

# **Azure Minerals Limited**

**ABN 46 106 346 918**

## **Annual Report and Financial Statements**

for the year ended 30 June 2016

## 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, 34 Colin 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 Investor Services Pty Ltd

Level 11

172 St Georges Terrace

Perth WA 6000

Telephone: 1300 787 272

### Auditors

BDO Audit (WA) Pty Ltd

38 Station Street

SUBIACO WA 6008

### Internet Address

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

### ASX Code

Shares            AZS

## Contents

Chairman’s Letter	3
Review of Operations	4
Directors' Report	9
Corporate Governance Statement	19
Financial Statements	
- Consolidated Statement of Profit or Loss and Other Comprehensive Income	24
- Consolidated Statement of Financial Position	25
- Consolidated Statements of Changes in Equity	26
- Consolidated Statement of Cash Flows	27
- Notes to the Consolidated Financial Statements	28
- Directors' Declaration	47
- Independent Audit Report	48
- Auditor’s Independence Declaration	50
ASX Additional Information	51

## Chairman's Letter

Dear Fellow Shareholders

It is with pleasure that I present the Annual Report of Azure Minerals Limited for the year ending 30 June 2016.

The past year has been an exciting and transformative one for the Company, with progress at Promontorio and exploration success at our Alacrán Project placing Azure in an excellent position to transition from explorer into a project developer. With the discovery of the Mesa de Plata silver deposit and strong drilling results from Loma Bonita, I believe the future for Azure has never looked stronger.

Major milestones for the year include:

- Transformational discovery of a large, high grade silver deposit at Mesa de Plata
- Successful raising of \$15 million via a placement to institutional and sophisticated investors, enabling an acceleration of project development plans at Alacrán
- Acquisition of a 100% ownership in the San Agustin gold-silver project located in the heart of the Mexican silver belt.
- Steady progress achieved at Promontorio under the agreement with Kennecott.

Your exploration and administrative team, under the direction of the Managing Director (Tony Rovira) and the Chief Financial Officer and Company Secretary (Brett Dickson) have managed the Company's activities extremely well and I congratulate them, on your behalf, for the successes achieved during the year. I look forward to the year ahead with considerable optimism.

I would also like to take this opportunity to thank shareholders for their continuing support of the Company.

Yours sincerely,



Peter Ingram

Chairman

## Review of Operations

### OVERVIEW

During the 2016 financial year, Azure continued to progress its two advanced-stage precious and base metal projects in partnership with two of the world’s major mining companies – the Alacrán Project (silver-gold-copper) with Canadian company Teck Resources and the Promontorio Project (copper-gold-silver) with Kennecott Exploration, a member of the Rio Tinto Group.

Both projects are located in the Sierra Madre Occidental Mineral Province of northern Mexico which is one of the world’s most attractive mineral exploration and mining jurisdictions. For more than 500 years this province has been a prolific and important producer of silver, gold, copper, lead, zinc and other minerals. The Sierra Madre accounts for the majority of Mexico’s silver and gold production and historically has produced more than 40 million ounces of gold and two billion ounces of silver.

### ALACRÁN PROJECT

In line with its strategy to continue to grow the asset base of the company, in early 2015 Azure secured the right to acquire 100% of the Alacrán Project from Minera Teck S.A. de C.V. (“Teck”), a Mexican subsidiary of Teck Resources Limited, subject to an underlying back-in right retained by Teck and a 2% Net Smelter Returns Royalty retained by Grupo Mexico. Teck is Canada’s largest diversified mineral resource company. Grupo Mexico is Mexico’s, and one of the world’s largest copper producers.

The Alacrán Project is located in the Laramide Copper Province which overlaps the northern portion of the Sierra Madre Occidental Province. The Laramide is North America’s most prolific copper-producing district, extending from northern Mexico into the southern United States, and forms the second largest concentration of copper deposits in the world.

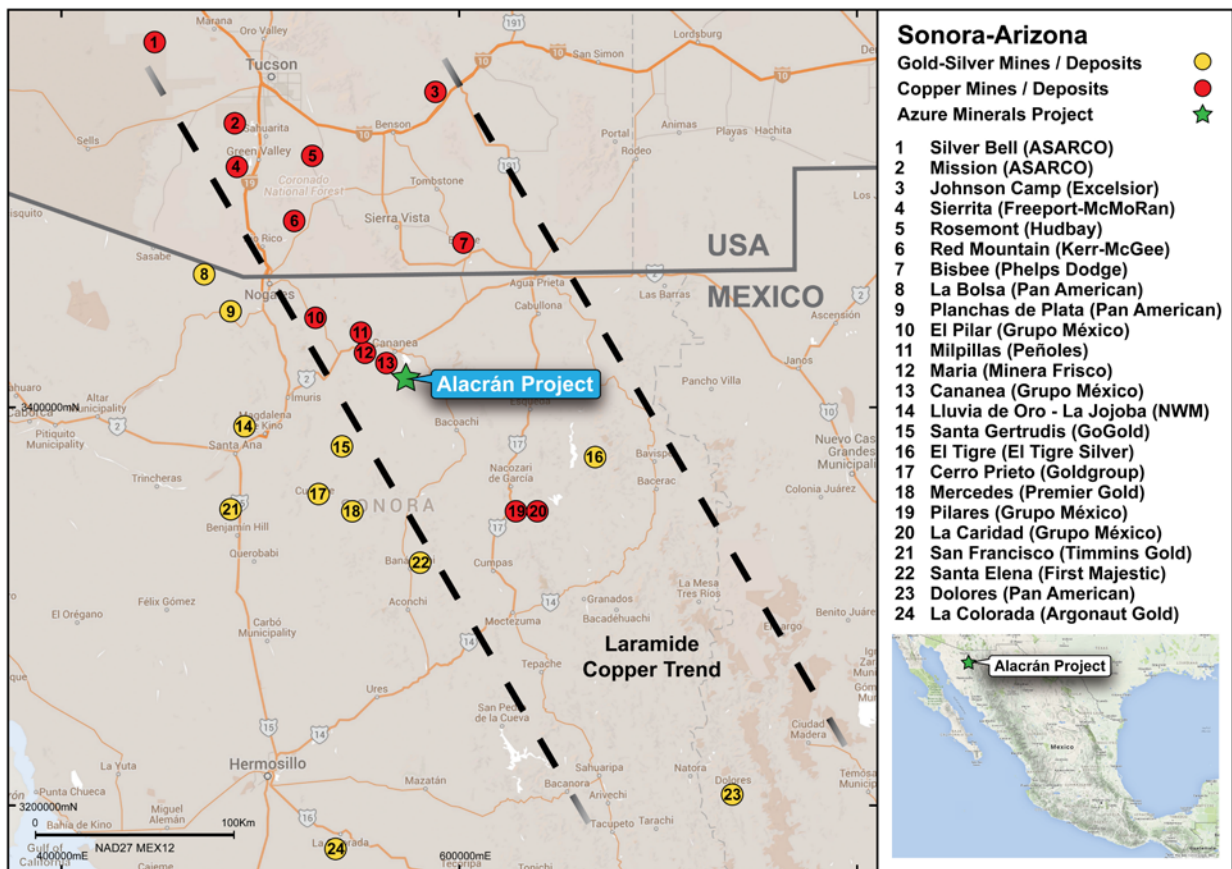


FIGURE 1: ALACRÁN LOCATION PLAN

Alacrán is located within a district of numerous large copper mines and is only a short distance southeast of the world class Cananea Copper Mine, one of the world’s biggest copper mines.

Interestingly, it’s within this copper-rich district that Azure discovered the Mesa de Plata silver deposit and the Loma Bonita gold deposit. They lie immediately adjacent to each other within the western part of the Alacrán property, only 12km southeast of the Cananea Mine.

Alacrán has excellent potential to host multiple mineral deposits and, over the past year, Azure has undertaken exploration targeting near-surface, high grade precious and base metal deposits with considerable success.

Exploration focused in the western half of the project area where a number of high-priority targets were developed, based upon outcropping mineralisation and historical mine workings. The Company’s activities included acquisition of historical technical data, geological mapping, surface and underground mine sampling, ground geophysics, airborne LIDAR and photographic surveys, and diamond core and Reverse Circulation (“RC”) drilling.

Within the first 18 months of commencing exploration Azure has discovered the Mesa de Plata silver deposit (26Moz Mineral Resource) and the Loma Bonita gold deposit, as well as identifying numerous other prospects including Cerro San Simon, Cerro Enmedio, Puerto de Oro, La Morita and Palo Seco.

### **Mesa de Plata**

Azure’s exploration of western Alacrán had early success with the discovery and delineation of the Mesa de Plata silver deposit.

Silver mineralisation at Mesa de Plata is hosted in flat-lying, silicified volcanic rocks and residual quartz (vuggy silica) which crop out extensively forming a prominent ridge capping. Drilling confirmed that mineralisation starts at surface with true thicknesses up to 60m, and extends throughout the Mesa de Plata ridge with excellent internal continuity of mineralisation.

The central zone of high grade silver mineralisation, which averages greater than 200g/t Ag over a vertical thickness of approximately 20-40m, extends over an area of 400m x 150m. This is surrounded by a larger zone of moderate grade silver mineralisation (averaging 40-80g/t Ag) up to 60m thick, extending over an area of about 1,000m long x 150-200m wide.

A resource drill-out program comprising 61 reverse circulation (RC) and five diamond core holes for a total of 6,350.7m enabled the calculation of a JORC-compliant Mineral Resource.

The resource, 100% of which is in the Indicated category, is estimated to contain 25.9 million ounces of silver, with 15.3 million ounces hosted within the near-surface High Grade Zone.

**Table 1: Mesa de Plata JORC Code Indicated Mineral Resource**

<b>Estimation Domain</b>	<b>Tonnes (millions)</b>	<b>Ag (g/t)</b>	<b>Ag Metal (million troy ounces)</b>
<b>High Grade</b>	<b>2.17</b>	<b>219.3</b>	<b>15.3</b>
<b>Mid-Grade</b>	<b>7.42</b>	<b>44.3</b>	<b>10.6</b>
<b>TOTAL INDICATED MINERAL RESOURCE</b>	<b>9.59</b>	<b>83.9</b>	<b>25.9</b>

Notes: The total Mineral Resource estimate is reported using 20 g/t Ag block cut -off grade based on capped grades estimates. Note the high grade part of the estimate is exclusive of the medium grade so the total resource is the sum of the two estimation domains. First released to ASX on 9 May 2016.

Following completion of the Mineral Resource, Azure initiated studies into the potential development of a mining and processing operation to exploit the Mesa de Plata silver deposit.

Metallurgical testwork demonstrated that the silver mineralisation is amenable to both cyanide leaching and flotation processes, with recoveries up to 70%. More advanced metallurgical studies are in progress to assess and determine the optimal processing route.

Other development studies are in progress, including mining, infrastructure, environmental and hydrological studies, together with advancing permitting, community and social aspects.

While Mesa de Plata remains a development focus for Azure, there is significant potential for further exploration success in areas proximal to Mesa de Plata, such as Loma Bonita.

Overall, the Company's studies indicate that the alteration and mineralisation styles at Mesa de Plata and in nearby areas are typical of other lithocap-hosted, epithermal precious metal deposits in Mexico and elsewhere in Latin America. This supports Azure's belief that a large mineralising system is present at Alacrán with potential to host significant gold and silver deposits.

### **Loma Bonita**

Located between 200m and 500 meters to the east of the Mesa de Plata silver deposit lies the Loma Bonita gold-silver prospect. Azure's sampling of outcropping vuggy silica and siliceous hydrothermal breccia returned moderate to high gold and silver grades throughout the 800m-1,200m long Loma Bonita Ridge.

A campaign of diamond core and RC drilling intersected large widths of gold mineralisation commencing at or near to surface over a length of 400m in a north-south direction and up to 150m east-west. No boundaries to the mineralised zone have been identified to date, with mineralisation remaining open in all directions. Loma Bonita is considered to hold excellent potential for hosting a high quality gold deposit.

Drill intercept lengths of gold mineralisation vary from 10m in the north to over 100m in the south. All gold intercepts are hosted within the oxide zone with metallurgical testwork demonstrating very high gold recoveries (75% to 95%) from cyanide leaching of this material.

**Table 2: Significant gold and silver intercepts from Loma Bonita (ASX: 25 August 2016)**

HOLE No	DEPTH (m)		INTERCEPT LENGTH (m)	GRADE	
	FROM	TO		Au (g/t)	Ag (g/t)
<b>REVERSE CIRCULATION DRILL HOLES</b>					
MDPC-089	54.0	103.5	49.5	1.59	29
which includes	54.0	88.5	34.5	2.03	34
MDPC-090	0.0	111.0	111.0	0.81	18
which includes	34.5	64.5	30.0	1.56	15
<b>DIAMOND DRILL HOLES</b>					
MDPD-007	0.0	20.0	20.0	1.52	62
MDPD-008	2.0	12.1	10.1	0.85	100
MDPD-011	0.0	18.4	18.4	1.57	40
which includes	2.0	9.7	7.7	2.00	48
MDPD-0012	23.1	71.1	48.0	2.68	32
which includes	23.1	50.1	27.0	4.07	27
MDPD-016	0.0	25.0	25.0	0.78	28
MDPD-018	2.5	9.6	7.1	0.99	50
MDPD-019	0.0	33.9	33.9	0.41	12
MDPD-020	0.0	14.0	14.0	1.59	36
which includes	4.0	12.1	8.1	2.45	39

Azure expects to continue drilling the Loma Bonita mineralised zone to Mineral Resource status.

### **Cerro Alacrán**

To date, the only drilling at Cerro Alacrán was undertaken by the Mexican Geological Survey in the 1970's and Grupo Mexico in the 1990's. This work identified a large body of near-surface, supergene, leachable copper mineralisation.

The potential here remains largely unquantified, due to a number of factors including:

- the drilling (33 diamond core holes) tested a relatively small area of approximately 1,000m x 500m, with all holes intersecting supergene copper mineralisation;
- the overall size, grade and the extent of the Cerro Alacrán copper oxide and chalcocite mineralisation is yet to be defined, remaining open and untested along strike and at depth;
- most of the Cerro Alacrán drilling was relatively shallow and has not tested the potential for primary, porphyry-hosted copper sulphide mineralisation beneath the near-surface supergene mineralisation;
- most of the drill core was assayed for copper only, and not for gold or other metals;
- a small scale IP survey carried out to the east of the Cerro Alacrán drilling in 2001 identified a strong anomaly which was not drill tested.

The identification of this body of copper mineralisation from limited exploration in a district which hosts many large copper mines and deposits supports Azure's belief that Cerro Alacrán is significantly underexplored and that further exploration using modern techniques will identify more mineralisation.

### **Palo Seco**

The historical Palo Seco mine exploited high grade, silver-rich, polymetallic sulphide ore by underground mining of a breccia body.

Palo Seco was owned and operated by an American company in the early 20<sup>th</sup> Century and was a historically significant producer in this district. Production ceased in 1913 when mining was still in full production, due to political turmoil during the Mexican Revolution. Operations did not recommence and no modern exploration has taken place in this area until Azure's arrival.

Azure's exploration has comprised sampling of outcrop, the historical mine workings and the old mine dumps and a two hole RC drill program. Anomalous silver and zinc assays were returned and the results support historical accounts of high grade, silver-rich polymetallic ore being produced. Azure believes there is good potential for identifying further occurrences of this style of mineralisation in and around Palo Seco.

### **La Morita, Cerro Enmedio & Cerro San Simon**

Initial reconnaissance exploration conducted by Azure over the western part of the Alacrán project area focused on the La Morita prospect, identifying six separate occurrences of historical mine workings, ranging from small producing operations to exploratory diggings.

In the area around these old mine workings, extensive zones of outcropping, strongly altered rocks, gossans and vuggy silica containing copper oxide and chalcocite (copper sulphide) mineralisation are present. Detailed geological mapping, outcrop sampling and gridded soil sampling has identified areas anomalous in gold, silver, base metal and other pathfinder elements.

A follow-up IP survey has revealed strong and coherent chargeability and resistivity anomalies beneath the surface geochemical anomalies. These IP anomalies suggest the presence of buried sulphide mineralisation in this area, possibly associated with the La Morita mine workings.

Drilling by Azure at La Morita and on the nearby hills of Cerro Enmedio and Cerro San Simon has intersected widespread altered volcanic rocks containing brecciation and quartz stockwork veining and anomalous precious and base metal mineralisation.

### **PROMONTORIO PROJECT**

The Promontorio Copper Project is the second of Azure's cornerstone assets. The project is located in the northern Mexican state of Chihuahua and comprises four mineral concessions totalling 10,520 hectares. All four of these concessions are 100%-owned by Azure.

Promontorio occurs within a district containing numerous, multi-million ounce gold-silver mines currently in operation, including the Ocampo, Pinos Altos, La India, Coñcheno, Mulatos and Dolores mines, all located within 100km of the project.

Azure has been exploring Promontorio since 2008 with considerable success. Several different styles of precious and base metal mineralisation have been identified, including:

- high sulphidation epithermal;



- hydrothermal breccia; and
- porphyry-hosted.

The potential deposit sizes for these styles of mineralisation range from large, bulk-tonnage resources to more modest-sized, high grade bodies, which bodes well for large scale, long-life mining operations.

Azure's exploration has led to the discovery of the Promontorio and Cascada copper-gold-silver deposits, and the delineation of two Mineral Resources. Hosted within high-sulphidation epithermal and hydrothermal breccia systems, these deposits are sourced from an underlying copper-mineralised porphyry body.

To date, most modern exploration at Promontorio has focused on the central 200 hectares containing the Promontorio and Cascada deposits. However the overall Promontorio project area is recognised as having excellent potential for more precious and base metal deposits.

With the strong exploration success to date, and with significant additional exploration upside, Azure believes Promontorio is potentially a 'company-making' asset.

Azure's strong belief in the merits of the Promontorio Project and its significant upside was vindicated in 2014 when the Kennecott Exploration Company ("Kennecott"), part of the Rio Tinto Group, entered into a substantial Earn-In and Joint Venture Agreement to search for large copper deposits.

This agreement with Kennecott is significantly accelerating exploration at Promontorio and its surrounds, while also bringing the high level technical expertise and experience of the Rio Tinto Group to the project.

A diamond drilling program comprising 9 holes for about 9,000m has been the main priority for 2016. This drilling is targeting geophysical anomalies, supported by positive geochemistry and geology, considered indicative of intrusive rocks with potential to be porphyry-hosted, copper-rich deposits.

## **OTHER PROJECTS**

In addition to Alacrán and Promontorio, Azure holds a number of other projects in Mexico with exposure to a range of commodities including gold, silver, copper, zinc and graphite. With Azure's focus on the discovery and development of the Mesa de Plata silver deposit at Alacrán, the Company did not undertake any significant exploration on these other projects during the financial year.

Azure did, however, acquire 100% ownership of the San Agustin gold-silver project located in the heart of the Mexican silver belt in the state of Durango. San Agustin is located nearby to a number of operating silver and gold mines and new precious metal discoveries. Covering over 200 hectares, San Agustin has never been explored, providing Azure with the opportunity to apply its exploration skills to this new project in one of Mexico's most prospective mineral belts.

## Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as “the Group”) consisting of Azure Minerals Limited (“Azure”) and the entities it controlled at the end of or during the year ended 30 June 2016.

### 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 has two main projects Promontorio where Kennecott Exploration may earn a 80% interest and Alacrán where the Group may earn a 100% interest from Teck Resources. 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 2016 was \$6,253,385 (2015: \$1,151,360). Included in this loss figure is \$6,156,681 (2015: \$2,041,367) of exploration expenditure written off. Refer to notes 1(c) and 6 to the financial statements.

#### Shareholder Returns

	2016	2015
Basic loss per share (cents)	<b>(0.53)</b>	<b>(0.13)</b>
Diluted loss per share (cents)	<b>(0.53)</b>	<b>(0.13)</b>

#### 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 board has established an Audit and Risk Committee and 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 469,239,938 ordinary fully paid shares raising \$14,460,413 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 The Company issued 207,993,950 shares raising \$7,903,770 (before expenses of the issue). In addition 194,508,539 options excisable at 5.5 cents and which expire on 11 July 2019 were 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 2011 appointed Chairman)

Mr Ingram is a geologist with over fifty 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

Nil

#### Former Directorships in the last 3 years

Altona Mining Limited

#### 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

6,601,101 ordinary shares in Azure Minerals Limited

8,000,000 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

Oro Verde Limited.

## 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

7,159,992 ordinary shares in Azure Minerals Limited, of which 2,193,335 are held indirectly.  
19,000,000 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 was a founding director and chairman of Weatherly International plc, an AIM listed company with copper mines in Namibia, and 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

Oro Verde Limited– Chairman since January 2003

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

Weatherly International Plc – Director since July 2005

Sun Resources NL – Non-Executive Director since February 1996

##### Special Responsibilities

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

##### Interests in Shares and Options

5,299,990 ordinary shares in Azure Minerals Limited  
8,000,000 options over ordinary shares in Azure Minerals Limited

##### Company Secretary

##### Brett Dickson, BBus, FCPA (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 of Committees			
	Meetings		Audit		Remuneration	
	A	B	A	B	A	B
Peter Anthony John Ingram	9	9	1	1	3	3
Anthony Paul Rovira*	9	9	-	-	-	-
Wolf Gerhard Martinick	9	9	1	1	3	3

#### 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			Post Employment	Share-based Payments	Total	Percentage Performance
	Cash, salary & fees	Cash Bonus	Non monetary benefits	Super-annuation	Options		Based %
<b>Directors</b>							
Peter Anthony Ingram – <i>Chairman</i>							
<b>2016</b>	<b>50,000</b>	-	-	<b>4,750</b>	<b>106,090</b>	<b>160,840</b>	<b>66.0</b>
2015	50,000	-	-	4,748	15,611	70,359	22.2
Anthony Paul Rovira – <i>Managing Director</i>							
<b>2016</b>	<b>300,000</b>	<b>75,000</b>	-	<b>28,500</b>	<b>212,180</b>	<b>615,680</b>	<b>34.5</b>
2015	300,000	40,875	-	28,500	46,832	416,207	21.1
Wolf Gerhard Martinick – <i>Non Executive</i>							
<b>2016</b>	<b>33,750</b>	-	-	<b>15,526</b>	<b>106,090</b>	<b>155,366</b>	<b>68.3</b>
2015	33,750	-	-	15,976	15,611	65,337	23.9
<b>Executives</b>							
Brett Dickson – <i>Company Secretary</i>							
<b>2016</b>	<b>153,840</b>	<b>38,280</b>	-	-	<b>149,031</b>	<b>341,151</b>	<b>43.7</b>
2015	153,540	19,140	-	-	31,222	203,902	24.7
<b>Total</b>							
<b>2016</b>	<b>537,590</b>	<b>113,280</b>	-	<b>48,776</b>	<b>573,391</b>	<b>1,273,037</b>	<b>45.0</b>
2015	537,290	60,015	-	49,224	109,276	755,805	22.4

### Compensation options

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 2016 or 2015. During the year 27,000,000 options were granted as remuneration and no options were exercised during the year. During the year Nil (2015: 3,000,000) options 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 (2015: 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 2017.
- 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 2017.
- 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 27,000,000 options were issued to Directors and Executives. (2015: Nil).

## Directors' Report

### D Share based compensation (continued)

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 Nil (2015: 3,000,000) options 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.

### 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 2015 and 2016 financial years*

Key performance indicators on which performances is measured and bonus's if any are awarded are 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, adding value to the Company's other projects and the acquisition of new projects) with a total maximum weighting of 70%.

The minimum amount payable for 2016 assuming executives fail to meet their KPI's was nil and the maximum amount payable if all KPI's were met is \$113,280. For the year ending 30 June 2016 executives were awarded 100% of their possible bonus. For 2015 50% of the possible bonus was awarded and 50% forfeited. This bonus was paid in the 2016 financial year. 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

2016	Balance at beginning of year	Granted as Remuneration	Options Exercised	Options Lapsed	Balance at end of year	Vested at 30 June	
						Vested & Exercisable	Unvested
<b>Directors</b>							
Wolf Gerhard Martinick	3,000,000	5,000,000	-	-	8,000,000	8,000,000	-
Peter Anthony Ingram	3,000,000	5,000,000	-	-	8,000,000	8,000,000	-
Anthony Paul Rovira	9,000,000	10,000,000	-	-	19,000,000	19,000,000	-
<b>Executives</b>							
Brett Dickson	6,000,000	7,000,000	-	-	13,000,000	13,000,000	-
<b>Total</b>	<b>21,000,000</b>	<b>27,000,000</b>	<b>-</b>	<b>-</b>	<b>48,000,000</b>	<b>48,000,000</b>	<b>-</b>

### Shareholdings of key management personnel

2016	Balance 1 July Ord	Granted Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June Ord	Balance Indirectly Held Ord
<b>Directors</b>						
Wolf G Martinick	3,935,253	-	-	1,364,737	5,299,990	4,299,990
Anthony P Rovira	7,125,255	-	-	394,737	7,519,992	2,193,335
Peter A Ingram	6,206,364	-	-	394,737	6,601,101	6,601,101
<b>Executives</b>						
Brett Dickson	-	-	-	-	-	-
<b>Total</b>	<b>17,266,872</b>	<b>-</b>	<b>-</b>	<b>2,154,211</b>	<b>19,421,083</b>	<b>13,094,426</b>

### 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, Brett Dickson and Anthony Rovira are directors. During the year Oro Verde Limited paid sub-lease fees totalling \$4,800 (2015: \$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 a Director. During the year Rox Resources Limited paid sub-lease fees totalling \$86,346 (2015: \$114,800).

### Directors and executive options

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

Grant Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Balance at the start of the year Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
<b>2016</b>									
25 Sept '13	30 June '17	5.8	3.2	21,000,000	-	-	-	21,000,000	21,000,000
19 Nov '15	30 Nov '18	6.0	2.1	-	26,200,000	-	-	26,200,000	26,200,000
28 Apr '16	30 Nov '18	6.0	2.2	-	800,000	-	-	800,000	800,000
				<b>21,000,000</b>	<b>27,000,000</b>	<b>-</b>	<b>-</b>	<b>48,000,000</b>	<b>48,000,000</b>
Weighted average exercise price				\$0.058	\$0.060			\$0.059	\$0.059
<b>2015</b>									
25 Sept '13	30 Jun '17	5.8	3.2	21,000,000	-	-	-	21,000,000	21,000,000
9 Dec '11	30 Nov '14	4.9	1.6	3,000,000	-	-	(3,000,000)	-	-
				<b>24,000,000</b>	<b>-</b>	<b>-</b>	<b>(3,000,000)</b>	<b>21,000,000</b>	<b>21,000,000</b>
Weighted average exercise price				\$0.057			\$0.049	\$0.058	\$0.058

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.8 years (2015: 2.0 years)



## Directors' Report

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

	Consolidated	
	2016	2015
	\$	\$
Options issued to directors and other executives	<u>573,391</u>	<u>130,091</u>

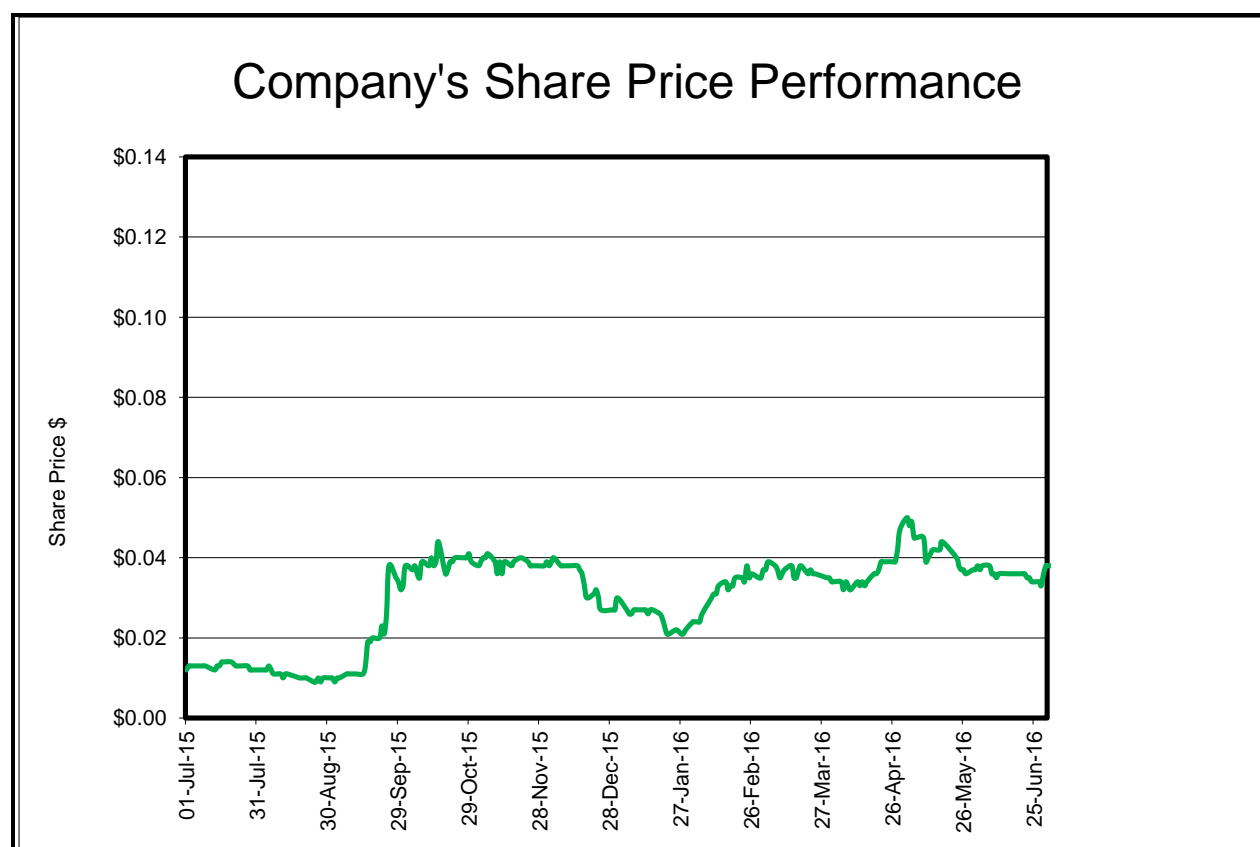
### Company's Performance

#### *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 2016.



#### *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 2016.

	2016	2015	2014	2013	2012
Basic loss per share (cents)	(0.53)	(0.13)	(0.50)	(0.70)	(0.90)

#### Voting and comments made at the company's 2015 Annual General Meeting

Azure Minerals received approximately 90% of "yes" votes on its remuneration report for the 2015 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 87,924,075 unissued ordinary shares in respect of which options are outstanding.

	<b>Total Number of options</b>
Balance at the beginning of the year	50,924,075
<i>Share option movements during the year</i>	
Exercisable at 60 cents, on or before 30 November 2018	37,000,000
<i>Issued</i>	37,000,000
<i>Exercised</i>	-
<i>Lapsed</i>	-
<b>Total options issued, exercised and lapsed in the year to 30 June 2016</b>	<b>37,000,000</b>
<b>Total number of options outstanding as at 30 June 2016 and at the date of this report</b>	<b>87,924,075</b>

The balance is comprised of the following

Date granted	Expiry date	Exercise price (cents)	Number of options
25 Jun 2013*	30 Jun 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
19 Nov 2015	30 Nov 2018	6.0	31,200,000
28 Apr 2016	30 Nov 2018	6.0	5,800,000
<b>Total number of options outstanding at the date of this report</b>			<b>87,924,075</b>

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

During the financial year no options were exercised by parties unrelated to the Company. Since the end of the financial year no options have been exercised.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Azure Minerals Limited paid a premium of \$16,095 (2015: \$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 undermine the general principles 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	
	2016	2015
	\$	\$
<b>1. Audit Services</b>		
<hr/>		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	<b>46,771</b>	<b>33,790</b>
	<hr/>	<hr/>
Salles Sáinz-Grant Thornton, S.C. -		
Audit and review of financial reports of Mexican subsidiaries	<b>37,622</b>	<b>11,734</b>
	<hr/>	<hr/>
<b>2. Non audit Services</b>		
<b>Audit-related services</b>		
BDO Audit (WA) Pty Ltd		
Attendance at Annual General Meeting	<b>554</b>	<b>-</b>
<b>Taxation Services</b>		
BDO Corporate Tax (WA) Pty Ltd		
Tax compliance services	<b>13,770</b>	<b>13,158</b>
	<hr/>	<hr/>
Total remuneration for non-audit services	<b>14,324</b>	<b>13,158</b>
	<hr/>	<hr/>

### AUDITOR'S INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307c of the *Corporations Act 2001* is set out on page 50.

### 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, 23 September 2016

## Corporate Governance Statement

### Approach to Corporate Governance

Azure Minerals Limited ABN 46 106 346 918 (**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 the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3<sup>rd</sup> 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 its 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 governance-related documents can be found on the Company's website at <http://www.azureminerals.com.au/azs/corporate/corporate-governance/>:

#### Charters

Board  
Audit and Risk Committee  
Nomination Committee  
Remuneration Committee

#### Policies and Procedures

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

The Company reports below on whether it has followed each of the recommendations during the 2015/2016 financial year (**Reporting Period**). The information in this statement is current at 6 September 2016. This statement was approved by a resolution of the Board on 6 September 2016.

#### Principle 1 – Lay solid foundations for management and oversight

##### Recommendation 1.1

The Company has established the respective roles and responsibilities of its Board and management, and those matters expressly reserved to the Board and those delegated to management, and has documented this in its Board Charter which is disclosed on the Company's website.

##### Recommendation 1.2

The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. The checks which are undertaken, and the information to be provided to shareholders are set out in the Company's Policy and Procedure for the Selection and (Re)Appointment of Directors, which is disclosed on the Company's website.

The Board did not appoint any directors during the Reporting Period. The Company provided shareholders with all material information in relation to the re-election of Mr Peter Ingram as a director at its 2015 Annual General Meeting.

##### Recommendation 1.3

The Company has a written agreement with each director and senior executive setting out the terms of their appointment. The material terms of any employment, service or consultancy agreement the Company, or any of its child entities, has entered into with its Managing Director, any of its directors, and any other person or entity who is related party of the Managing Director or any of its directors has been disclosed in accordance with ASX Listing Rule 3.16.4 (taking into consideration the exclusions from disclosure outlined in that rule).

##### Recommendation 1.4

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board as outlined in the Company's Board Charter. The Company Secretary's role is also outlined in the consultancy agreement between the Company Secretary and the Company.

## Corporate Governance Statement

### Recommendation 1.5

The Company has a Diversity Policy. However, the Diversity Policy does not include requirements for the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the Company's progress in achieving them. Nor has the Board 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 respective proportions of men and women on the Board, in senior executive positions and across the whole organisation are set out in the following table. "Senior executive" for these purposes means a person who makes, or participates in the making of, decisions that affect the whole or a substantial part of the business or has the capacity to affect significantly the company's financial standing. For the Reporting Period, this included the Managing Director and the Company Secretary & Chief Financial Officer:

	<b>Proportion of women</b>
Whole organisation (including Board members)	1 out of (9%)
Senior executive positions	0 out of 2 (0%)
Board	0 out of 3 (0%)

### Recommendation 1.6

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The evaluations are undertaken in accordance with the Company's Process for Performance Evaluations, which is disclosed on the Company's website.

During the Reporting Period an evaluation of the Board, its committees, and individual directors took place in accordance with the process disclosed in the Company's Process for Performance Evaluations.

### Recommendation 1.7

The Managing Director is responsible for evaluating the performance of senior executives in accordance with the process disclosed in the Company's Process for Performance Evaluations.

During the Reporting Period an evaluation of the Company Secretary & Chief Financial Officer (the Company's sole senior executive, other than the Managing Director) took place in accordance with the process disclosed in the Company's Process for Performance Evaluations.

The Nomination and Remuneration Committee is responsible for evaluating the Managing Director.

During the Reporting Period an evaluation of the Managing Director took place in accordance with the process disclosed in the Company's Process for Performance Evaluations.

## Principle 2 – Structure the board to add value

### Recommendation 2.1

The Board has established a Nomination and Remuneration Committee comprising 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 Recommendations 2.1 and 8.1 as it has only two members. However, the Board considers that the committee's composition is appropriate as it comprises the Board's two independent non-executive directors, and does not include an executive director.

Details of director attendance at Nomination and Remuneration Committee meetings held during the Reporting Period are set out in a table in the Directors' Report on page 11.

The Board has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Nomination Committee and is disclosed on the Company's website. As noted above, the Board has combined the Nomination and Remuneration committees.

### Recommendation 2.2

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, which includes directors with extensive geological experience, environmental management experience, and professional skills including leadership, governance and strategy.

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. The Board may bring in external consultants with specialist knowledge as and when required to address any areas where the Board does not collectively possess the relevant attribute.

### Recommendation 2.3

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles & Recommendations. The independent directors of the Company are Peter Ingram and Wolf Martinick.

The length of service of each director is set out in the Directors' Report on page 10.

## Corporate Governance Statement

### Recommendation 2.4

The Board has a majority of directors who are independent.

### Recommendation 2.5

The independent Chair of the Board is Peter Ingram, who is not also Managing Director of the Company.

### Recommendation 2.6

No new directors were appointed to the Board during the Reporting Period. However, the Company has an induction program, coordinated by the Company Secretary. The goal of the program is to assist new directors to participate fully and actively in Board decision-making at the earliest opportunity, and to assist senior executives to participate fully and actively in management decision-making at the earliest opportunity.

The Nomination and Remuneration Committee regularly reviews whether the directors as a group have the skills, knowledge and familiarity with the Company and its operating environment required to fulfil their role on the Board and the Board committees effectively using a Board skills matrix. Where any gaps are identified, the Nomination and Remuneration Committee considers what training or development should be undertaken to fill those gaps. In particular, the Nomination and Remuneration Committee ensures that any director who does not have specialist accounting skills or knowledge has a sufficient understanding of accounting matters to fulfil his or her responsibilities in relation to the Company's financial statements. Directors also receive ongoing education on developments in accounting standards.

### Principle 3 – Act ethically and responsibly

#### Recommendation 3.1

The Company has established a Code of Conduct for its directors, senior executives and employees, a summary of which is disclosed on the Company's website.

### Principle 4 – Safeguard integrity in corporate reporting

#### Recommendation 4.1

The Board has established an Audit and Risk Committee comprised of the Company's two independent non-executive directors, Wolf Martinick (Chair) and Peter Ingram. The Audit and Risk Committee is not structured in compliance with Recommendations 4.1 and 7.1 as it has only two members. However, the Board considers that the committee's composition is appropriate as it comprises the Board's two independent non-executive directors, and it is chaired by an independent chair that is not also chair of the Board.

Details of each of the director's qualifications are set out in the Directors' Report on page 10. 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 also 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. 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 Board.

Details of director attendance at Audit and Risk Committee meetings held during the Reporting Period are set out in a table in the Directors' Report on page 11.

The Board has adopted an Audit and Risk Committee Charter which describes the Audit and Risk Committee's role, composition, functions and responsibilities, and is disclosed on the Company's website.

#### Recommendation 4.2

Before the Board approved the Company financial statements for the half year ended 31 December 2015 and the full-year ended 30 June 2016, it received from the Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively (**Declaration**).

The Board did not receive a Declaration for each of the quarters ending 30 September 2015, 31 December 2015, 31 March 2016 and 30 June 2016 because in the Board's view its quarterly reports are not financial statements to which the Declaration can be appropriately given.

#### Recommendation 4.3

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's annual general meeting at which the audit report is considered, must arrange to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit. Each year, the Company writes to the Company's auditor to inform them of the date of the Company's annual general meeting. In accordance with section 250S of the Corporations Act, at the Company's annual general meeting where the Company's auditor or their representative is at the meeting, the Chair allows a reasonable opportunity for the members as a whole at the meeting to ask the auditor (or its representative) questions relevant to the conduct of the

## Corporate Governance Statement

audit; the preparation and content of the auditor's report; the accounting policies adopted by the Company in relation to the preparation of the financial statements; and the independence of the auditor in relation to the conduct of the audit. The Chair also allows a reasonable opportunity for the auditor (or their representative) to answer written questions submitted to the auditor under section 250PA of the Corporations Act.

A representative of the Company's auditor, BDO attended the Company's annual general meeting held on 17 November 2015.

### **Principle 5 – Make timely and balanced disclosure**

#### **Recommendation 5.1**

The Company has established written policies and procedures for complying with its continuous disclosure obligations under the ASX Listing Rules. A summary of the Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed on the Company's website.

### **Principle 6 – Respect the rights of security holders**

#### **Recommendation 6.1**

The Company provides information about itself and its governance to investors via its website at [www.azureminerals.com.au](http://www.azureminerals.com.au).

#### **Recommendation 6.2**

The Company has designed and implemented an investor relations program to facilitate effective two-way communication with investors. The program is set out in the Company's Shareholder Communication and Investor Relations Policy.

#### **Recommendation 6.3**

The Company has in place a Shareholder Communication and Investor Relations Policy which outlines the policies and processes that it has in place to facilitate and encourage participation at meetings of shareholders.

#### **Recommendation 6.4**

Shareholders are given the option to receive communications from, and send communications to, the Company and its share registry electronically. The Company engages its share registry to manage the majority of communications with shareholders. Shareholders are encouraged to receive correspondence from the Company electronically, thereby facilitating a more effective, efficient and environmentally friendly communication mechanism with shareholders. Shareholders not already receiving information electronically can elect to do so through the share registry, Computershare Investor Services Pty Ltd at [www.computershare.com.au](http://www.computershare.com.au)

### **Principle 7 – Recognise and manage risk**

#### **Recommendation 7.1**

As noted above, the Board has established a combined Audit and Risk Committee. Please refer to the disclosure above under Recommendation 4.1 in relation to the Audit and Risk Committee.

#### **Recommendation 7.2**

The Board reviews the Company's risk management framework annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the Company faces and to ensure that the Company is operating within the risk appetite set by the Board. The Board carried out these reviews during the Reporting Period.

#### **Recommendation 7.3**

The Company does not have an internal audit function. To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks as outlined in the Company's Risk Management Policy.

#### **Recommendation 7.4**

As the Company is not in production, the Company has not identified any material exposure to any environmental and/or social sustainability risks. However, the Company does have a material exposure to the following economic risks:

- Market risk – movements in commodity prices. The Company manages its exposure to market risk by monitoring market conditions, and making decisions based on industry experience; and
- Future capital risk – cost and availability of funds to meet the Company's business requirements. The Company manages this risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

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 risk and to report to the Board whether those risks are being effectively managed.

## Corporate Governance Statement

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 annually 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 annually to the Board.

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

### **Principle 8 – Remunerate fairly and responsibly**

#### **Recommendation 8.1**

As noted above, the Board has established a combined Nomination and Remuneration Committee. Please refer to the disclosure above under Recommendation 2.1 in relation to the Nomination and Remuneration Committee.

The Board has adopted a Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee and is disclosed on the Company's website. As noted above, the Board has combined the Nomination and Remuneration committees.

#### **Recommendation 8.2**

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 at page 12. The Company's has not at this stage adopted a separate policy regarding the deferral of performance-based remuneration and the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements. However, other measures are available to the Company in these circumstances, including dismissal.

#### **Recommendation 8.3**

The Company does not currently have an equity based remuneration scheme in place.



## Consolidated Statement of Profit or Loss and Other Comprehensive Income

YEAR ENDED 30 JUNE 2016	Notes	Consolidated	
		2016	2015
		\$	\$
Revenue from continuing activities	5	589,448	358,112
<b>Expenditure</b>			
Depreciation	6	(31,626)	(27,827)
Salaries and employee benefits expense		(740,301)	(587,501)
Directors fees		(95,000)	(95,000)
Exploration expenses	6	(6,156,681)	(2,041,367)
Exploration expenses reimbursed	6	2,363,155	2,351,295
Travel expenses		(259,322)	(171,424)
Promotion expenses		(88,966)	(84,653)
Administration expenses		(340,117)	(266,166)
Consulting expenses		(138,969)	(29,313)
Insurance expenses		(22,158)	(21,908)
Share based payment expense	27	(788,726)	(130,091)
Debt not recoverable		-	(21,006)
Other expenses		(544,122)	(384,511)
<b>Loss from continuing operations before income tax</b>		<b>(6,253,385)</b>	<b>(1,151,360)</b>
<b>Income tax benefit/(expense)</b>	7	<b>-</b>	<b>-</b>
<b>Loss from continuing operations after income tax</b>		<b>(6,253,385)</b>	<b>(1,151,360)</b>
<b>Loss is attributable to:</b>			
The owners of Azure Minerals Limited		<b>(6,253,385)</b>	<b>(1,151,360)</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that may subsequently be reclassified to profit and loss</i>			
Exchange differences on translation of foreign operations		(942,519)	95,144
<b>Other comprehensive income/(loss) for the year net of tax</b>		<b>(942,519)</b>	<b>95,144</b>
<b>Total comprehensive loss for the Year</b>		<b>(942,519)</b>	<b>(1,056,216)</b>
<b>Total comprehensive loss is attributable to:</b>			
The owners of Azure Minerals Limited		<b>(7,195,904)</b>	<b>(1,056,216)</b>
 <i>Loss per share from continuing operations attributable to the ordinary equity holders of the company</i>			
Basic loss per share (cents per share)	23	(0.53)	(0.13)
Diluted loss per share (cents per share)		(0.53)	(0.13)

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 2016	Notes	Consolidated	
		2016	2015
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	19	9,387,160	1,775,412
Trade and other receivables	8	1,306,374	1,064,291
<b>Total Current Assets</b>		<b>10,693,534</b>	2,839,703
<b>Non-Current Assets</b>			
Available for sale investments	9	948	948
Plant and equipment	10	254,040	108,483
Capitalised exploration expenditure	11	6,104,133	4,913,050
Other financial assets	12	-	45,378
<b>Total Non-Current Assets</b>		<b>6,359,121</b>	5,067,859
<b>TOTAL ASSETS</b>		<b>17,052,655</b>	7,907,562
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	14	1,329,601	235,051
Provisions	15	91,589	94,281
<b>Total Current Liabilities</b>		<b>1,421,190</b>	329,332
<b>Non-Current Liabilities</b>			
Provisions	15	49,962	49,962
<b>Total Non-Current Liabilities</b>		<b>49,962</b>	49,962
<b>TOTAL LIABILITIES</b>		<b>1,471,152</b>	379,294
<b>NET ASSETS</b>		<b>15,581,503</b>	7,528,268
<b>EQUITY</b>			
Contributed equity	16	65,581,982	51,121,569
Reserves	17	2,909,495	3,063,288
Accumulated losses	17	(52,909,974)	(46,656,589)
<b>TOTAL EQUITY</b>		<b>15,581,503</b>	7,528,268

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 2016

30 JUNE 2016

	Issued Share Capital	Share Option Reserve	Available for Sale Assets Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2015	51,121,569	3,161,492	(39,996)	(58,208)	(46,656,589)	7,528,268
Loss for period	-	-	-	-	(6,253,385)	(6,253,385)
<b>Other comprehensive income/(loss)</b>						
Exchange differences on translation of foreign operations	-	-	-	(942,519)	-	(942,519)
<b>Total other comprehensive loss</b>	-	-	-	(942,519)	-	(942,519)
<b>Total comprehensive loss for the period</b>	-	-	-	(942,519)	(6,253,385)	(7,195,904)
<b>Transactions with owners in their capacity as owners:</b>						
Issue of share capital, net of transaction costs	14,460,413	-	-	-	-	14,460,413
Share based payments	-	788,726	-	-	-	788,726
Total transactions with owners	14,460,413	788,726	-	-	-	15,249,139
<b>Balance as at 30 June 2016</b>	<b>65,581,982</b>	<b>3,950,218</b>	<b>(39,996)</b>	<b>(1,000,727)</b>	<b>(52,909,974)</b>	<b>15,581,503</b>

30 JUNE 2015

	Issued Share Capital	Share Option Reserve	Available for Sale Assets Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	47,965,163	3,031,401	(39,996)	(153,352)	(45,505,229)	5,297,987
Loss for period	-	-	-	-	(1,151,360)	(1,151,360)
<b>Other comprehensive income/(loss)</b>						
Exchange differences on translation of foreign operations	-	-	-	95,144	-	95,144
<b>Total other comprehensive income/(loss)</b>	-	-	-	95,144	-	95,144
<b>Total comprehensive income/(loss) for the period</b>	-	-	-	95,144	(1,151,360)	(1,056,216)
<b>Transactions with owners in their capacity as owners:</b>						
Issue of share capital, net of transaction costs	3,156,406	-	-	-	-	3,156,406
Share based payments	-	130,091	-	-	-	130,091
Total transaction with owners	3,156,406	130,091	-	-	-	3,286,497
<b>Balance at 30 June 2015</b>	<b>51,121,569</b>	<b>3,161,492</b>	<b>(39,996)</b>	<b>(58,208)</b>	<b>(46,656,589)</b>	<b>7,528,268</b>

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 2016

	Notes	Consolidated	
		2016	2015
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(2,135,887)	(1,647,053)
Interest received		44,922	211,966
Other revenue		521,936	138,891
Expenditure on mining interests		(5,915,566)	(2,137,442)
Reimbursement of exploration expenditure		2,699,348	1,601,962
<b>NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES</b>	19(b)	<b>(4,785,247)</b>	<b>(1,831,676)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant and equipment		(192,007)	(49,310)
Acquisition Payments for projects		(1,847,931)	-
Proceeds from sale of plant and equipment		7,385	-
Security bonds repaid		45,378	-
Option payments for projects		-	(458,719)
<b>NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES</b>		<b>(1,987,175)</b>	<b>(508,029)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		15,158,375	3,325,483
Share issue costs		(697,961)	(171,277)
Prepayment of issue of ordinary shares		93,685	-
<b>NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES</b>		<b>14,554,099</b>	<b>3,154,206</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>7,781,677</b>	814,501
Cash and cash equivalents at the beginning of the financial year		1,775,412	978,865
Effect of exchange rate changes on cash and cash equivalents		(169,929)	(17,954)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	19(a)	<b>9,387,160</b>	<b>1,775,412</b>

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.

#### **(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.

#### **(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.

## Notes continued

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

#### (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.

#### (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.

#### (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.

## Notes continued

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

#### (g) Foreign currency translation (Cont'd)

##### *Transactions and balances (Cont'd)*

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.

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.

## Notes continued

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

#### (l) Earnings per share (EPS) (Cont'd)

##### *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 (note 8).

##### *Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives 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.

##### *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.



## Notes continued

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

#### (r) Fair value estimation (Cont'd)

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

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

#### (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 and amended standards adopted by the Group

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for period ended 30 June 2016. The group has applied the following standards and amendments for the first time for their annual year commencing 1 July 2015:

- AASB 2015-3 Amendments to Australian Accounting Standards – Arising from the withdrawal of AASB 1031 Materiality, and
- AASB 2015-4 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception.

As these amendments merely clarify the existing requirements, they do not affect the Group's accounting policies or any of the disclosures.

#### (u) New Accounting Standards and Interpretations for Application in Future Years

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- *ASAB 9 Financial Instruments* and associated Amending Standards (applicable for annual reporting period commencing 1 January 2018).

Nature of Change AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to classification and measurements rules and also introduced a new impairment model. The latest amendments now complete the new financial instruments standard.

Impact Following the changes approved by the AASB in December 2014, the group no longer expects any impact from the new classification, measurement and derecognition rules on the group's financial assets and financial liabilities. The group does not hold any debt instruments classified as available-for-sale financial assets. The new hedging rule would not impact the group as the group does not have any hedging arrangements. The new impairment model is an expected credit loss model which may result in the earlier recognition of credit losses. The group has not yet assessed how its own impairment provisions would be affected by the new rules.

- *AASB 15 Revenue from Contracts with Customers* (applicable for annual reporting period commencing 1 January 2017).

Nature of Change The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for good and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial recognition without resting the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

Impact This is unlikely to impact the group as the group does not have any revenue from contracts with customers at this stage.

## Notes continued

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

#### (u) New Accounting Standards and Interpretations for Application in Future Years (Cont'd)

- *AASB 16 Leases* (applicable for annual reporting period commencing 1 January 2018).

Nature of Change period. AASB 16 eliminates the operating and finance lease classification for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in the statement of financial position for most leases.

Impact Due to the recent release of this standard, the group has not yet made a detailed assessment of the impact of this standard.

Nature of Change period. AASB 16 eliminates the operating and finance lease classification for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in the statement of financial position for most leases.

Impact Due to the recent release of this standard, the group has not yet made a detailed assessment of the impact of this standard.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 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:

		<b>Consolidated</b>	
		<b>Carrying amount</b>	
	Note	<b>2016</b>	2015
Trade and other receivables	8	<b>1,306,374</b>	1,064,291
Cash and cash equivalents	19	<b>9,387,160</b>	1,775,412
Security deposits	12	-	45,378

## Notes continued

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

#### *Impairment losses*

None of the Company's other receivables are past due (2015: nil).

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

The allowance accounts in respect of other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. At 30 June 2016 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 (2015: Nil)

#### **Liquidity risk**

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

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

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**

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>30 June 2016</b>							
Trade and other payables	1,329,601	1,329,601	1,329,601	-	-	-	-
<b>30 June 2015</b>							
Trade and other payables	235,051	235,051	235,051	-	-	-	-

#### **Market Risk**

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

#### **Currency risk**

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

The 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.

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

## Notes continued

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

#### Exposure to currency risk

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

	<b>2016</b>	<b>2015</b>
	<b>USD</b>	<b>USD</b>
Trade receivables	-	-
Trade payables	<b>299,289</b>	80,030
Gross statement of financial position	<b>299,289</b>	80,030
Forward exchange contracts	-	-
Net exposure	<b>299,289</b>	80,030

The following significant exchange rates applied during the year:

	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
AUD/USD	<b>1.3738</b>	1.2011	<b>1.3438</b>	1.3061

#### 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 2015.

	<b>Consolidated</b>
	<b>Profit or loss</b>
<b>30 June 2016</b>	
USD	29,929
<b>30 June 2015</b>	
USD	8,003

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:

	<b>Consolidated</b>	
	<b>Carrying amount</b>	
	<b>2016</b>	<b>2015</b>
<b>Variable rate instruments</b>		
<b>Short term cash deposits</b>	<b>8,631,242</b>	1,288,286

#### 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 2016 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 \$93,872 higher /lower (2015 – change of 100 basis points \$18,204 higher/lower).

## Notes continued

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

#### Fair values

##### *Fair values versus carrying amounts*

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

<b>Consolidated</b>	<b>2016</b>		<b>2015</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Trade and other receivables	1,306,374	1,306,374	1,064,291	1,064,291
Cash and cash equivalents	9,387,160	9,387,160	1,775,412	1,775,412
Other financial assets	-	-	45,378	45,378
Trade and other payables	(1,329,601)	(1,329,601)	(235,051)	(235,051)

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.

#### 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.

#### *Share options*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the binominal formula. For options issued in this financial year, the assumptions detailed as per Note 27 were used.

## Notes continued

### 4. SEGMENT INFORMATION

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

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

	<b>30 June 2016</b>	<b>30 June 2015</b>
	\$	\$
Revenue from external sources		-
Reportable segment profit (loss)	<b>(3,293,180)</b>	619,666
Reportable segment assets	<b>7,496,914</b>	6,051,473
Reportable segment liabilities	<b>(934,770)</b>	(160,060)
 <b>Reconciliation of reportable segment loss</b>		
Reportable segment profit (loss)	<b>(3,293,180)</b>	619,666
Other profit		
Unallocated:		
- Salaries and wages	<b>(835,301)</b>	(682,501)
- Travel and accommodation	<b>(259,322)</b>	(171,424)
- Office costs	<b>(540,956)</b>	(375,935)
- Other corporate expenses	<b>(525,083)</b>	(404,847)
- Share based payments	<b>(788,726)</b>	(130,091)
- Depreciation	<b>(10,817)</b>	(6,228)
<b>Loss before tax</b>	<b>(6,253,385)</b>	(1,151,360)
 <b>Reconciliation of reportable segment assets</b>		
Reportable segment assets	<b>7,496,914</b>	6,051,473
Unallocated:		
- Cash	<b>9,387,160</b>	1,775,412
- Trade and other receivables	<b>83,456</b>	18,216
- Investments	<b>948</b>	948
- Security deposits	<b>-</b>	45,378
- Office plant and equipment	<b>84,177</b>	16,135
<b>Total assets</b>	<b>17,052,655</b>	7,907,562
 <b>Reconciliation of reportable segment liabilities</b>		
Reportable segment liabilities	<b>(934,770)</b>	(160,060)
Unallocated:		
- Trade and other payables	<b>(394,831)</b>	(74,991)
- Provisions	<b>(141,551)</b>	(144,243)
<b>Total liabilities</b>	<b>(1,471,152)</b>	(379,294)

## Notes continued

	30 June 2016 \$	30 June 2015 \$
<b>5. REVENUE FROM CONTINUING OPERATIONS</b>		
<b>Other revenues</b>		
Bank interest	64,375	18,199
Penalty interest received	-	201,022
Rental and overhead fees	521,936	138,891
Other	3,137	-
<b>Total revenues from continuing operations</b>	<b>589,448</b>	<b>358,112</b>
<b>6. EXPENSES</b>		
<b>Loss before income tax includes the following specific expenses</b>		
Depreciation of plant and equipment	31,626	27,827
Exploration expenditure	6,156,681	2,041,367
Exploration expenditure reimbursement	(2,363,155)	(2,351,295)
Operating lease expenses	89,073	55,343
Superannuation	48,557	37,524
Bad debt	-	21,006
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>7. INCOME TAX</b>		
<b>(a) Income tax expense</b>		
Current tax	-	-
Deferred tax	-	-
	-	-
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Loss from continuing operations before income tax expense	(6,252,385)	(1,151,360)
Tax at the Australian tax rate of 30% (2015: 30%)	(1,875,716)	(345,408)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	236,618	39,027
Reverse provision for doubtful debt	-	6,302
Sundry items	84,585	52,196
	(1,554,513)	(247,883)
Movement in unrecognised temporary differences	(81,716)	(59,852)
Difference in overseas tax rates	-	-
Prior year adjustments to deferred tax balances	-	-
Tax effect of current year tax losses for which no deferred tax asset has been recognised	(1,636,229)	307,735
Income tax expense	-	-
<b>(c) Unrecognised temporary differences</b>		
Deferred Tax Assets (at 30%)		
<i>On Income Tax Account</i>		
Prepayments	3,361	3,289
Depreciation of plant and equipment	(13,668)	(14,974)
Provisions	49,965	50,773
Carry forward tax losses	7,297,001	6,823,831
Carry forward tax losses – foreign	4,416,554	5,436,105
Other – tenement	654,600	654,600
	<b>12,407,813</b>	<b>12,953,624</b>
Deferred Tax Liabilities (at 30%)	-	-

## Notes continued

### 7. INCOME TAX (cont'd)

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.

	2016	2015
	\$	\$
<b>8. TRADE AND OTHER RECEIVABLES</b>		
<b>Current</b>		
Prepayments	15,323	16,318
Sundry Receivables (a)	1,291,051	1,047,973
	<b>1,306,374</b>	<b>1,064,291</b>

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

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

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

### 9. AVAILABLE FOR SALE INVESTMENTS

Listed shares at fair value (a)		
Wolfeye Resource Corp.	948	948
	<b>948</b>	<b>948</b>
(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.		
At Cost	40,944	40,944
Impairment	-	-
Fair value adjustment to reserve (Note 17)	(39,996)	(39,996)
Fair value at 30 June	<b>948</b>	<b>948</b>

### 10. PLANT AND EQUIPMENT

	Furniture, fittings and equipment \$	Motor Vehicles \$	Exploration Equipment \$	Total \$
<b>At 1 July 2014</b>				
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
<b>Year ended 30 June 2015</b>				
Opening net book value	44,433	10,942	29,920	85,295
Additions	6,544	-	43,928	50,472
Disposals	-	-	-	-
Depreciation on disposals	-	-	-	-
Depreciation charge	(12,155)	(10,790)	(4,882)	(27,827)
Foreign exchange translation adjustment	637	294	(388)	543
Closing net book value	39,459	446	68,578	108,483
<b>At 30 June 2015</b>				
Cost	332,381	81,307	93,650	507,338
Accumulated depreciation	(292,922)	(80,861)	(25,072)	(398,855)
Net book amount	39,459	446	68,578	108,483



## Notes continued

### 10. PLANT AND EQUIPMENT (Cont'd)

	Furniture, fittings and equipment \$	Motor Vehicles \$	Exploration Equipment \$	Total \$
<b>Year ended 30 June 2016</b>				
Opening net book value	39,459	446	68,578	108,483
Additions	114,830	58,161	19,049	192,040
Disposals	(128,747)	(18,155)	-	(146,902)
Depreciation on disposals	124,499	18,155	-	142,654
Depreciation charge	(17,332)	(5,725)	(8,569)	(31,626)
Foreign exchange translation adjustment	(2,597)	433	(8,445)	(10,609)
Closing net book value	130,112	53,315	70,613	254,040
<b>At 30 June 2016</b>				
Cost	306,276	110,431	100,549	517,256
Accumulated depreciation	(176,164)	(57,116)	(29,936)	(263,216)
Net book amount	130,112	53,315	70,613	254,040

	2016 \$	2015 \$
--	------------	------------

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

At Cost	5,298,317	4,913,050
<i>Reconciliations</i>		
Movement in the carrying amounts of capitalised exploration expenditure between the beginning and end of the current financial year		
Opening net book amount	4,913,687	4,343,687
Additions(a)	1,847,931	458,719
Disposals	-	-
Foreign exchange translation adjustment	(657,485)	110,644
Closing net book amount	6,104,133	4,913,050

(a) \$12,636 was paid to acquire the San Augustin project with the balance being payments to finalise the acquisition of the Promontorio project.

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

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

Security Deposit	-	45,378
------------------	---	--------

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*	
			2016 %	2015 %
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
Minera Azure, S.A. de C.V.	Mexico	Ordinary	100	100

\*Percentage of voting power is in proportion to ownership

## Notes continued

	2016 \$	2015 \$
<b>14. TRADE AND OTHER PAYABLES (CURRENT)</b>		
Trade payables	993,408	235,051
Joint venture contribution received in advance	336,193	-
	<b>1,329,601</b>	<b>235,051</b>

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

### 15. PROVISIONS

#### CURRENT

Employee benefits	91,589	94,281
-------------------	--------	--------

#### NON-CURRENT

Employee benefits	49,962	49,962
-------------------	--------	--------

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.

### 16. CONTRIBUTED EQUITY

#### (a) Share capital

	Consolidated			
	2016		2015	
	Number of shares	\$	Number of shares	\$
Ordinary shares fully paid				
Total consolidated contributed equity	<b>1,464,260,045</b>	<b>65,581,982</b>	995,020,107	51,121,569

#### (b) Movements in ordinary share capital

	2016		2015	
	Number of shares	\$	Number of shares	\$
1 July opening balance	995,020,107	51,121,569	779,026,491	47,965,163
Issue at \$0.0098 per share	10,154,346	100,000	-	-
Issue at \$0.016 per share	95,312,500	1,525,000	-	-
Issue at \$0.036 per share	145,000,000	5,220,000	-	-
Issue at \$0.038 per share	218,773,092	8,313,375	-	-
Option exercise at \$0.020 per share	-	-	16,995,833	339,917
Issue at \$0.022 per share	-	-	100,000	2,200
Issue at \$0.0132 per share	-	-	177,462,238	2,342,500
Issue at \$0.03 per share	-	-	21,435,545	643,066
Share issue expenses	-	(697,962)	-	(171,277)
30 June closing balance	<b>1,464,260,045</b>	<b>65,581,982</b>	995,020,107	51,121,569

Funds raised from the share issues during the 2016 were used to progress the company's exploration activities and for general working capital.

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

	Number of options	
	2016	2015
1 July Opening Balance	50,924,075	71,197,686
Issued during the year		
-Exercisable at 6.0 cents, on or before 30 Nov 2018	37,000,000	-
Forfeited during the year		
- Exercisable at 4.0 cents, on or before 30 Nov 2014	-	(3,000,000)
- Exercisable at 2.0 cents, on or before 30 Sept 2014	-	(277,778)
Exercised during the year at 2.0 cents	-	(16,995,833)
30 June closing balance	<b>87,924,075</b>	<b>50,924,075</b>

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

#### (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

	2016	2015
	\$	\$
<b>17. RESERVES AND ACCUMULATED LOSSES</b>		
<b>Accumulated losses</b>		
Balance at beginning of year	46,656,589	45,505,229
Loss for the year	6,253,385	1,151,360
Balance at end of year	52,909,974	46,656,589
<b>Share-based payments reserve</b>		
Balance at beginning of year	3,161,492	3,031,401
Movement during the year	788,726	130,091
Balance at end of year	3,950,218	3,161,492
<b>Available-for-sale assets reserve</b>		
Balance at beginning of year	(39,996)	(39,996)
Revaluation	-	-
Balance at end of year	(39,996)	(39,996)
<b>Foreign currency translation reserve</b>		
Balance at beginning of year	(58,208)	(153,352)
Movement during the year	(1,748,335)	95,144
Balance at end of year	(1,806,543)	(58,208)

### (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)

Cash and cash equivalents comprises:

– cash at bank and in hand		419,725	487,126
– Joint Venture contribution received in advance	Note 14	336,193	-
– short-term deposits		8,631,242	1,288,286
Closing cash and cash equivalents balance		9,387,160	1,775,412

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)

	2016 \$	2015 \$
<b>(b) Reconciliation of the net loss after income tax to the net cash flows from operating activities</b>		
Net loss	(6,253,385)	(1,151,360)
Depreciation of non-current assets	31,626	27,827
Share based payment expense	788,726	130,091
Non-cash exploration expense		2,200
Profit on sale of equipment	(3,137)	-
<b>Changes in operating assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(408,439)	(739,276)
(Increase)/decrease in prepayments	327	(1,472)
Increase/(decrease) in trade and other payables	1,061,727	(98,138)
Increase/(decrease) in provisions	(2,692)	(1,548)
Net cash outflow from operating activities	(4,785,247)	(1,831,676)

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

There have been no non-cash financing and investing activities during the 2016 year (2015: 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	115,989	97,064
-------------------------	---------	--------

#### (b) Option payments

During 2016 all outstanding option payments on the Promontorio project were made resulting in the Company now owning 100% of the Promontorio project, refer note 11.

Not later than one year	-	1,430,180
Later than one year and not later than five years	-	-
	-	1,430,180

#### (c) Lease expenditure commitments

*Operating leases (non-cancellable):*

Minimum lease payments:

not later than one year	119,076	78,186
later than one year and not later than five years	416,766	-
Aggregate lease expenditure contracted for at reporting date	535,842	78,186

The property lease is a non-cancellable lease with a five-year term ending 31 December 2020, rent is payable monthly in advance. The lease allows for subletting of all leased areas and excess office space has been sub-let the related third parties as disclosed in Note 26(c).

### 21. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the company at reporting date (2015: Nil).

### 22. EVENTS OCCURRING AFTER BALANCE SHEET DATE

Since the end of the financial year The Company issued 207,993,950 shares raising \$7,903,770 (before expenses of the issue). In addition 194,508,539 options excisable at 5.5 cents and which expire on 11 July 2019 were 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.

### 23. LOSS PER SHARE

	2016 \$	2015 \$
<b>(a) Reconciliation of earnings to profit or loss</b>		
Net loss	(5,917,192)	(1,151,360)
Loss used in calculating basic loss per share	(5,917,192)	(1,151,360)

## Notes continued

### 23. LOSS PER SHARE (cont'd)

	Number of shares 2016	Number of shares 2015
<b>(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share</b>		
Weighted average number of ordinary shares used in calculating basic loss per share	<u>1,177,460,752</u>	<u>861,793,000</u>

### (c) Effect of dilutive securities

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

	2016	2015
	\$	\$

### 24. AUDITOR'S REMUNERATION

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

Tax compliance services	13,770	13,158
An audit or review of the financial report of the entity	<u>47,325</u>	<u>33,790</u>
	<u>61,095</u>	<u>46,948</u>
Remuneration of other auditors of subsidiaries		
Audit or review of financial report of subsidiaries	<u>37,622</u>	<u>11,734</u>

### 25. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

Short-term	650,870	597,305
Post employment	48,776	49,224
Share-based payment	<u>573,391</u>	<u>109,276</u>
	<u>1,273,037</u>	<u>755,805</u>

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

### 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*	
			2016 %	2015 %
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
Servicios AzuPerth, S.A. de C.V	Mexico	Ordinary	100	100
Mineral Azure S.A. de C.V.	Mexico	Ordinary	100	100

\*Percentage of voting power is in proportion to ownership

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

#### (c) Other Related Transaction

The Company has entered into a sub-lease agreement on normal commercial terms with Oro Verde Limited, a company of which Wolf Martinick and Brett Dickson are directors. During the year Oro Verde Limited paid sub-lease fees totalling \$4,800 (2015: \$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 a Director. During the year Rox Resources Limited paid sub-lease fees totalling \$86,346 (2015: \$114,800).

## Notes continued

### 27. SHARE-BASED PAYMENTS

No options have been issued pursuant to an Employee Share plan.

#### 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.

#### (a) Directors and executive options

Set out below are summaries of current directors, executives & employees options granted.

2016 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	25,000,000
19 Nov '15	30 Nov '18	6.0	2.1	-	31,200,000	-	-	31,200,000	31,200,000
28 Apr '16	30 Nov '18	6.0	2.2	-	5,800,000	-	-	5,800,000	5,800,000
				<b>25,000,000</b>	<b>37,000,000</b>	-	-	<b>62,000,000</b>	<b>62,000,000</b>
Weighted average exercise price				\$0.058	\$0.060	-	-	\$0.059	\$0.059
<b>2015</b>									
25 Jun '13	30 Jun '17	5.8	3.2	25,000,000	-	-	-	25,000,000	25,000,000
9 Dec '11	30 Nov '14	4.9	1.6	3,000,000	-	-	(3,000,000)	-	-
				<b>28,000,000</b>	-	-	<b>(3,000,000)</b>	<b>25,000,000</b>	<b>25,000,000</b>
Weighted average exercise price				\$0.057			\$0.049	\$0.058	\$0.058

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.85 years (2015: 2.0 years).

#### Fair value of options granted.

During the 2016 financial year the weighted average fair value of the options granted was 1.7 and 1.5 cents. The price was calculated by using the Binominal Option valuation methodology applying the following inputs:

	2016	2015
Weighted average exercise price (cents)	6.0	-
Weighted average life of the option (years)	2.9	-
Weighted average underlying share price (cents)	3.9	-
Expected share price volatility (%)	100	-
Risk free interest rate (%)	2.1	-

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	
	2016	2015
	\$	\$
Options issued to directors and executives	<u>788,726</u>	<u>130,091</u>

## Notes continued

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

#### (b) Options issued to other parties

During the year no (2015: no) 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.

#### 2016

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
16 May '14	30 Nov '16	4.5	1.7	20,618,913	-	-	-	20,618,913	20,618,913
30 May '14	30 Nov '16	4.5	1.5	5,305,162	-	-	-	5,305,162	5,305,162
				<b>25,924,075</b>	-	-	-	<b>25,924,075</b>	<b>25,924,075</b>
Weighted average exercise price				\$0.045				\$0.045	\$0.045

The weighted average remaining contractual life of share options outstanding at the end of the 2016 period was 0.4 years (2015: 1.4 years)

#### 2015

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	-	(2,595,833)	(277,778)	-	-
3 Dec '12	30 Sept '14	2.0	0.9	14,400,000	-	(14,400,000)	-	-	-
16 May '14	30 Nov '16	4.5	1.7	20,618,913	-	-	-	20,618,913	20,618,913
30 May '14	30 Nov '16	4.5	1.5	5,305,162	-	-	-	5,305,162	5,305,162
				<b>43,197,686</b>	-	<b>(16,995,833)</b>	<b>(277,778)</b>	<b>25,924,075</b>	<b>25,924,075</b>
Weighted average exercise price				\$0.035		\$0.02	\$0.02	\$0.045	\$0.045

The weighted average remaining contractual life of share options outstanding at the end of the 2015 period was 1.6 years (2014: 1.6).

### 28. PARENT ENTITY FINANCIAL INFORMATION

#### (a) Summary financial information

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

	2016 \$	2015 \$
<b>Statement of Financial Position</b>		
Current assets	20,579,655	7,684,689
Total assets	20,665,133	7,747,503
Current liabilities	536,381	219,235
Total liabilities	536,381	219,235
Net assets	20,128,752	7,528,268
<b>Shareholder's equity</b>		
Issued capital	65,581,982	51,121,569
Reserves	3,910,222	3,121,496
Accumulated losses	(49,363,452)	(46,714,797)
	<b>20,128,752</b>	<b>7,528,268</b>

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

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

#### (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 2016 and of its performance for the year ended on that date.
- (2) 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, 23 September 2016



## 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 2016, 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 2016 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.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report on page 12 to 16 of the financial accounts for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Azure Minerals Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd



Dean Just

Director

Perth, 23 September 2016

## DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF AZURE MINERALS LIMITED

As lead auditor of Azure Minerals Limited for the year ended 30 June 2016, 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.



Dean Just  
Director

BDO Audit (WA) Pty Ltd  
Perth, 23 September 2016

## ASX Additional Information

The number of shareholders, by size of holding, in each class of share as at 13 September 2016 are:

		Ordinary shares	
		Number of holders	Number of shares
1	- 1,000	184	17,155
1,001	- 5,000	166	594,411
5,001	- 10,000	482	4,295,459
10,001	- 100,000	1,723	79,965,778
100,001	and over	1,559	1,587,381,192
		4,114	1,672,253,995
		1,130	9,004,503

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

### (b) Twenty largest shareholders

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

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Merrill Lynch (Australia) Nominees Pty Ltd	237,907,734	14.23
2	National Nominees Limited	124,738,056	7.46
3	Yandal Investments Pty Ltd	121,652,200	7.27
4	HSBC Custody Nominees <Australia>	91,058,806	5.45
5	Citicorp Nominees Pty Ltd	24,530,059	1.47
6	J P Morgan Nominees Australia Limited	16,097,539	0.96
7	ABN Ambro Clearing Sydney Nominees Pty Ltd	10,428,100	0.62
8	Dr Lyndsay George Gordon	9,009,611	0.54
9	Mr Peter Murray Nicholas	8,800,000	0.53
10	Mr Phillip Wood	8,300,000	0.50
11	Garry Temple	8,000,000	0.48
12	Russell Timms	7,869,711	0.47
13	Stadjoy Pty Ltd	7,394,737	0.44
14	Mr Neil James Waddington	7,162,976	0.43
15	Mr Richard Eric James + Mrs Margaret Anne James	7,000,000	0.42
16	Calyerup Pty Ltd <The St Cecelia S/F A/C>	6,601,101	0.39
17	Phillip Doyle	6,000,000	0.36
18	ASIPAC Group Pty Ltd	5,555,555	0.33
19	International Commodity Finance Limited	5,555,555	0.33
20	Drendia Pty Ltd <CD Johnston Super Fund A/C>	5,500,000	0.33
		<b>719,161,740</b>	<b>43.01</b>

### (c) Substantial shareholders

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

	Number of Shares
Drake Private Investments LLC	91,777,778

### (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
El Tecolote	El Tecolote	All Minerals	230771	100%
	El Tecolte III	All Minerals	234586	100%
Promontorio	Hidalgo	All Minerals	235270	100% <sup>1</sup>
	Promontorio	All Minerals	235269	100% <sup>1</sup>
	El Magistral	All Minerals	218881	100% <sup>1</sup>
	Promontorio Regional	All Minerals	234447	100% <sup>1</sup>
Loreto	Loreto	All Minerals	Awaiting allocation	100%
Panchita	Panchita	All Minerals	212767	100%
	Dona Panchita	All Minerals	192097	100%
Alacrán	Hildago	All Minerals	166374	Option to earn 100%
	Hildago 2	All Minerals	166369	Option to earn 100%
	Hildago 3	All Minerals	166368	Option to earn 100%
	Hildago 4	All Minerals	166366	Option to earn 100%
	Hildago 5	All Minerals	166370	Option to earn 100%
	Hildago 6	All Minerals	166371	Option to earn 100%
	Hildago 7	All Minerals	166373	Option to earn 100%
	Hildago 8	All Minerals	166372	Option to earn 100%
	Hildago 9	All Minerals	166375	Option to earn 100%
	Kino 2	All Minerals	166313	Option to earn 100%
	Kino 3	All Minerals	166312	Option to earn 100%
	Kino 4	All Minerals	166314	Option to earn 100%
	Kino 8	All Minerals	166315	Option to earn 100%
	Kino 9	All Minerals	166316	Option to earn 100%
	Kino 10	All Minerals	166317	Option to earn 100%
	Kino 11	All Minerals	166318	Option to earn 100%
	Kino 15	All Minerals	166365	Option to earn 100%
	Kino 16	All Minerals	166367	Option to earn 100%
	San Simon	All Minerals	166376	Option to earn 100%
	San Simon 2	All Minerals	166377	Option to earn 100%
El Alacrán	All Minerals	201817	Option to earn 100%	
Telix	Area under application	All Minerals	Awaiting allocation	Application for 100%

1. Kennecott Exploration Mexico S.A. de C.V has an option to earn up to an 80% interest

## ASX Additional Information

### TABLES OF MINERALS RESOURCES

#### MINERAL RESOURCES ESTIMATION GOVERNANCE STATEMENT

Governance of Azure’s mineral resources is a responsibility of the Executive Management of the Company.

The Promontorio and Cascada mineral resources have not changed since last year. The Mesa de Plata mineral resource is a new resource this financial year and its first estimate was release to ASX on 9 May 2016.

Azure has ensured that its mineral resources estimates are subject to appropriate levels of governance and internal controls. The mineral resources reported have been estimated by independent external consultants who are experienced in best practices in modelling and estimation methods. The consultants have also undertaken reviews of the quality and suitability of the underlying information used to generate the resource estimations. Additionally the Company carries out regular internal peer reviews of processes and contractors engaged.

Azure has reported its Promontorio mineral resources on an annual basis in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources (the JORC code) 2004 Edition.

Azure has reported its Cascada mineral resources on an annual basis in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources (the JORC code) 2012 Edition.

Competent Persons named by Azure are members of the Australian Institute of Mining and Metallurgy and/or the Australian Institute of Geoscientists and/or of a “Recognised Professional Organisation”, as included in a list on the JORC and ASX websites.

#### ALACRÁN PROJECT

Table 1: Mesa de Plata JORC Code Indicated Mineral Resource

Estimation Zone	Tonnes (millions)	Ag (g/t)	Ag Metal (million troy ounces)
High Grade	2.17	219.3	15.3
Mid-Grade	7.42	44.3	10.6
<b>TOTAL</b>	<b>9.59</b>	<b>83.9</b>	<b>25.9</b>

The Mesa de Plata resources estimate was first reported to ASX on 9 May 2016.

#### PROMONTORIO PROJECT

Table 2: Cascada Mineral Resource above a 0.5% Cu Equivalent Cut-off within the Resource Constraining Shell

Within Constraining Shell Cut off > 0.5% CuEq		Grade				Contained Metal			
Classification	Tonnage (tonnes)	Cu (%)	Au (g/t)	Ag (g/t)	CuEq (%)	Cu (tonnes)	Au (oz)	Ag (oz)	CuEq (tonnes)
Indicated	810,000	1.1	1.4	28	2.0	9,000	36,000	720,000	15,900
Inferred	1,140,000	0.7	1.7	26	1.8	8,400	63,200	960,000	20,000
<b>Total</b>	<b>1,950,000</b>	<b>0.9</b>	<b>1.6</b>	<b>27</b>	<b>1.8</b>	<b>17,400</b>	<b>99,200</b>	<b>1,690,000</b>	<b>35,900</b>

## ASX Additional Information

### TABLES OF MINERALS RESOURCES (cont'd)

#### PROMONTORIO PROJECT (cont'd)

Table 3: Cascada Mineral Resource above a 1.0% Cu Equivalent Cut-off below the Resource Constraining Shell

Below Constraining Shell Cut off > 1.0% CuEq		Grade				Contained Metal			
Classification	Tonnage (tonnes)	Cu (%)	Au (g/t)	Ag (g/t)	CuEq (%)	Cu (tonnes)	Au (oz)	Ag (oz)	CuEq (tonnes)
Indicated	30,000	1.0	0.8	17	1.5	300	700	20,000	400
Inferred	80,000	1.3	2.7	22	2.7	1,100	7,300	60,000	2,300
<b>Total</b>	<b>110,000</b>	<b>1.2</b>	<b>2.3</b>	<b>21</b>	<b>2.4</b>	<b>1,300</b>	<b>8,100</b>	<b>70,000</b>	<b>2,700</b>

Table 4: Cascada Mineral Resource Total within and below the Resource Constraining Shell

Total Resource		Grade				Contained Metal			
Classification	Tonnage (tonnes)	Cu (%)	Au (g/t)	Ag (g/t)	CuEq (%)	Cu (tonnes)	Au (oz)	Ag (oz)	CuEq (tonnes)
Indicated	840,000	1.1	1.4	27	1.9	9,200	36,700	740,000	16,300
Inferred	1,230,000	0.8	1.8	26	1.8	9,500	70,500	1,020,000	22,300
<b>Total</b>	<b>2,060,000</b>	<b>0.9</b>	<b>1.6</b>	<b>27</b>	<b>1.9</b>	<b>18,800</b>	<b>107,200</b>	<b>1,760,000</b>	<b>38,600</b>

The Cascada Resources estimate was first released to ASX on 7 May 2015.

Table 5: Promontorio Project Mineral Resource

Total Resource		Grade				Contained Metal			
Deposit	Tonnage (tonnes)	Cu (%)	Au (g/t)	Ag (g/t)	CuEq (%)	Cu (tonnes)	Au (oz)	Ag (oz)	CuEq (tonnes)
Indicated	610,000	2.7	1.7	56	4.4	16,700	32,500	1,090,000	26,700
Inferred	230,000	1.8	1.5	56	3.3	4,100	11,300	410,000	7,500
<b>Total</b>	<b>840,000</b>	<b>2.5</b>	<b>1.6</b>	<b>56</b>	<b>4.1</b>	<b>20,800</b>	<b>43,800</b>	<b>1,500,000</b>	<b>34,200</b>

The Promontorio resources estimate was first released to ASX ON 10 May 2013.

#### COMPETENT PERSON STATEMENT:

Information in this report that relates to previously reported Exploration Results has been cross-referenced in this report to the date that it was reported to ASX. Azure Minerals Limited confirms that it is not aware of any new information or data that materially affects information included in the relevant market announcement.

The information in this report that relates to the Mineral Resource for the Promontorio deposit was prepared and first disclosed to the ASX on 10 May 2013 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.

## ASX Additional Information

### TABLES OF MINERALS RESOURCES (cont'd)

#### COMPETENT PERSON STATEMENT (cont'd):

*The information in this report that relates to Mineral Resources for the Cascada deposit is extracted from the report “Cascada Mineral Resource Estimate” created and released to ASX on 9 May 2016 and is available to view on [www.asx.com](http://www.asx.com). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.*

*The information in this report that relates to Mineral Resources for the Mesa de Plata deposit is extracted from the report “Mesa de Plata Mineral Resource Estimate” created and released to ASX on 7 May 2015 and is available to view on [www.asx.com](http://www.asx.com). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.*

#### COPPER EQUIVALENCY STATEMENTS:

##### Promontorio:

*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 2 April 2013: 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: 97.9% for Cu, 93.4% for Au, and 97.0% 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:  $CuEq (\%) = (Cu\% \times 0.979) + (Au (g/t) \times 0.6077) + (Ag (g/t) \times 0.0120)$ .*

##### Cascada:

*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 of 30 October 2014: US\$3.40/lb for Cu, US\$1,470/oz for Au and US\$25.00/oz for Ag.*

*The CuEq grade accounts for the following metal recoveries: 95.0% for Cu, 75.0% for Au, and 85.0% 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:  $CuEq (\%) = (Cu\% \times 0.95) + (Au (g/t) \times 0.4729) + (Ag (g/t) \times 0.0091)$ .*