

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Balance Sheets**

	<b>May 31, 2010 \$ (unaudited)</b>	<b>August 31, 2009 \$ (audited)</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	3,313,423	1,349,818
Amounts receivable - Related party	40,867	40,867
Amounts receivable - Others (note 4)	533,569	614,256
Prepaid expenses	452,661	95,639
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	4,340,520	2,100,580
<b>Long-term investments</b> (note 5)	330,416	534,416
<b>Property and equipment</b> (less accumulated depreciation of \$69,208; \$56,685 as at August 31, 2009)	50,935	63,458
<b>Intangible assets</b> (less accumulated depreciation of \$5,948; \$4,471 as at August 31, 2009)	5,090	6,567
<b>Mining properties</b> (note 6)	2,567,219	1,791,427
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	7,294,180	4,496,448
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities - Related parties	153,421	-
Accounts payable and accrued liabilities - Others	481,780	418,577
Current portion of debentures (notes 7 and 8)	100,000	350,000
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	735,201	768,577
<b>Debentures payable</b> (note 7)	235,600	322,317
<b>Liability component of debentures</b> (note 8)	866,344	801,464
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	1,101,944	1,123,781
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	1,837,145	1,892,358
<b>Shareholders' equity</b>		
<b>Share capital</b> (note 9)	11,375,058	8,868,164
<b>Warrants</b> (note 9)	633,098	353,334
<b>Stock options</b> (note 10)	2,407,132	2,026,292
<b>Equity component of debentures</b>	150,050	194,820
<b>Contributed surplus</b>	449,250	449,250
<b>Deficit</b>	(9,355,709)	(9,034,070)
<b>Accumulated other comprehensive loss</b>	(201,844)	(253,700)
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	5,457,035	2,604,090
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	7,294,180	4,496,448

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

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Statements of Shareholders' Equity**

For the nine (9)-month periods ended May 31, 2010 and 2009 (unaudited)

	Share capital		Warrants		Stock options		Equity Component of debenture	Contributed surplus	Deficit	Accumulated Other comprehensive loss	Total
	Number	\$	Number	\$	Number	\$	\$	\$	\$	\$	\$
<b>Balance as at September 1, 2008</b>	16,821,755	7,943,186	-	-	1,905,000	1,919,992	-	-	(6,357,232)	(673,750)	2,832,196
Private placements	250,000	95,000	125,000	5,000	-	-	-	-	-	-	100,000
Convertible debenture	-	-	-	-	-	-	559,936	-	-	-	559,936
Stock options exercised	250,000	137,500	-	-	(250,000)	(62,500)	-	-	-	-	75,000
Stock options granted	-	-	-	-	590,000	559,990	-	-	-	-	559,990
Stock options cancelled	-	-	-	-	(350,000)	(449,250)	-	-	-	-	(449,250)
Share issue expenses	-	(73,642)	-	-	-	-	-	-	-	-	(73,642)
Net loss for the period	-	-	-	-	-	-	-	-	(895,563)	-	(895,563)
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(376,468)	(376,468)
<b>Balance as at May 31, 2009</b>	<b>17,321,755</b>	<b>8,102,044</b>	<b>125,000</b>	<b>5,000</b>	<b>1,895,000</b>	<b>1,968,232</b>	<b>559,936</b>	<b>-</b>	<b>(7,252,795)</b>	<b>(1,050,218)</b>	<b>2,332,199</b>
<b>Balance as at September 1, 2009</b>	20,383,979	8,868,164	1,347,224	353,334	1,855,000	2,026,292	194,820	449,250	(9,034,070)	(253,700)	2,604,090
Private placements (note 9)	1,434,166	810,304	717,083	265,321	-	-	-	-	-	-	1,075,625
Flow-through private placements (note 9)	2,675,000	2,300,500	-	-	-	-	-	-	-	-	2,300,500
Payment of interest on convertible debenture (*)	149,962	97,372	14,884	-	-	-	-	-	-	-	97,372
Repayment of principal on secured convertible debenture (note 8)	462,963	265,672	462,963	14,443	-	-	(44,770)	-	-	-	235,345
Share issue expenses (note 9)	-	(970,254)	-	-	-	-	-	-	-	-	(970,254)
Stock options exercised	5,000	3,300	-	-	(5,000)	(1,600)	-	-	-	-	1,700
Stock options granted	-	-	-	-	490,000	296,940	-	-	-	-	296,940
Stock-based compensation costs	-	-	-	-	-	85,500	-	-	-	-	85,500
Net income for the period	-	-	-	-	-	-	-	-	(321,639)	-	(321,639)
Other comprehensive loss	-	-	-	-	-	-	-	-	-	51,856	51,856
<b>Balance as at May 31, 2010</b>	<b>25,111,070</b>	<b>11,375,058</b>	<b>2,542,154</b>	<b>633,098</b>	<b>2,340,000</b>	<b>2,407,132</b>	<b>150,050</b>	<b>449,250</b>	<b>(9,355,709)</b>	<b>(201,844)</b>	<b>5,457,035</b>

Deficit and accumulated other comprehensive loss amount to \$9,557,553 and \$8,303,013 as at May 31, 2010 and 2009, respectively.

(\*) Includes 51,648 shares at a price of \$0.691 to be issued in lieu of payment of interest.

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

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Statements of Earnings and Comprehensive Loss**

For the three (3)-month and nine (9) month periods ended May 31, 2010 and 2009 (unaudited)

	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>3 months</b>	<b>3 months</b>	<b>9 months</b>	<b>9 months</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Expenses</b>				
Salaries and fringe benefits	53,788	78,091	163,754	316,699
Professional and maintenance fees	24,743	14,960	75,697	47,189
Management fees and office expenses	36,501	64,235	139,903	146,056
Travelling and entertainment	22,903	18,633	46,058	33,434
Interests on debentures	45,100	26,334	105,548	87,564
Interests and bank charges	802	795	1,625	1,833
Accretion on debentures	18,625	-	63,508	-
Depreciation of property and equipment	4,174	5,780	12,523	17,176
Amortization of intangible assets	492	703	1,477	2,111
Search for properties	32,625	25,237	76,352	88,119
Credit on duties refundable for losses and refundable tax credit relating to resources	6,000	(25,300)	(12,700)	(37,700)
Cost of mining properties abandoned or written off Part XII.6 tax	-	327,389	79,224	327,389
Professional fees related to the decision of not proceeding with a short form prospectus	-	(33,885)	-	241,324
Stock-based compensation costs	314,940	(147,950)	382,440	110,740
	<u>582,717</u>	<u>355,022</u>	<u>1,157,433</u>	<u>1,381,934</u>
<b>Other income (expense)</b>				
Interest income	3,190	47	6,981	6,676
Gain on sale of option on mining properties	315,951	315,322	375,951	474,686
Gain (loss) on sale of long-term investments	(214,842)	(10,151)	(214,842)	5,009
Management fees	-	-	559	-
	<u>104,299</u>	<u>305,218</u>	<u>168,649</u>	<u>486,371</u>
Loss for the period before income taxes	(478,418)	(49,804)	(988,784)	(895,563)
Recovery of future income taxes	-	-	667,145	-
<b>Net loss for the period</b>	<u>(478,418)</u>	<u>(49,804)</u>	<u>(321,639)</u>	<u>(895,563)</u>
Other comprehensive loss				
Variation in value of long-term investments	3,772	807,379	51,856	376,468
<b>Comprehensive loss for the period</b>	<u>(474,646)</u>	<u>757,575</u>	<u>(269,783)</u>	<u>(519,095)</u>
<b>Basic and diluted earnings (loss) per share</b>	<u>(0.020)</u>	<u>(0.003)</u>	<u>(0.014)</u>	<u>(0.052)</u>
<b>Basic weighted average number of shares outstanding</b>	<u>23,706,384</u>	<u>17,321,755</u>	<u>22,937,732</u>	<u>17,093,330</u>
<b>Diluted weighted average number of shares outstanding</b>	<u>25,020,844</u>	<u>17,321,755</u>	<u>23,272,881</u>	<u>17,093,330</u>

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

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Statements of Cash Flows**

For the three (3)-month and nine (9) month periods ended May 31, 2010 and 2009 (unaudited)

	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>3 months</b>	<b>3 months</b>	<b>9 months</b>	<b>9 months</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>				
Net loss for the period	(478,418)	(49,804)	(321,639)	(895,563)
Items not affecting cash				
Depreciation of property and equipment	4,174	5,780	12,523	17,176
Amortization of intangible assets	492	703	1,477	2,111
Gain (loss) on sale of long-term investments	214,842	10,151	214,842	(5,009)
Write-off of deferred charges	-	(33,885)	-	241,324
Cost of mining properties abandoned or written off	-	327,389	79,224	327,389
Gain on sale of option on mining properties	(315,951)	(315,322)	(375,951)	(474,686)
Recovery of future income taxes	-	-	(667,145)	-
Accretion on debentures	18,625	-	63,508	-
Stock-based compensation costs	314,940	(147,950)	382,440	110,740
	<u>(241,296)</u>	<u>(202,938)</u>	<u>(610,721)</u>	<u>(676,518)</u>
Net change in non-cash working capital items				
Amounts receivable	302,575	501,658	191,287	1,833,158
Receivable from related parties	-	(36,184)	-	(36,184)
Prepaid expenses	(112,212)	6,200	(357,022)	12,081
Accounts payable	102,742	(223,874)	63,199	(2,584,226)
Payable to related parties	153,421	(2,727)	153,421	(50,014)
	<u>446,526</u>	<u>245,073</u>	<u>50,885</u>	<u>(825,185)</u>
	<u>205,230</u>	<u>42,135</u>	<u>(559,836)</u>	<u>(1,501,703)</u>
<b>Cash flows from financing activities</b>				
Non-convertible debentures	-	-	(100,000)	500,000
Convertible debentures	-	(250,000)	-	1,190,000
Issuance of share capital net of share issue expenses	(55,104)	(7,700)	3,074,716	101,358
	<u>(55,104)</u>	<u>(257,700)</u>	<u>2,974,716</u>	<u>1,791,358</u>
<b>Cash flows from investing activities</b>				
Proceeds from sale of long-term investments	65,158	1,705	65,158	28,965
Addition to property and equipment	-	(1,086)	-	(1,086)
Increase in mining properties	(556,770)	(56,811)	(876,433)	(973,853)
Proceeds from sale of option on mining properties	300,000	360,000	360,000	560,000
Addition to deferred charges	-	33,885	-	(149,261)
	<u>(191,612)</u>	<u>337,693</u>	<u>(451,275)</u>	<u>(535,235)</u>
<b>Net change in cash and cash equivalents</b>	<b>(41,486)</b>	<b>122,128</b>	<b>1,963,605</b>	<b>(245,580)</b>
Cash - Beginning of period	3,354,909	924,063	1,349,818	1,291,771
Cash and cash equivalents - End of period	<u>3,313,423</u>	<u>1,046,191</u>	<u>3,313,423</u>	<u>1,046,191</u>
<b>Additional information</b>				
Interest cashed, net of interest paid	2,388	(748)	5,356	4,843
Interest paid on debentures	44,390	20,334	76,958	81,564
Acquisition of mining properties included in accounts payable and accrued liabilities	223,232	-	223,232	-
Tax credit and mining rights receivable applied against mining properties	4,650	-	(110,600)	(348,993)
Cash proceed from sale of option on mining property included in amount receivable	-	-	150,000	-
Shares issued and to be issued in lieu of payment of interest of convertible debenture	-	-	97,372	-
Shares issued in lieu of payment of convertible debenture	-	-	235,345	-

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

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Notes to Interim Financial Statements (unaudited)**

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**1 Interim financial information**

The financial information as at May 31, 2010 and for the three(3)-month and nine (9)-month periods ended May 31, 2010 and 2009, are unaudited; however, in the opinion of management, all adjustments necessary to fairly present the results of these periods have been included. The adjustments were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These interim financial statements are prepared in accordance with generally accepted accounting principles in Canada and use the same accounting policies and methods used in the preparation of the Company's most recent annual financial statements. All disclosures required for annual financial statements have not been included in these financial statements. These interim financial statements should be read in conjunction with the Company's most recent annual financial statements for the year ended August 31, 2009.

**2 Incorporation and nature of activities**

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 of the Company to obtain necessary financing to complete the exploration and development of its properties, and future profitable production or proceeds from the disposal of properties.

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis of a going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Management is periodically seeking additional forms of financing through the issuance of new equity instruments and the exercise of stock options to continue its operations, 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 the titles 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 titles may be subject to unregistered prior agreements and/or may not comply with regulatory requirements.

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Notes to Interim Financial Statements (unaudited)**

<b>3 Cash and cash equivalents</b>	<b>May 31, 2010</b>	<b>August 31, 2009</b>
	<b>\$</b>	<b>\$</b>
	(unaudited)	(audited)
Cash	1,223,910	1,349,818
Exploration funds	2,089,513	-
	<u>3,313,423</u>	<u>1,349,818</u>

Cash and cash equivalents consist of cash on hand and balances with banks as well as highly liquid short-term investments with original maturities of three months or less at the acquisition date.

Exploration funds are restricted in use for exploration expenses pursuant to flow-through financing agreements.

<b>4 Amounts receivable</b>	<b>May 31, 2010</b>	<b>August 31, 2009</b>
	<b>\$</b>	<b>\$</b>
	(unaudited)	(audited)
Tax credit and mining rights receivable	287,236	534,407
Commodity taxes	96,333	79,849
Trade accounts receivable	417,734	267,734
	<u>801,303</u>	<u>881,990</u>
Allowance for bad debts	(267,734)	(267,734)
	<u>533,569</u>	<u>614,256</u>

	<b>May 31, 2010</b>		<b>August 31, 2009</b>	
	<b>Amortized cost</b>	<b>Carrying value</b>	<b>Amortized cost</b>	<b>Carrying value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	(unaudited)	(unaudited)	(audited)	(audited)
Eastmain Resources Inc.	8,600	27,000	8,600	24,400
NWT Uranium Corp.	50,750	70,000	50,750	50,750
Majescor Resources Inc.	49,980	41,160	49,980	49,980
Silver Spruce Resources Inc.	19,500	24,000	19,500	19,500
D'Arianne Resources Inc.	11,286	8,613	11,286	11,286
Channel Resources Inc.	48,000	19,500	48,000	28,500
Abitex Resources Inc.	320,000	116,000	400,000	150,000
Kativik Resources Inc.	-	-	200,000	200,000
Nemaska Exploration Inc.	24,143	24,143	-	-
	<u>532,259</u>	<u>330,416</u>	<u>788,116</u>	<u>534,416</u>

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Notes to Interim Financial Statements (unaudited)**

**6 Mining properties**

As at May 31, 2010, the following claims were in good standing and are located in the Province of Quebec.

	Undivided participation %	Balance as at September 1, 2009 \$	Costs incurred \$	Option payments, write-offs, credit on duties refundable for losses, refundable tax credit relating to resources \$	Balance as at May 31, 2010 \$
<b>Ungava Bay</b>					
North Rae (1,854 claims)					
Mining property	100	348,707	71,924	-	420,631
Exploration costs		573,315	121,703	(53,300)	641,718
		922,022	193,627	(53,300)	1,062,349
South Rae (93 claims)					
Mining property	100	-	5,778	-	5,778
Exploration costs		8,081	1,636	(750)	8,967
		8,081	7,414	(750)	14,745
Daniel Lake (972 claims)					
Mining property	100	336,024	8,950	-	344,974
Exploration costs		225,187	104,985	(47,900)	282,272
		561,211	113,935	(47,900)	627,246
Kangiq (851 claims)					
Mining property	100	-	-	-	-
Exploration costs		-	-	-	-
		-	-	-	-
Burrel Lake (892 claims)					
Mining property	100	94,593	-	-	94,593
Exploration costs		11	-	-	11
		94,604	-	-	94,604
Diana (524 claims)					
Mining property	100	-	56,068	(56,068)	-
Exploration costs		-	11,321	(11,321)	-
		-	67,389	(67,389)	-
Other					
Mining property	100	78,948	-	(78,948)	-
Exploration costs		276	-	(276)	-
		79,224	-	(79,224)	-
<b>Total Ungava Bay</b>		1,665,142	382,365	(248,563)	1,798,944

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Notes to Interim Financial Statements (unaudited)**

**6 Mining properties - Cont'd**

**Central Quebec**

	Undivided participation %	Balance as at September 1, 2009 \$	Costs incurred \$	Option payments, write-offs, credit on duties refundable for losses, refundable tax credit relating to resources \$	Balance as at May 31, 2010 \$
North Minto (750 claims)					
Mining property	100	-	27,606	-	27,606
Exploration costs		-	818	-	818
		-	28,424	-	28,424
South Minto (377 claims)					
Mining property	100	-	12,091	-	12,091
Exploration costs		-	533	-	533
		-	12,624	-	12,624
Central Minto (392 claims)					
Mining property	100	-	-	-	-
Exploration costs		-	-	-	-
		-	-	-	-
West Minto (111 claims)					
Mining property	100	2,958	17,334	-	20,292
Exploration costs		1,205	350	-	1,555
		4,163	17,684	-	21,847
South Bienville (558 claims)					
Mining property	100	-	-	-	-
Exploration costs		-	-	-	-
		-	-	-	-
Hudson Bay (132 claims)					
Mining property	100	4,690	9,542	-	14,232
Exploration costs		1,515	418	-	1,933
		6,205	9,960	-	16,165
Kativik (1,361 claims)					
Mining property	100	-	-	-	-
Exploration costs		83,933	(2,304)	-	81,629
		83,933	(2,304)	-	81,629
Rex (3,814 claims)					
Mining property	100	-	373,152	-	373,152
Exploration costs		-	138,784	(3,400)	135,384
		-	511,936	(3,400)	508,536
Rex Sud (1,232 claims)					
Mining property	100	-	111,264	(50,304)	60,960
Exploration costs		-	16,253	(16,253)	-
		-	127,517	(66,557)	60,960
Other (140 claims)					
Mining property	100	14,280	-	-	14,280
Exploration costs		1,561	-	-	1,561
		15,841	-	-	15,841
<b>Total Central Quebec</b>		110,142	705,841	(69,957)	746,026

**AZIMUT EXPLORATION INC.**  
(An exploration company)  
**Notes to Interim Financial Statements (unaudited)**

**6 Mining properties - Cont'd**

	Undivided participation %	Balance as at September 1, 2009 \$	Costs incurred \$	Option payments, write-offs, credit on duties refundable for losses, refundable tax credit relating to resources \$	Balance as at May 31, 2010 \$
<b>James Bay</b>					
Opinaca A, A East (429 claims)					
Mining property	50	-	-	-	-
Exploration costs		-	76	(76)	-
		-	76	(76)	-
Opinaca B, B North (220 claims)					
Mining property	50	-	-	-	-
Exploration costs		-	27	(27)	-
		-	27	(27)	-
Eleonore South (282 claims)					
Mining property	29.4	-	-	-	-
Exploration costs		728	3,518	(1,375)	2,871
		728	3,518	(1,375)	2,871
Opinaca D (188 claims)					
Mining property	100	-	-	-	-
Exploration costs		990	2,163	(995)	2,158
		990	2,163	(995)	2,158
Eastmain West (61 claims)					
Mining property	100	5,695	(1,800)	-	3,895
Exploration costs		8,680	1,820	(780)	9,720
		14,375	20	(780)	13,615
Wabamisk (755 claims)					
Mining property	100	-	-	-	-
Exploration costs		50	5,655	(2,100)	3,605
		50	5,655	(2,100)	3,605
<b>Total James Bay</b>		16,143	11,459	(5,353)	22,249
<b>Total mining properties</b>		1,791,427	1,099,665	(323,873)	2,567,219

**AZIMUT EXPLORATION INC.**  
(An exploration company)  
**Notes to Interim Financial Statements (unaudited)**

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**6 Mining properties - Cont'd**

Change in mining properties

	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>3 months</b>	<b>3 months</b>	<b>9 months</b>	<b>9 months</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance - Beginning of period</b>	2,031,866	1,874,932	1,791,427	1,244,727
Expenses incurred during the period				
Claims and permits	509,930	14,380	691,909	215,958
Geological surveys	137,756	42,431	392,500	290,882
Geochemical surveys	12,247	-	12,247	-
Geophysical surveys	4,282	-	532	129,762
Drilling	-	-	-	337,251
Administration and others	537	-	2,477	-
	<u>664,752</u>	<u>56,811</u>	<u>1,099,665</u>	<u>973,853</u>
Mining properties abandoned or written off	-	(327,389)	(79,224)	(327,389)
Option payments	(134,049)	(44,677)	(134,049)	(85,314)
Credit on duties refundable for losses and refundable tax credit relating to resources	4,650	(102,793)	(110,600)	(348,993)
<b>Balance - End of period</b>	<u>2,567,219</u>	<u>1,456,884</u>	<u>2,567,219</u>	<u>1,456,884</u>

**7 Debenture**

On November 20, 2008, the Company issued a five(5)-year unsecured debenture of \$500,000 bearing interest at 12% annually. The opening balance of that debt has been decreased by \$92,000 as a discount on debenture so as to consider an effective interest rate of 20%. An accretion of debenture of \$13,283 is also reflected in the earnings. The principal is to be reimbursed in cash over a five(5)-year period at \$100,000 per year.

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Notes to Interim Financial Statements (unaudited)**

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**8 Convertible debentures**

The Company completed a private placement of \$940,000 in unsecured convertible debentures. The debentures mature on November 20, 2011, and bear interest at the rate of 12% per annum, payable semi-annually either in cash or in shares. Non-interest bearing if the share trades at \$1.35 and over for the six(6)-month periods ending November 20, 2010, May 20, 2011 and November 20, 2011, respectively. The principal is convertible at the option of the holder into common shares of the Company. The principal is convertible into units at a price of \$0.54 until November 20, 2010. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at \$0.65. After November 20, 2010, the debentures are convertible into units at a price of \$0.60; each unit consists of one common share and one-half of a share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of \$0.75.

The Company reimbursed a \$250,000 secured convertible loan and the accrued interest by issuing 477,847 units at an average price of \$0.5447 per unit, each consisting of one (1) common share and a warrant having an average exercise price of \$0.6565 and valid until November 20, 2010.

The convertible debenture is accounted for in accordance with its substance and is presented in the financial statements in its component parts, measured at their respective fair values at the time of issue. The liability component has been calculated as the present value of the required principal and interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued.

	<b>Liability component</b>	<b>Equity component</b>	<b>Total</b>
	\$	\$	\$
Unsecured convertible debentures	789,950	150,050	940,000
Secured convertible debenture	205,230	44,770	250,000
	995,180	194,820	1,190,000
Accretion on convertible debentures	106,509	-	106,509
Reimbursement of secured convertible debenture	(235,345)	(44,770)	(280,115)
	866,344	150,050	1,016,394

**AZIMUT EXPLORATION INC.**

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**Notes to Interim Financial Statements (unaudited)****9 Share capital**

In December 2009, the Company closed two (2) private placements for a total of \$3,376,125 representing 1,434,167 Units at \$0.75 per unit and 2,675,000 Flow-Through Shares at \$0.86 per share. Each unit is comprised of one (1) common share and one-half (½) common share purchase warrant, each full warrant entitling the holder to purchase an additional common share at an exercise price of \$0.95 for a period of 24 months. The Underwriter's commission and finder's fee totalled \$208,107.

Warrants have been presented separately and recorded at a value of \$265,321 based on the Black-Scholes option pricing model using the following assumptions: risk free interest of 1.50%, expected life of 2 years, annualized volatility rate of 105% and dividend rate of 0%.

**Flow-through shares**

The proceed received from the issuance of flow-through shares amounted to \$2,300,500 and is committed to exploration expenses. In February 2010, the Company renounced \$2,300,500 of qualifying expenditures to the investors. The future income tax cost related to the resulting temporary difference would be approximately \$667,145 and is recorded as a share issue expense.

**Warrants**

The following table summarizes information about warrants outstanding and exercisable as at May 31, 2010.

<b>Exercise prices</b>	<b>Warrants outstanding</b>	<b>Expiry date</b>	<b>Weighted average remaining contractual life (years)</b>
\$0.60	277,778	July 29, 2011	1.16
\$0.60	333,334	August 17, 2011	1.21
\$0.65	462,963	November 20, 2010	0.48
\$0.65	125,000	November 24, 2010	0.47
\$0.80	277,778	July 29, 2011	1.16
\$0.80	333,334	August 17, 2011	1.21
\$0.86	14,884	November 20, 2010	0.47
\$0.95	383,750	December 19, 2011	1.55
\$0.95	<u>333,333</u>	December 29, 2011	1.58
	<u>2,542,154</u>		

**10 Stock options**

The following tables present the stock option activity since September 1, 2009, and summarize information about fixed stock options outstanding and exercisable as at May 31, 2010.

	<b>Number</b>	<b>Weighted average exercise price \$</b>
Outstanding - Beginning of period	1,855,000	1.82
Granted	490,000	0.66
Exercised	<u>(5,000)</u>	<u>0.34</u>
Outstanding - End of period	<u>2,340,000</u>	<u>1.58</u>
Exercisable - End of period	<u>2,325,000</u>	<u>1.57</u>

**AZIMUT EXPLORATION INC.**  
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**Notes to Interim Financial Statements (unaudited)**

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**10 Stock options - Cont'd**

The following table summarizes information about stock options outstanding and exercisable as at May 31, 2010.

Exercise prices	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
\$0.34	585,000	585,000	8.87
\$0.64	30,000	30,000	0.07
\$0.66	490,000	490,000	9.78
\$0.86	105,000	105,000	0.29
\$1.50	50,000	50,000	0.73
\$1.55	300,000	300,000	0.75
\$1.75	150,000	150,000	0.78
\$1.80	20,000	20,000	0.89
\$3.03	310,000	295,000	2.86
\$4.30	300,000	300,000	1.76
	2,340,000	2,325,000	5.06

The fair value of options granted during the period amounts to \$296,940, representing the fair value of options granted and exercisable based on the Black-Scholes option pricing model with the following assumptions: risk-free interest of 3.50%, expected life of 10 years, annualized volatility rate of 105%, and dividend rate of 0%. The amount of \$296,940 has been included in the Statement of Earnings and Comprehensive Income (Loss) under the item "Stock-based compensation cost" as well as in "Shareholders' Equity" under the item "Stock options".

**11 Related party transaction**

The Company entered into the following transaction with a law firm for which one of the directors is a partner.

	May 31,	
	2010	2009
Professional fees and disbursement of expenses	\$ 1,944	\$ 1,304
	1,944	1,304

These transactions took place during the normal course of activities and were established using an exchange value representing an amount of compensation determined and accepted by the related parties. The amounts due from (to) related parties are without interest and terms of repayment.

**AZIMUT EXPLORATION INC.**

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**Notes to Interim Financial Statements (unaudited)****12 Financial instruments, financial risks and capital management**

The classification of financial instruments as at May 31, 2010, is summarized as follows:

	Classification	May 31, 2010		August 31, 2009	
		Carrying value	Fair value	Carrying value	Fair value
		Total	Total	Total	Total
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	Held for trading	3,313,423	3,313,423	1,349,818	1,349,818
Amounts receivable	Loans and receivables	574,436	574,436	655,123	655,123
Long-term investments	Available for sale	330,416	330,416	534,416	534,416
		<u>4,218,275</u>	<u>4,218,275</u>	<u>2,539,357</u>	<u>2,539,357</u>
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	Other than held-for-trading liabilities	635,201	635,201	418,577	418,577
Debenture and convertible debentures	Other than held-for-trading liabilities	1,201,944	1,201,944	1,473,781	1,473,781
		<u>1,837,145</u>	<u>1,837,145</u>	<u>1,892,358</u>	<u>1,892,358</u>

The Company's financial instruments as at May 31, 2010 consist of cash and cash equivalents, amounts receivable from related party and others, accounts payable and accrued liabilities and debentures. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or to current market rates. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The fair value of available-for-sale long-term investments is established using the bid price on the most beneficial active market for this instrument that is readily available to the Company. When a bid price is not available, the Company uses the closing price of the most recent transaction on such instrument.

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Notes to Interim Financial Statements (unaudited)**

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**12 Financial instruments, financial risks and capital management - Cont'd**

**Financial risks**

The Company is exposed to various financial risks, such as credit risk, liquidity risk and interest rate risk from its use of financial instruments.

**Credit risk**

The Company's credit risk is primarily attributable to cash and cash equivalents, amounts receivable and long-term investments. Cash and cash equivalents and long-term investments are deposited in Canadian chartered bank accounts or invested in a diversified manner in securities having an investment-grade rating, from which management believes the risk of loss to be minimal.

The credit risk associated with amounts receivable from partners arises from the possibility that the partners may not be able to repay their debts. These receivables result from option payments and exploration work carried out on properties under option and operated by the Company. This risk is minimal because the net amount is not significant.

**Liquidity risk**

Liquidity risk is the risk that the Company may be unable to fulfill its financial obligations related to financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidities to meet liabilities when due. The Company anticipates that its funds are sufficient to support its corporate and administrative obligations on a continuous basis. Management is evaluating other alternatives to secure the necessary financing so the Company can continue as a going concern. Nevertheless, there is no assurance that these initiatives will be successful. The amount and timing of additional funding will be impacted by, among other things, the strength of the capital markets. As at May 31, 2010, the Company has enough available funds to meet its current and future financial liabilities arising from its commitments for the current year.

**Interest rate risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balances is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.

As at May 31, 2010, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Amounts receivable	Non-interest bearing
Long-term investments	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Debentures payable	See notes 7 and 8

**AZIMUT EXPLORATION INC.**

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**Notes to Interim Financial Statements (unaudited)**

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**12 Financial instruments, financial risks and capital management - Cont'd**

The Company considers the items included in shareholders' equity as capital components.

There were no significant changes in the Company's approach to capital management during the period ended May 31, 2010, and the Company is not subject to any capital requirements related to externally imposed regulations or contractual issues, unless the Company closes a flow-through private placement in which case the funds can only be applied to exploration expenses.

**13 Comparative figures**

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

**AZIMUT EXPLORATION INC.**

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**CORPORATE INFORMATION**

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**Board of Directors**

Dennis Wood, Chairman of the Board (Montreal)  
Jean-Marc Lulin, Ph.D., geologist, Director (Montreal)  
Jean-Charles Potvin, B.Sc., M.B.A., Director (Toronto)  
Louis P. Salley, B.A., LL.B., Director (Vancouver)  
Pierre Toth, M.Sc., Director (Montreal)

**Management**

Jean-Marc Lulin, President and Chief Executive Officer  
Moniroth Lim, Secretary and Treasurer

**Legal Counsel**

Miller Thomson Pouliot (Montreal)

**Auditors**

PricewaterhouseCoopers LLP (Quebec)

**Transfer Agent**

Trust CIBC Mellon Company (Montreal)

**Listing**

TSX Venture  
Symbol: AZM

**Contact and information**

Head Office

110, De La Barre Street  
Suite 214  
Longueuil, QC  
Canada J4K 1A3  
Tel: (450) 646-3015  
Fax: (450) 646-3045  
E-mail: [info@azimut-exploration.com](mailto:info@azimut-exploration.com)

Web Site

[www.azimut-exploration.com](http://www.azimut-exploration.com)