

Azimut Exploration Inc.
(an exploration company)

Financial Statements
August 31, 2005 and 2004

Auditors' Report

To the Shareholders of Azimut Exploration Inc.

We have audited the balance sheets of **Azimut Exploration Inc.** (an exploration company) as at August 31, 2005 and 2004 and the statements of earnings, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
October 21, 2005

Azimut Exploration Inc.

(an exploration company)

Balance Sheets

As at August 31, 2005 and 2004

	2005 \$	2004 \$
Assets		
Current assets		
Cash and cash equivalents	784,131	227,964
Amounts receivable (note 3)	224,637	114,028
Prepaid expenses (note 4)	9,955	29,185
	<u>1,018,723</u>	<u>371,177</u>
Exploration funds (note 2)	81,323	99,063
Long-term investments (note 5)	41,550	12,000
Property, plant and equipment (note 6)	6,420	573
Intangible assets (less accumulated amortization of \$202; \$75 in 2004)	297	424
Mining properties (note 7)	<u>138,934</u>	<u>109,369</u>
	<u>1,287,247</u>	<u>592,606</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Related companies (note 11)	-	85
Others	82,922	136,126
	<u>82,922</u>	<u>136,211</u>
Shareholders' Equity		
Convertible debentures (note 8)	388,200	488,200
Share capital (notes 9 and 10)	5,521,425	4,202,910
Warrants (note 9)	-	177,300
Stock options (note 10)	97,180	128,685
Deficit	<u>(4,802,480)</u>	<u>(4,540,700)</u>
	<u>1,204,325</u>	<u>456,395</u>
	<u>1,287,247</u>	<u>592,606</u>
Nature of activities and going concern (note 1)		
Commitment (note 14)		

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

(2)

(signed) JEAN-MARC LULIN _____, Director

(signed) JACQUES BONNEAU _____, Director

Azimut Exploration Inc.

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Statements of Deficit

For the years ended August 31, 2005 and 2004

	2005	2004
	\$	\$
Balance – Beginning of year	4,540,700	4,156,173
Interest on convertible debentures (notes 8 and 9)	(5,141)	33,335
Net loss for the year	266,9	351,192
Balance – End of year	<u>4,802,480</u>	<u>4,540,700</u>

The accompanying notes are an integral part of these financial statements.

Azimut Exploration Inc.

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Statements of Earnings

For the years ended August 31, 2005 and 2004

	2005 \$	2004 \$
Revenues		
Interest income	9,879	5,520
Gain on option of mining properties	119,380	-
Management fees	6,401	-
	<hr/>	<hr/>
	135,660	5,520
	<hr/>	<hr/>
Expenses		
Salaries and fringe benefits	93,415	129,769
Professional and maintenance fees	78,409	80,408
Management fees and office expenses	106,093	78,285
Travelling and entertainment	21,001	10,021
Interest and bank charges	420	237
Depreciation of property, plant and equipment	933	143
Amortization of intangible assets	127	75
Search for properties	86,409	87,944
Tax credits and mining rights	(748)	(42,170)
Writedown of long-term investments	14,629	12,000
Cost of mining properties abandoned	31,811	-
Part XII.6 Tax	1,102	-
	<hr/>	<hr/>
	433,601	356,712
	<hr/>	<hr/>
Loss before income taxes	(297,941)	(351,192)
Future income taxes (note 12)	31,020	-
	<hr/>	<hr/>
Net loss for the year	(266,921)	(351,192)
	<hr/>	<hr/>
Basic and diluted net loss per share (note 13)	(0.021)	(0.035)
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

Azimut Exploration Inc.

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Statements of Cash Flows

For the years ended August 31, 2005 and 2004

	2005 \$	2004 \$
Cash flows from operating activities		
Net loss for the year	(266,921)	(351,192)
Items not affecting cash and cash equivalents		
Depreciation of property, plant and equipment	933	143
Amortization of intangible assets	127	75
Future income taxes	(31,020)	-
Writedown of long-term investments	14,629	12,000
Cost of mining properties abandoned	31,811	-
Gain on option of mining properties	(119,380)	-
Stock options	23,200	103,990
	<u>(346,621)</u>	<u>(234,984)</u>
Net change in non-cash working capital items		
Amounts receivable	(103,404)	(32,494)
Prepaid expenses	19,230	(15,320)
Accounts payable and accrued liabilities	(53,289)	105,130
	<u>(137,463)</u>	<u>57,316</u>
	<u>(484,084)</u>	<u>(177,668)</u>
Cash flows from financing activities		
Decrease (increase) in exploration funds	17,740	(75,529)
Issuance of convertible debentures	-	138,200
Issuance of share capital	1,004,576	281,615
Issuance of warrants	18,095	177,300
	<u>1,040,411</u>	<u>521,586</u>
Cash flows from investing activities		
Additions to intangible assets	-	(499)
Increase in mining properties	(243,380)	(161,237)
Proceeds from sale of options of mining properties	250,000	-
Additions to property, plant and equipment	(6,780)	-
	<u>(160)</u>	<u>(161,736)</u>
Increase in cash and cash equivalents	556,167	182,182
Cash and cash equivalents – Beginning of year	<u>227,964</u>	<u>45,782</u>
Cash and cash equivalents – End of year	<u>784,131</u>	<u>227,964</u>
Additional information		
Tax credits and mining rights receivable applied against mining properties (note 3)	(7,205)	(51,868)
Shares issued and to be issued (cancelled and to be cancelled) in consideration of the payment of interest on convertible debentures	(5,141)	33,335
Interest cashed (net of interest paid)	8,136	5,283
Shares received in consideration of the sale of a mining property	44,179	-

The accompanying notes are an integral part of these financial statements.

Azimut Exploration Inc.

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Notes to Financial Statements

August 31, 2005 and 2004

1 Incorporation, nature of activities and going concern

The company, incorporated under Part 1A of the Québec Companies Act, is in the business of acquiring and exploring mining properties. It has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the ability to obtain necessary financing to complete exploration and development of the company's properties, and upon future profitable production or proceeds from the disposal of properties.

For the year ended August 31, 2005, the company recorded a net loss of \$266,921. In addition to ongoing working capital requirements, the company must secure sufficient funding for meeting its existing commitments for exploration and development programs and general and administration costs.

Management is periodically seeking additional forms of financing through the issuance of new equity instruments, the exercise of existing warrants for the purchase of common shares and the exercise of stock options to continue its activities as a going concern, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify title to mining properties in which the company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

2 Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the carrying value of mining properties and certain accrued liabilities. Actual results could differ from those estimates.

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Exploration funds

Exploration funds, which consist of cash and cash equivalents, represent the unexpended proceeds of financing under the terms of which the company committed to spending the amounts on the exploration or acquisition of mining properties.

Long-term investments

Long-term investments are recorded at cost, less any permanent impairment in value.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost less accumulated depreciation and are depreciated using the declining balance method at the rates mentioned in note 6.

Intangible assets and amortization

Intangible assets, which consist of software, are recorded at cost less accumulated amortization and are amortized using the declining balance method at a rate of 30%.

Mining properties

The company records its interests in mining properties and areas of geological interest at cost less option payments and other recoveries. Exploration and development costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any writedowns are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

Mining rights tax credit and tax credit for mining exploration companies

The company is entitled to a refundable mining rights tax credit on mining exploration expenses incurred in Quebec. This credit has been applied against the costs incurred (note 7).

Furthermore, the company is entitled to the refundable tax credit for mining exploration companies on qualified expenditures. The refundable tax credit may reach 33.75% of qualified expenditures incurred before March 30, 2004 and 38.75% thereafter. This tax credit has been applied against the costs incurred (note 7).

Share capital

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Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares over a reasonable period of time before and after the date the agreement to issue the shares was announced.

Flow-through shares are issued in consideration of the proceeds received, which represents their fair value. Upon the acquisition of mining properties, the carrying value may exceed the tax basis since the company renounces the deductions in favour of the investors concerned. The company also issues flow-through shares without any premium or discount regarding the renunciation of the tax benefits in favour of investors.

Share issue expenses and future income taxes arising from the difference between the carrying amount and the tax basis are recorded as a reduction of share capital.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential participating shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating shares during the year.

Stock-based compensation plan

The company offers its directors, officers and employees a stock-based compensation plan, which is described in note 10. Any consideration received from the participants to the plan upon the exercise of options is credited to share capital.

Since September 1, 2003, the company has adopted the fair value method for recording stock options. Consequently, stock-based compensation costs are recorded at fair value at the date of grant and are recognized in the statement of earnings over the period of acquisition. All stock-based compensations granted since September 1, 2003 have been recorded in the corresponding period using the fair value-based method without restatement of previous years.

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New accounting policies

In September 2003, the Canadian Institute of Chartered Accountants ("CICA") amended Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which is effective for fiscal years beginning on or after January 1, 2004. These amendments require that compensation costs arising from all types of stock-based payments granted to directors, officers, employees and non-employees, including stock options, be accounted for in the financial statements using the fair value-based method. The company has implemented these amendments prospectively since September 1, 2003.

In November 2003, the CICA made a change to Section 3860 "Financial Instruments – Disclosure and Presentation", which is effective for fiscal years beginning on or after November 1, 2004. This change will affect the treatment of debt obligations that give the issuer the right to make payments in cash or an equivalent value of its own common shares, being the convertible debentures as regards the company. Whereas an issuer of such securities now must include these obligations as part of shareholders' equity, in the future it will have to classify them as liabilities. Furthermore, interest on convertible debentures which is presently charged to deficit will be henceforth recognized in the statement of earnings. For the years ended August 31, 2005 and 2004, the company did not proceed to an earlier application of this change, the company will apply this change in the next fiscal year. This new accounting change will result in a \$5,141 decrease in the loss for fiscal year 2005 and a \$256,795 increase in the opening deficit for fiscal year 2005.

In March 2004, the Emerging Issues Committee ("EIC") of the CICA issued EIC-146, "Flow-through Shares". This abstract deals with the date of recognition, by the issuer of flow-through shares, of the future income tax liabilities arising from the renouncement of tax deductions and the accounting method used to record the credit when previously unrecognized future income tax assets are recorded as a result of recognizing the abovementioned future income tax liabilities.

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: Section 3855, "Financial Instruments — Recognition and Measurement", Section 3865, "Hedges", Section 1530, "Comprehensive Income", and Section 3251, "Equity".

Section 3855 expands on Section 3860, "Financial Instruments — Disclosure and Presentation", by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented in the financial statements.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transaction as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13, "Hedging Relationships", and the hedging guidance in Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 1530, "Comprehensive Income", introduces a new requirement to temporarily present certain gains and losses outside net income.

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Consequently, Section 3250, "Surplus" has been revised as Section 3251, "Equity".

Sections 1530, 3251, 3855 and 3865 apply to fiscal years beginning on or after October 1, 2006. The company will adopt these new standards on September 1, 2007, and has not yet determined their impact on its financial statements.

3 Amounts receivable

	2005 \$	2004 \$
Tax credit receivable for mining exploration companies and mining rights receivable	30,167	91,120
Commodity taxes	24,958	22,908
Others	169,512	-
	<hr/> 224,6	<hr/> 114,028

4 Prepaid expenses

	2005 \$	2004 \$
Permits and claims	1,872	22,995
Others	8,083	6,190
	<hr/> 9,955	<hr/> 29,185

5 Long-term investments

	Interest %	2005 \$	2004 \$
Target Exploration and Mining Corp. (previously Leceister Diamond Mines Ltd.), a public mining exploration company, at cost less any permanent impairment in value (quoted market value: \$12,000; \$9,000 in 2004)	1.5 (2.4 in 2004)	9,300	12,000
Eastmain Resources Inc., at cost less any permanent impairment in value (quoted market value: \$34,500)	0.15 (Nil in 2004)	32,250	-
		<hr/> 41,550	<hr/> 12,000

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Notes to Financial Statements

August 31, 2005 and 2004

6 Property, plant and equipment

	Depreciation rate %	2005		2004	
		Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Office furniture	20	5,336	2,098	2,149	1,699
Office equipment	20	1,220	586	625	502
Computer equipment	30	2,998	450	-	-
		9,554	3,134	2,774	2,201
Less:					
Accumulated depreciation		3,134		2,201	
Net amount		6,420		573	

7 Mining properties

Year Ended August 31, 2005

	Undivided Interest %	Balance as at August 31, 2004 \$	Costs incurred \$	Mining properties abandoned, option payments, credit on duties refundable for losses and tax credits for resources \$	Balance as at August 31, 2005 \$
Comptoir (425 claims)					
Mining property	100	-	46,750	-	46,750
Exploration costs		-	-	-	-
		-	46,750	-	46,750
De Romer (26 claims)					
Mining property	100	2,469	-	(2,469)	-
Exploration costs		7,111	1,699	(8,810)	-
		9,580	1,699	(11,279)	-
Eastmain (167 claims) e)					
Mining property	100	22,890	(14,297)	(8,593)	-
Exploration costs		909	8,013	(8,922)	-
		23,799	(6,284)	(17,515)	-
Gillet Lake (86 claims)					
Mining property	100	8,178	-	(8,178)	-
Exploration costs		10,112	2,242	(12,354)	-
		18,290	2,242	(20,532)	-
(forward)		51,669	44,407	(49,326)	46,750

Azimut Exploration Inc.

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Notes to Financial Statements

August 31, 2005 and 2004

	Undivided Interest %	Balance as at August 31, 2004 \$	Costs incurred \$	Mining properties abandoned, option payments, credit on duties refundable for losses and tax credits for resources \$	Balance as at August 31, 2005 \$
(brought forward)		51,669	44,407	(49,326)	46,750
Manitou (2,377 claims)					
Mining properties	100	-	(47)	-	(47)
Exploration costs		-	445	(13)	432
		-	398	(13)	385
Opinaca A/A-East (326 claims) a)					
Mining property	100	2,471	31,966	(34,280)	157
Exploration costs		188	6,878	(7,161)	(95)
		2,659	38,844	(41,441)	62
Opinaca B/B-North (220 claims) b)					
Mining properties	100	1,665	21,547	(23,212)	-
Exploration costs		127	4,594	(4,721)	-
		1,792	26,141	(27,933)	-
Opinaca C (166 claims) c)					
Mining properties	100	1,256	16,248	(17,504)	-
Exploration costs		95	3,526	(3,559)	62
		1,351	19,774	(21,063)	62
Opinaca D (188 claims) d)					
Mining properties	100	1,433	18,544	(19,977)	-
Exploration costs		108	3,954	(4,062)	-
		1,541	22,498	(24,039)	-
Retty (199 claims)					
Mining property	100	18,612	8,300	-	26,912
Exploration costs		31,745	10,538	-	42,283
		50,357	18,838	-	69,195
Wabamisk (676 claims) f)					
Mining properties	100	-	70,980	(50,000)	20,980
Exploration costs		-	1,500	-	1,500
		-	72,480	(50,000)	22,480
		109,369	243,380	(213,815)	138,934

Azimut Exploration Inc.

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Notes to Financial Statements

August 31, 2005 and 2004

Year Ended August 31, 2004

	Undivided Interest %	Balance as at August 31, 2003 \$	Costs incurred \$	Credit on duties refundable for losses and tax credits for resources \$	Balance as at August 31, 2004 \$
De Romer (26 claims)					
Mining property	100	-	2,469	-	2,469
Exploration costs		-	14,426	(7,315)	7,111
		-	16,895	(7,315)	9,580
Eastmain (218 claims)					
Mining property	100	-	22,890	-	22,890
Exploration costs		-	1,835	(926)	909
		-	24,725	(926)	23,799
Gillet Lake (86 claims)					
Mining property	100	-	8,178	-	8,178
Exploration costs		-	20,518	(10,406)	10,112
		-	28,696	(10,406)	18,290
Opinaca (65 claims)					
Mining property	100	-	6,825	-	6,825
Exploration costs		-	1,042	(524)	518
		-	7,867	(524)	7,343
Retty (199 claims)					
Mining property	100	-	18,612	-	18,612
Exploration costs		-	64,442	(32,697)	31,745
		-	83,054	(32,697)	50,357
		-	161,237	(51,868)	109,369

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Statements of deferred exploration costs

	Years Ended August 31,	
	2005 \$	2004 \$
Balance – Beginning of year	109,369	-
Expenses incurred during the year		
Claims and permits	199,990	58,949
Geology	17,927	491
Transport	41	61,302
Salaries	18,422	30,810
Analysis	7,081	-
Accommodation	(81)	9,685
	<u>243,380</u>	<u>161,237</u>
Mining properties written off	(31,811)	-
Payments on options	(174,799)	-
Credit on duties refundable for losses and tax credits for resources	(7,205)	(51,868)
	<u>(213,815)</u>	<u>(51,868)</u>
Balance – End of year	<u>138,934</u>	<u>109,369</u>

- a) In December 2004, the company granted Everton Resources Inc. the option to acquire a 50% interest in the Opinaca A/A-East property for a cash consideration of \$180,000 and 2.8 million dollars in exploration works. Everton Resources Inc. may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2005, Everton Resources Inc. had made a payment of \$50,000 in cash and had made exploration works totaling \$157,354.
- b) In December 2004, the company granted Everton Resources Inc. the option to acquire a 50% interest in the Opinaca B/B-North property for a cash consideration of \$160,000 and 2 million dollars in exploration works. Everton Resources Inc. may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2005, Everton Resources Inc. had made a payment of \$40,000 in cash and had made exploration works totaling \$117,756.
- c) In March 2005, the company granted Eastmain Resources Inc. the option to acquire a 50% interest in the Opinaca C property for a cash consideration of \$160,000, 30,000 common shares of Eastmain Resources Inc. and 2.7 million dollars in exploration works. Eastmain Resources Inc. may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2005, Eastmain Resources Inc. had made a payment of \$50,000 in cash, given its 30,000 common shares and had made exploration works totaling \$284,935.

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- d) In March 2005, the company granted Eastmain Resources Inc. the option to acquire a 50% interest in the Opinaca D property for a cash consideration of \$140,000, 45,000 common shares of Eastmain Resources Inc. and 1.9 million dollars in exploration works. Eastmain Resources Inc. may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2005, Eastmain Resources Inc. had made a payment of \$30,000 in cash, given its 45,000 common shares and had made exploration works totaling \$250,747.
- e) In April 2005, the company granted Cambior Inc. the option to acquire a 50% interest in the Eastmain property for a cash consideration of \$200,000 and 2 million dollars in exploration works. Cambior Inc. may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2005, Cambior Inc. had made a payment of \$30,000 in cash and had made exploration works totaling \$113,138.
- f) In May 2005, the company granted Placer Dome (CLA) Ltd the option to acquire a 51% interest in the Wabamisk property for a cash consideration of \$500,000 and 4 million dollars in exploration works. Placer Dome (CLA) Ltd may also acquire an additional 19% interest with the delivery of a feasibility study. As at August 31, 2005, Placer Dome (CLA) Ltd had made a payment of \$50,000 in cash and had made exploration works totaling \$359,042.

8 Convertible debentures

	2005 \$	2004 \$
Debentures convertible at the company's option into common shares		
At a conversion price of \$0.18 per share, 14%, interest payable by half-yearly instalments through common shares of the company, at the base rate on the date of payment, non-interest bearing if the share is traded at \$0.36 and over during the twenty business days preceding the dates of interest instalments, maturing in March 2005	-	100,000
At a conversion price of \$0.425 per share, 12%, interest payable by half-yearly instalments through common shares of the company, at the base rate on the date of payment, non-interest bearing if the share is traded at \$0.20 and over for each of the six-month periods, maturing in May 2006	250,000	250,000
	<hr/>	<hr/>
(forward)	250,000	350,000

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	2005 \$	2004 \$
(brought forward)	250,000	350,000
At a conversion price of \$0.33 per share until November 9, 2005, \$0.363 from November 10, 2005 to November 9, 2006, \$0.40 per share from November 10, 2006 to November 9, 2007 and \$0.44 per share from November 10, 2007 to November 10, 2008, 12%, interest payable by half-yearly instalments through common shares of the company, at the base rate on the date of the payment, non-interest bearing if the share is traded at \$0.37 and over during the twenty business days preceding the dates of interest instalments for the first two six-month periods ending May 10 and November 10, 2004, respectively, at \$0.45 and over for the third and fourth six-month periods ending May 10 and November 10, 2005, respectively, at \$0.55 and over for the fifth and sixth six-month periods ending May 10 and November 10, 2006, respectively, at \$0.65 and over for the seventh and eighth six-month periods ending May 10 and November 10, 2007, respectively and at \$0.75 and over for the ninth and tenth six-month periods, maturing on May 10 and November 10, 2008. This debenture has 600,000 accompanying warrants, each of them entitling to subscribe for one common share of the company at a unit price of \$0.45, maturing in May 2005	138,200	138,200*
	388,200	488,200

* This convertible debenture has been presented net of the fair value of warrants amounting to \$61,800.

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9 Share capital

Authorized

Unlimited number of common shares, without par value, voting and participating

	2005 \$	2004 \$
Issued and fully paid		
14,687,456 common shares (11,594,302 in 2004) *	5,521,425	4,193,100
To be issued		
No common share (35,092 in 2004) in payment of interest on convertible debentures (note 8)	-	9,810
	<u>5,521,425</u>	<u>4,202,910</u>

* 289,568 shares (482,685 in 2004) are held in escrow and will gradually be released during the next year.

a) Variation of issued and fully paid share capital:

	<u>2005</u>		<u>2004</u>	
	Number	Amount \$	Number	Amount \$
Balance – Beginning of year	11,594,302	4,193,100	9,961,522	3,885,580
Private placements	404,766	181,905*	1,392,858	284,500
Stock options exercised	245,000	94,605**	155,000	25,500
Warrants exercised	1,861,906	984,443***	-	-
Payment of a debenture	555,556	100,000	-	-
Payment of interest on convertible debentures	25,926	4,667	84,922	25,905
	<u>14,687,456</u>	<u>5,558,720</u>	<u>11,594,302</u>	<u>4,221,485</u>
Share issue expenses for the year	-	(37,295)	-	(28,385)
Balance – End of year	<u>14,687,456</u>	<u>5,521,425</u>	<u>11,594,302</u>	<u>4,193,100</u>

* For the year ended August 31, 2005, private placements have been presented net of the fair value of warrants amounting to \$18,095 (\$115,500 in 2004).

** Including the fair value of stock options of \$54,705 (nil in 2004) recorded in stock options.

*** Including the fair value of warrants of \$195,395 (nil in 2004) recorded in warrants.

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b) Variation of warrants

	2005		2004	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	1,742,858	0.42	-	-
Issued	119,048**	0.52	1,742,858*	0.42
Exercised	(1,861,906)	0.43	-	-
Outstanding and exercisable – End of year	-	-	1,742,858	0.42

* Of this number, 1,142,858 warrants were issued under private placements to common shareholders, and 600,000 warrants were issued pursuant to the subscription agreement of a \$200,000 convertible debenture (note 8). These warrants have been presented at their fair value of \$115,500 and \$61,800, respectively, which was determined using the Black-Scholes model.

** The fair value of warrants is \$18,095, determined using the Black-Scholes model.

The fair value of warrants issued was estimated using the Black-Scholes model with the following assumptions:

	2005	2004
Risk-free interest rate		
Expected volatility		
Dividend yield	Nil	Nil
Weighted average expected life		
Weighted average fair value of warrants issued		

The Black-Scholes model was developed for use in estimating the fair value of traded warrants which have no vesting restrictions, and are fully transferable. In addition, warrant valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the warrants issued to subscribers have characteristics significantly different from those of traded warrants, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate single measure of the fair value of warrants issued to subscribers.

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10 Stock option plan

The company maintains a stock option plan under which certain managers, directors, key employees and suppliers may be granted stock options for shares of the company. A maximum of 1,421,685 stock options (1,421,685 in 2004) may be granted (maximum of 5% of the number of common shares outstanding in favour of one person).

Options granted expire after a maximum period of five years following the granting date (ten years for options granted before September 1, 2000). There is no vesting period, except for 280,000 options granted to a director during fiscal years ended August 31, 1996, 1998 and 2000. In June 2003, following this director's separation and his acceptance of an executive counsellor position, the company modified the terms of the initial agreement for the granting of options. Consequently, the options have not been cancelled at the end of the 90-day period ended after the date of separation from service as a director and moreover, out of the 280,000 options that were fully exercisable, 25% became exercisable on June 18, 2003 and the balance is exercisable at the rate of 25% per annum since June 18, 2004. An amount of \$12,978 (\$15,150 in 2004) representing the fair value of these stock options has been included in the statement of earnings under the item "Salaries and fringe benefits" and in Shareholders' Equity under the item "Stock options".

The following tables present the stock option activity since September 1, 2003 and summarize information about fixed stock options outstanding and exercisable as at August 31:

	<u>2005</u>		<u>2004</u>	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	1,000,000	0.23	795,000	0.18
Granted	30,000	0.64	360,000	0.30
Exercised	(245,000)	0.16	(155,000)	0.16
Outstanding – End of year	<u>785,000</u>	<u>0.26</u>	<u>1,000,000</u>	<u>0.23</u>
Exercisable – End of year	<u>715,000</u>	<u>0.27</u>	<u>860,000</u>	<u>0.24</u>

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Exercise prices \$	Options outstanding		Options currently exercisable
	Number	Weighted average remaining contractual life (years)	Number
0.16	170,000	1.15	150,000
0.18	105,000	4.40	55,000
0.24	120,000	2.81	120,000
0.26	10,000	3.87	10,000
0.30	350,000	3.52	350,000
0.64	30,000	4.82	30,000
	<u>785,000</u>	<u>3.07</u>	<u>715,000</u>

Accounting for the stock-based compensation plan

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

	2005	2004
Risk-free interest rate		
Expected volatility		
Dividend yield	Nil	Nil
Weighted average expected life		
Weighted average fair value of options granted		

The fair value of stock options granted during the year amounts to \$10,222. The entire amount, representing the fair value of options granted, has been included in the statement of earnings under the item "Search for properties" and in Shareholders' Equity under the item "Stock options".

The fair value of stock options granted during the preceding year amounts to \$88,840. The entire amount, representing the fair value of options granted, has been included in the statement of earnings under the items "Salaries and fringe benefits", "Professional and maintenance fees" and "Search for properties" and in Shareholders' Equity under the item "Stock options".

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The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions, and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to managers, directors and key employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to suppliers, managers, directors and key employees.

11 Related party transactions

The company entered into the following transactions mainly with a director and a company owned by a director:

	2005 \$	2004 \$
Office expenses	-	762

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12 Income taxes

The reconciliation of the income tax expense calculated using the combined federal and Quebec provincial statutory tax rate to the income tax expense per the financial statements is as follows:

	<u>Years Ended August 31,</u>	
	2005 \$	2004 \$
Loss before income taxes	(297,941)	(351 192)
Combined federal and provincial income tax at 35.35% (36.49% as at August 31, 2004)	(105,300)	(128,000)
Tax benefits previously unrecognized	(31,020)	-
Loss related to taxable resources for income tax purposes	17,000	15,000
Non-deductible expenses for income tax purposes	13,000	25,000
Expiry of operating losses carried forward	82,300	82,000
Share issue expenses not affecting earnings	(3,000)	(5,000)
Change in valuation allowance	(29,200)	(25,000)
Other	25,200	36,000
Income taxes	(31,020)	-

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	Years Ended August 31,	
	2005	2004
	\$	\$
The income tax expense is as follows:		
Current income taxes	-	-
Future income taxes	(31,020)	-

The company is entitled to the following tax benefits, which were not accounted for in the financial statements as at August 31, 2005, except for a future income tax asset of \$31,020 recorded against a future income tax liability for the same amount.

As at August 31, 2005, the company has accumulated, for federal and provincial income tax purposes, non-capital losses which can be applied against future years' taxable income and which will expire as follows:

Expiry Year	Federal	Provincial
	\$	\$
2015	231,000	211,000
2014	208,000	197,000
2010	151,000	151,000
2009	92,000	92,000
2008	6,000	7,000
2007	199,000	199,000
2006	247,000	251,000
	<u>1,134,000</u>	<u>1,108,000</u>

- The company has accumulated capital loss of approximately \$17,000 (\$17,000 in 2004).
- The tax value of mining properties exceeds the carrying value by approximately \$679,000 at the federal level (\$813,000 in 2004) and \$753,000 at the provincial level (\$886,000 in 2004). The difference between the tax value and the amounts capitalized in the financial statements mainly results from the renunciation by the company in favour of investors of the deductions related to exploration costs paid through flow-through share financings, of the non-taxable mining rights tax credit as well as from writeoffs of mining properties.
- The unamortized balance of capital cost for federal and provincial income tax purposes exceeds the net carrying value of property, plant and equipment and intangible assets by \$10,500 (\$9,500 in 2004) and \$5,500 (\$4,400 in 2004), respectively.
- The tax value of long-term investments exceeds the carrying value by approximately \$36,629 (\$22,000 in 2004). The difference between the tax value and the amounts capitalized in the financial statements mainly results from the impairment in value capitalized on these investments.

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- The unamortized balance, for income tax purposes, of share issue expenses amounts to \$26,000 (\$29,000 in 2004) and will be deductible during the next four years.

13 Loss per share

For the years ended August 31, 2005 and 2004, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options, warrants and convertible debentures was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted net loss per share for those years was calculated using the basic weighted average number of shares outstanding (12,379,346 in 2005 and 10,852,157 in 2004).

	<u>Years Ended August 31,</u>	
	<u>2005</u>	<u>2004</u>
Net loss for the year	(266,921)	(351,192)
Interest on debentures	5,141	(33,335)
	<hr/>	<hr/>
Loss used in the basic and diluted net loss per share calculation	(261,780)	(384,527)
	<hr/>	<hr/>
Basic weighted average number of shares outstanding	12,379,346	10,852,157
Stock options	573,313	298,790
Warrants	234,337	-
Conversion of debentures	1,194,296	555,556
	<hr/>	<hr/>
Diluted weighted average number of shares outstanding	14,381,292	11,706,503
	<hr/>	<hr/>
Items excluded from the calculation of diluted loss per share because the exercise or conversion price was greater than the average market price of the common shares		
Stock options	30,000	350,000
Shares to be issued upon the conversion of debentures	-	1,194,296
Shares to be issued upon the exercise of warrants	-	1,742,858

14 Commitment

The company is committed to annual rental of \$15,264 under an operating lease of three years expiring in September 2007.

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15 Financial instruments

Fair value

Cash and cash equivalents, amounts receivable, exploration funds and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity or to current market rates. The fair value of convertible debentures could not be determined due to the specific characteristics of these financial instruments.

Interest rate risk

As at August 31, 2005, the company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Amounts receivable	Non-interest bearing
Exploration funds	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Convertible debentures	As described in note 8

16 Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation.

