

Azure Minerals Limited

ABN 46 106 946 918

Interim Financial Statements

For the Half-Year Ended 31 December 2020

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2020 and any public announcements made by Azure Minerals Limited during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AZURE MINERALS LIMITED

CORPORATE INFORMATION

ABN 46 106 346 918

Directors

Brian David Thomas (Chairman)
Anthony Paul Rovira (Managing Director)
Peter Anthony John Ingram (Non-Executive Director)
Hansjörg Plaggemars (Non-Executive Director)
Hui (Annie) Guo (Non-Executive Director)

Company Secretary

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 2, 45 St, Georges Terrace
Perth WA 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

Website

www.azureminerals.com.au

ASX Code

Shares AZS

AZURE MINERALS LIMITED

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Competent Person Statements:

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 announcements.

Information in this report that relates to Mineral Resources for the Oposura Project is extracted from the report "Azure Delivers Robust Initial Mineral Resource at Oposura" created and released to the ASX on 4 July 2018 and is available to view on www.asx.com.au. 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, and that all material assumptions and technical parameters underpinning the estimates in the announcement continue to apply and have not materially changed.

Information in this report that relates to the Scoping Study for the Oposura Project is extracted from the report "Oposura Scoping Study Delivers Outstanding Economics" created and released to the ASX on 15 October 2018 and is available to view on www.asx.com.au. 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, and that all material assumptions and technical parameters underpinning the estimates in the announcement continue to apply and have not materially changed.

Information in this report that relates to Mineral Resources for the Alacrán Project is extracted from the reports "Silver Resource Upgraded at Mesa de Plata" created and released to the ASX on 1 December 2016 and "Initial Mineral Resource Estimate for Loma Bonita" created and released to the ASX on 21 December 2016 and are available to view on www.asx.com.au. 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, and that all material assumptions and technical parameters underpinning the estimates in the announcement continue to apply and have not materially changed.

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Azure Minerals Limited and the entities it controlled ("**AZS**", "**Azure**" or "**the Group**") at the end of, or during, the half-year ended 31 December 2020.

General information

Directors

The following persons were directors of Azure Minerals Limited during all or part of the half-year as indicated below, and up to the date of this report:

Brian Thomas (appointed 1 March 2021)

Peter Ingram

Anthony Rovira

Wolf Martinick (retired 24 November 2020)

Wayne Bramwell (appointed 14 October 2020 and resigned 19 February 2021)

Hui (Annie) Guo (appointed 1 March 2021)

Hansjörg Plaggemars

Project Review

The COVID-19 pandemic in Mexico has had a severe and ongoing impact on exploration and mining operations throughout the country and, given the current uncertainty for ongoing fieldwork, Azure sought gold and nickel projects in Western Australia to enable the Company to continue exploration activities.

During the period Azure completed the purchase of a 60% interest in the Andover Nickel-Copper Project ("**Andover**") and 70% interests in the Turner River, Meentheena and Coongan Gold Projects, all located in the Pilbara region of Western Australia (see Figure 1), from prominent mining prospector Mr Mark Creasy ("**Creasy Group**"). This acquisition enables Azure to reduce risk by diversifying across commodities and jurisdictions. These new projects have strong potential due to historical exploration results, underlying prospective geology and project locations, and give shareholders exposure to the exciting Mallina gold district and an advanced nickel-copper project.

The acquisition consideration of 40,000,000 fully paid ordinary shares in Azure was approved by shareholders at a General Meeting held on 26 August.

The Company also added to its newly acquired Western Australian project portfolio through an exclusive and binding agreement to acquire 100%-ownership of the Barton Gold Project ("**Barton**"), a single Exploration License Application (ELA 40/393) from local company 30 Well Pty Ltd. Total consideration for the acquisition is 1,150,000 fully paid ordinary Azure shares and A\$20,000, payable upon grant of the tenement.

AUSTRALIA

Andover Nickel-Copper Project (Azure 60% / Creasy Group 40%)

Following completion of the acquisition in August, Azure immediately commenced its exploration programs at Andover (see Figure 2) comprising:

- Surface fixed-loop electromagnetic surveys (FLTEM);
- Diamond core drilling; and
- Downhole electromagnetic surveying.

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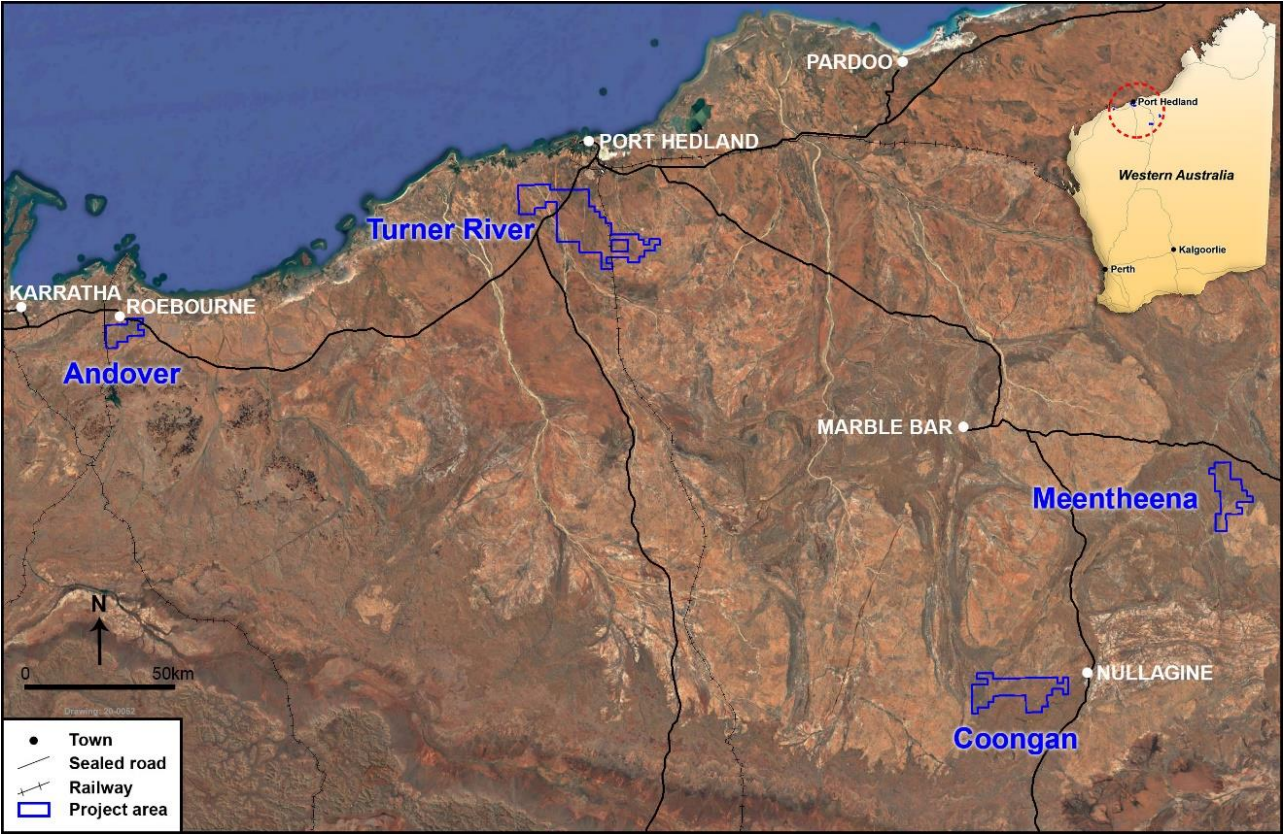


Figure 1: Location of Azure's Pilbara projects

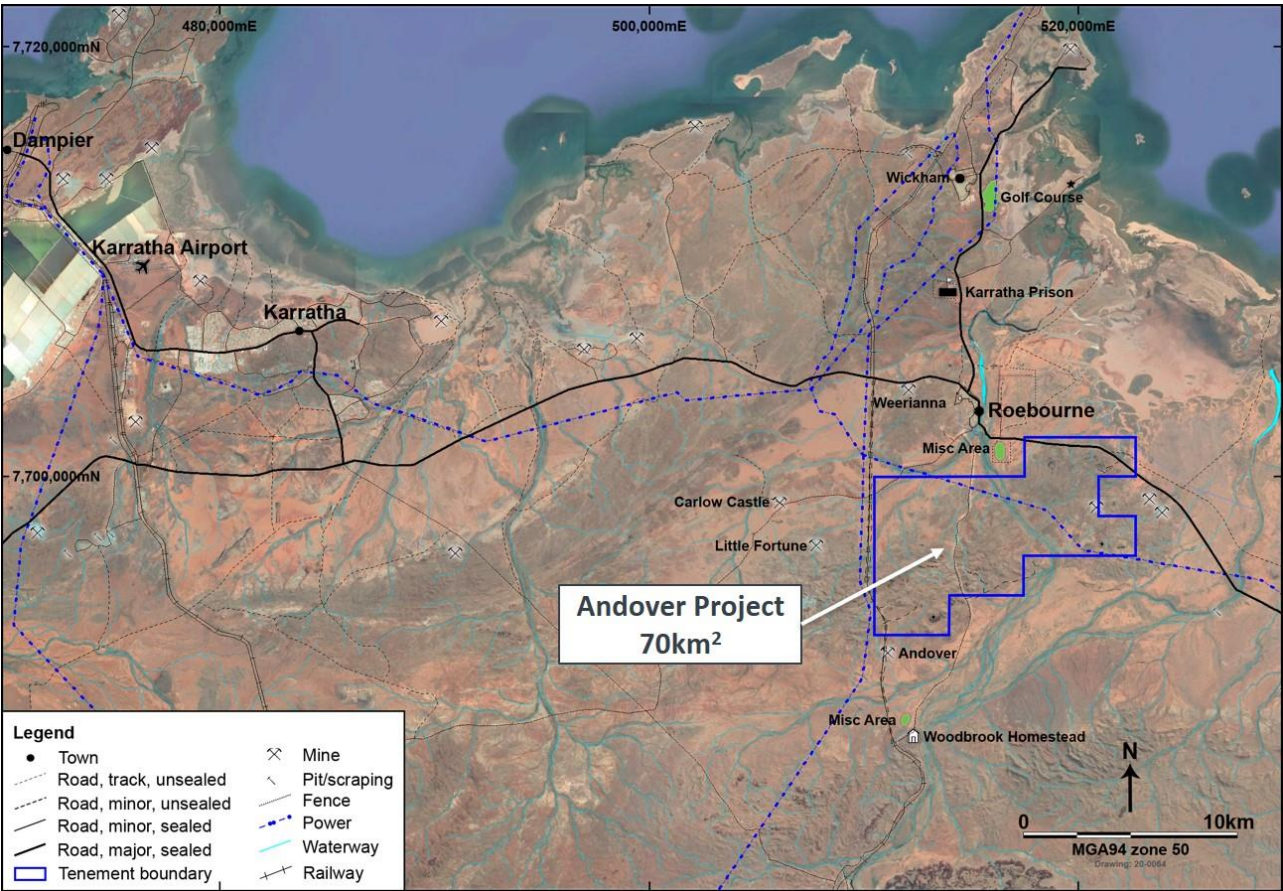


Figure 2: Andover Ni-Cu Project Location

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Azure's first drilling program, which is continuing has been very successful with discovery of Nickel-Copper mineralisation at the VC-07 and VC-23 targets.

VC-07

The first three drill holes (**ANDD0001, 0002 and 0003**) intersected broad intervals of nickel and copper sulphide mineralisation at shallow depths. The mineralisation intersected in these holes is associated with or bounded by narrow zones of shearing and fractures which show different orientations in the drill core. This indicates that these sulphides have been remobilised into this location, likely from a nearby primary source.

Significant Ni-Cu mineralised intersections in these three holes include (refer ASX: 9 & 30 November 2020):

ANDD0001: 22.4m @ 1.02% Ni and 0.55% Cu from 81.6m downhole
including: **3.9m @ 2.85% Ni and 0.47% Cu** from 94.5m

and: 11.3m @ 1.21% Ni and 0.66% Cu from 110.0m downhole
including: **5.0m @ 2.09% Ni and 1.14% Cu** from 116.0m

ANDD0002: 13.6m @ 1.19% Ni and 0.38% Cu from 104.m downhole
including: **4.6m @ 2.41% Ni and 0.48% Cu** from 113.0m

ANDD0003: 7.6m @ 1.51% Ni and 0.25% Cu from 78.4m downhole
including: **4.6m @ 2.05% Ni and 0.20% Cu** from 78.4m

After the success of the first three holes further drilling targeted the VC-07 conductor beneath and along strike from the first three holes. This drilling intersected significant Ni-Cu sulphide mineralisation and has extended the known limits of the mineralised zone along-strike to the west and down-dip, with the mineralisation remaining open in those directions. Significant drill intersections received include (refer ASX: 10 December 2020, 12 January and 16 February 2021):

ANDD0004: 41.9m @ 1.10% Ni and 0.57% Cu from 347.5m downhole
including: **8.5m @ 2.77% Ni and 1.04% Cu** from 354.8m

ANDD0005: 18.7m @ 1.35% Ni and 0.68% Cu from 325.3m downhole
including: **6.7m @ 1.98% Ni and 0.86% Cu** from 325.3m

ANDD0006: 19.2m @ 1.47% Ni and 0.41% Cu from 406.3m downhole
including: **7.0m @ 2.23% Ni and 0.63% Cu** from 411.3m

ANDD0007: 27.6m @ 0.80% Ni and 0.32% Cu from 402.0m downhole
including: **8.5m @ 1.33% Ni and 0.42% Cu** from 406.05m

Completed drill holes with results awaited:

ANDD0014: intersected a 21.5m-wide mineralised interval containing multiple zones of Ni-Cu sulphide mineralisation from 455.3m

ANDD0015: intersected two separate zones of Ni-Cu sulphide mineralisation including 2.9m of massive, matrix and disseminated Ni-Cu sulphides from 369.6m and 18.5m of semi-massive, matrix and heavily disseminated Ni-Cu sulphides from 432.7m

Figure 3 shows a plan view of the holes drilled at VC-07 and Figure 4 an oblique section through the deposit.

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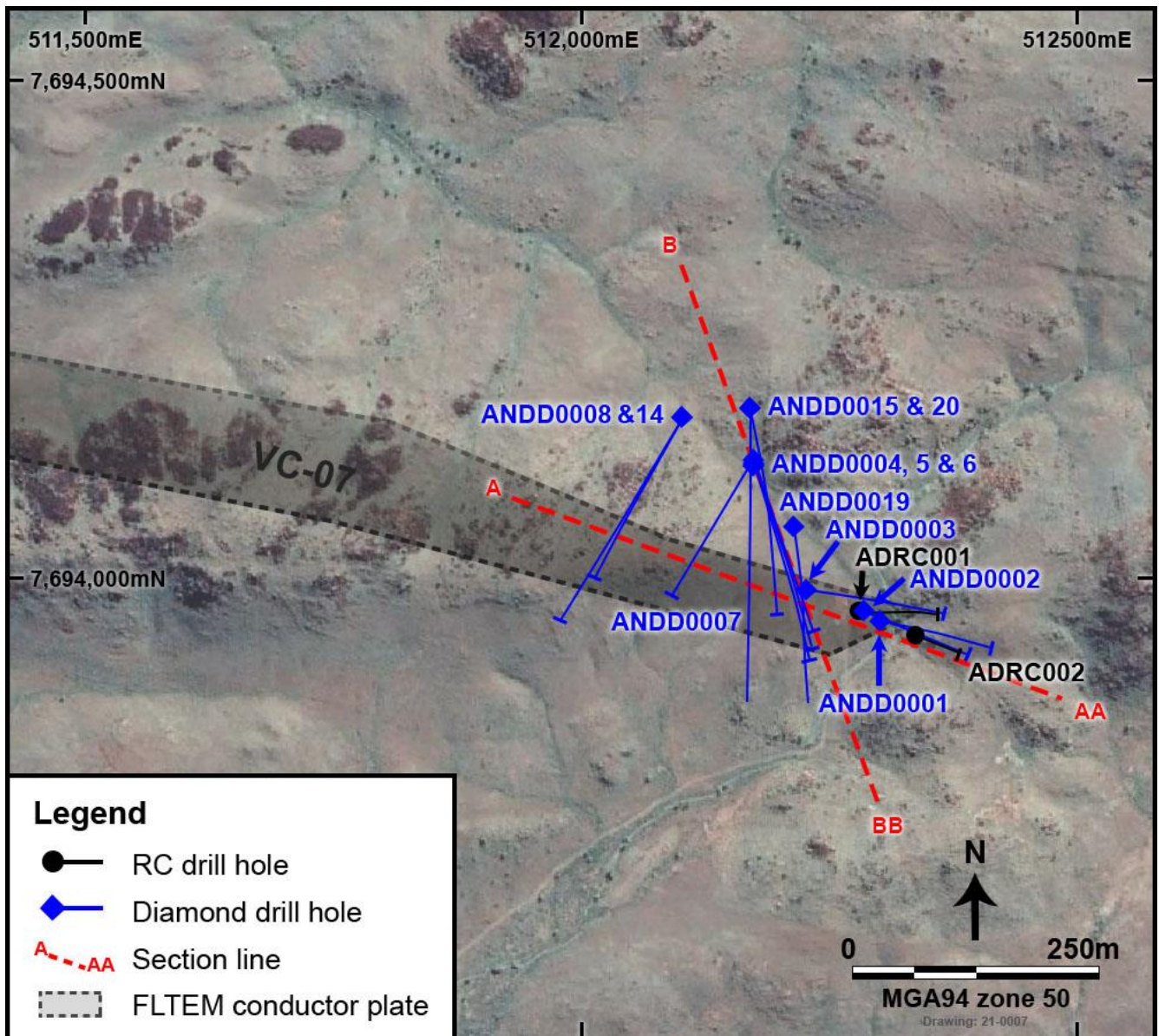


Figure 3: Target VC-07 showing EM conductor plates, drill holes and cross sections

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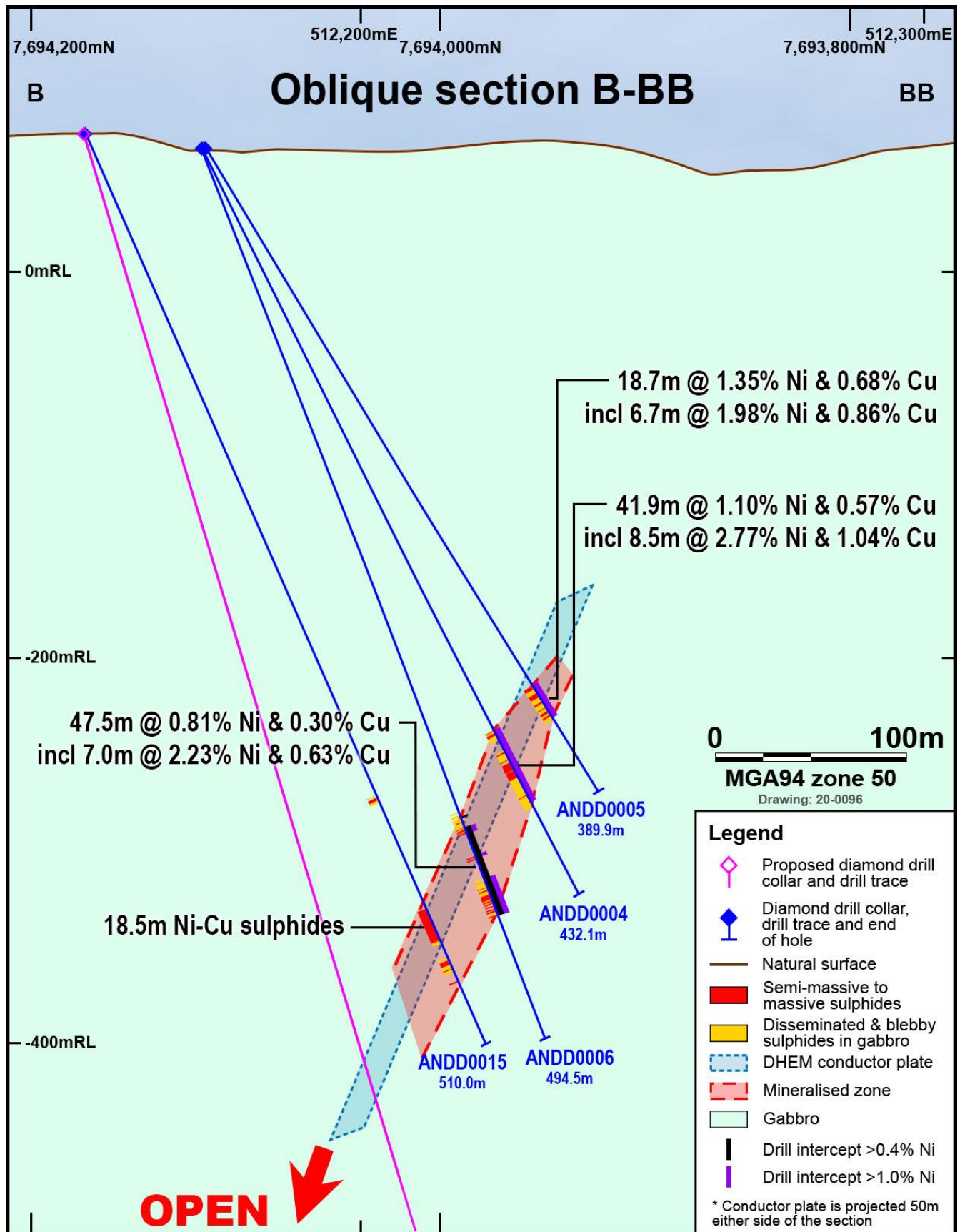


Figure 4: VC-07 B-BB cross section with mineralised intersections and EM conductor plates

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VC-23

The first of the high priority exploration targets to be tested in the regional diamond drilling program was VC-23.

Varying quantities of sulphide mineralisation, comprising pentlandite, chalcopyrite and pyrrhotite, was observed in all eight holes drilled at VC-23 (refer ASX: 22 January and 8 February 2021). Assay results are awaited.



Photo 1: ANDD0012 drill core

**Massive Ni-Cu sulphides @ 96.0 - 96.2m
downhole**



Photo 2: ANDD0012 drill core

**Semi-massive Ni-Cu sulphides @ 84.1-85.0m
downhole**

Meentheena and Coongan Gold Projects (Azure 70% / Creasy Group 30%)

During the quarter, aeromagnetic surveys were completed over the Coongan (approximately 3,363 line kilometers) and Meentheena (approximately 2,752 line kilometres) gold projects. Interpretation of the results is underway and expected to be completed during the first quarter of 2021.

Barton Gold Project (100% Azure on completion)

The Barton Gold Project lies adjacent to the historical gold mining town of Kookynie approximately 40km south of Leonora in the Eastern Goldfields region of Western Australia. It covers approximately 200km² of the Kookynie Gold District (see **Figure 5**) and adjoins several growing gold deposits / projects, including:

- Genesis Minerals' Ulysses Gold Project (1,281,000oz);
- Saturn Minerals' Apollo Hill Gold Project (781,000oz); and
- Metalicity's recent high-grade Kookynie gold discoveries.

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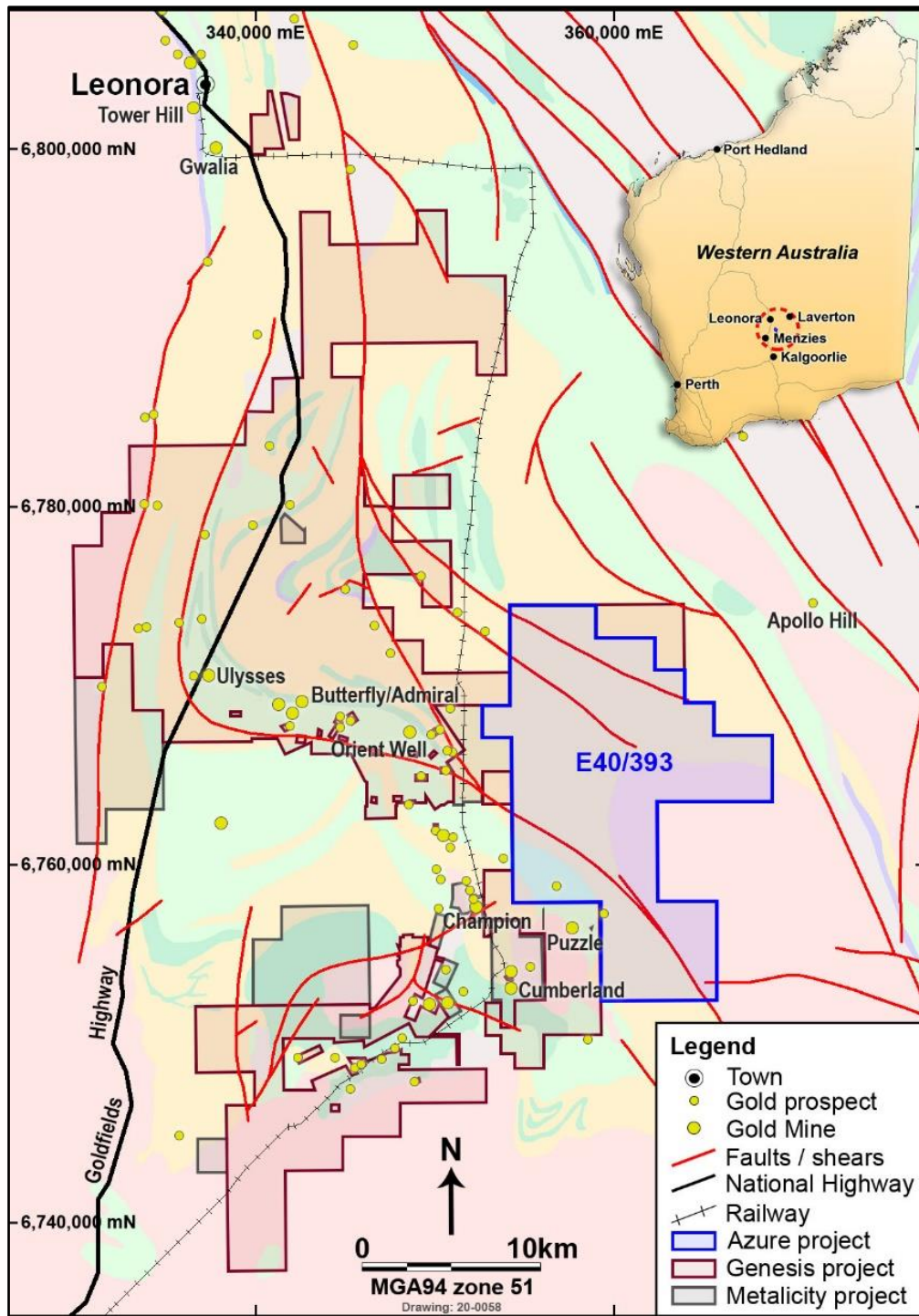


Figure 5: Barton Gold Project in blue with nearby gold deposits/ projects

Since the 1890s, the Kookynie-Orient Well-Ulysses district has produced more than 1.1Moz of gold from open pit and underground mining of high-grade, quartz vein gold deposits and currently hosts additional gold resources of more than 1.2Moz.

The tenement the subject of the agreement is still in the application stage.

MEXICO

Azure has a portfolio of 100%-owned precious and base metal assets in Mexico with three advanced-stage exploration projects containing JORC (2012) Mineral Resources. See the Company's website for details of projects and resources (www.azureminerals.com.au).

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Figure 6: Location of Azure's projects in Mexico

Azure has a local operating team of geologists and administrators in Mexico. However, access to the Company's projects has been restricted since April due to the serious and ongoing COVID-19 situation. The Company also used this period to carry out detailed data analysis and interpretation to evaluate and prioritise targets for further testing, with the focus on the Alacrán silver-gold project.

Alacrán Silver-Gold Project (Azure 100%)

During the period, selected intervals of high-grade silver mineralisation were collected from drill holes completed earlier in the year and dispatched to the AMTEL laboratory in Ontario, Canada for advanced metallurgical testwork to optimise the process flowsheet for a Mesa de Plata mining and processing operation (refer ASX: 19 August 2020).

The selected drillhole intervals and silver grades are:

- MDPC-150: 6.0m @ 1,284g/t Ag from 12.0m
- MDPC-151: 3.0m @ 1,832g/t Ag from 39.0m
- MDPC-152: 3.0m @ 1,006g/t Ag from 1.5m

The metallurgical program currently underway is carrying out multiple gravity separation tests, processing the high-grade mineralisation through Knelson concentrators to maximise romeite recoveries into a high-grade, silver-rich concentrate. The tailings from the gravity separation will then undergo grinding, flotation and cyanide leaching to maximise the overall silver recovery.

Oso Negro Gold-Silver Project (previously Azure 100% - now sold)

During the period, Azure completed the sale of the Oso Negro project to a private Canadian company. Consideration totals US\$175,000, with US\$25,000 paid on signing (10 July 2020), US\$50,000 paid in January 2021, and a final payment of US\$100,000 is due on or before 10 January 2022.

Review of Operations and Results

The operating loss after income tax of the Group for the period was \$8,732,609 (2019: \$3,177,380). Included in this loss figure is \$2,242,042 (2019: \$1,002,207) of exploration expenditure.

Net cash outflows from operating activities for the period were \$3,245,129 (2019: \$2,453,471).

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Other items

Significant Changes in State of Affairs

During July 2020 a total of 40,000,000 fully paid ordinary shares were issued at a price of \$0.10 to raise \$4.0 million before expenses of the issue and in August 2020 40,000,000 fully paid ordinary shares were issued at a price of \$0.165 to acquire mineral exploration projects in Western Australia.

During December 2020 Azure completed a share placement to new and existing institutional and sophisticated investors to raise \$37.0 million (before costs) through the issue of 50,000,000 fully paid ordinary shares (Shares) at an issue price of \$0.74 per Share

During the financial period, Convertible Notes with a face value of \$2 million were converted, resulting in the issue of 13,793,104 fully paid ordinary shares. The notes were for a period of 24 months with interest payable 6 months in arrears at an interest rate of 12.5% per annum.

No other significant change in the Group's state of affairs occurred during the reporting period.

Events after the reporting date

On 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

The full impact of the COVID-19 outbreak continues to evolve at the date of this report. The Group is therefore uncertain as to the full impact that the pandemic will have on its financial condition, liquidity, and future results of operations during FY2021.

Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2021 financial year.

No other matter or circumstance has arisen since the end of the financial period which significantly affected or may significantly affect the operation of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

Changes in Controlled Entity

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 23.

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



Anthony Rovira
Managing Director
West Perth
12 March 2021

AZURE MINERALS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	31 Dec 2020 \$	30 Jun 2020 \$
ASSETS			
Current Assets			
Cash and cash equivalents	4	37,433,101	849,549
Trade and other receivables		812,922	284,689
Total Current Assets		38,246,023	1,134,238
Non-Current Assets			
Investments		948	948
Office right of use		547,671	67,655
Plant and equipment		130,768	123,865
Capitalised exploration expenditure	5	14,970,364	7,889,184
Total Non-Current Assets		15,649,751	8,081,652
TOTAL ASSETS		53,895,774	9,215,890
LIABILITIES			
Current Liabilities			
Trade and other payables		479,449	393,846
Provisions		162,664	144,085
Lease Liability		119,165	71,050
Total Current Liabilities		761,278	608,981
Non-Current Liabilities			
Provisions		117,917	114,687
Borrowings	6	-	2,000,000
Lease Liability		428,506	-
Total Non-Current Liabilities		546,423	2,114,687
TOTAL LIABILITIES		1,307,701	2,723,668
NET ASSETS		52,588,073	6,492,222
Equity			
Contributed equity	7	142,324,511	87,760,331
Reserves		3,518,987	3,254,707
Accumulated losses		(93,255,425)	(84,522,816)
TOTAL EQUITY		52,588,073	6,492,222

The above consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

AZURE MINERALS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	Note	31 Dec 2020 \$	31 Dec 2019 \$
Continuing Operations			
Other income		251,220	456,261
Depreciation and amortisation		(17,394)	(25,471)
Exploration expenditure		(2,242,042)	(1,002,207)
Production Expenses		(170)	(796,972)
Feasibility Studies		-	(236,199)
Finance costs		(120,512)	(113,699)
Salaries and wages		(350,973)	(491,157)
Consultants		(42,680)	(1,755)
Director fees		(62,636)	(51,938)
Travel and accommodation		(9,480)	(143,878)
Promotion		(77,147)	(39,074)
Insurance		(34,766)	(29,794)
Lease interest		(2,087)	(8,821)
Lease amortisation		(67,655)	(67,655)
Other administration expenses		(53,053)	(37,675)
Share based payments		-	(254,400)
Fair Value Adjustment on convertible notes	7	(5,517,242)	-
Other expenses		(385,992)	(332,946)
Loss from continuing operations before		(8,732,609)	(3,177,380)
Income tax expense		-	-
Loss from continuing operations after income tax		(8,732,609)	(3,177,380)
Other comprehensive income			
<i>Items that will not be subsequently reclassified to profit and loss</i>			
<i>Items that may subsequently be reclassified to profit and loss</i>			
Exchange differences on translation of foreign operations		264,280	74,735
Other comprehensive (income)/loss for the period net of tax		264,280	74,735
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(8,468,329)	(3,102,645)
Loss per share from continuing operations attributable to the ordinary equity holders of the company			
Basic and diluted loss per share (cents)	8	(3.79)	(2.26)

The above consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2020

31 December 2020

	Issued Share Capital \$	Share Option Reserve \$	Financial Asset Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
At 1 July 2020	87,760,331	5,642,711	(39,996)	(2,348,008)	(84,522,816)	6,492,222
Loss for period	-	-	-	-	(8,732,609)	(8,732,609)
Other comprehensive income						
Exchange differences on translation of foreign operations	-	-	-	264,280	-	264,280
Total comprehensive income/(loss) for the period	-	-	-	264,280	(8,732,609)	(8,468,329)
Transactions with owners in their capacity as owners:						
Issue of share capital net of transaction costs	54,564,180	-	-	-	-	54,564,180
Share based payments	-	-	-	-	-	-
Total transaction with owners	54,564,180	-	-	-	-	54,564,180
Balance at 31 December 2020	142,324,511	5,642,711	(39,996)	(2,083,728)	(93,255,425)	52,588,073

31 December 2019

	Issued Share Capital \$	Share Option Reserve \$	Financial Asset Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
At 1 July 2019	80,732,475	5,388,311	(39,996)	(972,346)	(78,851,520)	6,256,924
Loss for period	-	-	-	-	(3,177,380)	(3,177,380)
Other comprehensive income						
Exchange differences on translation of foreign operations	-	-	-	74,735	-	74,735
Total comprehensive income/(loss) for the period	-	-	-	74,735	(3,177,380)	(3,102,645)
Transactions with owners in their capacity as owners:						
Issue of share capital net of transaction costs	7,027,856	-	-	-	-	7,027,856
Share based payments	-	254,400	-	-	-	254,400
Total transaction with owners	7,027,856	254,400	-	-	-	7,282,256
Balance at 31 December 2019	87,760,331	5,642,711	(39,996)	(897,611)	(82,028,900)	10,436,535

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

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020 \$	31 Dec 2019 \$
Cash flows from operating activities		
Payments to suppliers and employees	(807,713)	(1,323,917)
Payments for exploration feasibility expenditure	(2,484,696)	(1,406,368)
Payments for production expenses	(170)	(796,972)
Security Deposit	(4,500)	-
Other income	50,000	1,068,368
Interest received	1,950	5,418
	<u>(3,245,129)</u>	<u>(2,453,471)</u>
Cash flows from investing activities		
Sale of plant and equipment	4,559	-
Payment for plant and equipment	(41,038)	(27,316)
Sale of mineral properties	37,846	36,556
Acquisition of mineral properties	(228,559)	(195,530)
	<u>(227,192)</u>	<u>(186,290)</u>
Cash flows from financing activities		
Proceeds from issue of convertible notes	-	2,000,000
Proceeds from capital raising (net of costs)	40,446,939	3,719,388
Interest Expense	(232,534)	-
Lease payments	(123,869)	(100,926)
	<u>40,090,536</u>	<u>5,618,462</u>
Net cash inflow from financing activities		
	<u>40,090,536</u>	<u>5,618,462</u>
Net increase in cash and cash equivalents	36,618,215	2,978,701
Cash and cash equivalents at the beginning of the half-year	849,549	650,348
Effects of exchange rate changes in cash and cash equivalents	(34,663)	(41,301)
Cash and cash equivalents at the end of the half-year	<u>37,433,101</u>	<u>3,587,748</u>

The above consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

1.1 Basis of Preparation

These general-purpose financial statements for the half-year ended 31 December 2020 have been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

These half year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2020 and public announcements made by Azure Minerals Limited during the interim reporting period in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting policies and methods of computation in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual financial statements for the year ended 30 June 2020 and the corresponding half year interim reporting period, with the exception of those items discussed in Note 1.2 below.

1.2 New or amended Accounting Standards and interpretations adopted

The Group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2020, including the following:

AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business

AASB 2018-6 amends AASB 3 *Business Combinations* to clarify the definition of a business, assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

- a) clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- b) remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- c) add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- d) narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- e) add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The application of AASB 2018-6 has not materially impacted the financial statements of the Group.

Other amendments and interpretations relevant to the Group include:

- *AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material*; and
- *AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*.

The amendments and interpretations above, all of which apply to the Group as at 1 July 2020 have not had a material impact on the transactions and balances recognised in the financial statements.

1.3 Asset Acquisition

Acquisition costs for mineral projects are capitalised to Exploration Expenditure at cost, or fair value if not acquired for cash consideration, and 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.

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2020

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Cont'd)

1.4 Going Concern

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

NOTE 2 DIVIDENDS

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

NOTE 3 OPERATING SEGMENTS

Identification of reportable operating segments

The Group is organised into one operating segment, being exploration in Mexico and Australia. This is based on the internal reports that are being reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (CODM)) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

Geographical information

During the period the Company carried out exploration activities across two geographic locations, being Australia and Mexico. During the 2020 financial year and the 2019 period exploration activities were conducted in Mexico only.

31 Dec 2020	Australia	Mexico	Total
	\$	\$	\$
Other income	66,567	184,653	251,220
Profit/(Loss)	(8,306,891)	(425,718)	(8,732,609)
Non-current assets	7,456,148	8,193,603	15,649,751
Total assets	45,172,150	8,723,624	53,895,774
Total liabilities	(1,216,345)	(91,356)	(1,307,701)

NOTE 4 CASH AND CASH EQUIVALENTS

For the purpose of the interim statement of cash flows, cash and cash equivalents are comprised the following:

	31 Dec 2020	30 Jun 2020
	\$	\$
Cash at bank and in hand	228,279	25,965
Short term deposits	37,204,822	823,584
	<u>37,433,101</u>	<u>849,549</u>

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 5 CAPITALISED EXPLORATION EXPENDITURE

CONSOLIDATED

	31 Dec 2020	30 Jun 2020
	\$	\$
At Cost	14,970,364	7,889,184

Reconciliations

Movements in the carrying amounts of capitalised expenditure between the beginning and end of the current financial period.

	31 Dec 2020	30 Jun 2020
	\$	\$
Opening net book amount	7,889,184	5,567,921
Foreign exchange adjustment	295,942	(920,453)
Additions – acquisition of Western Australia projects (a)	6,828,559	-
- additional interest in the Sara Alicia II concession	-	122,585
- additional concession at the Oposura project	-	31,506
- additional interest in the Alacran project	-	3,087,625
Disposals - sale of Oso Negro project	(43,321)	-
Closing net book amount	14,970,364	7,889,184

- a) The Company issued 40,000,000 shares at \$0.165 for a total value of \$6,600,000 for the acquisition of the Western Australian Projects. Western Australian stamp duty of \$228,559 was also capitalised as acquisition costs

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

NOTE 6 BORROWINGS

	31 Dec 2020	30 Jun 2020
	\$	\$
Face Value of Convertible notes Issued	-	2,000,000
Finance costs	120,512	112,022
Total Borrowings	120,512	2,112,022

Balance included in Non-current Borrowings	-	2,000,000
Balance included in Current Trade and other Payables	-	112,022

In July 2019, the company issued convertible notes for \$2,000,000, as part of a capital raising exercise. During the period the notes were converted at 14.5c per share, resulting in the issue of 13,793,104 fully paid ordinary shares.

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 7 ISSUED CAPITAL

	Shares	\$
Balance as at 1 July 2019	110,999,992	80,732,475
Issue for additional interest in the Alacran project	27,545,566	3,308,468
Issue at \$0.17 per share	23,647,059	4,020,000
Share issue expenses	-	(300,612)
Balance as at 31 December 2019	<u>162,192,617</u>	<u>87,760,331</u>
 Balance as at 1 July 2020	 162,192,617	 87,760,331
Issue at \$0.10 per share	40,000,000	4,000,000
Issue at \$0.74 per share	50,000,000	37,000,000
Options exercised	2,100,000	958,000
Issue for projects	40,000,000	6,600,000
Conversion of Convertible Notes (a)	13,793,104	7,517,241
Share issue expenses	-	(1,511,061)
Balance as at 31 December 2020	<u>308,085,721</u>	<u>142,324,511</u>

- (a) The convertible notes were issued with a face value of \$2,000,000. The convertible notes converted to 13,793,104 shares and at the time of conversion the Company's share price was \$0.545. This resulted in the \$5,517,241 difference between the face value of the convertible notes and the value of the shares issued on conversion being recognised as a finance costs in the profit and loss.

Options on Issue

	1 Jul 2019	Exercised	Lapsed	Issued	31 Dec 2019
Exercisable at \$0.94 on or before 30 November 2019	2,050,000	-	(2,050,000)	-	-
Exercisable at \$1.10 on or before 11 July 2019	9,725,511	-	(9,725,511)	-	-
Exercisable at \$0.45 on or before 30 April 2020	13,683,339	-	-	-	13,683,339
Exercisable at \$0.58 on or before 30 November 2020	2,050,000	-	-	-	2,050,000
Exercisable at \$0.29 on or before 30 November 2021	2,200,000	-	-	-	2,200,000
Exercisable at \$0.205 on or before 30 November 2022	-	-	-	4,400,000	4,400,000
	<u>29,708,850</u>	<u>-</u>	<u>(11,775,511)</u>	<u>4,400,000</u>	<u>22,333,339</u>
	 1 Jul 2020	 Exercised	 Lapsed	 Issued	 31 Dec 2020
Exercisable at \$0.58 on or before 30 November 2020	2,050,000	(1,350,000)	(700,000)	-	-
Exercisable at \$0.29 on or before 30 November 2021	2,200,000	(250,000)	(700,000)	-	1,250,000
Exercisable at \$0.205 on or before 30 November 2022	4,400,000	(500,000)	(1,400,000)	-	2,500,000
	<u>8,650,000</u>	<u>(2,100,000)</u>	<u>(2,800,000)</u>	<u>-</u>	<u>3,750,000</u>

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 8 EARNINGS/ (LOSS) PER SHARE

Weighted average number of ordinary shares used in calculation of basic earnings per share is 230,385,795. Diluted loss per share is not considered dilutive and has therefore not been presented.

NOTE 9 COMMITMENTS AND CONTINGENCIES

There has been no significant change in the Group's commitments and contingent liabilities since the end of the last reporting period.

NOTE 10 RELATED PARTY TRANSACTIONS

For details of related party arrangements refer to 30 June 2020 financial statements.

Mr. Wayne Bramwell was appointed a non-executive director on 14 October 2020. Mr. Bramwell will be entitled to director's fees of \$45,000 pa.

There were no other significant changes to the related party arrangements of the Group during the half-year ended 31 December 2020.

NOTE 11 EVENTS AFTER THE REPORTING DATE

On 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

The full impact of the COVID-19 outbreak continues to evolve at the date of this report. The Group is therefore uncertain as to the full impact that the pandemic will have on its financial condition, liquidity, and future results of operations during FY2021.

Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2021 financial year.

No other matter or circumstance has arisen since the end of the financial period which significantly affected or may significantly affect the operation of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

AZURE MINERALS LIMITED

DIRECTOR'S DECLARATION FOR THE HALF YEAR ENDED 31 DECEMBER 2020

In the Director's opinion:

- (a) The financial statements and notes, as set out on pages 11 to 19 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) There are reasonable grounds to believe that Azure Minerals Limited will be able to pay its debts as and when they become due and payable.

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



Anthony Rovira
Managing Director
West Perth
12 March 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Azure Minerals Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Azure Minerals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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 half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit (WA) Pty Ltd

The image shows a handwritten signature in dark ink. The signature appears to be 'J Prue' written in a cursive, flowing style.

Jarrad Prue

Director

Perth, 12 March 2021

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF AZURE MINERALS LIMITED

As lead auditor for the review of Azure Minerals Limited for the half-year ended 31 December 2020, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Jarrad Prue
Director

BDO Audit (WA) Pty Ltd

Perth, 12 March 2021