

Azure Minerals Limited

ABN 46 106 946 918

Interim Financial Statements

For the Period Ended 31 December 2008

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 2008 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

Anthony Paul Rovira (Executive Chairman)

Wolf Gerhard Martinick (Non-Executive Director)

John Walter Saleeba (Non-Executive Director)

Company Secretary

Brett Dickson

Registered Office

Level 1, 30 Richardson Street

WEST PERTH WA 6005

(08) 9481 2555

Solicitors

Salter Power Pty Ltd

Level 2, 6 Kings Park Road

WEST PERTH WA 6005

Bankers

Commonwealth Bank of Australia Limited

Share Register

Computershare Investor Services Pty Ltd

Level 2, 45 St. Georges Terrace

PERTH WA 6000

Telephone: (08) 9323 2000

Facsimile: (08) 9323 2033

Auditors

BDO Kendalls Audit & Assurance (WA) Pty Ltd

128 Hay Street

SUBIACO WA 6008

Internet Address

www.azureminerals.com.au

ASX Code

Shares

AZS

Azure Minerals Limited

Interim Financial Statements

For the Half-year Ended 31 December 2008

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Azure Minerals Limited

Directors' Report

31 December 2008

Your directors present their report on the consolidated entity consisting of Azure Minerals Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2008.

1. General information

Directors

The following persons were directors of Azure Minerals Limited during the whole of the half-year and up to the date of this report:

Anthony Rovira

John Saleeba

Wolf Martinick

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

2. Review of Operations and Results

Azure Minerals Limited ("Azure") is a mineral exploration company focused on Mexico.

During the half-year the company focused principally on its Promontorio copper/gold/silver deposit in Mexico with a view to preparing a mineral resource estimate. In addition a joint venture agreement was entered into with Japan Oil, Gas and Metals National Corporation ("JOGMEC") whereby JOGMEC may earn a 51% interest in the Tortuga and Los Nidos exploration projects by spending US\$3,000,000 by 31 March 2012.

The Operating Loss for the half-year amounted to \$2,669,141 (2007: loss of \$2,403,512)

3. Other items

(a) Significant Changes in State of Affairs

During the financial period 10,765,600 shares were issued at \$0.125 each pursuant to a Share Purchase Plan and 9,600,000 shares were issued at \$0.125 each by way of a private share placement to sophisticated and institutional investors.

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

(b) Changes in Controlled Entity

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

Azure Minerals Limited

Directors' Report

31 December 2008

3. Other items (cont'd)

(c) After Balance Date Events

Subsequent to balance sheet date the company has initiated an entitlements issue on the basis of 2 new shares offered for every 5 shares held. Each new share is being offered at \$0.04 each. At the date of this report that entitlements issue is ongoing and final acceptances will not be known until the issue closes which is expected to be on or about 12 March 2009.

No other matter or circumstance has arisen since the end of the financial period 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 in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

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 14.

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



Anthony Rovira
Chairman

West Perth
Date: 19 February 2009

Azure Minerals Limited

Income Statement

For the half-year Ended 31 December 2008

		Consolidated	
	Note	31 Dec 2008	31 Dec 2007
		\$	\$
Revenue from continuing operations		-	-
Other income		36,612	61,984
Depreciation and amortisation		(24,208)	(24,883)
Exploration expenditure written off		(2,088,089)	(1,037,872)
Salaries and wages		(261,376)	(145,600)
Consultants		-	(3,950)
Director fees		(32,500)	(32,499)
Travel and accommodation		(49,130)	(108,155)
Promotion		(38,880)	(115,015)
Insurance		(23,628)	(26,172)
Administration expenses		(48,193)	(60,097)
Share based payments		-	(360,049)
Preparation for TSX-V Listing		(3,372)	(437,843)
Other expenses		(136,377)	(113,361)
Loss before income tax		(2,669,141)	(2,403,512)
Income tax		-	-
Loss from continuing operations		(2,669,141)	(2,403,512)
Loss per share from continuing operations attributable to the ordinary equity holders of the company			
Basic and diluted loss (cents per share)	7	(1.66)	(1.88)

The above consolidated Income Statement should be read in conjunction with the accompanying notes.

Azure Minerals Limited

Balance Sheet

As at 31 December 2008

		Consolidated	
		31 December 2008	30 June 2008
	Note	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		890,600	1,420,067
Trade and other receivables		233,276	154,067
Total Current Assets		1,123,876	1,574,134
Non-Current Assets			
Capitalised exploration expenditure	5	541,228	193,270
Other Financial Assets		22,308	22,308
Plant and equipment		179,286	196,892
Total Non-Current Assets		742,822	412,470
TOTAL ASSETS		1,866,698	1,986,604
LIABILITIES			
Current Liabilities			
Trade and other payables		583,305	513,124
Provisions		151,150	174,123
Total Current Liabilities		734,455	687,247
TOTAL LIABILITIES		734,455	687,247
NET ASSETS		1,132,243	1,299,357
Equity			
Contributed Equity	6	27,663,099	25,129,782
Reserves	10	845,618	876,908
Accumulated losses		(27,376,474)	(24,707,333)
TOTAL EQUITY		1,132,243	1,299,351

The above consolidated Balance Sheet should be read in conjunction with the accompanying notes

Azure Minerals Limited

Statement of Changes in Equity

For the half-year Ended 31 December 2008

31 December 2008

	Consolidated				Total \$
	Ordinary Shares \$	Accumulated Losses \$	Option Reserve \$	Foreign Currency Translation Reserve \$	
Equity as at beginning of period	25,129,782	(24,707,333)	903,692	(26,784)	1,299,357
Foreign currency	-	-	-	(31,290)	(31,290)
Net income recognised in equity	-	-	-	(31,290)	(31,290)
Loss for the period	-	(2,669,141)	-	-	(2,669,141)
Total income and expense recognised during the period	-	(2,669,141)	-	(31,290)	(2,700,431)
Transactions with equity holders in their capacity as equity holders:					
Shares issued during the period	2,545,700	-	-	-	2,545,700
Transaction costs	(12,383)	-	-	-	(12,383)
Sub-total	2,533,317	(2,669,141)	-	(31,290)	(167,114)
Equity as at 31 December 2008	27,663,099	(27,376,474)	903,692	(58,074)	1,132,243

31 December 2007

	Consolidated				Total \$
	Ordinary Shares \$	Accumulated Losses \$	Option Reserve \$	Foreign Currency Translation Reserve \$	
Equity as at beginning of period	20,329,782	(20,226,183)	538,565	(6,176)	635,988
Foreign Currency	-	-	-	(11,833)	(11,833)
Net income recognised in equity	-	-	-	(11,833)	(11,833)
Loss for the period	-	(2,403,512)	-	-	(2,403,512)
Total income and expense recognised during the period	-	(2,403,512)	-	(11,833)	(2,415,345)
Transactions with equity holders in their capacity as equity holders:					
Shares issued during the period	3,000,000	-	-	-	3,000,000
Transaction Costs	(150,000)	-	-	-	(150,000)
Employee Options	-	-	360,049	-	360,049
Sub-total	2,850,000	(2,403,512)	360,049	(11,833)	794,704
Equity as at 31 December 2007	23,179,782	(22,629,695)	898,614	(18,009)	1,430,692

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

Azure Minerals Limited

Cash Flow Statement

For the half-year Ended 31 December 2008

	Notes	Consolidated	
		31 Dec 2008 \$	31 Dec 2007 \$
Cash flows from operating activities			
Payments to suppliers and employees		(654,827)	(700,785)
Payments for exploration expenditure		(2,106,803)	(968,493)
Interest received		37,536	62,908
		<u>(2,724,094)</u>	<u>(1,606,370)</u>
Cash flows from investing activities			
Payment for plant and equipment		(6,980)	(21,321)
Proceeds from sale of plant and equipment		5,207	
Acquisition of mineral properties		(338,809)	-
		<u>(340,582)</u>	<u>(21,321)</u>
Net cash outflow from financing activities			
Cash flows from financing activities			
Proceeds from share issues		2,545,700	3,000,000
Capital raising costs		(115,755)	(435,002)
Joint Venture Advances		143,451	-
		<u>2,573,396</u>	<u>2,564,998</u>
Net cash inflow from financing activities			
Net (decrease) / increase in cash and cash equivalents		(491,280)	937,307
Cash and cash equivalents at the beginning of the half-year		1,420,067	737,646
Effects of exchange rate changes in cash and cash equivalents		(38,187)	(7,805)
Cash and cash equivalents at the end of the half-year		<u>890,600</u>	<u>1,667,148</u>

The above consolidated Cash Flow Statement should be read in conjunction with the accompanying notes

Azure Minerals Limited

Notes to the Accounts

For the half-year Ended 31 December 2008

Basis of Preparation of Half-Year Financial Statements

This general purpose financial report for the interim half-year ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and *the Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2008 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 principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Going Concern

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

The Consolidated Entity has incurred a net loss after tax for the half year ended 31 December 2008 of \$2,669,141 (2007:\$2,403,512) and experienced net cash outflows from operating activities of \$2,724,094 (2007: \$1,606,370). At 31 December 2008, the Consolidated Entity had net current assets of \$389,421 (30 June 2008: net current assets of \$886,887).

Since the end of the financial period the company initiated an entitlements issue on the basis of 2 new shares offered for every 5 shares held. Each new share is being offered at \$0.04 each. The entitlements issue is seeking to raise \$2,710,116 with \$500,000 being underwritten. At the date of this report the entitlements issue is ongoing and final acceptances will not be known until the issue closes which is expected to be on or about 12 March 2009. The Directors believe there are sufficient funds to meet the Company's working capital requirements and as at the date of this report the Consolidated Entity believes it can meet all liabilities as and when they fall due. However the Directors recognise that additional funding either through the issue of further shares, convertible notes or a combination of both will be required for the Consolidated Entity to continue to actively explore its mineral properties.

The Directors have reviewed the business outlook and the assets and liabilities of the Consolidated Entity and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will continue to be successful in securing additional funds through debt or equity issues or partial sale of its mineral properties as and when the need to raise working capital arises.

Should the directors not achieve the matters set out above, there is significant uncertainty whether the Consolidated Entity will continue as a going concern and therefore whether it will realise its assets and liabilities in the normal course of business.

The financial report does not include any adjustments that may be necessary if the Consolidated Entity is unable to continue as a going concern.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Company's annual financial report for the year ended 30 June 2008 and the corresponding interim reporting period.

NOTE 2 DIVIDENDS

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

Azure Minerals Limited

Notes to the Accounts

For the half-year Ended 31 December 2008

NOTE 3 SEGMENT REPORTING

The Group operates in the mining exploration industry in Australia and Mexico, which is its primary reporting segment.

	AUSTRALIA		MEXICO		TOTAL	
	2008	2007	2008	2007	2008	2007
Revenue	36,612	61,328	-	656	36,612	61,984
Results	(584,519)	(1,327,930)	(2,084,622)	(1,075,582)	(2,669,141)	(2,403,512)

NOTE 4 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to balance sheet date the company has initiated an entitlements issue on the basis of 2 new shares offered for every 5 shares held. Each new share is being offered at \$0.04 each. At the date of this report that entitlements issue is ongoing and final acceptances will not be known until the issue closes which is expected to be on or about 12 March 2009.

NOTE 5 CAPITALISED EXPLORATION EXPENDITURE

	31 Dec 2008	31 Dec 2007
	\$	\$
At Cost	541,228	-

Reconciliations

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

	31 Dec 2008	31 Dec 2007
	\$	\$
Opening net book amount	193,270	-
Additions	347,958	-
Disposals	-	-
Closing net book amount	541,228	-

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

Azure Minerals Limited

Notes to the Accounts

For the half-year Ended 31 December 2008

NOTE 6 ISSUED CAPITAL

	<u>Shares</u>	<u>\$</u>
Balance as at 1 July 2007	112,350,004	20,329,782
Issued on 9 August 2007 (net of transaction costs)	20,000,000	2,850,000
Balance as at 31 December 2007	132,350,004	23,179,782
Balance as at 1 July 2008	149,016,672	25,129,782
Issued on 2 September 2008 (net of transaction costs)	10,765,600	1,333,317
Issued on 24 September 2008 (net of transaction costs)	9,600,000	1,200,000
Balance as at 31 December 2008	169,382,272	27,663,099
Options on issue as at 31 December 2007		
Exercisable at 25 cents on or before 30 November 2009	3,000,000	
Exercisable at 25 cents on or before 30 November 2010	3,000,000	
Exercisable at 17.5 cents on or before 30 January 2011	800,000	
Exercisable at 25 cents on or before 30 January 2012	800,000	
Exercisable at 35 cents on or before 30 January 2013	800,000	
Exercisable at 15 cents on or before 30 November 2009	2,750,000	
Exercisable at 25 cents on or before 31 January 2010	200,000	
Exercisable at 25 cents on or before 31 January 2011	400,000	
Exercisable at 25 cents on or before 31 January 2012	400,000	
Total	12,150,000	
Options on issue as at 31 December 2008		
Exercisable at 25 cents on or before 30 November 2009	3,000,000	
Exercisable at 25 cents on or before 30 November 2010	3,000,000	
Exercisable at 17.5 cents on or before 30 January 2011	800,000	
Exercisable at 25 cents on or before 30 January 2012	800,000	
Exercisable at 35 cents on or before 30 January 2013	800,000	
Exercisable at 15 cents on or before 30 November 2009	2,750,000	
Exercisable at 25 cents on or before 31 January 2010	200,000	
Exercisable at 25 cents on or before 31 January 2011	400,000	
Exercisable at 25 cents on or before 31 January 2012	400,000	
Total	12,150,000	

Azure Minerals Limited

Notes to the Accounts

For the half-year Ended 31 December 2008

NOTE 7 EARNINGS PER SHARE

Weighted average number of ordinary shares used in calculation of basic earnings per share is 161,261,442. Diluted earnings per share is not considered dilutive.

NOTE 8 COMMITMENTS

Since the last reporting date, there is no material change in the groups commitments.

NOTE 9 RELATED PARTY

Arrangements with related parties continue to be in place. For details of these arrangements refer to 30 June 2008 financial report.

NOTE 10 SHARE BASED PAYMENTS

No share based payments were made during the reporting period. While there were no share based payments during the reporting period the Group maintains an employee share plan as set out below:

Employee and consultants' option plan

The establishment of the Azure Minerals Limited – Employees and Contractors Option Incentive Plan (“Plan”) was approved by shareholders at the 2004 Annual General Meeting. The plan is designed to provide long-term incentives for employees and certain contractors to deliver long term shareholder returns. Participation in the plan is at the Boards discretion and no individual has a contractual right to participate in the plan or to receive guaranteed benefits. In addition, under the Plan, the Board determines the terms of the options including exercise price, expiry date and vesting conditions, if any. Options granted under the plan carry no dividend or voting rights. When exercised, each option is convertible into an ordinary share of the company with full dividend and voting rights.

Azure Minerals Limited

Directors Declaration

For the half-year Ended 31 December 2008

In the directors opinion:

- (a) the financial statements and notes, as set out on pages 3 to 10 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 financial position as at 31 December 2008 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
Director
West Perth
19 February 2009

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF AZURE MINERALS LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Azure Minerals Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Interim and Other Financial Reports 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2008 and its 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 Azure Minerals Limited, 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* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

Conclusion


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 Azure Minerals Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to page 7 in the financial report which indicates that the company incurred a net loss of \$2,669,141 for the half-year ended 31 December 2008, and, as at that date, the company experienced net cash outflows from operating activities of \$2,724,094. Furthermore, as at 31 December 2008, the company had net current asset of \$389,421. These conditions along with other matters as set forth on page 7 of the financial report, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls


Glyn O'Brien
Director

Perth, Western Australia
Dated this 19th day of February 2009

19 February 2008

The Directors
Azure Minerals Limited
Level 1, 30 Richardson Street
WEST PERTH WA 6005

Dear Sirs

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF AZURE MINERALS LIMITED

As lead auditor of Azure Minerals Limited for the half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- 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.



Glyn O'Brien

Director



BDO Kendalls Audit & Assurance (WA) Pty Ltd

Perth