarding year ahead.

The Board takes this opportunity to thank our management and staff for their hard work and determination during the year.

Finally, I thank our shareholders for their continued support..

Yours sincerely



Peter Ingram

Chairman

# Review of Operations

**PROMONTORIO PROJECT: Copper-Gold-Silver**

Azure Minerals Limited ("Azure" or "the Company") has achieved a very productive 12 months at our flagship Promontorio Project with strong exploration success highlighting the potential for Promontorio to host a world class copper porphyry deposit. This success has lead to the Company entering into an Earn-in and Joint Venture Agreement with Rio Tinto, one of the world's largest mining companies, to accelerate the exploration at Promontorio.

Development activities during the year included two geophysical (Induced Polarisation (IP) and ground magnetics) surveys, two diamond drilling programs, a metallurgical testwork program and final acquisition of the project's core mineral concessions.

Promontorio comprises four mineral concessions totalling 10,520ha located in the richly-mineralised Sierra Madre mining province in northern Mexico. The Company has 100% ownership of three of these concessions and the right to purchase 100% ownership of the fourth concession.

Initially viewed as containing high grade but relatively small copper-gold-silver deposits, successful exploration by the Company has grown Promontorio to the stage where it now can be considered as having potential to be developed into a large scale, long life mining operation.

The project has the  potential to host deposits ranging from large, bulk-tonnage resources to smaller, high grade bodies, with exploration identifying a variety of styles of precious and base metal mineralisation,, including:

- The Promontorio and Cascada high grade, epithermal copper-gold-silver deposits
- Hydrothermal breccia containing gold mineralisation
- Porphyry copper mineralisation beneath Cascada and Promontorio
- Additional epithermal mineralisation occurrences at the Risco Dorado, Creston Colorado and Sehue prospects

Both Promontorio and Cascada are high-sulphidation, epithermal deposits containing copper, gold and silver mineralisation. Exploration indicates that they are two geologically separate deposits which form part of a high sulphidation epithermal system associated with and sourced from a buried porphyry copper body.

**PORPHYRY COPPER DISCOVERY**

The IP survey conducted during the year was designed to look deep and under cover for possible porphyry copper mineralisation, and resulted in the identification of a high chargeability and low resistivity anomaly starting at 300m below the existing Cascada deposit. . Taking into account the geology of the area and the presence of the near-surface high sulphidation mineralisation, this geophysical anomaly was considered likely to represent a substantial body containing sulphide mineralisation – possibly a porphyry copper body.  Two diamond core holes were drilled to test this anomaly which intersected significant widths (>100m) of porphyry containing argillic alteration, abundant disseminated pyrite, and moderate to abundant stockwork quartz veining. Copper assays throughout were well above 100ppm Cu, with numerous samples returning greater than 0.5% Cu, some assays over 1% Cu and a highest value of 5.4% Cu. The best mineralised intercept was 194m @ 0.2% CuEq.

Intersecting this copper-mineralised porphyry represents a significant validation of Azure's geological model and exploration targeting methodology. The widespread copper sulphide mineralisation correlates with strongly developed, multi-directional quartz-pyrite stockwork veining and argillic alteration in porphyry host rock, which is consistent with drilling into the margin of a porphyry copper system.

**EARN-IN AND JOINT VENTURE AGREEMENT WITH RIO TINTO**

Following discovery of the copper porphyry body, Azure received a number of unsolicited approaches from several major and mid-tier mining companies, requesting a site visit to Promontorio and to access the Company's confidential technical and corporate information, with the view to evaluating possible transactions. This was a strong endorsement of the merits of the Promontorio Project and its potential development upside

Negotiations proceeded well during reporting period, and post the end of the financial year, the company was pleased to announce it had agreed to terms for an Earn-In and Joint Venture Agreement ("the Agreement") with Kennecott Exploration Company ("Kennecott"), part of the Rio Tinto Group, whereby Kennecott can earn up to an 80% interest by spending US$45 million on exploring and developing the significant copper potential of Promontorio.

Kennecott has committed to sole-fund an initial, minimum expenditure commitment of US$2 million to be completed within the first 12 months of the Agreement. The initial work program will include airborne and ground geophysical surveys, mapping and sampling covering the entire 10,000ha Promontorio Project. Kennecott has also committed to 1,000m of diamond drilling as part of this initial program.

At the end of the first 12 months of the Agreement, Kennecott may elect to continue its exploration for a further five years and, through spending a further US$18 million earn a 51% equity interest in the project. At this point a Joint Venture ("JV") will be formed.

Upon earning its 51% interest in the project, Kennecott may elect to earn an additional 29% interest (for a total interest in the JV of 80%) by spending a further US$25 million within a further 6 year period, taking total earn-in expenditures to US$45 million.

Further, to account for the considerable value already created by Azure with the definition of the Promontorio and Cascada deposits, upon the formation of the JV, Kennecott will credit Azures' JV account with an amount equivalent to five times Azures' total expenditure at Promontorio to the date of the formation of the JV. Currently, Azure has spent approximately US$10 million on exploration and acquisition at Promontorio, equating to approximately US$50 million being credited to its JV account at the formation of the JV. The funds credited will cover Azures' future cash contributions to the JV as the Project progresses.

Azure will be Project Operator during the initial stage of the Agreement, managing and staffing all activities out of the Company's Hermosillo office, under the direction of and with technical assistance from Kennecott. Additionally, until such time as Kennecott has earned its initial 51% interest, Azure may continue its ongoing exploration activities on the Cascada and Promontorio deposits.

**OTHER EXPLORATION ACTIVITIES**

The Company also actively progressed work at the Cascada deposit during the year, undertaking two diamond drilling programs, with 19 holes completed for 3,973m. The Cascada deposit comprises a central mineralised zone with drill widths up to 40m typically averaging 2% to 5% copper with peak grades of +40% copper. This is surrounded by a lower grade copper-mineralised halo and a larger overlapping envelope of low to moderate grade gold mineralisation. Copper mineralisation starts at about 20-30m below surface and is open-ended with a northeast-southwest strike length in excess of 200m and extending down-dip for over 150m. Cascada could potentially be developed as a bulk-tonnage open pit mining operation or as a selective underground mine.

The drilling programs focused on expanding the Cascada copper-gold-silver deposit and following up the discovery of a gold-enriched hydrothermal breccia. Positive results from Cascada included:

- **APR-DD-106: 4.6m @ 4.0% CuEq[1] from 59m**
- **APR-DD-110: 7.3m @ 5.0% CuEq from 167m**
- **APR-DD-111: 13.5m@ 5.0% CuEq from 53m**
- **APR-DD-111: 17.7m @ 8.3% CuEq from 120m**
- **APR-DD-117: 5.7m @ 4.6% CuEq from 150m**

Surrounding these high grade copper intercepts are wide zones of gold mineralisation. The three large gold intercepts detailed below compare very favourably with drill intercepts from operating gold mines elsewhere in the district.

- **APR-DD-110: 187m @ 1.1g/t Au from 22m, including 8.9m @ 5.3g/t Au**
- **APR-DD-111: 150m @ 1.5g/t Au from 42m, including 17.7m @ 6.6g/t Au**
- **APR-DD-120: 105m @ 2.1g/t Au from surface, including 26.5m @ 5.7g/t Au**

The hydrothermal breccia comprises many different types of rock fragments, including copper-mineralised porphyry, volcanic and sediment clasts, in places cemented by a gold-rich pyrite matrix. This is a very exciting discovery. Breccias emanating as pipes or chimneys from underlying porphyry bodies often develop into significant copper and gold deposits in their own right, with the highly concentrated metal content of the hydrothermal fluids frequently resulting in high grades.

Currently, Azure is undertaking a JORC-compliant Mineral Resource for the Cascada copper deposit, which is expected to be completed in Q4 2014. Azure will also investigate what further work may be required before a stand-alone gold resource can be estimated.

**METALLURGICAL TESTWORK**

In addition to exploration drilling, the Company completed metallurgical testwork during the year, with a 100-kg sample of copper sulphide mineralisation composited from two diamond drill holes from the Cascada deposit submitted to SGS Minerals Services ("SGS") in Lakefield, Canada for metallurgical testing. The program was conducted under the supervision of metallurgist Mr Andrew Holloway, P.Eng.,CEng, of AGP Mining Consultants ("AGP"), based in Toronto, Canada.

The metallurgical testwork program comprised:

- chemical analysis and mineralogical characterisation of the composite sample
- multiple open circuit bench scale tests consisting of two stage, sulphide flotation processing
- two bench scale Locked Cycle Tests
- chemical analysis of final flotation concentrates

Results throughout the testwork process repeatedly returned cleaner concentrate grades of >30% copper. The concentrate also contains high grades of gold and silver while arsenic values were below the commercially important 0.5% threshold.

Metal recoveries were excellent with all tests demonstrating that >90% of the copper, and most of the gold and silver, report to the sulphide concentrate. A small proportion of the gold and silver associated with pyrite was rejected at the cleaner flotation stage.

[1] See Appendix 1 for Copper Equivalency (CuEq) Statement

Grade and recovery details for the two Locked Cycle Tests are shown in Table 1.

**TABLE 1: METALLURGICAL TESTWORK RESULTS**

| | Composite Head Grade | Cleaner Concentrate | Locked Cycle Test #1 | Locked Cycle Test #2 |
|---|---|---|---|---|
| **Mass** | **100%** | **Recovery (%)** | **7.7** | **6.8** |
| | | | | |
| **Copper** | **2.72%** | **Grade (%)** | **32.8** | **37.7** |
| | | **Recovery (%)** | **93.7** | **93.2** |
| | | | | |
| **Gold** | **1.24ppm** | **Grade (ppm)** | **12.5** | **15.2** |
| | | **Recovery (%)** | **75.8** | **75.1** |
| | | | | |
| **Silver** | **35.8ppm** | **Grade (ppm)** | **398** | **470** |
| | | **Recovery (%)** | **83.4** | **82.8** |
| | | | | |
| **Arsenic** | **0.04%** | **Grade (%)** | **0.44** | **0.49** |
| | | **Recovery (%)** | **89.3** | **89.7** |

To identify the component minerals of the Cascada ore and their relative abundance, a QEM-ARMS (Automated Rapid Mineral Scan) mineralogical analysis was completed on the flotation feed composite sample material. Sulphide minerals comprised pyrite (9.3%), chalcocite (2.9%), bornite (0.7%), chalcopyrite (0.2%) and enargite (0.1%).

Overall, results from this metallurgical testwork confirm that a high quality copper concentrate with high metal recoveries is achievable through a conventional sulphide flotation process. AGP has made recommendations for future metallurgical testwork to further refine and improve the flotation process, as well as to include some variability samples.

Importantly, the arsenic grades of <0.5% in the Cascada concentrate are considerably lower than for the Promontorio concentrate. This suggests that a readily saleable product can be produced from Cascada alone or as a Cascada-Promontorio blend.

## PROMONTORIO MINERAL RESOURCE

The Promontorio deposit has a JORC-compliant Mineral Resource estimate of:

***840,000 tonnes @ 4.1% CuEq (at 0.5% CuEq grade cut-off)***

Full details of the Mineral Resource estimate demonstrating sensitivities to various Copper Equivalent cut-offs are shown in Table 1.

**Table 1: Promontorio Mineral Resource - Sensitivity to various CuEq cut-offs**

| Classification | Tonnes | CuEq (%) | Cu (%) | Au (ppm) | Ag (ppm) | Contained Cu (Kt) | Contained Au (Koz) | Contained Ag (Koz) |
|---|---|---|---|---|---|---|---|---|
| **Reported Above 0.5% CuEq (Base Case)** | | | | | | | | |
| Indicated | 610,000 | 4.4 | 2.7 | 1.7 | 56 | 16,700 | 32,500 | 1,090,000 |
| Inferred | 230,000, | 3.3 | 1.8 | 1.5 | 56 | 4,100 | 11,300 | 410,000 |
| **Total** | **840,000** | **4.1** | **2.5** | **1.6** | **56** | **20,800** | **43,800** | **1,500,000** |
| **Reported Above 1.0% CuEq** | | | | | | | | |
| Indicated | 560,000 | 4.7 | 3.0 | 1.7 | 60 | 16,600 | 31,100 | 1,070,000 |
| Inferred | 200,000 | 3.7 | 2.0 | 1.7 | 61 | 4,000 | 10,900 | 400,000 |
| **Total** | **760,000** | **4.4** | **2.7** | **1.7** | **60** | **20,600** | **42,000** | **1,470,000** |
| **Reported Above 2.0% CuEq** | | | | | | | | |
| Indicated | 420,000 | 5.7 | 3.7 | 2.0 | 73 | 15,700 | 26,800 | 990,000 |
| Inferred | 130,000 | 4.9 | 2.7 | 2.1 | 81 | 3,600 | 8,600 | 340,000 |
| **Total** | **550,000** | **5.5** | **3.5** | **2.0** | **75** | **19,300** | **35,400** | **1,330,000** |
| * Note: Figures have been rounded | | | | | | | | |

## OTHER PROJECTS

While Azure's priority has been on advancing the Promontorio Project, the Company continues to assess development opportunities for its other assets in Mexico.

Over the past year, Azure received several expressions of interest from major copper mining companies in the Loreto copper project. Located on Baja California peninsula, Loreto contains numerous prospects demonstrating potential for porphyry-hosted and other styles of copper mineralisation. Several site visits have taken place and discussions with these third parties are continuing.

Similarly, the Panchita gold and the El Tecolote copper-zinc projects have attracted interest from other companies, and Azure is continuing to look into farm-out opportunities for these assets.

***Competent Person Statement:***

*The information in this report that relates to Exploration Results at the Promontorio project was extracted from reports issued to ASX on reported to the ASX on 17 January 2014, 7 February 2014, 12 February 2014, 14 May 2014 and 17 September 2014 ("announcements"). Azure Minerals Limited confirms that it is not aware of any new information or data that materially affects the information included in the announcements, and that all material assumptions and technical parameters underpinning the results in the announcements continue to apply and have not materially changed.*

*The information in this report that relates to Mineral Resources for the Promontorio project was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported, and is based on information compiled by Mr Anthony Rovira, who is a member of The Australasian Institute of Mining and Metallurgy. 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 is a full time employee of the Company and consents to the inclusion in the report of the matters based on his information in the form and context in*

## ***APPENDIX***

***Copper Equivalency Statement:***

- *Copper Equivalent (CuEq) was based on the following assumed metal prices that were guided by the three year averages at the data cut-off date: US$3.25/lb for Cu, US$1,450/oz for Au and US$27.50/oz for Ag.*
- *The CuEq grade accounts for the following metal recoveries, which were based on metallurgical testwork completed on the adjacent Promontorio deposit by independent metallurgical laboratories AMDEL and Ammtec, under the supervision of Coffey Mining Pty Ltd: 97.9% for Cu, 93.4% for Au, and 97% for Ag.*
- *It is Azure's belief that all elements included in the metal equivalent calculation have a reasonable potential to be recovered.*
- *The following formula was used to calculate the Copper Equivalent grade: CuEq (%) = (Cu% x 0.979) + (Au (g/t) x 0.6077) + (Ag (g/t) x 0.0120)*

# 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 2014.

## 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.

**Peter Ingram**
**Anthony Rovira**
**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 is on exploration for gold, copper, silver and zinc in Mexico. The company has a number of 100% owned projects, one of which has been joint ventured. The Group's principal project is the Promontorio project where a modest size but high grade copper-gold-silver deposit has been identified. The Group will continue to seek opportunities in Mexico, either 100% owned or in joint venture.

**Operating Results for the Year**

The operating loss after income tax of the Group for the year ended 30 June 2014 was $3,317,821 (2013: $3,892,112). Included in this loss figure is $2,174,850 (2013: $3,798,902) of exploration expenditure written off. Refer to notes 1(c) and 6 to the financial statements.

### Shareholder Returns

| | 2014 | 2013 |
|---|---|---|
| Basic loss per share (cents) | | |
| Diluted loss per share (cents) | **(0.5)** | (0.7) |

### Investments for Future Performance

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

### Review of Financial Condition

At the date of this report the consolidated entity has a sound capital structure and is in a strong position to progress its mineral properties.

### 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.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the company issued 148,550,005 ordinary fully paid shares raising $3,287,308 after all expenses of the issues.

There were no other significant changes in the state of affairs of the Group during the financial year.

# Directors' Report

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Since the end of the financial year Azure Minerals Limited completed an entitlement share issue where shareholders were offered 1 new share for every 6 shares held. The issue raised $643,066 resulting in 21,435,545 new shares being issued.

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.

## INFORMATION ON DIRECTORS

**Names, qualifications, experience and special responsibilities**

**Mr. Peter Anthony Ingram** BSc, FAusIMM, MGSA, FAICD (appointed 12 October 2011 and on 1 December 2012 appointed Chairman)

Mr Ingram is a geologist with over forty years experience in the mining and mineral exploration industries within Australia, including over thirty years experience in public company management. He was the founding Chairman and Managing Director of Universal Resources Limited (now Altona Mining Limited).

Mr Ingram was a founding councilor and past President of the Association of Mining and Exploration Companies (AMEC) and has been made an Honorary Life Member in recognition of his services to AMEC. He was also a founding director of the Australian Gold Mining Industry Council. He has served on the board of management of the WA School of Mines at Curtin University and was instrumental in the establishment of the Chair of Mineral Economics and Mine Management within that institution.

Mr Ingram’s previous directorships include: Managing Director of Metana Minerals NL and Eastmet Limited; Executive Chairman of Australia Oriental Minerals NL and Glengarry Resources Limited; and Non-executive Director of Dragon Mining Limited, Metana Petroleum Limited and Carnarvon Petroleum Limited.

**Other Current Directorships**

Altona Mining Limited

**Former Directorships in the last 3 years**

None.

**Special Responsibilities**

Chairman of the Board and Chairman of the Remuneration & Nomination Committee and member of the Audit & Risk Management Committee

**Interests in Shares and Options**

3,000,000 ordinary shares in Azure Minerals Limited

6,000,000 options over ordinary shares in Azure Minerals Limited

**Mr. Anthony Paul Rovira**, BSc (Hons) Flinders University, MAusIMM (Managing Director)

Tony Rovira has over 30 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 Managing Director in December 2003 and held the position of Executive Chairman from June 2007 until December 2012. Tony 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.

# Directors' Report

## INFORMATION ON DIRECTORS (cont'd)

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

**Former Directorships in the last 3 years**

None.

**Special Responsibilities**

Managing Director

**Interests in Shares and Options**

5,133,333 ordinary shares in Azure Minerals Limited, of which 1,880,000 are held indirectly.
11,000,000 options over ordinary shares in Azure Minerals Limited

**Dr Wolf Martinick,** PhD, BSc (agric) (Appointed 1 September 2007)

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
Oro Verde Limited (Formerly called Ezenet Limited)– Chairman since January 2003
Weatherly International Plc – Director since July 2005

**Former Directorships in the last 3 years**

None

**Special Responsibilities**

Chairman of the Audit and Risk Management Committee and member of the Remuneration & Nomination Committee

**Interests in Shares and Options**

2,373,333 ordinary shares in Azure Minerals Limited
3,500,000 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 25 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** |
| Peter Anthony John Ingram | 7 | 7 | 2 | 2 | 2 | 2 |
| Anthony Paul Rovira* | 7 | 7 | - | - | - | - |
| Wolf Gerhard Martinick | 7 | 7 | 2 | 2 | 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.

# 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 short and long-term incentives based on key performance areas affecting the Groups results. Short-term incentives implemented by the Company are detailed later in the report in section E. 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 9.5% 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). In line with standard industry practice 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.

A Remuneration Committee has been established and is a committee of the board. It is primarily responsible for making recommendations to the board on:

- Non-executive directors fees
- Remuneration levels of executive directors and other key management personnel
- Key performance indicators and performance hurdles of the executive team

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Group. The Corporate Governance Statement provides further information on the role of this committee.

Remuneration consultants were not engaged during the year.

There is no Retirement Benefit Policy for directors, other than the payment of statutory superannuation.

### B Details of remuneration

***Amount of remuneration***

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

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

# Directors' Report

### Key management personnel of the Group

| Name | Short-Term Cash, salary & fees | Short-Term Cash Bonus | Short-Term Non monetary benefits | Post Employment Super-annuation | Share-based Payments Options | Total | Percentage Consisting of Options % |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Peter Anthony Ingram – *Chairman* | | | | | | | |
| **2014** | **50,000** | - | - | **4,624** | **46,582** | **101,206** | **46.0** |
| 2013 | 50,000 | - | - | 4,500 | 32,247 | 86,747 | 37.2 |
| Anthony Paul Rovira – *Managing Director* | | | | | | | |
| **2014** | **300,000** | - | - | **27,750** | **139,745** | **467,495** | **29.9** |
| 2013 | 300,000 | 57,225 | - | 27,000 | 96,742 | 480,967 | 20.1 |
| Wolf Gerhard Martinick –*Non Executive* | | | | | | | |
| **2014** | **45,000** | - | - | **4,160** | **46,582** | **95,742** | **48.7** |
| 2013 | 45,000 | - | - | 4,050 | 32,247 | 81,297 | 39.7 |
| **Executives** | | | | | | | |
| Brett Dickson – *Company Secretary* | | | | | | | |
| **2014** | **153,420** | - | - | - | **93,163** | **246,583** | **37.8** |
| 2013 | 153,120 | 26,796 | - | - | 64,495 | 244,411 | 26.4 |
| **Total** | | | | | | | |
| **2014** | **548,420** | - | - | **36,534** | **326,072** | **911,026** | **35.8** |
| 2013 | 548,120 | 84,021 | - | 35,550 | 225,731 | 893,422 | 25.3 |

### Compensation options

During 2014 no options were issued. During 2013 the following options were issued.

| **2013/2014** | | **Granted** Number | Date | Fair Value Per option | Fair value $ | **Terms and conditions for each grant** Exercise Price $ | Expiry date | First exercise date | Last exercise date | **Vested** Number |
|---|---|---|---|---|---|---|---|---|---|---|
| *Directors* | | | | | | | | | | |
| P A Ingram | **2014** | 3,000,000* | 25 June 13 | 0.031 | 94,440 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 2,000,000 |
| | 2013 | 3,000,000* | 25 Jun 13 | 0.031 | 94,440 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 1,000,000 |
| A P Rovira | **2014** | 9,000,000* | 25 Jun 13 | 0.031 | 283,320 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 6,000,000 |
| | 2013 | 9,000,000* | 25 Jun 13 | 0.031 | 283,320 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 3,000,000 |
| W Martinick | **2014** | 3,000,000* | 25 Jun 13 | 0.031 | 94,440 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 2,000,000 |
| | 2013 | 3,000,000* | 25 Jun 13 | 0.031 | 94,440 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 1,000,000 |
| *Executives* | | | | | | | | | | |
| B Dickson | **2014** | 6,000,000* | 25 Jun 13 | 0.031 | 188,880 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 4,000,000 |
| | 2013 | 6,000,000* | 25 Jun 13 | 0.031 | 188,880 | 0.058 | 30 Jun 17 | 26 Jun 13 | 30 Jun 17 | 2,000,000 |
| Total | **2014** | 21,000,000 | | 0.031 | 661,880 | | | | | **14,000,000** |
| | 2013 | 21,000,000 | | 0.031 | 661,080 | | | | | 7,000,000 |

* One third of these options vested on grant, one third vested on 30 June 2014 and the final third vest after 30 June 2015.

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

# Directors' Report

### Compensation options (cont'd)

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were neither forfeitures nor shares issued on exercise of Compensation Options during 2014 or 2013. There were no options granted as remuneration or exercised during the year. During the year 4,500,000 (2013: 11,000,000) options exercisable at $0.13 with an expiry date of 30 November 2013 lapsed.

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 non-executive director remuneration (2013: Nil). Performance based remuneration for executives is detailed later in section E of this report.

### 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 – to 1 January 2015.
- Base salary, exclusive of superannuation, of $300,000 to be reviewed annually by the remuneration committee.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, includes an amount equal to the amounts due for the balance of the term of the contract from the date of termination.

**Brett Dickson**, Company Secretary/Chief Financial Officer:
- Term of agreement – to 1 January 2015.
- Fixed fee, $12,760 per month.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, includes an amount equal to the amounts due for the balance of the term of the contract from the date of termination.

### Retirement Benefits

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

### D Share based compensation

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

During the year no options were issued to Directors and Executives. (2013: 21,000,000 exercisable at $0.058 on or before 30 June 2017).

No options held by directors or executives were exercised during the financial year and no options have been exercised since the end of the financial year. During the year 4,500,000 (2013: 11,000,000) options exercisable at $0.13 with an expiry date of 30 November 2013 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 any vesting 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.

# Directors' Report

## E Additional Information

### Performance based remuneration

**Variable Remuneration – Short Term Incentive ("STI")**

***Objective***

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve those operational targets and such that the cost to the Company is reasonable in the circumstances.

***Structure***

Actual STI payments granted to executives depend on the extent to which specific targets set at the beginning of the review period, being a fiscal year, are met. The targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial, corporate and individual measures of performance. Typically included are measures such as contribution to exploration success, share price appreciation, risk management and cash flow sustainability. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

The Board has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, after consideration of performance against KPI's, the Remuneration Committee, determines the amount, if any, of the STI to be paid to each executive. This process usually occurs in the last quarter of the fiscal year. Payments made are delivered as a cash bonus in the fourth quarter of the fiscal year.

***STI bonus for 2013 and 2014 financial years***

For the 2014 fiscal year key performance indicators were divided into two categories;

1. General management (including safety, environment, professional development, board reporting and financial management), with a maximum total weighting of 30%; and
2. Operations (including increasing resources at Promontorio, adding value to the Company's other projects and the acquisition of new projects) with a total maximum weighting of 70%.

For the fiscal year ended 30 June 2013 the following key performance indicators were agreed for senior management, with the relative weighting of each shown in brackets.

1. Continued satisfactory employment to the testing date. (0-15%)
2. Improved management/administration of budgets and personnel in Mexico and completion of agreed professional development courses. (0-15%)
3. Resources increase (using the same cut-off values used in any current Resource estimate) at Promontorio. (20-40%)
4. A significant increase in value at Tecolote, La Tortuga, Cascada and other projects and/or the securing of new projects of significance. (20-30%)

The minimum amount payable for 2014 assuming executives fail to meet their KPI's was nil and the maximum amount payable if all KPI's were met is $125,000. For the year ending 30 June 2014 senior management were awarded 50% of their possible bonus and 50% was forfeited (2013: 70% and 30%); however payment has been deferred until the Company's financial position is sufficiently strong to justify payment. There have been no alterations to the STI bonus plans since their grant date.

**Variable Remuneration – Long Term Incentive ("LTI")**

***Objective***

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth.

**Structure**

LTI grants to executives are delivered in the form of options.

The options, when issued to executives, will not be exercisable for a price less than the then current market price of the Company's shares. The grant of LTI's is reviewed annually, though LTI's may not be granted each year. Exercise price and performance hurdles, if any, are determined at the time of grant of the LTI.

To date no performance hurdles have been set on options issued to executives other than time based service conditions. The Company believes that as options are issued at not less than the current market price of the Company's shares there is an inherent performance hurdle on those options as the share price of the Company's shares must increase significantly before there is any reward to the executive.

**Shares issued on exercise of compensation options**

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

# Directors' Report

**Option holdings of key management personnel**

| 2014 | Balance at beginning of year | Granted as Remuneration | Options Exercised | Options Lapsed | Balance at end of year | Vested at 30 June Vested & Exercisable | Vested at 30 June Unvested |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Wolf Gerhard Martinick | 3,500,000 | - | - | - | 3,500,000 | 2,500,000 | 1,000,000 |
| Peter Anthony Ingram | 6,000,000 | - | - | - | 6,000,000 | 5,000,000 | 1,000,000 |
| Anthony Paul Rovira | 11,000,000 | - | - | - | 11,000,000 | 8,000,000 | 3,000,000 |
| **Executives** | | | | | | | |
| Brett Dickson | 7,500,000 | - | - | - | 7,500,000 | 5,500,000 | 2,000,000 |
| **Total** | **28,000,000** | **-** | **-** | **-** | **28,000,000** | **21,000,000** | **7,000,000** |
| **2013** | | | | | | | |
| **Directors** | | | | | | | |
| Wolf Gerhard Martinick | 2,500,000 | 3,000,000 | - | (2,000,000) | 3,500,000 | 1,500,000 | 2,000,000 |
| Peter Ingram | 3,000,000 | 3,000,000 | | - | 6,000,000 | 4,000,000 | 2,000,000 |
| Anthony Paul Rovira | 7,500,000 | 9,000,000 | - | (5,500,000) | 11,000,000 | 5,000,000 | 6,000,000 |
| **Executives** | | | | | | | |
| Brett Dickson | 5,000,000 | 6,000,000 | - | (3,500,000) | 7,500,000 | 3,500,000 | 4,000,000 |
| **Total** | **18,000,000** | **21,000,000** | **-** | **(11,000,000)** | **28,000,000** | **14,000,000** | **14,000,000** |

**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 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| **Directors** | | | | | | |
| Wolf G Martinick | 2,373,333 | - | - | - | 2,373,333 | 833,333 |
| Anthony P Rovira | 5,133,333 | - | - | - | 5,133,333 | 1,880,000 |
| Peter A Ingram | 1,000,000 | - | - | 2,000,000 | 3,000,000 | - |
| **Executives** | | | | | | |
| Brett Dickson | - | - | - | - | - | - |
| **Total** | **8,506,666** | **-** | **-** | **2,000,000** | **10,506,666** | **2,713,333** |
| **2013** | | | | | | |
| **Directors** | | | | | | |
| Wolf G Martinick | 1,540,000 | - | - | 833,333 | 2,373,333 | 833,333 |
| Anthony Paul Rovira | 3,300,000 | - | - | 1,833,333 | 5,133,333 | 1,880,000 |
| Peter Ingram | - | - | - | 1,000,000 | 1,000,000 | - |
| **Executives** | | | | | | |
| Brett Dickson | 112,000 | - | - | (112,000) | - | - |
| **Total** | **4,952,000** | **-** | **-** | **3,554,666** | **8,506,666** | **2,713,333** |

**Other Related Party Transactions**

The Company has entered into a sub-lease agreement on normal commercial terms with Oro Verde Limited, a company of which Wolf Martinick is a director and Brett Dickson is Company Secretary. During the year Oro Verde Limited paid sub-lease fees totalling $4,800 (2013: $4,800).

The Company has also entered into a sub-lease agreement on normal commercial terms with Rox Resources Limited, a company of which Brett Dickson is Company Secretary. During the year Rox Resources Limited paid sub-lease fees totalling $114,800 (2013: $98,406).

# Directors' Report

**Directors and executive options**

Set out below are summaries of current Directors & Executives options granted.

| **2014** 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 |
|---|---|---|---|---|---|---|---|---|---|
| 25 Sept ‘13 | 30 Jun ‘17 | 5.8 | 3.2 | 25,000,000 | - | - | - | 25,000,000 | 16,666,668 |
| 9 Dec ‘11 | 30 Nov ‘14 | 4.9 | 1.6 | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |
| 14 Dec ‘10 | 30 Nov ‘13 | 13.0 | 5.5 | 4,500,000 | - | - | (4,500,000) | - | - |
| | | | | **32,500,000** | **-** | **-** | **(4,500,000)** | **28,000,000** | **19,666,668** |
| Weighted average exercise price | | | | $0.067 | | | $0.130 | $0.057 | $0.057 |
| **2013** | | | | | | | | | |
| 25 Jun ‘13 | 30 Jun ‘17 | 5.8 | 3.2 | - | 25,000,000 | - | - | 25,000,000 | 8,333,334 |
| 9 Dec ‘11 | 30 Nov ‘14 | 4.9 | 1.6 | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |
| 9 Dec ’09 | 30 Nov ‘12 | 8.8 | 2.9 | 12,500,000 | - | - | (12,500,000) | - | - |
| 14 Dec ‘10 | 30 Nov ‘13 | 13.0 | 5.5 | 4,500,000 | - | - | - | 4,500,000 | 4,500,000 |
| | | | | **20,000,000** | **25,000,000** | **-** | **(12,500,000)** | **32,500,000** | **15,833,334** |
| Weighted average exercise price | | | | $0.092 | $0.058 | - | $0.088 | $0.061 | $0.079 |

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.76 years (2013: 3.27 years)

*Fair value of director options granted.*

Options are granted for no consideration. No options were granted during the 2014 financial year. During the 2013 financial year the weighted average fair value of the options granted was 3.2 cents.The price was calculated by using the Binominal Option valuation methodology applying the following inputs:

| | **2014** | 2013 |
|---|---|---|
| Weighted average exercise price | - | 5.8 cents |
| Weighted average life of the option | - | 4.0 years |
| Weighted average underlying share price | - | 4.7 cents |
| Expected share price volatility | - | 100% |
| Risk free interest rate | - | 3.07% |

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 year were as follows:

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| Options issued to directors and other executives | **388,181** | 268,728 |

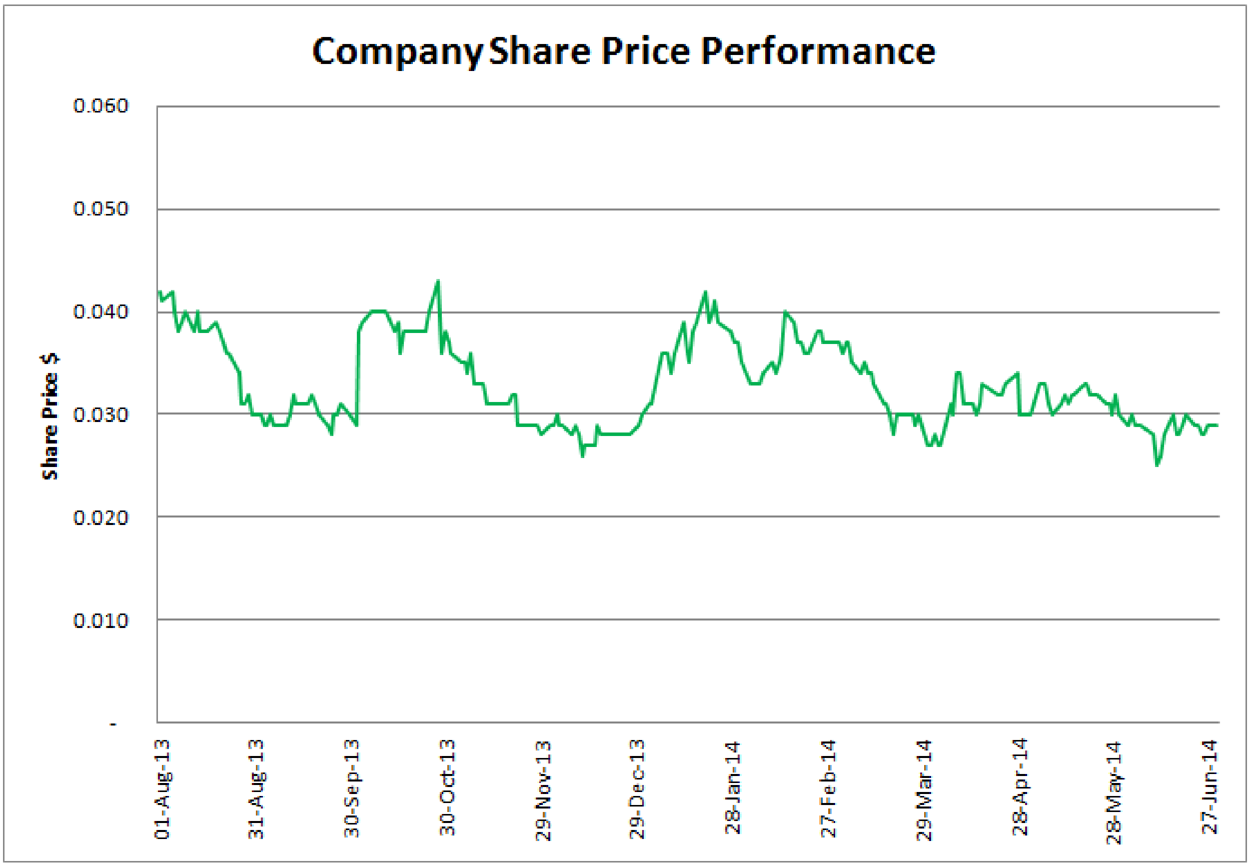
## Company's Performance

*Company's share price performance*

The Company's share price performance shown in the below graph is a reflection of the Company's performance during the year and of general market conditions.

The variable components of the executives' remuneration including short-term and long-term incentives are indirectly linked to the Company's share price performance.

The graph below shows the Company's share price performance during the financial year ended 30 June 2014.




*Loss per share*

Below is information on the Company's loss per share for the previous four financial years and for the current year ended 30 June 2014.

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Basic loss per share (cents) | (0.5) | (0.7) | (0.9) | (1.2) | (0.9) |

## Voting and comments made at the company's 2013 Annual General Meeting

Azure Minerals received approximately 90% of "yes" votes on its remuneration report for the 2013 financial year. Remuneration consultants were not engaged during the year and the company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

## 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 71,197,686 unissued ordinary shares in respect of which options are outstanding.

| | | | | **Total Number of options** |
|---|---|---|---|---|
| Balance at the beginning of the year | | | | 50,773,611 |
| *Share option movements during the year* | *Issued* | *Exercised* | *Lapsed* | |
| Exercisable at 13.0 cents, on or before 30 November 2013 | | | (4,500,000) | (4,500,000) |
| Exercisable at 2 cents, on or before 30 September 2014 | | (1,000,000) | | (1,000,000) |
| Exercisable at 4.5 cents, on or before 30 November 2016 | 25,924,075 | | | 25,924,075 |
| **Total options issued, exercised and lapsed in the year to 30 June 2014** | | | | 20,424,075 |
| **Total number of options outstanding as at 30 June 2014 and at the date of this report** | | | | 71,197,686 |

The balance is comprised of the following

| Date granted | Expiry date | Exercise price (cents) | Number of options |
|---|---|---|---|
| 9 Dec 2011* | 30 Nov 2014 | 4.9 | 3,000,000 |
| 27 Sept 2012 | 30 Sept 2014 | 2.0 | 2,873,611 |
| 3 Dec 2012 | 30 Sept 2014 | 2.0 | 14,400,000 |
| 25 June 2013* | 30 June 2017 | 5.8 | 25,000,000 |
| 16 May 2014 | 30 Nov 2016 | 4.5 | 20,618,913 |
| 30 May 2014 | 30 Nov 2016 | 4.5 | 5,305,162 |
| **Total number of options outstanding at the date of this report** | | | **71,197,686** |

* These options were granted as remuneration to directors and executives. Details of options granted to officers are disclosed in the Remuneration Report.

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.

During the financial year 1,000,000 options exercisable at $0.02 were exercised by parties unrelated to the Company. Since the end of the financial year 7,345,833 options exercisable at $0.02 have been exercised.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Azure Minerals Limited paid a premium of $16,095 (2013: $16,095) to insure the directors and secretary of the company and its Australian based controlled entities.

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

**Proceedings on behalf of the company**

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

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

# 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 | |
|---|---|---|
| | 2014 | 2013 |
| **1. Audit Services** | $ | $ |
| BDO Audit (WA) Pty Ltd | | |
| Audit and review of financial reports | **46,029** | 54,358 |
| Salles Sáinz-Grant Thornton, S.C. - | | |
| Audit and review of financial reports of Mexican subsidiaries | **11,177** | 13,667 |
| **2. Non audit Services** | | |
| **Audit-related services** | | |
| BDO Audit (WA) Pty Ltd | | |
| Attendance at Annual General Meeting | **297** | 285 |
| **Taxation Services** | | |
| BDO Audit (WA) Pty Ltd | | |
| Tax compliance services | **10,965** | 10,832 |
| Total remuneration for non-audit services | **11,262** | 11,117 |

## AUDITOR INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307c of the *Corporations Act 2001* is set out on page 52.

## 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.

Peter Ingram
Chairman
Perth, 25 September 2014

# Corporate Governance Statement

## Approach to Corporate Governance

Azure Minerals Limited (**Company**) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to ASX Corporate Governance Council Principles and Recommendations 2nd edition (**Principles & Recommendations**). The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained it reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

The following documents are on the Company's website at http://www.azureminerals.com.au/azs/corporate/corporate-governance/:

**Charters**
Board
Audit Committee
Nomination Committee
Remuneration Committee

**Policies and Procedures**
Policy and Procedure for Selection and (Re) Appointment of Directors
Process for Performance Evaluations
Policy on Assessing the Independence of Directors
Diversity Policy
Code of Conduct (summary)
Policy on Continuous Disclosure (summary)
Compliance Procedures (summary)
Procedure for the Selection, Appointment and Rotation of External Auditor
Shareholder Communication Policy
Risk Management Policy (summary)

The Company reports below on whether it has followed each of the recommendations during the 2013/2014 financial year (**Reporting Period**). The information in this statement is current at 23 September 2014.

## Board

**Roles and responsibilities of the Board and Senior Executives**
**(Recommendations: 1.1, 1.3)**

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter, which is disclosed on the Company's website.

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

Senior executives are responsible for supporting the Managing Director and assisting the Managing Director 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 Managing Director or, if the matter concerns the Managing Director, directly to the Chair or the lead independent director, as appropriate.

**Skills, experience, expertise and period of office of each Director**
**(Recommendation: 2.6)**

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

The mix of skills and diversity for which the Board is looking to achieve in membership of the Board is represented by the Board's current composition. While the Company is at exploration stage, it does not wish to increase the size of the Board, and considers that the Board weighted towards technical experience is appropriate at this stage of the Company's development.

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

The Board has a majority of directors who are independent.

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

- Balance sheet items are material if they have a value of more than 5% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 5% or more.

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- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 5% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 5%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

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

The non-independent director of the Company is the Company's Managing Director, Anthony Rovira.

**Independent professional advice**
**(Recommendation: 2.6)**

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

**Selection and (Re)Appointment of Directors**
**(Recommendation: 2.6)**

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

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

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

## Board committees

**Nomination and Remuneration Committee**
**(Recommendations: 2.4, 2.6, 8.1, 8.2, 8.3, 8.4)**

The Board has established a Nomination and Remuneration Committee comprised of the Company's two independent non-executive directors; Peter Ingram (Chair) and Wolf Martinick. The Nomination and Remuneration Committee is not structured in accordance with Recommendation 8.2 as it only has two members. However, the Board considers that the committee's composition is appropriate as it comprises the Board's two independent non-executive directors.

The Nomination and Remuneration Committee met once during the Reporting Period. Details of director attendance at Nomination and Remuneration Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 10.

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report and commences on page 11. The Company's policy on remuneration distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Company's policy is to remunerate non-executive directors at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to individual performance. From time to time the Company may grant options to non-executive directors. The grant of options is designed to attract and retain suitably qualified non-executive directors. The maximum aggregate amount of fees (including superannuation payments) that can be paid to non-executive directors is subject to approval by shareholders at general meeting.

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

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

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The Company has adopted Nomination and Remuneration Committee Charters which describe the role, composition, functions and responsibilities of the Nomination and Remuneration Committees. As noted above, the Board has combined these committees. The Company's Nomination Committee Charter and Remuneration Committee Charters are disclosed on the Company's website. 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.

**Audit and Risk Management Committee**
**(Recommendations: 4.1, 4.2, 4.3, 4.4)**

The Board has established an Audit and Risk Management Committee comprised of the Company's two independent non-executive directors; Peter Ingram and Wolf Martinick (Chair). The Audit and Risk Management Committee is not structured in accordance with Recommendation 4.2 as it only has two members. However, the Board considers that the committee's composition is appropriate as it comprises the Board's two independent non-executive directors.

The Audit and Risk Management Committee met twice during the Reporting Period. Details of director attendance at Audit and Risk Management Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 10.

The Company has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee. The Company also has a Risk Management Policy (discussed further below).

Details of each of the director's qualifications are set out in the Directors' Report. Each of the members of the Audit and Risk Committee consider themselves to be financially literate and have an understanding of the industry in which the Company's operates. The Company's Chief Financial Officer, Mr Brett Dickson, is a Certified Practising Accountant with a Bachelor degree in Economics and is invited to attend Audit and Risk Management Committee meetings by invitation.

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

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

## Performance evaluation

**Senior executives**
**(Recommendations: 1.2, 1.3)**

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

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

During the Reporting Period an evaluation of the Managing Director and other senior executives took place in June 2014 accordance with the process disclosed above.

**Board, its committees and individual directors**
**(Recommendations: 2.5, 2.6)**

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

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

During the Reporting Period an evaluation of the Board and individual directors took place in June 2014 in accordance with the process disclosed above.

The Company's Process for Performance Evaluation is disclosed on the Company's website.

## Ethical and responsible decision making

**Code of Conduct**
**(Recommendations: 3.1, 3.5)**

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

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

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**Diversity**
**(Recommendations: 3.2, 3.3, 3.4, 3.5)**

The Company has established a Diversity Policy, which provides that the Board may establish measurable objectives for achieving gender diversity that are appropriate for the company, and if established the Board will assess annually both the objectives and progress towards achieving them.

The Board has not set measurable objectives for achieving gender diversity. Given the Company's stage of development as an exploration company, the number of employees in Australia and the nature of the labour market in Mexico, the Board considers that it is not practical to set measurable objectives for achieving gender diversity.

The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board are set out in the following table:

| | **Proportion of women** |
|---|---|
| Whole organisation | 2 out of 7 (28%) |
| Senior executive positions | 0 out of 1 (0%) |
| Board | 0 out of 3 (0%) |

The Company's Diversity Policy is disclosed on the Company's website.

### Continuous Disclosure
**(Recommendations: 5.1, 5.2)**

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

A summary of the Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed on the Company's website.

### Shareholder Communication
**(Recommendations: 6.1, 6.2)**

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

The Company's Shareholder Communication Policy is disclosed on the Company's website.

### Risk Management
**Recommendations: 7.1, 7.2, 7.3, 7.4)**

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

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

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

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

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

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

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

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## ASX Corporate Governance Council recommendations checklist

The following table sets out the Company's position with regard to adoption of the Principles & Recommendations as at the date of this statement:

| Recommendation | | Comply |
|---|---|---|
| **Principle 1:** | **Lay solid foundations for management and oversight** | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | ☑ |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | ☑ |
| 1.3 | Companies should provide the information indicated in the Guide to reporting on Principle 1. | ☑ |
| **Principle 2:** | **Structure the board to add value** | |
| 2.1 | A majority of the board should be independent directors. | ☑ |
| 2.2 | The chair should be an independent director. | ☑ |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual. | ☑ |
| 2.4 | The board should establish a nomination committee. | ☑ |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | ☑ |
| 2.6 | Companies should provide the information indicated in the Guide to reporting on Principle 2. | ☑ |
| **Principle 3:** | **Promote ethical and responsible decision-making** | |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to:<br>• the practices necessary to maintain confidence in the company's integrity;<br>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | ☑ |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. | ☒ |
| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. | ☒ |
| 3.4 | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board. | ☑ |
| 3.5 | Companies should provide the information indicated in the Guide to reporting on Principle 3. | ☑ |
| **Principle 4:** | **Safeguard integrity in financial reporting** | |
| 4.1 | The board should establish an audit committee. | ☑ |
| 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. | ☒ |
| 4.3 | The audit committee should have a formal charter. | ☑ |
| 4.4 | Companies should provide the information indicated in the Guide to reporting on Principle 4. | ☑ |
| **Principle 5:** | **Make timely and balanced disclosure** | |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies. | ☑ |
| 5.2 | Companies should provide the information indicated in the Guide to reporting on Principle 5. | ☑ |
| **Principle 6:** | **Respect the rights of shareholders** | |
| 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 the policy. | ☑ |
| 6.2 | Companies should provide the information indicated in the Guide to reporting on Principle 6. | ☑ |
| **Principle 7:** | **Recognise and manage risk** | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | ☑ |
| 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. | ☑ |
| 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.. | ☑ |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7. | ☑ |
| **Principle 8:** | **Remunerate fairly and responsibly** | |
| 8.1 | The board should establish a remuneration committee. | ☑ |
| 8.2 | The remuneration committee should be structured so that it: consists of a majority of independent directors; is chaired by an independent chair; and has at least three members. | ☒ |
| 8.3 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | ☑ |
| 8.4 | Companies should provide the information indicated in the Guide to reporting on Principle 8. | ☑ |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

| YEAR ENDED 30 JUNE 2014 | Notes | Consolidated 2014 $ | Consolidated 2013 $ |
|---|---|---|---|
| Revenue from continuing activities | 5 | **(37,270)** | 46,692 |
| | | | |
| Expenditure | | | |
| Depreciation | 6 | **(37,176)** | (40,354) |
| Salaries and employee benefits expense | | **(544,652)** | (622,809) |
| Directors fees | | **(95,000)** | (95,000) |
| Exploration expenses | 6 | **(2,174,850)** | (3,798,902) |
| Exploration expenses reimbursed | 6 | **65,600** | 1,851,810 |
| Travel expenses | | **(173,778)** | (174,720) |
| Promotion expenses | | **(64,480)** | (82,267) |
| Administration expenses | | **(180,474)** | (110,690) |
| Consulting expenses | | **(54,554)** | (84,780) |
| Insurance expenses | | **(41,290)** | (42,414) |
| Share based payment expense | 28 | **(388,181)** | (447,153) |
| Reversal of provision for doubtful debts | | **426,978** | - |
| Other expenses | | **(93,234)** | (291,525) |
| **Loss from continuing operations before income tax** | | **(3,317,821)** | (3,892,112) |
| **Income tax benefit/(expense)** | 7 | **-** | - |
| **Loss from continuing operations after income tax** | | **(3,317,821)** | (3,892,112) |
| **Loss is attributable to:** | | | |
| The owners of Azure Minerals Limited | | **(3,317,821)** | (3,892,112) |
| | | | |
| **Other comprehensive income/(loss)** | | | |
| *Items that may subsequently be reclassified to profit and loss* | | | |
| Exchange differences on translation of foreign operations | | **(117,529)** | 375,390 |
| Change to available-for–sale financial assets, net of tax | | **(2,175)** | (9,844) |
| *Items that will not be subsequently reclassified to profit and loss* | | **-** | - |
| **Other comprehensive income/(loss) for the year net of tax** | | **(119,704)** | 365,546 |
| **Total comprehensive loss for the Year** | | **(3,437,525)** | (3,526,566) |
| **Total comprehensive loss is attributable to:** | | | |
| The owners of Azure Minerals Limited | | **(3,437,525)** | (3,526,566) |
| | | | |
| *Loss per share from continuing operations attributable to the ordinary equity holders of the company* | | | |
| Basic loss per share (cents per share) | 23 | **(0.5)** | (0.7) |
| Diluted loss per share (cents per share) | | **(0.5)** | (0.7) |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements.

# Consolidated Statement of Financial Position

AT 30 JUNE 2014

| | Notes | Consolidated | |
|---|---|---|---|
| | | 2014 | 2013 |
| | | $ | $ |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 19 | **978,865** | 2,386,471 |
| Trade and other receivables | 8 | **238,666** | 570,514 |
| Total Current Assets | | **1,217,531** | 2,956,985 |
| | | | |
| Non-Current Assets | | | |
| Available for sale investments | 9 | **948** | 3,123 |
| Plant and equipment | 10 | **85,295** | 113,842 |
| Capitalised exploration expenditure | 11 | **4,343,687** | 2,254,337 |
| Other financial assets | 12 | **45,378** | 45,378 |
| Total Non-Current Assets | | **4,475,308** | 2,416,680 |
| | | | |
| TOTAL ASSETS | | **5,692,839** | 5,373,665 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 14 | **249,061** | 602,822 |
| Provisions | 15 | **93,104** | 83,688 |
| Total Current Liabilities | | **342,165** | 686,510 |
| | | | |
| Non-Current Liabilities | | | |
| Provisions | 15 | **52,687** | 47,687 |
| Total Non-Current Liabilities | | **52,687** | 47,687 |
| | | | |
| TOTAL LIABILITIES | | **394,852** | 734,197 |
| | | | |
| NET ASSETS | | **5,297,987** | 4,639,468 |
| | | | |
| EQUITY | | | |
| Contributed equity | 16 | **47,965,163** | 44,677,855 |
| Reserves | 17 | **2,838,053** | 2,149,021 |
| Accumulated losses | 17 | **(45,505,229)** | (42,187,408) |
| TOTAL EQUITY | | **5,297,987** | 4,639,468 |

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

# Consolidated Statement of Changes in Equity

## FOR THE YEAR ENDED 30 JUNE 2014

### 30 JUNE 2014

| | Issued Share Capital | Share Option Reserve | Available for Sale Assets Reserve | Foreign Currency Translation Reserve | Accumulated Losses | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Balance at 1 July 2013 | **44,677,855** | **2,222,665** | **(37,821)** | **(35,823)** | **(42,187,408)** | **4,639,468** |
| Loss for period | - | - | - | - | (3,317,821) | (3,317,821) |
| **Other comprehensive income/(loss)** | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | (117,529) | - | (117,529) |
| Change in fair value of available-for-sale financial assets | - | - | (2,175) | - | - | (2,175) |
| **Total other comprehensive loss** | - | - | (2,175) | (117,529) | - | (119,704) |
| **Total comprehensive loss for the period** | - | - | (2,175) | (117,529) | (3,317,821) | (3,437,525) |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Issue of share capital, net of transaction costs | 3,287,308 | - | - | - | - | 3,287,308 |
| Share based payments | - | 808,736 | - | - | - | 808,736 |
| Total transactions with owners | 3,287,308 | 808,736 | - | - | - | 4,096,044 |
| **Balance as at 30 June 2014** | **47,965,163** | **3,031,401** | **(39,996)** | **(153,352)** | **(45,505,229)** | **5,297,987** |

### 30 JUNE 2013

| | Issued Share Capital | Share Option Reserve | Available for Sale Assets Reserve | Foreign Currency Translation Reserve | Accumulated Losses | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Balance at 1 July 2012 | **39,592,568** | **1,559,257** | **(27,977)** | **(411,213)** | **(38,295,296)** | **2,417,339** |
| Loss for period | - | - | - | - | (3,892,112) | (3,892,112) |
| **Other comprehensive income/(loss)** | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | 375,390 | - | 375,390 |
| Change in fair value of available-for-sale financial assets | - | - | (9,844) | - | - | (9,844) |
| **Total other comprehensive income/(loss)** | - | - | (9,844) | 375,390 | - | 365,546 |
| **Total comprehensive income/(loss) for the period** | - | - | (9,844) | 375,390 | (3,892,112) | (3,526,566) |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Issue of share capital, net of transaction costs | 5,085,287 | - | - | - | - | 5,085,287 |
| Share based payments | - | 663,408 | - | - | - | 663,408 |
| Total transaction with owners | 5,085,287 | 663,408 | - | - | - | 5,748,695 |
| **Balance at 30 June 2013** | **44,677,855** | **2,222,665** | **(37,821)** | **(35,823)** | **(42,187,408)** | **4,639,468** |

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

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2014

| | Notes | Consolidated 2014 $ | 2013 $ |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments to suppliers and employees | | **(1,286,857)** | (1,460,408) |
| Interest received | | **37,270** | 46,692 |
| Expenditure on mining interests | | **(1,657,892)** | (1,746,532) |
| NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES | 19(b) | **(2,907,479)** | (3,160,248) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for plant and equipment | | **(11,059)** | (15,425) |
| Acquisition Payments for projects | | **(1,861,007)** | - |
| Option payments for projects | | **(302,955)** | (423,013) |
| NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES | | **(2,175,021)** | (438,438) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of ordinary shares | | **3,921,100** | 5,590,528 |
| Share issue costs | | **(213,237)** | (288,986) |
| NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES | | **3,707,863** | 5,301,542 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | **(1,374,637)** | 1,702,856 |
| Cash and cash equivalents at the beginning of the financial year | | **2,386,471** | 643,525 |
| Effect of exchange rate changes on cash and cash equivalents | | **(32,969)** | 40,090 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 19(a) | **978,865** | 2,386,471 |

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

# Notes to the Consolidated 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, and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Azure Minerals Limited is a for-profit entity for the purpose of preparing the financial statements.

*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 except for available-for-sale financial asset which is accounted for at fair value.

*Critical accounting estimates*

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

*Going Concern*

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

The Consolidated Entity has incurred a net loss after tax for the year ended 30 June 2014 of $3,317,821 (2013: $3,892,112) and experienced net cash outflows from operating activities of $2,907,479 (2013: $3,160,248). At 30 June 2014, the Consolidated Entity had net current assets of $875,366 (30 June 2013: net current assets of $2,270,475).

The Directors believe there are sufficient funds to meet the Consolidated Entity's working capital requirements and as at the date of this report the directors believe they can meet all liabilities as and when they fall due. However the Directors recognise that additional funding either through the issue of further shares, convertible notes or a farm-out or sale of its exploration concessions or a combination of all may be required or successful exploration and subsequent exploitation of the Consolidated Entity's tenements for the Consolidated Entity to continue to actively explore its mineral properties in the long term. In addition the agreement reached with Rio Tinto for it to earn an interest in the Promontorio project will meet all expenditure requirements for that project as well as reimbursing a large portion of the Consolidated Entity's overhead costs, refer Note 22 for further information on this agreement.

The Directors have reviewed the business outlook and the assets and liabilities of the Consolidated Entity and are of the opinion that the use of the going concern basis of accounting is appropriate. Since the end of the end of the reporting date the Group has conducted an entitlement share issue, refer Note 22 for further information.

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

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

**(a) Principles of consolidation**

*Subsidiaries*
Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisitions method of accounting is used to account for business combinations by the Group..

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.

# Notes continued

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

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

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

*Plant and equipment*

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

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

*Depreciation*

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

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

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

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

**(c) 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.

**(d) 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.

**(e) 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.

# Notes continued

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

**(f) Goods and Services Tax (GST)**

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

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

**(g) Foreign currency translation**

*Functional and presentation currency*

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

*Transactions and balances*

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

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

*Group companies*

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

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

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

**(h) 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.

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

*Share-based payments*

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

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

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

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

# Notes continued

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

**(i) Employee benefits (Cont'd)**

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.

**(j) Revenue recognition**

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

**(k) 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.

**(l) 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.

**(m) Cash and cash equivalents**

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

**(n) Comparative figures**

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

**(o) Interests in joint ventures**

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

**(p) Segment reporting**

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

**(q) Investments and Financial assets**

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

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

*Available-for-sale financial assets*
Available-for-sale financial assets, comprising principally marketable equity securities, are nonderivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

*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.

# Notes continued

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

**(q) Investments and Financial assets (Cont'd)**

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

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

**(r) 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 reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

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

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

**(s) Provisions**

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

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

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

**(t) New Accounting Standards for Application in future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 9: Financial Instruments and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 27] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial instruments, as well as recognition and de-recognition requirements if financial instruments. The Group has not yet determined the potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with-held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  a. the objective of the entity's business model for managing the financial assets; and
  b. the characteristics of the contractual cash flows.
- Requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in Other Comprehensive Income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged; the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

# 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 generally does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

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

***Exposure to credit risk***

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

| | | **Consolidated Carrying amount** | |
|---|---|---|---|
| | Note | **2014** | 2013 |
| Trade and other receivables | 8 | **238,666** | 557,093 |
| Cash and cash equivalents | 19 | **978,865** | 2,386,471 |
| Security deposits | 12 | **45,378** | 45,378 |

***Impairment losses***

None of the Company's other receivables are past due (2013: nil). During the 2013 year Minera Piedra Azul C.A. de C.V.("MPA") a 100% owned, Mexican incorporated subsidiary of the Company was in dispute with Mexican tax authorities over claims made in its 2008 income tax return. As a result of the dispute, Mexican tax authorities imposed a fine of $426,978 on MPA, which it paid under protest. MPA appealed the decision and won, however, the Mexican tax authority appealed the decision and until all appeal avenues were exhausted the Group carried the amount paid as a receivable, and given that the tax authority appeal may be ultimately successful a provision against the full amount was been made. During the year all appeal avenues were exhausted and the Group reversed the provision.

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

The allowance accounts in respect of other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. At 30 June 2014 the Group does not have any collective impairments on its other receivables.

The Group places its cash deposits with institutions with a credit rating of AA or better and only with major banks.

*Guarantees*

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. There are no guarantees outstanding (2013: Nil)

# Notes continued

## 2. FINANCIAL RISK MANAGEMENT (Cont'd)

**Liquidity risk**

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

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

The Company anticipates a 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 2014** | | | | | | | |
| Trade and other payables | 249,061 | - | 249,061 | - | - | - | - |
| **30 June 2013** | | | | | | | |
| Trade and other payables | 602,822 | - | 602,822 | - | - | - | - |

**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 reporting date was as follows, based on notional amounts:

| | **30 June 2014** | 30 June 2013 |
|---|---|---|
| | **USD** | USD |
| Trade receivables | **108,368** | 438,909 |
| Trade payables | **76,712** | 170,717 |
| Gross statement of financial position | **185,080** | 609,626 |
| Forward exchange contracts | - | - |
| Net exposure | **185,080** | 609,626 |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| *AUD* | **2014** | **2013** | **2014** | **2013** |
| USD | **1.0898** | 0.9746 | **1.0606** | 1.0942 |

# Notes continued

## 2 . FINANCIAL RISK MANAGEMENT (Cont'd)

***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 2013.

| | Consolidated<br>Profit or loss |
|---|---|
| **30 June 2014** | |
| USD | 18,508 |
| **30 June 2013** | |
| USD | 60,963 |

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<br>Carrying amount | |
|---|---|---|
| | 2014 | 2013 |
| **Variable rate instruments** | | |
| **Short term cash deposits** | **927,483** | 2,286,006 |

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

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

**Group Sensitivity**

At 30 June 2014 if interest rates had changed +/- 100 basis points from year end rates with all other variables held constant, equity and post tax profit would have been $10,242 higher /lower (2013 – change of 100 basis points $24,318 higher/lower).

**Fair values**

***Fair values versus carrying amounts***

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

| Consolidated | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Trade and other receivables | 238,666 | 238,666 | 570,514 | 570,514 |
| Cash and cash equivalents | 978,865 | 978,865 | 2,386,471 | 2,386,471 |
| Other financial assets | 45,378 | 45,378 | 45,378 | 45,378 |
| Trade and other payables | (249,061) | (249,061) | (602,822) | (602,822) |

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

Cash and cash equivalent: The carrying amount approximates fair value because of their short-term to maturity.

Receivables and payables: The carrying amount approximates fair value.

Available-for-sale financial assets: Quoted prices in active markets been used to determine the fair value of listed available-for-sale investments (Level 1). The fair value of these financial assets has been based on the closing quoted bid prices at reporting date, excluding transaction costs.

# Notes continued

## 2 . FINANCIAL RISK MANAGEMENT (Cont'd)

**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:

*Exploration and evaluation costs*

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

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

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

*Deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences when management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Currently no deferred tax assets have been recognised as it is not probable that future taxable profits will be available to utilise those temporary differences.

## 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 2014<br>$ | 30 June 2013<br>$ |
|---|---|---|
| Revenue from external sources | - | - |
| Reportable segment loss | (1,733,237) | (1,993,754) |
| Reportable segment assets | 4,629,661 | 2,864,690 |
| Reportable segment liabilities | (153,424) | (433,486) |

# Notes continued

## 4. SEGMENT INFORMATION (cont'd)

| | 30 June 2014 $ | 30 June 2013 $ |
|---|---|---|
| **Reconciliation of reportable segment loss** | | |
| Reportable segment loss | **(1,733,237)** | (1,993,754) |
| Other profit | | |
| Unallocated: | | |
| - Salaries and wages | **(639,652)** | (717,809) |
| - Travel and accommodation | **(173,778)** | (174,720) |
| - Office costs | **(91,362)** | (110,854) |
| - Other corporate expenses | **(284,044)** | (435,874) |
| - Share based payments | **(388,181)** | (447,153) |
| - Depreciation | **(7,567)** | (11,948) |
| **Loss before tax** | **(3,317,821)** | (3,892,112) |
| **Reconciliation of reportable segment assets** | | |
| Reportable segment assets | **4,629,661** | 2,864,690 |
| Unallocated: | | |
| - Cash | **978,865** | 2,386,470 |
| - Trade and other receivables | **18,118** | 52,830 |
| - Investments | **950** | 3,123 |
| - Security deposits | **45,378** | 45,378 |
| - Office plant and equipment | **19,867** | 21,174 |
| **Total assets** | **5,692,839** | 5,373,665 |
| **Reconciliation of reportable segment liabilities** | | |
| Reportable segment liabilities | **(153,424)** | (433,486) |
| Unallocated: | | |
| - Trade and other payables | **(95,637)** | (169,336) |
| - Provisions | **(145,791)** | (131,375) |
| **Total liabilities** | **(394,852)** | (734,197) |

## 5. REVENUE FROM CONTINUING OPERATIONS

| | | |
|---|---|---|
| **Other revenues** | | |
| Interest | | |
| Bank interest | **37,270** | 46,692 |
| **Total revenues from continuing operations** | **37,270** | 46,692 |

## 6. EXPENSES

| | | |
|---|---|---|
| **Loss before income tax includes the following specific expenses** | | |
| Depreciation of plant and equipment | **37,176** | 40,354 |
| Exploration expenditure | **2,174,850** | 3,798,902 |
| Exploration expenditure reimbursement | **(65,600)** | (1,851,810) |
| Operating lease expenses | **47,655** | 62,173 |
| Superannuation | **36,533** | 35,550 |
| Provision for doubtful debt | **-** | - |

# Notes continued

## 7. INCOME TAX

**(a) Income tax expense**

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Current tax | - | - |
| Deferred tax | - | - |
| Adjustment for current tax of prior periods | - | - |
| | - | - |

**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Loss from continuing operations before income tax expense | **(3,317,821)** | (3,892,112) |
| Tax at the Australian tax rate of 30% (2013: 30%) | **(995,346)** | (1,167,634) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Share-based payments | **116,454** | 134,146 |
| Reverse provision for doubtful debt | **(128,093)** | - |
| Sundry items | **49,733** | 55,975 |
| | **(957,252)** | (977,513) |
| Movement in unrecognised temporary differences | **(56,880)** | (105,592) |
| Difference in overseas tax rates | **-** | (21,220) |
| Prior year adjustments to deferred tax balances | **-** | 613,921 |
| Tax effect of current year tax losses for which no deferred tax asset has been recognised | **1,014,132** | 490,404 |
| Income tax expense | - | - |

**(c) Unrecognised temporary differences**

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Deferred Tax Assets (at 30%) | | |
| *On Income Tax Account* | | |
| Prepayments | **4,425** | (3,262) |
| Depreciation of plant and equipment | **(15,246)** | (15,577) |
| Provisions | **55,640** | 48,413 |
| Carry forward tax losses | **6,516,096** | 5,501,962 |
| Carry forward tax losses – foreign | **5,441,912** | 4,827,031 |
| Other – tenement | **654,600** | 654,601 |
| | **12,657,427** | 11,013168 |
| 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** | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Prepayments | **14,750** | 13,421 |
| Sundry Receivables (a) | **223,916** | 984,071 |
| Provision for doubtful debt (b) | **-** | (426,978) |
| | **238,666** | 570,514 |

(a) Except as described in (b) below, 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.

# Notes continued

## 8. TRADE AND OTHER RECEIVABLES (cont'd)

(b) Minera Piedra Azul C.A. de C.V.("MPA") a 100% owned, Mexican incorporated subsidiary of the Company has been in dispute with Mexican tax authorities over claims made in its 2008 income tax return. As a result of the dispute, Mexican tax authorities imposed a fine of $426,978 on MPA, which it has paid under protest. MPA appealed the decision and won, however, the Mexican tax authority appealed the decision and until all appeal avenues have been exhausted the Group carried the amount paid as a receivable but given that the tax authority appeal may be ultimately successful a provision against the full amount was made. During the year all avenues of appeal were exhausted with MPA ultimately successful in its case. As a result all provisions made were written back with the Mexican tax office ultimately repaying the find the MPA in January 2014.

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

## 9. AVAILABLE FOR SALE INVESTMENTS

| | 2014 $ | 2013 $ |
|---|---|---|
| Listed shares at fair value (a) | | |
| Wolfeye Resource Corp. | **948** | 3,123 |

(a) Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate. Wolfeye Resource Corp. is listed on the Toronto Venture Exchange. Fair value has been determined directly by reference to published quotations on active markets (Level 1). The fair value of these financial assets has been based on the closing quoted bid prices at reporting date, excluding transaction costs. Also refer to Note 2 – Financial Risk Management.

| | 2014 $ | 2013 $ |
|---|---|---|
| At Cost | **40,944** | 40,944 |
| Impairment | **-** | - |
| Fair value adjustment to reserve (Note 17) | **(39,996)** | (37,821) |
| Fair value at 30 June | **948** | 3,123 |

## 10. PLANT AND EQUIPMENT

| **Consolidated** | **Furniture, fittings and equipment $** | **Motor Vehicles $** | **Exploration Equipment $** | **Total** |
|---|---|---|---|---|
| **At 1 July 2012** | | | | |
| Cost | 373,935 | 70,744 | 41,581 | 486,260 |
| Accumulated Depreciation | (302,321) | (36,278) | (20,673) | (359,272) |
| Net Book Amount | 71,614 | 34,466 | 20,908 | 126,988 |
| **Year ended 30 June 2013** | | | | |
| Opening net book value | 71,614 | 34,466 | 20,908 | 126,988 |
| Additions | 3,082 | - | 12,343 | 15,425 |
| Disposals | (4,090) | - | (2,845) | (6,935) |
| Depreciation on disposals | 1,155 | - | 617 | 1,772 |
| Depreciation Charge | (23,638) | (13,218) | (3,497) | (40,353) |
| Foreign exchange translation adjustment | 7,778 | 4,020 | 5,147 | 16,945 |
| Closing net book amount | 55,901 | 25,268 | 32,673 | 113,842 |
| **At 30 June 2013** | | | | |
| Cost | 387,103 | 81,986 | 57,979 | 527,065 |
| Accumulated Depreciation | (331,202) | (56,718) | (25,303) | (413,223) |
| Net Book Amount | 55,901 | 25,268 | 32,676 | 113,842 |
| **Year ended 30 June 2014** | | | | |
| Opening net book value | 55,901 | 25,268 | 32,673 | 113,842 |
| Additions | 8,944 | - | 2,115 | 11,059 |
| Disposals | (69,578) | - | (8,880) | (78,458) |
| Depreciation on disposals | 69,578 | - | 8,880 | 78,458 |
| Depreciation Charge | (17,503) | (15,363) | (4,310) | (37,176) |
| Foreign exchange translation adjustment | (2,909) | 1,037 | (558) | (2,430) |
| Closing net book amount | 44,433 | 10,942 | 29,920 | 85,295 |
| **At 30 June 2014** | | | | |
| Cost | 323,665 | 79,272 | 49,681 | 452,618 |
| Accumulated Depreciation | (279,232) | (68,330) | (19,761) | (367,323) |
| Net Book Amount | 44,433 | 10,942 | 29,920 | 85,295 |

# Notes continued

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **11. CAPITALISED EXPLORATION EXPENDITURE (NON-CURRENT)** | | |
| At Cost | **4,343,687** | 2,254,337 |

*Reconciliations*

Movement in the carrying amounts of capitalised exploration expenditure between the beginning and end of the current financial year

| | 2014 | 2013 |
|---|---|---|
| Opening net book amount | **2,254,337** | 1,580,221 |
| Additions | **2,163,962** | 423,013 |
| Disposals | **-** | - |
| Foreign exchange translation adjustment | **(74,612)** | 251,103 |
| Closing net book amount | **4,343,687** | 2,254,337 |

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

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

| | 2014 | 2013 |
|---|---|---|
| Security Deposit | **45,378** | 45,378 |

These financial assets are carried at cost.

## 13. SUBSIDIARIES

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

| Name | Country of incorporation | Class of shares | Equity Holding* 2014 % | Equity Holding* 2013 % |
|---|---|---|---|---|
| Azure Mexico Pty Ltd | Australia | Ordinary | **100** | 100 |
| Minera Piedra Azul, S.A. de C.V | Mexico | Ordinary | **100** | 100 |
| Minera Capitana S.A. de C.V | Mexico | Ordinary | **100** | 100 |
| Azu-Perth S.A. de C.V. | Mexico | Ordinary | **100** | 100 |

*Percentage of voting power is in proportion to ownership

## 14. TRADE AND OTHER PAYABLES (CURRENT)

| | 2014 | 2013 |
|---|---|---|
| Trade payables | **249,061** | 602,822 |

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

## 15. PROVISIONS

### CURRENT

| | 2014 | 2013 |
|---|---|---|
| Employee benefits | **93,104** | 83,688 |

### NON-CURRENT

| | 2014 | 2013 |
|---|---|---|
| Employee benefits | **52,687** | 47,687 |

The provisions for employee benefits include accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. Based on past experience employee entitlements that represent annual leave are presented as current and employee entitlements that are in relation to long serve leave are present as non-current.

# Notes continued

## 16. CONTRIBUTED EQUITY

### (a) Share capital

| | Consolidated | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | **Number of shares** | **$** | Number of shares | $ |
| Ordinary shares fully paid | | | | |
| Total consolidated contributed equity | **779,026,491** | **47,965,163** | 630,476,486 | 44,677,855 |

### (b) Movements in ordinary share capital

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Number of shares** | **$** | Number of shares | $ |
| 1 July opening balance | **630,476,486** | **44,677,855** | 394,000,000 | 39,592,568 |
| Issue at $0.026 per share | **82,750,006** | **2,151,500** | - | - |
| Issue at $0.027 per share | **64,799,999** | **1,749,600** | - | - |
| Option exercise at $0.020 per share | **1,000,000** | **20,000** | - | - |
| Issue at $0.018 per share | **-** | **-** | 157,000,097 | 2,826,000 |
| Issue at $0.02 per share | **-** | **-** | 20,726,389 | 414,528 |
| Issue at $0.04 per share | **-** | **-** | 58,750,000 | 2,350,000 |
| Share issue expenses | **-** | **(633,792)** | - | (505,241) |
| 30 June closing balance | **779,026,491** | **47,965,163** | 630,476,486 | 44,677,855 |

Funds raised from the share issue during the 2013 year were used to progress the company's exploration activities and for general working capital.

### (c) Movements in unlisted options on issue

| | Number of options | |
|---|---|---|
| | **2014** | 2013 |
| 1 July Opening Balance | **50,773,611** | 20,500,000 |
| Issued during the year | | |
| -Exercisable at 2.0 cents, on or before 30 June 2014 | **-** | 39,000,000 |
| -Exercisable at 5.8 cents, on or before 30 June 2017 | **-** | 25,000,000 |
| -Exercisable at 4.5 cents, on or before 30 Nov 2016 | **25,924,075** | - |
| Forfeited during the year | | |
| - Exercisable at 35 cents, on or before 30 Nov 2013 | **-** | (500,000) |
| - Exercisable at 8.8 cents, on or before 30 Nov 2012 | **-** | (12,500,000) |
| - Exercisable at 13 cents on or before 30 Nov 2013 | **(4,500,000)** | - |
| Exercised during the year at 2.0 cents | **(1,000,000)** | (20,726,389) |
| 30 June closing balance | **71,197,686** | 50,773,611 |

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

### (d) Ordinary shares

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

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

For further information on Capital Management refer to Note 2.

# Notes continued

| | 2014 $ | 2013 $ |
|---|---|---|
| **17. RESERVES AND ACCUMULATED LOSSES** | | |
| **Accumulated losses** | | |
| Balance at beginning of year | **42,187,408** | 38,295,296 |
| Loss for the year | **3,317,821** | 3,892,112 |
| Balance at end of year | **45,405,229** | 42,187,408 |
| | | |
| **Share-based payments reserve** | | |
| Balance at beginning of year | **2,222,665** | 1,559,257 |
| Movement during the year | **808,736** | 663,408 |
| Balance at end of year | **3,031,401** | 2,222,665 |
| | | |
| **Available-for-sale assets reserve** | | |
| Balance at beginning of year | **(37,821)** | (27,977) |
| Revaluation | **(2,175)** | (9,844) |
| Balance at end of year | **(39,996)** | (37,821) |
| | | |
| **Foreign currency translation reserve** | | |
| Balance at beginning of year | **(35,823)** | (411,213) |
| Movement during the year | **(117,529)** | 375,390 |
| Balance at end of year | **(153,352)** | (35,823) |

**(a) Nature and purpose of reserves**

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

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

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

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

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

## 19. STATEMENT OF CASH FLOWS

**(a) Cash and cash equivalents (refer note 2)**

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents comprises: | | |
| – cash at bank and in hand | **96,760** | 145,843 |
| – short-term deposits | **882,105** | 2,240,628 |
| Closing cash and cash equivalents balance | **978,865** | 2,386,471 |

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

## 19. STATEMENT OF CASH FLOWS (cont'd)

| | 2014 $ | 2013 $ |
|---|---|---|
| **(b) Reconciliation of the net loss after income tax to the net cash flows from operating activities** | | |
| Net loss | **(3,317,821)** | (3,892,112) |
| Depreciation of non-current assets | **37,176** | 40,354 |
| Share based payment expense | **388,181** | 447,153 |
| Provision for doubtful debt | **(426,978)** | - |
| **Changes in operating assets and liabilities** | | |
| (Increase)/decrease in trade and other receivables | **744,249** | 36,571 |
| (Increase)/decrease in prepayments | **(1,443)** | 2,081 |
| Increase/(decrease) in trade and other payables | **(345,259)** | 185,405 |
| Increase/(decrease) in provisions | **14,416** | 20,300 |
| Net cash outflow from operating activities | **(2,907,479)** | (3,160,248) |

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

There have been no non-cash financing and investing activities during the 2014 year (2013: Nil).

## 20. COMMITMENTS

**(a) Exploration commitments**

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

| | | |
|---|---|---|
| Not later than one year | **72,196** | 177,849 |

**(b) Option payments**

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

| | | |
|---|---|---|
| Not later than one year | **344,681** | 3,019,992 |
| Later than one year and not later than five years | **1,161,311** | - |
| | **1,505,992** | 3,019,992 |

**(c) Lease expenditure commitments**

| | | |
|---|---|---|
| *Operating leases (non-cancellable):* | | |
| Minimum lease payments | | |
| not later than one year | **156,372** | 148,371 |
| later than one year and not later than five years | **78,186** | 222,557 |
| Aggregate lease expenditure contracted for at reporting date | **234,558** | 370,928 |

The property lease is a non-cancellable lease with a three-year term ending 31 December 2015, rent is payable monthly in advance. The lease allows for subletting of all leased areas and excess off space has been sub-let the related third parties as disclosed in Note 26(d).

**(d) Remuneration Commitments**

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

| | | |
|---|---|---|
| not later than one year | - | 480,120 |
| later than one year and not later than five years | - | - |
| | - | 480,120 |

## 21. CONTINGENCIES

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

# Notes continued

## 22. EVENTS OCCURING AFTER BALANCE SHEET DATE

Since the end of the financial year Azure Minerals Limited completed an entitlement share issue where shareholders were offered 1 new share for every 6 shares held. The issue raised $643,066 resulting in 21,435,545 new shares being issued.

On 18 August 2014 Azure advised that it had agreed terms for an Earn-In and Joint Venture Agreement ("the Agreement") with Kennecott Exploration Company ("Kennecott"), part of the Rio Tinto Group, to explore for copper on its 100%-owned Promontorio Project. Kennecott has committed to sole-fund an initial, minimum expenditure commitment of US$2 million or 2,000m diamond drilling, whichever occurs first, to be completed within 12 months of the Agreement being finalised. At the end of the first 12 months of the Agreement, Kennecott may elect to continue its exploration for a further five years and, through spending a total of US$20 million (inclusive of the minimum commitment) within a period of 6 years, earn an initial 51% interest in the project. At this point a joint venture ("JV") will be formed. Upon earning its 51% interest in the project, Kennecott may elect to earn an additional 29% interest (for a total interest in the JV of 80%) by spending a further US$25 million within a further 6 year period, taking total earn-in expenditures to US$45 million. In addition, to account for the considerable value already created by Azure with the definition of the Promontorio and Cascada deposits, upon the formation of the JV Kennecott will credit Azures' JV account with an amount equivalent to five times Azures' total expenditure at Promontorio to the date of the formation of the JV.

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

## 23. LOSS PER SHARE

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **(a) Reconciliation of earnings to profit or loss** | | |
| Net loss | **(3,317,821)** | (3,892,112) |
| Loss used in calculating basic loss per share | **(3,317,821)** | 3,892,112) |

| | CONSOLIDATED<br>Number of shares<br>2014 | <br>Number of shares<br>2013 |
|---|---|---|
| **(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 | **668,222,558** | 532,841,075 |

**(c) Effect of dilutive securities**

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

## 24. AUDITORS' REMUNERATION

Amounts received or due and receivable by BDO Audit (WA) Pty Ltd or associated entities for:

| | Consolidated<br>2014<br>$ | <br>2013<br>$ |
|---|---|---|
| Tax compliance services | **10,965** | 10,832 |
| Other | **297** | 285 |
| An audit or review of the financial report of the entity | **46,029** | 54,358 |
| | **57,291** | 65,475 |
| Remuneration of other auditors of subsidiaries | | |
| Audit or review of financial report of subsidiaries | **11,177** | 13,6675 |

## 25. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

| | | |
|---|---|---|
| Short-term | **548,420** | 632,141 |
| Post employment | **36,534** | 35,550 |
| Share-based payment | **326,072** | 225,731 |
| | **911,026** | 893,422 |

For further information refer to the Remuneration Report included as part of the Director's Report.

# Notes continued

## 26. RELATED PARTY DISCLOSURES

**(a) Parent entity**

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

**(b) 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* 2014 % | Equity Holding* 2013 % |
|---|---|---|---|---|
| Azure Mexico Pty Ltd | Australia | Ordinary | **100** | 100 |
| Minera Piedra Azul, S.A. de C.V | Mexico | Ordinary | **100** | 100 |
| Minera Piedra Capitana, S.A. de C.V | Mexico | Ordinary | **100** | 100 |
| Servicios AzuPerth, S.A. de C.V | Mexico | Ordinary | **100** | 100 |

*Percentage of voting power is in proportion to ownership

During the year the Parent Entity assessed the recoverability of loans it had made to Azure Mexico Pty Ltd ("AM") and Minera Piedra Azul S.A. de C.V. ("MPA"). As a result of that assessment the Parent Entity made allowance of $6,203 against loans advanced to AM an $9,025,628 against loans advanced to MPA.

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.

## 27. INTERESTS IN JOINT VENTURES

During the year JOGMEC withdrew from the La Tortuga joint venture and as a result the company has no interests in joint ventures.

## 28. SHARE-BASED PAYMENTS

No options have been issued pursuant to an Employee Share plan. In 2013 Director Options were issued pursuant to approval obtained by shareholders at a General Meeting. Details of each issue is set out below:

**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. No options are on issue pursuant to the plan.

**(b) Directors and executive options**

Set out below are summaries of current Directors & Executives options granted.

| **2014** 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 |
|---|---|---|---|---|---|---|---|---|---|
| 25 Jun '13 | 30 Jun '17 | 5.8 | 3.2 | 25,000,000 | - | - | - | 25,000,000 | 16,666,668 |
| 9 Dec '11 | 30 Nov '14 | 4.9 | 1.6 | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |
| 14 Dec '10 | 30 Nov '13 | 13.0 | 5.5 | 4,500,000 | - | - | (4,500,000) | - | - |
| | | | | **32,500,000** | **-** | **-** | **(4,500,000)** | **28,000,000** | **19,666,668** |
| Weighted average exercise price | | | | $0.067 | | | $0.130 | $0.057 | $0.057 |
| **2013** | | | | | | | | | |
| 25 Jun '13 | 30 Jun '17 | 5.8 | 3.2 | - | 25,000,000 | - | - | 25,000,000 | 8,333,334 |
| 9 Dec '11 | 30 Nov '14 | 4.9 | 1.6 | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |
| 9 Dec '09 | 30 Nov '12 | 8.8 | 2.9 | 12,500,000 | - | - | (12,500,000) | - | - |
| 14 Dec '10 | 30 Nov '13 | 13.0 | 5.5 | 4,500,000 | - | - | - | 4,500,000 | 4,500,000 |
| | | | | **20,000,000** | **25,000,000** | **-** | **(12,500,000)** | **32,500,000** | **15,833,334** |
| Weighted average exercise price | | | | $0.092 | $0.058 | - | $0.088 | $0.061 | $0.079 |

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.76 years (2013: 3.27 years)

# Notes continued

## 28. SHARE-BASED PAYMENTS (cont'd)

*Fair value of director options granted.*

Options are granted for no consideration. No options were granted during the 2014 financial year. During the 2013 financial year the weighted average fair value of the options granted was 3.2 cents.The price was calculated by using the Binominal Option valuation methodology applying the following inputs:

| | **2014** | 2013 |
|---|---|---|
| Weighted average exercise price | - | 5.8 cents |
| Weighted average life of the option | - | 4.0 years |
| Weighted average underlying share price | - | 4.7 cents |
| Expected share price volatility | - | 100% |
| Risk free interest rate | - | 3.07% |

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 year were as follows:

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| Options issued to directors and executives | **388,181** | 268,728 |

**(c) Options issued to other parties**

During the year options were issued to unrelated parties relating to the fundraising activities and corporate advice received. The following table illustrated the number, exercise prices and movements in share options held by unrelated parties during the year.

**2014**

| 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 |
|---|---|---|---|---|---|---|---|---|---|
| 27 Sept '12 | 30 Sept '14 | 2.0 | 1.1 | 2,873,611 | - | - | - | 2,873,611 | 2,873,611 |
| 3 Dec '12 | 30 Sept '14 | 2.0 | 0.9 | 15,400,000 | - | (1,000,000) | - | 14,400,000 | 14,400,000 |
| 16 May '14[a] | 30 Nov '16 | 4.5 | 1.7 | - | 20,618,913 | - | - | 20,618,913 | 20,618,913 |
| 30 May '14[b] | 30 Nov '16 | 4.5 | 1.5 | - | 5,305,162 | - | - | 5,305,162 | 5,305,162 |
| | | | | **18,273,611** | **25,924,075** | **(1,000,000)** | **-** | **43,197,686** | **43,197,686** |
| Weighted average exercise price | | | | $0.020 | $0.045 | $0.020 | - | $0.035 | $0.035 |

The weighted average remaining contractual life of share options outstanding at the end of the 2014 period was 1.6 years (2013: 1.2 years)

**2013**

| 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 |
|---|---|---|---|---|---|---|---|---|---|
| 27 Sept '12 | 30 Sept '14 | 2.0 | 1.1 | - | 19,500,000 | (16,626,389) | - | 2,873,611 | 2,873,611 |
| 3 Dec '12 | 30 Sept '14 | 2.0 | 0.9 | - | 19,500,000 | (4,100,000) | - | 15,400,000 | 15,400,000 |
| | | | | **-** | **39,000,000** | **(20,726,389)** | **-** | **18,273,611** | **18,273,611** |
| Weighted average exercise price | | | | | $0.02 | $0.02 | | $0.02 | $0.02 |

The weighted average remaining contractual life of share options outstanding at the end of the 2013 period was 1.2 years (2012: Nil).

# Notes continued

## 28. SHARE BASED PAYMENTS (cont'd)

*Fair value of options granted.*

During the 2014 financial year the weighted average fair value of the options granted was 1.1 and 0.09 cents (2013: 1.0 cents). The price was calculated by using the Binominal Option valuation methodology applying the following inputs:

| | **2014** | | 2013 |
|---|---|---|---|
| | **(a)** | **(b)** | |
| Weighted average exercise price (cents) | **4.5** | **4.5** | 2.0 |
| Weighted average life of the option (years) | **2.5** | **2.5** | 1.9 |
| Weighted average underlying share price (cents) | **3.2** | **3.0** | 1.9 |
| Expected share price volatility (%) | **100** | **100** | 105 |
| Risk free interest rate (%) | **2.85** | **2.80** | 2.56 |

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 year were as follows:

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| Options issued to other unrelated parties[2] | - | 178,425 |

1. An amount of $420,555 (2013: $216,255) relating to these options has been capitalised as costs associated with a capital raising (note 16(b)).
2. These options were issued as payment for consulting services and $178,425 has been expensed to consulting fees in the profit and loss.
3. The fair value of options issued to other parties in 2013 and 2014 was based on the fair value of options as the entity has rebutted the presumption that the fair value of services was determinable at the time of issuance of these options.

## 29. PARENT ENTITY FINANCIAL INFORMATION

**(a) Summary financial information**

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

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| **Statement of Financial Position** | | |
| Current assets | **10,036,093** | 16,674,089 |
| Total assets | **10,102,641** | 16,744,117 |
| Current liabilities | **241,428** | 253,024 |
| Total liabilities | **241,428** | 300,711 |
| ***Shareholder's equity*** | | |
| Issued capital | **47,965,163** | 44,677,855 |
| Reserves | | |
| Share-based payments | **2,991,405** | 2,184,844 |
| Accumulated loses | **(41,095,356)** | (30,419,293) |
| | **9,861,212** | 16,443,406 |

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

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

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

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

# Directors' Declaration

The directors of the company declare that:

(1) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date.

(2) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(3) The directors have been given the declaration by the chief executive officer and chief financial officer as required by section 295A of the *Corporations Act 2001*.

(4) The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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

Peter Ingram
Chairman

Perth, 25 September 2014

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# INDEPENDENT AUDITOR'S REPORT

To the members of Azure Minerals Limited

## Report on the Financial Report

We have audited the accompanying financial report of Azure Minerals Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

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

Opinion

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 consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Azure Minerals Ltd for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll

Director

Perth, 25 September 2014

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Australia

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF AZURE MINERALS LIMITED

As lead auditor of Azure Minerals Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. No contraventions of 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.

Peter Toll

Director

BDO Audit (WA) Pty Ltd

Perth, 25 September 2014

# ASX Additional Information

The number of shareholders, by size of holding, in each class of share as at 10 September 2014 are:

| | | | Ordinary shares | |
|---|---|---|---|---|
| | | | Number of holders | Number of shares |
| 1 | - | 1,000 | 165 | 14,234 |
| 1,001 | - | 5,000 | 190 | 688,473 |
| 5,001 | - | 10,000 | 613 | 5,452,052 |
| 10,001 | - | 100,000 | 1,812 | 82,689,476 |
| 100,001 | | and over | 933 | 541,632,251 |
| | | | 3,713 | 630,476,486 |
| The number of shareholders holding less than a marketable parcel of shares are: | | | 1,262 | 10,044,096 |

**(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 | National Nominees Limited | 34,349,333 | 5.45 |
| 2 | Yandal Investments Pty Ltd | 29,152,200 | 4.62 |
| 3 | Drake Private Investments LLC | 25,000,000 | 3.97 |
| 4 | HSBC Custody Nominees <Australia> | 9,236,666 | 1.47 |
| 5 | Mr Toby Chandler | 8,000,000 | 1.27 |
| 6 | Mr Peter Murray Nicholas | 6,000,000 | 0.95 |
| 7 | JP Morgan Nominees Australia Limited <Cash Income A/C> | 5,762,641 | 0.91 |
| 8 | ASIPAC Group Pty Ltd | 5,555,555 | 0.88 |
| 9 | International Commodity Finance Limited | 5,555,555 | 0.88 |
| 10 | J J Greer Nominees Pty Ltd | 5,255,000 | 0.83 |
| 11 | Mrs Theodosia Baxanis | 4,800,000 | 0.76 |
| 12 | Mr Phillip Wood | 4,344,444 | 0.69 |
| 13 | Dr Lyndsay George Gordon | 4,279,611 | 0.68 |
| 14 | Poluru Pty Ltd <Kent Superfund A/C> | 3,733,333 | 0.59 |
| 15 | Mr Neil James Waddington | 3,445,160 | 0.55 |
| 16 | Mr Richard Dean Clarke | 3,350,000 | 0.53 |
| 17 | Mr Anthony Paul Rovira | 3,253,333 | 0.52 |
| 18 | Mr Phillip John Doyle + Mrs Carla Doyle <PJ Doyle Family A/C> | 3,100,000 | 0.49 |
| 19 | Investec Bank (Australia) Ltd | 3,100,000 | 0.49 |
| 20 | Parsons Cove Pty Ltd <DF Bowen Superannuation A/C> | 3,045,926 | 0.48 |
| | | **170,318,757** | **27.01** |

**(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 |
|---|---|
| Drake Private Investments LLC | 56,000,000 |

**(d) Voting rights**

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

# ASX Additional Information

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

| Project | Common Name | | Tenement | Percentage held / earning |
|---|---|---|---|---|
| Pozo de Nacho | Pozo de Nacho | All Minerals | 222873 | 100% |
| | Pozo de Nacho 2 - Fracc. 2 | All Minerals | 225058 | 100% |
| La Tortuga | La Tortuga | All Minerals | 230422 | 100% |
| | La Tortuga II | All Minerals | 233462 | 100% |
| El Tecolote | El Tecolote | All Minerals | 230771 | 100% |
| | El Tecolte III | All Minerals | 234586 | 100% |
| Promontorio | Hidalgo | All Minerals | 235270 | 100%[1] |
| | Promontorio | All Minerals | 235269 | 100% |
| | El Magistral | All Minerals | 218881 | 100% |
| | Promontorio Regional | All Minerals | 234447 | 100% |
| Loreto | Loreto | All Minerals | Awaiting allocation | 100% |
| Panchita | Panchita | All Minerals | 212767 | 100% |
| | Dona Panchita | All Minerals | 192097 | 100% |

1. Azure has an option to purchase 100%