

**Azimut Exploration Inc.**  
(an exploration company)

Financial Statements  
**August 31, 2006 and 2005**

## 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, 2006 and 2005 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, 2006 and 2005 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  
December 19, 2006

# Azimut Exploration Inc.

(an exploration company)

Balance Sheets

As at August 31, 2006 and 2005

	2006 \$	2005 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	229,428	865,454
Amounts receivable (note 5)	385,922	224,637
Prepaid expenses (note 6)	127,615	9,955
	<u>742,965</u>	<u>1,100,046</u>
<b>Long-term investments</b> (note 7)	90,550	41,550
<b>Property, plant and equipment</b> (note 8)	24,426	6,420
<b>Intangible assets</b> (less accumulated amortization of \$329; \$202 in 2005)	1,170	297
<b>Mining properties</b> (note 9)	652,296	138,934
	<u>1,511,407</u>	<u>1,287,247</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Related companies (note 13)	1,746	-
Others	409,488	82,922
	<u>411,234</u>	<u>82,922</u>
<b>Shareholders' Equity</b>		
<b>Convertible debentures</b> (note 10)	-	388,200
<b>Share capital</b> (note 11)	6,022,948	5,521,425
<b>Warrants</b> (note 11)	-	-
<b>Stock options</b> (note 12)	774,422	97,180
<b>Deficit</b>	<u>(5,697,197)</u>	<u>(4,802,480)</u>
	<u>1,100,173</u>	<u>1,204,325</u>
	<u>1,511,407</u>	<u>1,287,247</u>
<b>Going concern</b> (note 1)		
<b>Commitment</b> (note 16)		
<b>Subsequent events</b> (note 17)		

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

Approved by the Board of Directors

(2)

(s) Jacques Bonneau \_\_\_\_\_ Director

(s) Jean-Marc Lulin \_\_\_\_\_ Director

# Azimut Exploration Inc.

(an exploration company)

Statements of Deficit

For the years ended August 31, 2006 and 2005

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	<b>2006</b>	<b>2005</b>
	\$	\$
<b>Balance – Beginning of year</b>	4,802,480	4,540,700
Interest on convertible debentures (notes 10 and 11)	-	(5,141)
Net loss for the year	894,717	266,921
<b>Balance – End of year</b>	<u>5,697,197</u>	<u>4,802,480</u>

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

# Azimut Exploration Inc.

(an exploration company)

Statements of Earnings

For the years ended August 31, 2006 and 2005

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	2006 \$	2005 \$
<b>Revenues</b>		
Interest income	16,881	9,879
Gain on sale of options of mining properties	230,287	119,380
Management fees	143,673	6,401
	<hr/> 390,841	<hr/> 135,660
<b>Expenses</b>		
Salaries and fringe benefits	556,677	93,415
Professional and maintenance fees	126,046	78,409
Management fees and office expenses	396,263	106,093
Travelling and entertainment	41,026	21,001
Interest and bank charges	1,438	420
Amortization of property, plant and equipment	2,284	933
Amortization of intangible assets	127	127
Search for properties	184,476	86,409
Tax credits and mining rights	(14,108)	( 748)
Writedown of long-term investments	15,000	14,629
Cost of mining properties abandoned	7,300	31,811
Part XII.6 Tax	-	1,102
	<hr/> 1,316,529	<hr/> 433,601
<b>Loss before income taxes</b>	(925,688)	(297,941)
<b>Future income taxes</b> (note 14)	30,971	31,020
	<hr/> (894,717)	<hr/> (266,921)
<b>Net loss for the year</b>	<hr/> (894,717)	<hr/> (266,921)
<b>Basic and diluted net loss per share</b> (note 15)	<hr/> (0.059)	<hr/> (0.021)

**Going concern** (note 1)

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

# Azimut Exploration Inc.

(an exploration company)

Statements of Cash Flows

For the years ended August 31, 2006 and 2005

	2006 \$	2005 \$
<b>Cash flows from operating activities</b>		
Net loss for the year	(894,717)	(266,921)
Items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	2,284	933
Amortization of intangible assets	127	127
Future income taxes	(30,971)	(31,020)
Writedown of long-term investments	15,000	14,629
Cost of mining properties abandoned	7,300	31,811
Gain on sale of options of mining properties	(230,287)	(119,380)
Stock options	677,242	23,200
	<u>(454,022)</u>	<u>(346,621)</u>
Net change in non-cash working capital items		
Amounts receivable	(145,870)	(103,404)
Prepaid expenses	(117,660)	19,230
Accounts payable and accrued liabilities	301,912	(53,289)
	<u>38,382</u>	<u>(137,463)</u>
	<u>(415,640)</u>	<u>(484,084)</u>
<b>Cash flows from financing activities</b>		
Issuance of share capital, net of share issue expenses	144,294	1,004,576
Issuance of warrants	-	18,095
	<u>144,294</u>	<u>1,022,671</u>
<b>Cash flows from investing activities</b>		
Additions to intangible assets	(1,000)	-
Increase in mining properties	(693,390)	(243,380)
Proceeds from sale of options of mining properties	350,000	250,000
Additions to property, plant and equipment	(20,290)	(6,780)
	<u>(364,680)</u>	<u>(160)</u>
<b>Net change in cash and cash equivalents</b>	(636,026)	538,427
<b>Cash and cash equivalents – Beginning of year</b>	865,454	327,027
<b>Cash and cash equivalents – End of year</b>	<u>229,428</u>	<u>865,454</u>
<b>Additional information</b>		
Tax credits and mining rights receivable applied against mining properties (note 5)	(15,415)	(7,205)
Shares cancelled and to be cancelled in consideration of the payment of interest on convertible debentures	-	(5,141)
Interest cashed (net of interest paid)	15,443	8,136
Shares received in consideration of the sale of a mining property	64,000	44,179
Shares issued in consideration of the conversion of convertible debentures	388,200	-
Acquisition of mining properties included in accounts payable and accrued liabilities	26,400	-
Share issue expenses resulting from the renunciation of tax deductions included in share capital	30,971	31,020

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

# **Azimut Exploration Inc.**

(an exploration company)

Notes to Financial Statements

**August 31, 2006 and 2005**

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## **1 Going concern**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. The use of generally accepted accounting principles applicable to a going concern can be inappropriate because there is significant doubt about the appropriateness of the assumption.

These financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary were the going concern assumption inappropriate, and such adjustments could be material. Management did not make these adjustments because it believes in the going concern assumption.

The company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral 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 upon future profitable production or proceeds from the disposal of properties. The company will periodically have to raise additional funds to continue 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.

Although the company has taken steps to verify title to mineral properties in which it 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.

## **2 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 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.

# **Azimut Exploration Inc.**

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Notes to Financial Statements

**August 31, 2006 and 2005**

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## **3 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. Actual results could differ from those estimates.

### **Cash and cash equivalents**

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

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 (note 4).

### **Long-term investments**

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

### **Property, plant and equipment and amortization**

Property, plant and equipment are recorded at cost less accumulated amortization and are amortized using the declining balance method at the rates mentioned in note 8.

### **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.



# **Azimut Exploration Inc.**

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Notes to Financial Statements

**August 31, 2006 and 2005**

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## **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 9).

Furthermore, the company is entitled to the refundable tax credit for mining exploration companies on qualified expenditures. The refundable tax credit may reach 38.75% of qualified expenditures incurred. This tax credit has been applied against the costs incurred (note 9).

## **Share capital**

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 represent 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.

# **Azimut Exploration Inc.**

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Notes to Financial Statements

**August 31, 2006 and 2005**

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## **Stock-based compensation plan**

The company offers its directors, officers and employees a stock-based compensation plan, which is described in note 12. Any consideration received from the participants to the plan upon the exercise of options is credited to share capital.

In accordance with Canadian generally accepted accounting principles, the company uses 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.

## **New accounting policies**

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.

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.

# Azimut Exploration Inc.

(an exploration company)

Notes to Financial Statements

August 31, 2006 and 2005

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## 4 Cash and cash equivalents

	2006 \$	2005 \$
Cash and cash equivalents	229,428	784,131
Exploration funds	-	81,323
	<hr/> 229,428	<hr/> 865,454

## 5 Amounts receivable

	2006 \$	2005 \$
Tax credit and mining rights receivable	55,766	30,167
Commodity taxes	76,680	24,958
Trade accounts receivable	253,476	169,512
	<hr/> 385,922	<hr/> 224,637

## 6 Prepaid expenses

	2006 \$	2005 \$
Permits and claims	112,760	1,872
Others	14,855	8,083
	<hr/> 127,615	<hr/> 9,955

# Azimut Exploration Inc.

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Notes to Financial Statements

August 31, 2006 and 2005

## 7 Long-term investments

	Interest %	2006 \$	2005 \$
Target Exploration and Mining Corp. (previously Leicester Diamond Mines Ltd.), a public mining exploration company, at cost less any permanent impairment in value (quoted market value: \$26,100; \$12,000 in 2005)	1.05 (1.5 in 2005)	9,300	9,300
Eastmain Resources Inc., at cost less any permanent impairment in value (quoted market value: \$49,500; \$34,500 in 2005)	0.11 (0.15 in 2005)	32,250	32,250
Northwestern Mineral Ventures, at cost less any permanent impairment in value (quoted market value: \$49,000)	0.10	49,000	-
		90,550	41,550

## 8 Property, plant and equipment

		2006		2005	
	Amortization rate %	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Office furniture	20	5,336	2,746	5,336	2,098
Office equipment	20	2,208	734	1,220	586
Computer equipment	30	7,467	1,382	2,998	450
Specialist equipment	30	14,833	556	-	-
		29,844	5,418	9,554	3,134
Less:					
Accumulated amortization		5,418		3,134	
Net amount		24,426		6,420	

# Azimut Exploration Inc.

Notes to Financial Statements

August 31, 2006 and 2005

## 9 Mining properties

Year Ended August 31, 2006

	Undivided interest %	Balance as at August 31, 2005 \$	Costs incurred \$	Mining properties abandoned, option payments, credit on duties refundable for losses and tax credits for resources \$	Balance as at August 31, 2006 \$
Aguanish (102 claims)					
Mining properties	100	-	-	-	-
Exploration costs		-	443	-	443
		-	443	-	443
Baskatong (107 claims)					
Mining properties	100	-	-	-	-
Exploration costs		-	453	-	453
		-	453	-	453
Bienville South (1,045 claims)					
Mining properties	100	-	102,410	-	102,410
Exploration costs		-	-	-	-
		-	102,410	-	102,410
Comptoir (796 claims) (g)					
Mining properties	100	46,750	40,810	(30,000)	57,560
Exploration costs		-	25,258	(10,270)	14,988
		46,750	66,068	(40,270)	72,548
Eastmain West (167 claims) (e)					
Mining properties	100	-	-	-	-
Exploration costs		-	-	-	-
		-	-	-	-
Grenium (2,230 claims)					
Mining properties	100	-	108,480	(100,000)	8,480
Exploration costs		-	(947)	-	(947)
		-	107,533	(100,000)	7,533
Hudson Bay (355 claims)					
Mining properties	100	-	34,790	-	34,790
Exploration costs		-	-	-	-
		-	34,790	-	34,790
(forward)		46,750	311,697	(140,270)	218,177

# Azimut Exploration Inc.

## Notes to Financial Statements

August 31, 2006 and 2005

	Undivided interest %	Balance as at August 31, 2005 \$	Costs incurred \$	Mining properties abandoned, option payments, credit on duties refundable for losses and tax credits for resources \$	Balance as at August 31, 2006 \$
(brought forward)		46,750	311,697	(140,270)	218,177
Lake Daniel Mining properties	100	-	-	-	-
Exploration costs		-	368	-	368
		-	368	-	368
Manitou (2,478 claims) Mining properties	(i) 100	(47)	-	-	(47)
Exploration costs		432	5,208	(672)	4,968
		385	5,208	(672)	4,921
Minto Central (337 claims) Mining properties	100	-	33,026	-	33,026
Exploration costs		-	-	-	-
		-	33,026	-	33,026
Minto West (660 claims) Mining properties	100	-	64,680	-	64,680
Exploration costs		-	-	-	-
		-	64,680	-	64,680
Minto North (1,072 claims) Mining properties	100	-	105,056	-	105,056
Exploration costs		-	-	-	-
		-	105,056	-	105,056
Minto South (645 claims) Mining properties	100	-	63,210	-	63,210
Exploration costs		-	-	-	-
		-	63,210	-	63,210
Mont Merry (12 claims) Mining properties	100	-	-	-	-
Exploration costs		-	262	-	262
		-	262	-	262
(forward)		47,135	583,507	(140,942)	489,700

# Azimut Exploration Inc.

## Notes to Financial Statements

August 31, 2006 and 2005

		Undivided interest %	Balance as at August 31, 2005 \$	Costs incurred \$	Mining properties abandoned, option payments, credit on duties refundable for losses and tax credits for resources \$	Balance as at August 31, 2006 \$
(brought forward)			47,135	583,507	(140,942)	489,700
North Rae (701 claims)	(h)					
Mining properties		100	-	21,470	(21,470)	-
Exploration costs			-	1,641	(1,641)	-
			-	23,111	(23,111)	-
Obamsca (39 claims)						
Mining properties		100	-	1,872	-	1,872
Exploration costs			-	1,221	-	1,221
			-	3,093	-	3,093
Opinaca A, A East (424 claims)	(a)					
Mining properties		100	157	-	(157)	-
Exploration costs			(95)	1,400	(1,305)	-
			62	1,400	(1,462)	-
Opinaca B, B North (220 claims)	(b)					
Mining properties		100	-	-	(-)	-
Exploration costs			-	176	(176)	-
			-	176	(176)	-
Opinaca C (166 claims)	(c)					
Mining properties		100	-	-	(-)	-
Exploration costs			62	452	(514)	-
			62	452	(514)	-
Opinaca D (188 claims)	(d)					
Mining properties		100	-	-	(-)	-
Exploration costs			-	452	(452)	-
			-	452	(452)	-
Retty (153 claims)						
Mining properties		100	26,912	2,548	-	29,460
Exploration costs			42,283	-	(7,300)	34,983
			69,195	2,548	(7,300)	64,443
(forward)			116,454	614,739	(173,957)	557,236

# Azimut Exploration Inc.

## Notes to Financial Statements

August 31, 2006 and 2005

	Undivided interest %	Balance as at August 31, 2005 \$	Costs incurred \$	Mining properties abandoned, option payments, credit on duties refundable for losses and tax credits for resources \$	Balance as at August 31, 2006 \$
(brought forward)		116,454	614,739	(173,957)	557,236
South Rae (970 claims)					
Mining properties	100	-	95,060	-	95,060
Exploration costs		-	-	-	-
		-	95,060	-	95,060
Wabamisk (755 claims)	(f)				
Mining properties	100	20,980	-	(20,980)	-
Exploration costs		1,500	9,991	(11,491)	-
		22,480	9,991	(32,471)	-
		138,934	719,790	(206,428)	652,296

### 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)	(g)				
Mining properties	100	-	46,750	-	46,750
Exploration costs		-	-	-	-
		-	46,750	-	46,750
De Romer (26 claims)					
Mining properties	100	2,469	-	(2,469)	-
Exploration costs		7,111	1,699	(8,810)	-
		9,580	1,699	(11,279)	-
Eastmain West (167 claims)	(e)				
Mining properties	100	22,890	(14,297)	(8,593)	-
Exploration costs		909	8,013	(8,922)	-
		23,799	(6,284)	(17,515)	-
(forward)		33,379	42,165	(28,794)	46,750



# Azimut Exploration Inc.

## Notes to Financial Statements

August 31, 2006 and 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 \$
(brought forward)		33,379	42,165	(28,794)	46,750
Gillet Lake (86 claims)					
Mining properties	100	8,178	-	(8,178)	-
Exploration costs		10,112	2,242	(12,354)	-
		18,290	2,242	(20,532)	-
Manitou (2,377 claims)	(i)				
Mining properties	100	-	(47)	-	(47)
Exploration costs		-	445	(13)	432
		-	398	(13)	385
Opinaca A, A East (326 claims)	(a)				
Mining properties	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)	-
(forward)		59,012	152,062	(163,815)	47,259

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	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)		59,012	152,062	(163,815)	47,259
Retty (199 claims)	100				
Mining properties		18,612	8,300	-	26,912
Exploration costs		31,745	10,538	-	42,283
		50,357	18,838	-	69,195
Wabamisk (676 claims)	(f) 100				
Mining properties		-	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

## Statements of deferred exploration costs

	Years Ended August 31,	
	2006 \$	2005 \$
<b>Balance – Beginning of year</b>	138,934	109,369
Expenses incurred during the year		
Claims and permits	673,412	199,990
Geology	46,378	17,887
Salaries	-	18,422
Analyses	-	7,081
	719,790	243,380
Mining properties written off	(7,300)	(31,811)
Payments on options	(183,713)	(174,799)
Credit on duties refundable for losses and tax credits for resources	(15,415)	(7,205)
	(206,428)	(213,815)
<b>Balance – End of year</b>	652,296	138,934

# Azimut Exploration Inc.

## Notes to Financial Statements

August 31, 2006 and 2005

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- (a) In December 2004, the company granted Everton Resources Inc. ("Everton") 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 work expenditures. Everton may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2006, Everton had made a payment of \$70,000 (\$50,000 in 2005) in cash and had carried out exploration work totaling \$980,238 (\$157,354 in 2005).
- (b) In December 2004, the company granted Everton 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 work expenditures. Everton may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2006, Everton had made a payment of \$60,000 (\$40,000 in 2005) in cash and had carried out exploration work totaling \$479,562 (\$117,756 in 2005).
- (c) In March 2005, the company granted Eastmain Resources Inc. ("Eastmain") 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 and 2.7 million dollars in work expenditures. In April 2006, the company signed a letter of intent to form a three-way Joint Venture with Goldcorp Inc. ("Goldcorp") and Eastmain on the Eleonore South property, which includes 166 claims of the Opinaca C property and 116 claims owned by Goldcorp. Eastmain has an option to earn a 33.33% interest in the Eleonore South property by continuing to make cash payments to the company and funding a total of 4.0 million dollars in work expenditures. Eastmain may also acquire an additional 6.67% interest for a total of 40% by delivering a feasibility study.
- As at August 31, 2006, Eastmain had made a payment of \$75,000 (\$50,000 in 2005) in cash, granted 30,000 common shares and had carried out exploration work totaling \$1,298,225 (\$284,935 in 2005).
- (d) In March 2005, the company granted Eastmain 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 and 1.9 million dollars in exploration works. Eastmain may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2006, Eastmain had made a payment of \$55,000 (\$30,000 in 2005) in cash, granted 45,000 common shares and had carried out exploration work totaling \$454,119 (\$250,747 in 2005).
- (e) In April 2005, the company granted IAMGOLD-Québec Management Inc. ("IAMGOLD" – formerly Cambior Inc.) the option to acquire a 50% interest in the Eastmain West property for a cash consideration of \$200,000 and 2 million dollars in work expenditures. IAMGOLD may also acquire an additional 15% interest by delivering a feasibility study. As at August 31, 2006, IAMGOLD had made a payment of \$60,000 (\$30,000 in 2005) in cash and had carried out exploration work totaling \$414,009 (\$113,138 in 2005).
- (f) In May 2005, the company granted Placer Dome (CLA) Ltd. (now Goldcorp Inc.) the option to acquire a 51% interest in the Wabamisk property for a cash consideration of \$500,000 and 4 million dollars in work expenditures. Goldcorp may also acquire an additional 19% interest by delivering a feasibility study. As at August 31, 2006, Goldcorp had made a payment of \$100,000 (\$50,000 in 2005) in cash and had carried out exploration work totaling \$469,042 (\$359,042 in 2005).

# **Azimut Exploration Inc.**

## Notes to Financial Statements

**August 31, 2006 and 2005**

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- (g) In June 2006, the company granted IAMGOLD the option to acquire a 50% interest in the Comptoir property for a cash consideration of \$270,000 and \$3.2 million in work expenditures. IAMGOLD may also acquire an additional 15% interest by delivering a feasibility study. As at August 31, 2006, IAMGOLD had made a payment of \$30,000 in cash and had carried out exploration work totaling \$116,199.
- (h) In March 2006, the company granted Northwestern Mineral Ventures Inc. ("Northwestern") the option to acquire a 50% interest in the North Rae property for a cash consideration of \$210,000, 100,000 common shares of Northwestern and 2.9 million dollars in work expenditures. Northwestern may also acquire an additional 15% interest by delivering a feasibility study. As at August 31, 2006, Northwestern had made a payment of \$50,000 in cash, granted 100,000 common shares to the company and had carried out exploration work totaling \$615,848.
- (i) In March 2006, the company granted Kennecott Exploration Company ("Kennecott") the option to acquire a 60% interest in three selected targets totalling 1,671 claims, which are part of the Manitou property. Kennecott will have to incur 1 million dollars in work expenditures per selected target over a four-year period to earn its interest. Kennecott will pay \$50,000 to the company per selected target, when a target has advanced to the drilling stage. Kennecott may acquire an additional 20% interest by delivering a feasibility study. As at August 31, 2006, Kennecott has incurred work expenditures totalling \$401,386 for the three selected targets.

# Azimut Exploration Inc.

Notes to Financial Statements

August 31, 2006 and 2005

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## 10 Convertible debentures

	2006 \$	2005 \$
Debentures convertible at the company's option into common shares		
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, converted in 2006	-	250,000
At a conversion prices variant from \$0.33 to \$0.44 per share, 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, at \$0.45 and over for the third and fourth six-month periods, at \$0.55 and over for the fifth and sixth six-month periods, at \$0.65 and over for the seventh and eighth six-month periods and at \$0.75 and over for the ninth and tenth six-month periods, maturing in November 2008 and converted in 2006. 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, which were exercised in 2005	-	138,200 *
	-	388,200

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

## 11 Share capital

Authorized

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

	2006 \$	2005 \$
Issued and fully paid		
16,121,755 common shares (14,687,456 in 2005) *	6,022,948	5,521,425

\* 144,784 shares (289,568 in 2005) are held in escrow and will gradually be released during the next year.

# Azimut Exploration Inc.

Notes to Financial Statements

August 31, 2006 and 2005

(a) Variation of issued and fully paid share capital:

	2006		2005	
	Number	Amount \$	Number	Amount \$
Balance – Beginning of year	14,687,456	5,521,425	11,594,302	4,193,100
Private placements	77,100	100,230	404,766	181,905 *
Stock options exercised	218,000	46,515	245,000	94,605 **
Conversion of two debentures	1,139,199	388,200	-	-
Payment of a debenture	-	-	555,556	100,000
Payment of interest on convertible debentures	-	-	25,926	4,667
Warrants exercised	-	-	1,861,906	984,443 ***
	16,121,755	6,056,370	14,687,456	5,558,720
Share issue expenses for the year	-	(33,422)	-	(37,295)
Balance – End of year	16,121,755	6,022,948	14,687,456	5,521,425

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

\*\* Including the fair value of stock options of \$54,705 in 2005 recorded in stock options.

\*\*\* Including the fair value of warrants of \$195,395 recorded in warrants.

(b) Variation of warrants

	2006		2005	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	-	-	1,742,858	0.42
Issued	-	-	119,048 *	0.52
Exercised	-	-	(1,861,906)	0.43
Outstanding and exercisable – End of year	-	-	-	-

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

# Azimut Exploration Inc.

## Notes to Financial Statements

August 31, 2006 and 2005

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

	<b>2005</b>
Risk-free interest rate	3.06%
Expected volatility	100%
Dividend yield	Nil
Weighted average expected life	18 months
Weighted average fair value of warrants issued	\$0.152

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.

## 12 Stock option plan

The company maintains a stock option plan under which certain officers, directors, key employees and suppliers may be granted stock options for shares of the company. A maximum of 1,485,745 stock options (1,421,685 in 2005) 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 a consultant to management 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 representing the fair value of these stock options has been included in the statement of earnings in 2005 under the item "Salaries and fringe benefits" and in Shareholders' Equity under the item "Stock options". The consultant's options, which had not yet been exercised, were cancelled during the year following his departure.

# Azimut Exploration Inc.

Notes to Financial Statements

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The following tables present the stock option activity since September 1, 2004 and summarize information about fixed stock options outstanding and exercisable as at August 31:

	2006		2005	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	785,000	0.26	1,000,000	0.23
Granted	730,000	1.47	30,000	0.64
Exercised	(218,000)	0.22	(245,000)	0.16
Cancelled	(70,000)	0.17	-	-
	1,227,000	0.99	785,000	0.26
Outstanding – End of year				
Exercisable – End of year	1,227,000	0.99	715,000	0.27

	Options outstanding	
Exercise prices \$	Number	Weighted average remaining contractual life (years)
0.18	35,000	3.40
0.24	100,000	1.81
0.30	347,000	2.52
0.64	30,000	3.82
0.86	135,000	4.04
1.50	50,000	4.48
1.55	300,000	4.50
1.75	210,000	4.53
1.80	20,000	4.64
	1,227,000	3.63



# Azimut Exploration Inc.

Notes to Financial Statements

August 31, 2006 and 2005

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## 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:

	<u>2006</u>		<u>2005</u>
Number of options granted	150,000	580,000	30,000
Risk-free interest rate	3.22%	4.00%	2.97%
Expected volatility	74%	74%	73%
Dividend yield	Zero	Zero	Zero
Weighted average expected life	60 months	60 months	42 months
Weighted average fair value of options granted	\$0.538	\$1.029	\$0.341

The fair value of stock options granted during the year amounts to \$677,242. The entire amount, representing the fair value of options granted, has been included in the statement of earnings under the items "Search for properties", "Salaries and fringe benefits" and "Management fees and office expenses" and in Shareholders' Equity under the item "Stock options".

The fair value of stock options granted during the preceding 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 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 officers, 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, officers, directors and key employees.

## 13 Related party transactions

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

	<u>2006</u>	<u>2005</u>
	\$	\$
Office expenses	3,168	-

These transactions took place in the normal course of operations and are established using an exchange value, representing an amount of compensation determined and accepted to by the related parties.

# Azimut Exploration Inc.

Notes to Financial Statements

August 31, 2006 and 2005

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## 14 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>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Loss before income taxes	(925,688)	(297,941)
Combined federal and provincial income tax at 33.57% (35.35% as at August 31, 2005)	(310,800)	(105,300)
Tax benefits previously unrecognized	(30,971)	(31,020)
Loss related to taxable resources for income tax purposes	15,000	17,000
Non-deductible expenses for income tax purposes	233,400	13,000
Expiry of operating losses carried forward	83,300	82,300
Share issue expenses not affecting earnings	(1,000)	(3,000)
Change in valuation allowance	(38,800)	(29,200)
Change in future tax rates	46,200	-
Other	(27,300)	25,200
Future income taxes	(30,971)	(31,020)

The company is entitled to the following tax benefits, which were not accounted for in the financial statements as at August 31, 2006, except for a future income tax asset of \$30,971 (\$31,020 in 2005) recorded against a future income tax liability for the same amount.

As at August 31, 2006, 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:

<b>Expiry Year</b>	<b>Federal</b>	<b>Provincial</b>
	<b>\$</b>	<b>\$</b>
2026	266,000	226,000
2015	229,000	209,000
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
	<u>1,151,000</u>	<u>1,081,000</u>

# Azimut Exploration Inc.

## Notes to Financial Statements

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- The company has accumulated capital losses of approximately \$17,000 (\$17,000 in 2005).
- The tax value of mining properties exceeds the carrying value by approximately \$556,000 at the federal level (\$679,000 in 2005) and \$629,000 at the provincial level (\$753,000 in 2005). 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 \$13,000 (\$10,500 in 2005) and \$8,000 (\$5,500 in 2005), respectively.
- The tax value of long-term investments exceeds the carrying value by approximately \$51,629 (\$36,629 in 2005). The difference between the tax value and the amounts accounted for in the financial statements mainly results from the impairment in value accounted for on these investments.
- The unamortized balance, for income tax purposes, of share issue expenses amounts to \$19,000 (\$26,000 in 2005) and will be deductible during the next four years.

### 15 Loss per share

For the years ended August 31, 2006 and 2005, 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 (15,222,661 in 2006 and 12,379,346 in 2005).

	<u>Years Ended August 31,</u>	
	<b>2006</b>	<b>2005</b>
Net loss for the year	(894,717)	(266,921)
Interest on debentures	-	5,141
	<hr/>	<hr/>
Loss used in the basic and diluted net loss per share calculation	(894,717)	(261,780)
	<hr/>	<hr/>
Basic weighted average number of shares outstanding	15,222,661	12,379,346
Stock options	511,577	573,313
Warrants	-	234,337
Conversion of debentures	-	1,194,296
	<hr/>	<hr/>
Diluted weighted average number of shares outstanding	15,734,238	14,381,292
	<hr/>	<hr/>
Items excluded from the calculation of diluted loss per share because the exercise price was greater than the average market price of the common shares		
Stock options	580,000	30,000

# Azimut Exploration Inc.

Notes to Financial Statements

August 31, 2006 and 2005

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## 16 Commitment

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

## 17 Subsequent events

In October 2006, the company raised \$199,500 through a private placement by issuing 93,000 common shares at a price of \$2.15 per share.

In November 2006, the company and Kennecott signed a new strategic alliance agreement with the objective of identifying exploration targets over an area of approximately 151,000 km<sup>2</sup> in Quebec. The agreement includes three phases:

- Phase 1: Upon delivery to Kennecott of a mineral potential study within four months, the company will receive in exchange of a cash payment of \$60,000;
- Phase 2: Upon delivery of the study, Kennecott will spend a minimum of \$100,000 per Identified Target. The company will be the operator and will charge a 15% administration fee; and
- Phase 3: Kennecott will have the right to earn a 51% interest in each Selected Target in exchange of a cash payment of \$120,000 and by spending \$2.0 million in work expenditures over a four-year period. Kennecott may also acquire an additional 29% interest for a total of 80% with the delivery of a feasibility study.

In December 2006, the company raised a private placement for an aggregate amount of \$1,511,250 for the issuance of 325,000 common shares at a price of \$4.65 per share.

## 18 Financial instruments

### Fair value

Cash and cash equivalents, amounts receivable 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.

# **Azimut Exploration Inc.**

Notes to Financial Statements

**August 31, 2006 and 2005**

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## **Interest rate risk**

As at August 31, 2006 and 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
Accounts payable and accrued liabilities	Non-interest bearing
Convertible debentures	As described in note 10

## **19 Comparative figures**

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