

Azure Minerals Limited

ABN 46 106 946 918

Interim Financial Statements

For the Half-Year Ended 31 December 2019

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 2019 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

Peter Anthony John Ingram (Chairman)

Anthony Paul Rovira (Managing Director)

Wolf Gerhard Martinick (Non-Executive Director)

Hansjörg Plaggemars (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.

AZURE MINERALS LIMITED

DIRECTOR'S 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 2019.

1. 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:

Peter Ingram

Anthony Rovira

Wolf Martinick

Hansjörg Plaggemars (appointed 26/11/2019)

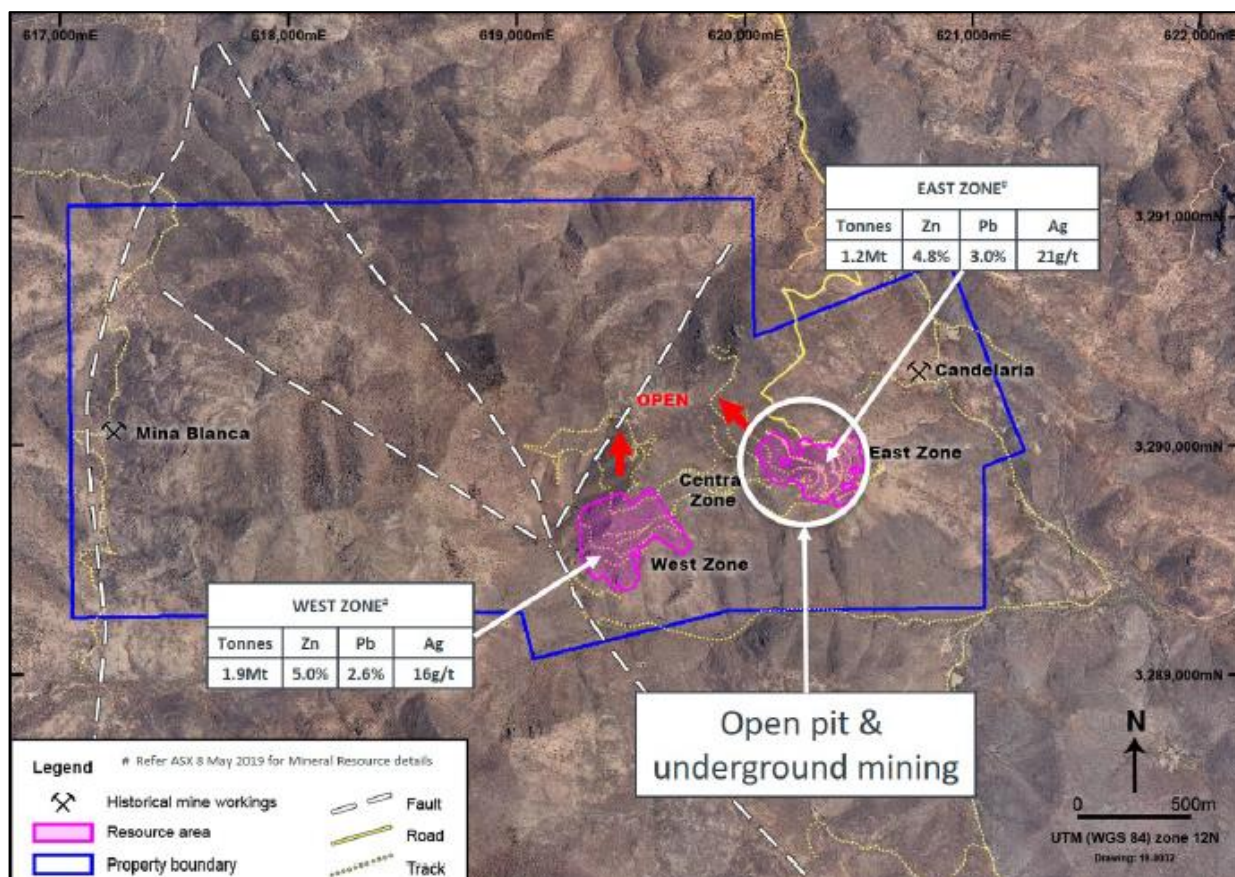
2. Project Review

OPOSURA PROJECT - (AZS 100% ownership)

During the period Azure completed the first phase of the Company’s small-scale, multi-phase mining program and commenced trial processing of the ore mined.

Mining focused on extracting easily accessible, high-grade massive sulphide mineralisation from the eastern side of the East Zone Mineral Resource (see Figure 1). In this location, the relatively flat-lying, high-grade massive sulphide ore zone varied in thickness from two to four metres and demonstrated excellent continuity.

Figure 1: Oposura Project with East Zone & West Zone Mineral Resources



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OPOSURA PROJECT - (AZS 100% ownership)

Mining consisted of a starter open pit to expose and extract massive sulphide ore which occurs at or very close to surface and which, in some places, was already fully exposed by historical prospecting activities.

Initially, the open pit was designed to extract approximately 1,000 tonnes of ore before transitioning into an underground mining phase. However once open pit mining commenced, significantly more ore at higher grades was identified than was originally estimated.

Given the lower mining costs and higher production rates associated with open pit mining (as compared with underground mining), the open pit mining phase was extended.

A total of 6,100 tonnes of ore was excavated and stockpiled on site with estimated grades of 13.4% Zn and 10.7% Pb.

Within the western part of the starter open pit, 2,100 tonnes of ultra-high-grade massive sulphide ore was mined (see Figure 4) at average grades of 24.0% Zn and 18.3% Pb, with some parts of this zone containing zinc and lead grades exceeding a combined 50% Zn+Pb. This ultra-high-grade ore has been stockpiled separately and is being assessed as a potential Direct Shipping Ore (DSO) product.

With the first phase of the small-scale mining program successfully completed, mining was suspended to allow this first batch of ore to be processed to ensure the production of marketable concentrates.

Trial processing of small parcels of mid-grade, non-DSO ore, grading approximately **5.8% Zn, 5.3% Pb and 30g/t Ag**, commenced and are continuing through the Tecoripa sulphide flotation plant on a batch basis with the aim to produce separate, high-quality zinc and lead concentrates.

To date, trial processing has successfully produced a high-quality, bulk zinc-lead concentrate grading approximately **35% Zn, 20% Pb and 140g/t Ag**. This concentrate is potentially a marketable product in a similar way to the high-grade DSO, having a high value and low transport cost on a per tonne basis.

ALACRÁN PROJECT - (AZS 100% ownership)

During the period Azure regained 100% ownership of the Alacrán silver-gold project from Minera Teck S.A. de C.V., a subsidiary of Canadian mining company Teck Resources Limited ("**Teck**"), with Teck becoming a substantial shareholder of Azure.

Azure's previous exploration on Alacrán in 2015 and 2016 discovered the near-surface, high-grade Mesa de Plata silver deposit (refer to Table 1 for Mineral Resource) and the adjacent Loma Bonita gold-silver deposit (refer to Table 2 for Mineral Resource). These resources total:

Mesa de Plata: 27.4Moz silver in 10.5Mt @ 82g/t Ag

- Includes an at-surface high-grade zone of: **15.5Moz silver in 1.8Mt @ 275g/t Ag**

Loma Bonita: 150,000oz gold & 4.8Moz silver in 5.4Mt @ 0.9g/t Au & 28g/t Ag

Table 1: Mesa de Plata Mineral Resource (in accordance with the 2012 JORC Code)

Zone	Measured Mineral Resource			Indicated Mineral Resource			Total Mineral Resource		
	Tonnes (Mt)	Silver		Tonnes (Mt)	Silver		Tonnes (Mt)	Silver	
		(g/t Ag)	(Moz)		(g/t Ag)	(Moz)		(g/t Ag)	(Moz)
High Grade	1.21	307.4	12.0	0.54	201.7	3.5	1.75	274.7	15.5
Mid-Grade	8.43	43.0	11.7	0.28	36.2	0.3	8.71	42.8	12.0
Total	9.64	76.2	23.6	0.82	145.4	3.8	10.46	81.6	27.4
Note: for details refer to ASX announcement dated December 1, 2016									

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Table 2: Loma Bonita Mineral Resource (in accordance with the 2012 JORC Code)

Cut-Off Grade (g/t Au)	JORC Code Classification	Tonnes (Mt)	Gold		Silver	
			(g/t)	(kOz)	(g/t)	(Moz)
≥ 0.5	Indicated Mineral Resource	2.87	1.25	115.7	33.9	3.14
	Inferred Mineral Resource	0.5	1.0	15	18	0.3
	Total	3.4	1.2	131	32.0	3.4
≥ 0.21	Indicated Mineral Resource	4.20	0.95	128.5	30.1	4.07
	Inferred Mineral Resource	1.2	0.6	22	18	0.7
	Total	5.4	0.9	150	28	4.8
Note: for details refer to ASX announcement dated December 21, 2016						

During December 2019 Azure commenced a Reverse Circulation (RC) drilling program at the Loma Bonita gold-silver deposit.

The Loma Bonita deposit, as defined by the current Mineral Resource, extends over 600 metres north-south, up to 200 metres east-west, and remains open to the north, east and south. Mineralisation starts at surface and in places the true width/thickness of the mineralised zone exceeds 100 metres.

Resource infill drilling is being undertaken to improve definition of internal high-grade zones and obtain samples for additional metallurgical testwork, while resource expansion drilling is stepping out from the eastern resource boundary to increase the resource size.

In addition, the Company recently reported encouraging surface sampling results (ASX: 17 December 2019) from a strongly gold-mineralised breccia located in a road cutting approximately 400 metres southeast of the Loma Bonita resource boundary Figure 2). Channel sampling of the exposed mineralised zone returned **35.5 metres grading 3.6g/t Au**.

Azure's exploration team also continues to undertake reconnaissance exploration and target generation throughout the Alacrán project area.

First-pass surface sampling of historical mine dumps located between 1.5 to 2.0 kilometres south and southeast of the Cerro Alacrán porphyry-hosted copper-gold-molybdenum body returned numerous high-grades of precious and base metals, with maximum values of **3,675g/t silver, 24.1g/t gold, 2.3% copper, 33.5% lead and 21.0% zinc** (ASX: 8 October 2019).

These old mines focused on exploiting precious and base metal-rich veins hosted in volcanic and porphyry rocks. Mapping shows that such veins occur extensively throughout the southeast of the property with some individual veins mapped over strike lengths in excess of 500 metres.

SARA ALICIA PROJECT - (AZS 100% ownership)

Azure successfully overturned a historical cancellation of the Sara Alicia II mineral concession that adjoins the Company's 100%-owned Sara Alicia property and completed acquisition of the property (ASX: 26 November 2019).

The acquisition of Sara Alicia II, when combined with the original Sara Alicia concession, brings the total project area to 49 hectares, strengthening the Company's land position in this gold and cobalt-rich district.

Azure is continuing to monitor the surrounding land ownership situation with the view to further increasing the Company's landholding in this district when additional land becomes available.

With ownership of the new concession now confirmed, Azure plans to undertake exploration comprising low-cost geological mapping, surface geochemical sampling and geophysical surveys in the first half of 2020.

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Review of Operations and Results

The operating loss after income tax of the Group for the period was \$3,177,380 (2018: \$4,170,945). Included in this loss figure is \$1,002,207 (2018: \$2,596,433) of exploration expenditure.

During the period the Company received two payments totalling Mx\$16,525,075 (approximately **A\$1,234,000**) from the Mexican tax office. These payments are the result of the successful resolution of the Company's legal action for the recovery of IVA (the Mexican equivalent of GST) dating back to the 2016 financial year.

Net cash outflows from operating activities for the period were \$2,453,471 (2018: \$3,053,296).

4. Other items

Significant Changes in State of Affairs

A total 23,647,059 fully paid ordinary shares were issued at a price of \$0.17 to raise \$4.02 million before expenses of the issue.

During the financial period, the Company issued Convertible Notes with a face value of \$2 million. The notes are 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.

Changes in Controlled Entity

Minera Thali Sapi de CV. A company incorporated in Mexico has been acquired as part of a transaction to acquire the Alacran project from Teck Resources Limited.

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

5. 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 20.

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



Anthony Rovira
Managing Director
West Perth
13 March 2020

AZURE MINERALS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		Consolidated	
	Note	31 Dec 2019 \$	30 Jun 2019 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	3,587,748	650,348
Trade and other receivables		233,566	783,603
Total Current Assets		3,821,314	1,433,951
Non-Current Assets			
Investments		948	948
Office right of use	6	135,310	-
Plant and equipment		158,474	154,783
Capitalised exploration expenditure	7	9,177,966	5,567,921
Total Non-Current Assets		9,472,698	5,723,652
TOTAL ASSETS		13,294,012	7,157,603
LIABILITIES			
Current Liabilities			
Trade and other payables	8	435,250	623,113
Provisions		172,331	169,802
Lease Liability	9	138,649	-
Total Current Liabilities		746,230	792,915
Non-Current Liabilities			
Provisions		111,247	107,764
Borrowings	10	2,000,000	-
Total Non-Current Liabilities		2,111,247	107,764
TOTAL LIABILITIES		2,857,477	900,679
NET ASSETS		10,436,535	6,256,924
Equity			
Contributed equity	11	87,760,331	80,732,475
Reserves		4,705,104	4,375,969
Accumulated losses		(82,028,900)	(78,851,520)
TOTAL EQUITY		10,436,535	6,256,924

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 2019

	Note	Consolidated 31 Dec 2019 \$	31 Dec 2018 \$
Continuing Operations			
Other income	12	456,261	33,903
Depreciation and amortisation		(25,471)	(27,026)
Exploration expenditure		(1,002,207)	(2,596,433)
Production Expenses		(796,972)	-
Feasibility Studies		(236,199)	-
Finance costs	10	(113,699)	-
Capitalised acquisition costs written off		-	(144,795)
Salaries and wages		(491,157)	(307,128)
Consultants		(1,755)	(5,281)
Director fees		(51,938)	(47,500)
Travel and accommodation		(143,878)	(153,823)
Promotion		(39,074)	(41,185)
Insurance		(29,794)	(13,466)
Lease interest		(8,821)	-
Lease amortisation		(67,655)	-
Other administration expenses		(37,675)	(83,768)
Share based payments	13	(254,400)	(226,543)
Other expenses		(332,946)	(557,900)
Loss from continuing operations		(3,177,380)	(4,170,945)
Income tax expense		-	-
Loss from continuing operations after income tax		(3,177,380)	(4,170,945)
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		74,735	549,608
Other comprehensive (income)/loss for the period net of tax		74,735	549,608
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(3,102,645)	(3,621,337)
Loss per share from continuing operations attributable to the ordinary equity holders of the company			
Basic and diluted loss per share (cents)	14	(2.26)	(3.76)

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

AZURE MINERALS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2019

31 December 2019

Consolidated

	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 other comprehensive income/(loss)	-	-	-	74,735	(3,177,380)	(3,102,645)
Total comprehensive income/(loss) for the period						
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

31 December 2018

Consolidated

	Issued Share Capital \$	Share Option Reserve \$	Financial Asset Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
At 1 July 2018	80,732,475	5,161,768	(39,996)	(1,722,862)	(69,116,034)	15,015,351
Loss for period	-	-	-	-	(4,170,945)	(4,170,945)
Other comprehensive income						
Exchange differences on translation of foreign operations	-	-	-	549,608	-	549,608
Total other comprehensive income/(loss)	-	-	-	549,608	-	549,608
Total comprehensive income/(loss) for the period	-	-	-	549,608	(4,170,945)	(3,621,337)
Transactions with owners in their capacity as owners:						
Issue of share capital net of transaction costs	-	-	-	-	-	-
Share based payments	-	226,543	-	-	-	226,543
Total transaction with owners	-	226,543	-	-	-	226,543
Balance at 31 December 2018	80,732,475	5,388,311	(39,996)	(1,173,254)	(73,286,979)	11,620,557

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

AZURE MINERALS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Consolidated	
	31 Dec 2019 \$	31 Dec 2018 \$
Cash flows from operating activities		
Payments to suppliers and employees	(1,323,917)	(1,115,616)
Payments for exploration feasibility expenditure	(1,406,368)	(1,981,651)
Payments for production expenses	(796,972)	-
Other income	1,068,368	351
Interest received	5,418	43,620
	<u>(2,453,471)</u>	<u>(3,053,296)</u>
Cash flows from investing activities		
Payment for plant and equipment	(27,316)	(18,487)
Sale of mineral properties	36,556	(18,025)
Acquisition of mineral properties	(195,530)	-
	<u>(186,290)</u>	<u>(36,512)</u>
Cash flows from financing activities		
Proceeds from issue of convertible notes	2,000,000	-
Proceeds from capital raising (net of costs)	3,719,388	-
Lease payments	(100,926)	-
	<u>5,618,462</u>	<u>-</u>
Net cash inflow from financing activities		
	<u>5,618,462</u>	<u>-</u>
Net decrease in cash and cash equivalents	2,978,701	(3,089,808)
Cash and cash equivalents at the beginning of the half-year	650,348	6,593,163
Effects of exchange rate changes in cash and cash equivalents	(41,301)	(65,444)
Cash and cash equivalents at the end of the half-year	<u>3,587,748</u>	<u>3,437,911</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 2019

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 2019 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 2019 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 2019 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 consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

AASB 16 was adopted on 1 July 2019 using the modified retrospective approach and as such the comparatives have not been restated. At the date of adoption, the Group recognised a Right of Use asset of \$202,965, and an equal Lease Liability of \$202,965. During the half year, the group charged \$67,655 as amortisation against the Right of Use asset and incurred a charge of \$8,821 as an interest expense. After accounting for payments made on the Lease Liability, the balances of the Right of Use Asset and the Lease Liability respectively were \$135,310 and \$138,649.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

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

Right-of-use assets (continued)

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

1.3 Changes to the Groups accounting Policies

Financial instrument

Financial instruments issued by the Company comprise convertible notes that can be converted into a variable number Of ordinary shares. Convertible notes issued by the Company include embedded derivatives (option to convert to variable number of shares in the Company) and are recognised as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the convertible note will equate to the proceeds received and subsequently the liability is measured at fair value at each reporting period until settlement. The fair value movements are recognised in the profit or loss as finance costs.

The convertible note derivative liability is removed from the Statement of Financial Position when the obligations specified in the Contract are discharged. This can occur at maturity date, when the convertible notes convert to equity. Convertible note derivative liabilities are classified as current or non-current based on the maturity date of the convertible note. The carrying amount of financial instruments approximate their fair value as they are short term

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.

The Group has incurred a net loss after tax for the period ended 31 December 2019 of \$3,177,380 (2018: \$4,170,945) and experienced net cash outflows used operating activities of \$2,453,471 (2018: \$3,053,296). At 31 December 2019, the Group had net current assets of \$3,075,084 (30 June 2019: \$641,036).

These conditions indicate a material uncertainty that may cast a significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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

1.4 Going Concern (continued)

The Directors believe there are sufficient funds to meet the Group's committed minimum expenditure requirements and as at the date of this report the directors believe they can meet all liabilities as and when they fall due. However, the Directors recognise that additional funding either through the issue of further shares, or convertible notes, or the sale of assets, or a combination of these activities will be required for the Group to continue to actively explore its mineral properties. The Directors are also aware that that the Group can relinquish certain projects in order to maintain its cash at appropriate levels.

The Directors have reviewed the business outlook and the assets and liabilities of the Group and are of the opinion that the use of the going concern basis of accounting is appropriate.

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

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. 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

Non-current assets are based in Mexico

NOTE 4 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	31 Dec 2019	31 Dec 2018
	\$	\$
Exchange differences on translation of foreign operations	<u>74,735</u>	<u>549,608</u>

NOTE 5 CASH AND CASH EQUIVALENTS

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

	31 Dec 2019	30 Jun 2019
	\$	\$
Cash at bank and in hand	173,468	141,439
Short term deposits	3,414,280	508,909
	<u>3,587,748</u>	<u>650,348</u>

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 6: RIGHT-OF-USE ASSET

The Company is party to lease agreement for the registered office in West Perth, whereby the company was granted the right of use to office premises for a period of five years commencing 1 January 2016.

The Company has recognised this as a right-of-use asset. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

	CONSOLIDATED	
	31 Dec 2019	30 Jun 2019
	\$	\$
Right-of-use asset	202,965	-
Accumulated depreciation	(67,655)	-
Total right-of-use asset	135,310	-

NOTE 7 CAPITALISED EXPLORATION EXPENDITURE

	CONSOLIDATED	
	31 Dec 2019	30 Jun 2019
	\$	\$
At Cost	9,177,966	5,567,921

Reconciliations

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

	31 Dec 2019	30 Jun 2019
	\$	\$
Opening net book amount	5,567,921	7,940,514
Foreign exchange adjustment	106,047	792,335
Impairment	-	(3,183,459)
Additions – additional concessions at the Oposura project	37,701	18,531
- acquisition of the Sara Alicia II concession	146,689	-
- additional interest in Alacran project	3,319,608	-
Closing net book amount	<u>9,177,966</u>	<u>5,567,921</u>

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

NOTE 8 TRADE AND OTHER PAYABLES

	31 Dec 2019	30 Jun 2019
	\$	\$
Trade payables	<u>435,250</u>	<u>623,113</u>

The carrying amount of trade and other payables are assumed to approximate their fair values due to their short-term nature.

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 9 LEASE LIABILITY

The Company is party to lease agreement for the registered office in West Perth, whereby the company was granted the right of use to office premises for a period of five years commencing 1 January 2016.

The Company has recognised a lease liability as at 1 July 2019.

	31 Dec 2019	30 Jun 2019
	\$	\$
Current		
Lease Liability	138,649	-
Non-Current		
Lease Liability	-	-

NOTE 10 BORROWINGS

	31 Dec 2019	30 Jun 2019
	\$	\$
Face Value of Convertible notes Issued	2,000,000	-
Finance costs	113,699	-
Total Borrowings	2,113,699	-
Balance included in Non-current Borrowings	2,000,000	-
Balance included in Current Trade and other Payables	113,699	-

In July 2019, the company issued convertible notes for \$2,000,000, as part of a capital raising exercise. The notes can be converted at the option of the lenders at 14.5c per share, as at December 2019 they are yet to be converted. The loans accrued interest payable at 12.5% pa and payable 6 monthly over the 24 month maturity term.

NOTE 11 ISSUED CAPITAL

	Shares	\$
Balance as at 1 July 2018	110,999,992	80,732,475
Movements	-	-
Balance as at 31 December 2018	110,999,992	80,732,475
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	162,192,617	87,760,331

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 11 ISSUED CAPITAL (continued)

Options on issue as at 31 December 2018	Number
Exercisable at \$1.10 on or before 11 July 2019	9,725,511
Exercisable at \$0.94 on or before 30 November 2019	2,050,000
Exercisable at \$0.45 on or before 30 April 2020	13,683,339
Exercisable at \$0.58 on or before 30 November 2020	2,050,000
Exercisable at \$0.29 on or before 30 November 2021	2,200,000
	29,708,850
Options on issue as at 31 December 2019	Number
Exercisable at \$0.45 on or before 30 April 2020	13,683,339
Exercisable at \$0.58 on or before 30 November 2020	2,050,000
Exercisable at \$0.29 on or before 30 November 2021	2,200,000
Exercisable at \$0.205 on or before 30 November 2022	4,400,000
	22,333,339

NOTE 12 OTHER INCOME

	CONSOLIDATED	
	31 Dec 2019	31 Dec 2018
	\$	\$
Bank Interest	7,428	33,552
IVE recovered, previously written off	412,277	-
Profit on sale of mineral concession	36,556	351
	456,261	-

NOTE 13 SHARE BASED PAYMENTS

During the financial period, as part of their long-term incentive remuneration, 2,700,000 options exercisable at 20.5 cents on or before 30 November 2022 were issued to key management personal (refer note 16) and 1,700,000 options were issued to employees on the same terms and conditions. The fair value of these options granted was calculated as 5.78 cents each by using the Binomial option valuation methodology and applying the following inputs:

Weighted average exercise price (cents)	20.5
Weighted average life of options (years)	3.0
Weighted average underlying share price (cents)	11.5
Expected share price volatility	100%
Risk free interest rate	0.73%

The options vested immediately upon issue and total expenses arising from share-based payment transactions recognised during the period were \$254,400 (2018: \$226,543).

AZURE MINERALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

NOTE 14 EARNINGS/ (LOSS) PER SHARE

Weighted average number of ordinary shares used in calculation of basic earnings per share is 140,696,625. Diluted loss per share is not considered dilutive and has therefore not been presented.

NOTE 15 COMMITMENTS AND CONTINGENCIES

As a result of the acquisition of the additional interest in the Alacran Project, the Group issued to Teck a 0.5% Net Smelter Return Royalty on the Project, and a participation right on the proceeds of any sale of the project within a five year period.

Other than this, there has been no significant change in the Group's commitments and contingent liabilities since the end of the last reporting period.

NOTE 16 RELATED PARTY TRANSACTIONS

For details of related party arrangements refer to 30 June 2019 financial statements. During the period options exercisable at \$0.205 each which expire at 30 November 2022 were issued as follows:

Options Issued		
<i>Issued to</i>	<i>Number Issued</i>	<i>Fair Value of Options</i>
Anthony Rovira – Managing Director	1,000,000	\$57,818
Peter Ingram – Chairman	500,000	\$28,909
Wolf Martinick – Non-Executive Director	500,000	\$28,909
Brett Dickson – Company Secretary	700,000	\$40,473

Mr. Hansjörg Plaggemars was appointed a non-executive director on 26 November 2019. Mr. Plaggemars will be entitled to director's fees of \$45,000 pa.

Minera Thali Sapi de CV. A company incorporated in Mexico has been acquired as part of a transaction to acquire the Alacran project from Teck Resources Limited.

There were no other significant changes to the related party arrangements of the Group during the half-year ended 31 December 2019.

NOTE 17 EVENTS AFTER THE REPORTING DATE

No 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 2019

In the Director's opinion:

- (a) The financial statements and notes, as set out on pages 6 to 16 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 2019 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
13 March 2020

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 2019, 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 then ended, notes comprising a 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 half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 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 *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year 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 is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the 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 2019 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*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



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

Independence

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

BDO Audit (WA) Pty Ltd

A handwritten signature in dark ink, appearing to read 'Dean Just', is written over a faint, light grey BDO logo.

Dean Just

Director

Perth, 13 March 2020

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

As lead auditor for the review of Azure Minerals Limited for the half-year ended 31 December 2019, 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.



Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 13 March 2020