

Azimut Exploration Inc.
(an exploration stage company)

Financial Statements
August 31, 2011 and 2010



December 20, 2011

Independent Auditor's Report

To the Shareholders of Azimut Exploration Inc.

We have audited the accompanying financial statements of Azimut Exploration Inc., which comprise the balance sheets as at August 31, 2011 and 2010 and the statements of loss and comprehensive loss, shareholders equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

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We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Azimut Exploration Inc. as at August 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

¹ Chartered accountant auditor permit No. 20910

Azimut Exploration Inc.

(an exploration stage company)

Balance Sheets

As at August 31, 2011 and 2010

	2011 \$	2010 \$
Assets		
Current assets		
Cash and cash equivalents (note 4)	3,834,831	2,704,823
Amounts receivable		
Related party (notes 8g and h)	40,282	80,564
Others (note 5)	2,314,148	939,469
Prepaid expenses	31,445	21,848
	<u>6,220,706</u>	<u>3,746,704</u>
Mining rights receivable	137,608	-
Long-term investments (note 6)	386,405	377,561
Property and equipment (note 7)	92,555	282,422
Intangible assets (less accumulated amortization of \$9,751; \$6,441 in 2010)	14,157	4,597
Mining properties (note 8)	7,561,643	3,947,274
	<u>14,413,074</u>	<u>8,358,558</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Related parties	79,659	93,905
Accounts payable and accrued liabilities, advances received for exploration work and others	1,459,691	1,708,802
Current portion of debenture payable (note 9)	100,000	100,000
Obligation under capital lease (note 11)	16,100	29,697
	<u>1,655,450</u>	<u>1,932,404</u>
Debenture payable (note 9)	158,600	240,200
Liability component of convertible debentures (notes 10 and 20)	296,118	878,847
	<u>454,718</u>	<u>1,119,047</u>
	<u>2,110,168</u>	<u>3,051,451</u>
Shareholders' Equity		
Share capital (note 12)	18,919,219	11,524,400
Warrants (note 13)	735,046	564,152
Stock options (note 14)	2,198,030	2,468,540
Equity component of convertible debentures (notes 10 and 20)	47,889	150,050
Contributed surplus	1,087,042	459,472
Deficit	(10,676,927)	(9,851,659)
Accumulated other comprehensive loss	(7,393)	(7,848)
	<u>12,302,906</u>	<u>5,307,107</u>
	<u>14,413,074</u>	<u>8,358,558</u>

Subsequent event (note 20)

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

Approved by the Board of Directors

(s) Dennis Wood _____ Director

(s) Jean-Marc Lulin _____ Director

Azimut Exploration Inc.

(an exploration stage company)

Statements of Loss and Comprehensive Loss

For the years ended August 31, 2011 and 2010

	2011 \$	2010 \$
Expenses		
Salaries and fringe benefits	127,206	187,571
Professional and maintenance fees	140,164	136,633
Administration and office	205,607	172,480
Travelling and entertainment	57,228	75,904
Interest on debentures	119,623	231,705
Interest and bank charges	1,721	2,526
Interest on obligation under capital lease	403	1,386
Depreciation of property and equipment	14,280	16,877
Amortization of intangible assets	3,310	1,970
Search for properties	236,392	111,600
Credit on duties refundable for loss and refundable tax credit for resources	(75,466)	(9,564)
Write-off and write-down of mining properties (note 8)	70,895	158,630
Allowance for doubtful account	47,320	-
Part XII.6 tax	(628)	27,344
Stock-based compensation costs	368,460	421,010
	<u>1,316,515</u>	<u>1,536,072</u>
Other income (expenses)		
Interest income	36,838	13,316
Gain on option payments on mining properties (note 8)	171,639	475,951
Gain on termination of option on mining properties (notes 8 f) i) j) l))	174,174	-
Management fees	67,026	86,783
Gain (loss) on sale of long-term investments	41,570	(215,567)
Other than temporary write-down on available-for-sale investments	-	(224,000)
	<u>491,247</u>	<u>136,483</u>
Loss before income taxes	<u>(825,268)</u>	<u>(1,399,589)</u>
Recovery of future income taxes (note 16)	<u>-</u>	<u>582,000</u>
Net loss for the year	<u>(825,268)</u>	<u>(817,589)</u>
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale investments	42,025	(193,715)
Reclassification of other than temporary write-down on available-for-sale investments to statement of loss	-	224,000
Reclassification of the loss (gain) on sale of available for sale investments to statement of loss	(41,570)	215,567
	<u>455</u>	<u>245,852</u>
Comprehensive loss for the year	<u>(824,813)</u>	<u>(571,737)</u>
Basic and diluted loss per share (note 17)	<u>0.03</u>	<u>0.03</u>

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

Azimut Exploration Inc.

(an exploration stage company)

Statements of Shareholders Equity

For the years ended August 31, 2011 and 2010

	Share capital		Warrants		Stock options		Equity component of debentures	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total
	Number	\$	Number	\$	Number	\$	\$	\$	\$	\$	\$
Balance as at August 31, 2009	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 (notes 12 and 13)	1,434,166	879,250	717,083	196,375	-	-	-	-	-	-	1,075,625
Flow-through private placements (note 12)	2,675,000	2,300,500	-	-	-	-	-	-	-	-	2,300,500
Issuance of shares for payment of interest on convertible debentures (notes 9 and 10)	149,962	97,371	-	-	-	-	-	-	-	-	97,371
Conversion of secured debenture (note 10)	462,963	265,673	477,847	14,443	-	-	(44,770)	-	-	-	235,346
Stock options exercised (note 14)	5,000	3,300	-	-	(5,000)	(1,600)	-	-	-	-	1,700
Stock options granted (note 14)	-	-	-	-	620,000	-	-	-	-	-	-
Stock options expired (note 14)	-	-	-	-	(30,000)	(10,222)	-	10,222	-	-	-
Stock-based compensation costs	-	-	-	-	-	454,070	-	-	-	-	454,070
Share issue expenses	-	(889,858)	-	-	-	-	-	-	-	-	(889,858)
Net loss for the year	-	-	-	-	-	-	-	-	(817,589)	-	(817,589)
Other comprehensive income	-	-	-	-	-	-	-	-	-	245,852	245,852
Balance as at August 31, 2010	25,111,070	11,524,400	2,542,154	564,152	2,440,000	2,468,540	150,050	459,472	(9,851,659)	(7,848)	5,307,107
Private placements (notes 12 and 13)	5,333,333	4,463,107	2,666,664	336,894	-	-	-	-	-	-	4,800,001
Flow-through private placements (note 12)	833,333	1,000,000	-	-	-	-	-	-	-	-	1,000,000
Issuance of shares for payment of interest on convertible debentures (note 10)	54,359	53,063	-	-	-	-	-	-	-	-	53,063
Conversion of secured debenture (note 10)	1,185,185	502,882	1,205,470	206,158	-	-	(102,161)	-	-	-	606,879
Warrants exercised (note 13)	1,841,071	1,637,892	(1,841,071)	(372,158)	-	-	-	-	-	-	1,265,734
Stock options exercised (note 14)	80,000	52,800	-	-	(80,000)	(25,600)	-	-	-	-	27,200
Stock options granted (note 14)	-	-	-	-	490,000	-	-	-	-	-	-
Stock options expired (note 14)	-	-	-	-	(645,000)	(627,570)	-	627,570	-	-	-
Stock-based compensation costs	-	-	-	-	-	382,660	-	-	-	-	382,660
Share issue expenses	-	(314,925)	-	-	-	-	-	-	-	-	(314,925)
Net loss for the year	-	-	-	-	-	-	-	-	(825,268)	-	(825,268)
Other comprehensive income	-	-	-	-	-	-	-	-	-	455	455
Balance as at August 31, 2011	34,438,351	18,919,219	4,573,217	735,046	2,205,000	2,198,030	47,889	1,087,042	(10,676,927)	(7,393)	12,302,906

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

Deficit and accumulated other comprehensive loss amount to \$10,684,320 and \$9,859,507 as at August 31, 2011 and 2010, respectively.

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

	2011 \$	2010 \$
Cash flows from operating activities		
Net loss for the year	(825,268)	(817,589)
Items not affecting cash		
Depreciation of property and equipment	14,280	16,877
Amortization of intangible assets	3,310	1,970
Loss (Gain) on sale of long-term investments	(41,570)	215,567
Other than temporary write-down on available for sale investments	-	224,000
Write-off and write-down of mining properties	70,895	158,630
Allowance for doubtful accounts	47,320	-
Gain on option payments on mining properties	(171,639)	(475,951)
Gain on termination of option on mining properties	(174,174)	-
Credits on duties refundable for loss and refundable tax credits for resources	(75,466)	(9,564)
Accretion expense on debentures	42,547	80,612
Stock-based compensation costs	368,460	421,010
Share issued for interest on debentures	53,063	97,371
Recovery of future income taxes	-	(582,000)
	<u>(688,242)</u>	<u>(669,067)</u>
Net change in non-cash working capital items		
Amounts receivable	141,662	(611,750)
Prepaid expenses	(9,597)	73,791
Accounts payable and accrued liabilities	143,010	524,686
	<u>275,075</u>	<u>(13,273)</u>
	<u>(413,167)</u>	<u>(682,340)</u>
Cash flows from financing activities		
Non-convertible debenture	(100,000)	(100,000)
Issuance of share capital, net of share issue expenses	6,778,010	3,069,967
Payments of obligation under capital lease	(13,597)	(251,863)
	<u>6,664,413</u>	<u>2,718,104</u>
Cash flows from investing activities		
Proceeds from sale of long-term investments	86,006	43,140
Additions to property and equipment	(12,121)	(1,208)
Additions to intangible assets	(12,870)	-
Additions to mining properties	(5,528,598)	(1,692,821)
Proceeds from sale of options on mining properties	180,027	510,000
Tax credit and mining rights received	166,318	460,130
	<u>(5,121,238)</u>	<u>(680,759)</u>
Net change in cash and cash equivalents	1,130,008	1,355,005
Cash and cash equivalents – Beginning of year	<u>2,704,823</u>	<u>1,349,818</u>
Cash and cash equivalents – End of year	<u>3,834,831</u>	<u>2,704,823</u>
Additional information		
Interest paid net of interest received	8,987	41,950
Long-term investments received in consideration of option payments on mining properties	50,000	80,000
Acquisition of mining properties included in accounts payable and accrued liabilities	626,659	863,953
Depreciation of property and equipment pursuant to a capital lease and included in mining properties	187,707	46,927
Property and equipment recorded pursuant to a capital lease obligation	-	281,560
Stock-based compensation included in mineral properties	14,200	33,060

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

1 Incorporation, nature of activities and liquidity

Azimut Exploration Inc (the "Company"), incorporated under the Québec Corporations Act, is in the business of acquiring and exploring mining properties.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration properties. It has not yet been 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 upon future profitable production or proceeds from the disposal of properties.

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-compliant with regulatory requirements.

To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

For the year ended August 31, 2011, the Company reported a loss of \$825,268 (a loss of \$817,589 for the year ended August 31, 2010) and has an accumulated deficit of \$10,676,927 at that date. As at August 31, 2011, the Company had a working capital of \$4,565,256, including cash and cash equivalents of \$3,834,831.

Management of the Company believes that it has sufficient funds to pay its ongoing general and administrative expenses, to pursue its budgeted exploration expenditures and to meet its liabilities, obligations and existing commitments for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. To continue its exploration program on its properties and its operation beyond August 31, 2012, the Company will periodically have to raise additional funds through the issuance of new equity instruments, the exercise of stock options or warrants and the search of partners to sign option agreements on certain of its mining properties, 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 or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

2 Change in accounting policies

Beginning on September 1, 2011, the Company will cease to prepare its financial statements in accordance with Canadian GAAP and will apply International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its primary basis of accounting. Consequently, future accounting changes to Canadian GAAP are not discussed in these financial statements as they may never be applied by the Company.

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

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. Significant estimates include the valuation of credit on duties refundable for loss and the refundable tax credit for resources, future income tax assets and liabilities, the recoverability of long-term investments, property and equipment and mining properties, the fair value of stock based compensation, other stock based payment and warrants included in units issued in private placement. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, highly liquid short-term investments with original maturities of three months or less at the acquisition date and guaranteed investment cashable anytime without any penalties.

Financial instruments

The standards require that financial assets and financial liabilities, including derivative financial instruments, be initially measured at fair value. After initial recognition, the measurement of financial instruments depends on their classification: held for trading, available for sale, held to maturity, loans and receivables and other liabilities.

- **Held for trading** – Financial assets and financial liabilities required to be classified or designated as held for trading are measured at fair value, with gains, losses and transaction costs recorded in the statement of loss for the period in which they arise. Transaction costs are recorded immediately in the statement of loss.
- **Available for sale** – Financial assets classified as available for sale are measured at fair value. Unrealized gains and losses are recognized directly in other comprehensive income (loss), except for impairment losses, which are recognized in the statement of loss. Upon derecognition of the financial asset, the accumulated gains or losses previously recognized in “Accumulated other comprehensive loss” are classified to the statement of loss. Transaction costs are added to the carrying of the financial instrument.
- **Held to maturity, loans and receivable and other liabilities** – Financial assets classified as held-to-maturity, loans and receivables and other liabilities are required to be measured at amortized cost using the effective interest method of amortization.

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

The Company has implemented the following classification:

- Cash and cash equivalents are classified as held-for-trading;
- Amounts receivable are classified as loans and receivables;
- Long-term investments are classified as available for sale;
- Accounts payable and accrued liabilities are classified as other liabilities;
- Debenture, convertible debentures and obligations under capital lease are classified as other liabilities.

Property, equipment and depreciation

Property and equipment are recorded at cost less accumulated depreciation and are depreciated using the declining balance method at the rates indicated below, except for the camp under a capital lease which is amortized using the straight-line method over an eighteen-month (18-month) period. Depreciation of the camp under a capital lease is capitalized to deferred exploration expenses.

	Depreciation rate
Office furniture	20%
Office equipment	20%
Computer equipment	30%
Specialist equipment	30%

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 an annual 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 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 write-downs are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production. General exploration expenditures not related to specific mining properties are expensed as incurred in the statement of loss under search for properties.

Proceeds on the sale of mining properties are applied by property in reduction of the mining properties, then in reduction of the deferred exploration costs and any residual is recorded in the statement of loss unless there is contractual work required in which case the residual gain is deferred and will be reduced once the contractual disbursements are done. Funds received from partners on certain properties where the Company is the operator, in order to perform exploration work as per agreements, are accounted for in the balance sheet as accounts payable. These amounts are reduced gradually once the exploration work is performed. The project management fees received when the Company is the operator are recorded in the statement of loss.

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as identified by comparing their net book value to the estimated undiscounted future cash flows generated by their use and eventual disposal. Impairment is measured as the excess of the carrying value over the fair value, determined principally by discounting the estimated net future cash flows expected to be generated from the use and eventual disposal of the related asset. In the event that the Company has insufficient information about its long-lived assets to estimate future cash flows to test the recoverability of the capitalized costs, the Company will test for impairment by comparing the fair value to the carrying amount, without first performing a test for recoverability.

When it is determined that a mining property is impaired, it is written down to its estimated fair value.

Credit on duties refundable for loss and refundable tax credit for resources

The Company is entitled to a credit on duties refundable for loss on mining exploration expenses incurred in Quebec and to the refundable tax credit for resources on qualified expenditures. These tax credits have been applied against the costs incurred in mining properties and recorded in the statement of loss when they related to exploration expenditures that were expensed.

Flow-through shares

When the Company commits the proceeds from the issuance of flow through shares to exploration costs recognized as mining properties, the future income tax cost related to the resulting temporary difference is recorded as a reduction of share capital as share issue expenses in favour of investors when the renunciation forms are filed with the tax authorities.

Share issue expenses

Costs directly identifiable with the raising of capital are charged against the related capital account. Costs related to securities not yet issued are recorded as deferred financing costs. These costs are presented as other assets until the issuance of the securities, to which the costs relate, at which time the costs are charged against the related capital account or charged to the statement of loss if the securities are not issued.

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 substantively 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.

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

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 if converted 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 uses the fair value method for recording stock options granted to its employees, officers, directors and consultants. Consequently, stock-based compensation costs are recorded at fair value at the date of grant and are recognized over the period of acquisition. Any consideration received from the participants upon the exercise of options is credited to share capital.

4 Cash and cash equivalents

As at August 31, 2011, there are no funds (\$502,581 as at August 31, 2010) restricted in use for exploration expenses pursuant to flow-through financing agreements.

Cash and cash equivalents include \$140,717 (\$451,791 as of August 31, 2010) of guaranteed investment certificates bearing interest at 0.1% (0.1% of August 31, 2010), cashable any time without any penalties.

5 Amounts receivable

	2011 \$	2010 \$
Tax credit and current mining rights receivable	1,708,664	187,567
Commodity taxes	491,002	370,509
Trade accounts receivable	121,520	381,393
	<hr/> 2,321,186	<hr/> 939,469
Less: Allowance for doubtful accounts	(7,038)	-
	<hr/> <hr/> 2,314,148	<hr/> <hr/> 939,469

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

6 Long-term investments

	2011		2010	
	Cost \$	Carrying value \$	Cost \$	Carrying value \$
Eastmain Resources Inc.	8,600	26,400	8,600	29,400
NWT Uranium Corp.	50,750	45,500	50,750	70,000
Majescor Resources Inc.	49,980	52,920	49,980	40,180
Silver Spruce Resources Inc.	19,500	25,500	19,500	13,500
D'Arianne Resources Inc.	-	-	8,436	5,772
Channel Resources Inc.	24,000	44,250	48,000	39,000
Abitex Resources Inc.	84,000	31,500	96,000	96,000
Nemaska Exploration Inc.	104,143	95,219	104,143	83,709
Dynasty Gold Corp.	50,000	62,500	-	-
Monarque Resources Inc.	2,825	2,616	-	-
	393,798	386,405	385,409	377,561

Unrealized gains and losses on available-for-sale securities resulted from fluctuations in market prices. As at August 31, 2011, the Company determined that the unrealized losses recognized in accumulated other comprehensive loss are temporary in nature.

7 Property and equipment

	2011			2010		
	Cost \$	Accumulated depreciation \$	Net carrying value \$	Cost \$	Accumulated depreciation \$	Net carrying value \$
Office furniture	20,542	13,739	6,803	20,542	12,038	8,504
Office equipment	20,081	11,883	8,198	20,081	9,833	10,248
Computer equipment	36,598	20,445	16,153	24,478	16,118	8,360
Specialist equipment	56,250	41,775	14,475	56,250	35,573	20,677
Camp under capital lease	281,560	234,634	46,926	281,560	46,927	234,633
	415,031	322,476	92,555	402,911	120,489	282,422

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

8 Mining properties

All mining properties are located in the Province of Quebec.

	As at August 31, 2011 \$	As at August 31, 2010 \$
Mining properties	7,342,993	3,880,774
Advances for exploration work	218,650	66,500
	<hr/>	<hr/>
	7,561,643	3,947,274
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Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

For the year ended August 31, 2011

				Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources \$	
	Undivided interest %	Balance as at August 31, 2010 \$	Costs incurred \$		Balance as at August 31, 2011 \$
Nunavik					
Rex (5,708 claims)					
Mining properties	100	424,320	123,720	-	548,040
Exploration costs		1,511,516	2,997,490	(1,181,878)	3,327,128
		1,935,836	3,121,210	(1,181,878)	3,875,168
Rex South (2,085 claims)	(m)				
Mining properties	100	-	18,240	(18,240)	-
Exploration costs		14,326	-	(14,326)	-
		14,326	18,240	(32,566)	-
NCG (5,372 claims)					
Mining properties	100	48,289	477,343	-	525,632
Exploration costs		-	1,070,787	(463,037)	607,750
		48,289	1,548,130	(463,037)	1,133,382
Diana (732 claims)	(l)				
Mining properties	100	-	14,388	-	14,388
Exploration costs		2,204	20,668	(8,938)	13,934
		2,204	35,056	(8,938)	28,322
Others, copper-gold-silver- cobalt-REE (782 claims)					
Mining properties	100	20,544	49,706	-	70,250
Exploration costs		-	6,246	(2,701)	3,545
		20,544	55,952	(2,701)	73,795
Total copper-gold-silver- cobalt-rare earth properties		2,021,199	4,778,588	(1,689,120)	5,110,667

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

For the year ended August 31, 2011 (continued)

Nunavik (continued)	Undivided interest %	Balance as at August 31, 2010 \$	Costs incurred \$	Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources \$	Balance as at August 31, 2011 \$
North Rae (1,411 claims)					
Mining properties	100	420,631	73,635	-	494,266
Exploration costs		674,857	28,204	(12,134)	690,927
		1,095,488	101,839	(12,134)	1,185,193
Daniel Lake (447 claims)					
Mining properties	100	344,974	41,616	-	386,590
Exploration costs		295,441	11,719	(5,014)	302,146
		640,415	53,335	(5,014)	688,736
Kangiq (50 claims)	(f)				
Mining properties	100	-	5,450	-	5,450
Exploration costs		-	357	(155)	202
		-	5,807	(155)	5,652
Burrel Lake *					
Mining properties	100	20,000	-	(20,000)	-
Exploration costs		-	-	-	-
		20,000	-	(20,000)	-
South Rae *					
Mining properties	100	5,778	-	(5,778)	-
Exploration costs		9,242	41	(9,283)	-
		15,020	41	(15,061)	-
North Minto (352 claims)	(g)				
Mining properties	100	-	15,943	-	15,943
Exploration costs		818	17,565	(18,383)	-
		818	33,508	(18,383)	15,943
Central Minto (195 claims)	(i)				
Mining properties	100	-	15,194	-	15,194
Exploration costs		-	1,746	(1,746)	-
		-	16,940	(1,746)	15,194

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

For the year ended August 31, 2011 (continued)

			Balance as at August 31, 2010	Costs incurred	Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources	Balance as at August 31, 2011
	Undivided interest %		\$	\$	\$	\$
Nunavik (continued)						
South Minto (240 claims)	(h)					
Mining properties	100		-	11,449	-	11,449
Exploration costs			533	12,178	(5,266)	7,445
			533	23,627	(5,266)	18,894
Kativik (526 claims)	(k)					
Mining properties	100		-	31,145	-	31,145
Exploration costs			1,629	44,719	(19,338)	27,010
			1,629	75,864	(19,338)	58,155
Hudson Bay *						
Mining properties	100		14,018	4,815	(18,833)	-
Exploration costs			1,933	-	(1,933)	-
			15,951	4,815	(20,766)	-
South Bienville *	(j)					
Mining properties	100		-	1,712	(1,712)	-
Exploration costs			-	54	(54)	-
			-	1,766	(1,766)	-
Others, Uranium (140 claims)	100					
Mining properties			14,280	14,980	-	29,260
Exploration costs			1,561	32,908	(15,823)	18,646
			15,841	47,888	(15,823)	47,906
Total uranium properties			1,805,695	365,430	(135,452)	2,035,673
Total Nunavik			3,826,894	5,144,018	(1,824,572)	7,146,340

* Properties abandoned in 2011.

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

For the year ended August 31, 2011 (continued)

James Bay	Undivided interest %	Balance as at August 31, 2010 \$	Costs incurred \$	Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources \$	Balance as at August 31, 2011 \$
Opinaca A, A East (429 claims) (a)					
Mining properties	50	8,460	-	-	8,460
Exploration costs		6	3,784	(529)	3,261
		8,466	3,784	(529)	11,721
Opinaca B, B North (220 claims) (b)					
Mining properties	50	4,500	-	-	4,500
Exploration costs		6	2,574	(6)	2,574
		4,506	2,574	(6)	7,074
Eleonore South (282 claims) (c)					
Mining properties	26.4	-	-	-	-
Exploration costs		4,238	479	(207)	4,510
		4,238	479	(207)	4,510
Opinaca D (188 claims) (d)					
Mining properties	100	12,480	10,080	(22,560)	-
Exploration costs		3,235	6,815	(6,182)	3,868
		15,715	16,895	(28,742)	3,868
Eastmain West (77 claims)					
Mining properties	100	3,895	6,028	-	9,923
Exploration costs		12,428	162,696	(23,000)	152,124
		16,323	168,724	(23,000)	162,047
Wabamisk (705 claims) (e)					
Mining properties	49	-	-	-	-
Exploration costs		4,632	4,587	(1,786)	7,433
		4,632	4,587	(1,786)	7,433
Total James Bay		53,880	197,043	(54,270)	196,653
Total mining properties		3,880,774	5,341,061	(1,878,842)	7,342,993

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

For the year ended August 31, 2010

Nunavik	Undivided interest %	Balance as at August 31, 2009 \$	Costs incurred \$	Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources \$	Balance as at August 31, 2010 \$
Rex (4,420 claims)					
Mining properties	100	-	424,320	-	424,320
Exploration costs		-	1,512,068	(552)	1,511,516
		-	1,936,388	(552)	1,935,836
Rex South (1,619 claims)	(m)				
Mining properties	100	-	50,304	(50,304)	-
Exploration costs		-	30,579	(16,253)	14,326
		-	80,883	(66,557)	14,326
NCG (579 claims)					
Mining properties	100	-	48,289	-	48,289
Exploration costs		-	-	-	-
		-	48,289	-	48,289
Diana (524 claims)	(l)				
Mining properties	100	-	56,068	(56,068)	-
Exploration costs		-	13,525	(11,321)	2,204
		-	69,593	(67,389)	2,204
Others, copper-gold silver- cobalt-REE (214 claims)					
Mining properties	100	-	20,544	-	20,544
Exploration costs		-	-	-	-
		-	20,544	-	20,544
Total copper-gold-silver- cobalt-rare earth properties		-	2,155,697	(134,498)	2,021,199

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

For the year ended August 31, 2010 (continued)

Nunavik	Undivided interest %	Balance as at August 31, 2009 \$	Costs incurred \$	Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources \$	Balance as at August 31, 2010 \$
North Rae (1,854 claims)					
Mining properties	100	348,707	71,924	-	420,631
Exploration costs		573,315	154,230	(52,688)	674,857
		922,022	226,154	(52,688)	1,095,488
Daniel Lake (972 claims)					
Mining properties	100	336,024	8,950	-	344,974
Exploration costs		225,187	118,022	(47,768)	295,441
		561,211	126,972	(47,768)	640,415
Kangiq (851 claims)	(f)				
Mining properties	100	-	-	-	-
Exploration costs		-	-	-	-
		-	-	-	-
Burrel Lake (892 claims)					
Mining properties	100	94,593	-	(74,593)	20,000
Exploration costs		11	-	(11)	-
		94,604	-	(74,604)	20,000
South Rae (93 claims)					
Mining properties	100	-	5,778	-	5,778
Exploration costs		8,081	1,636	(475)	9,242
		8,081	7,414	(475)	15,020
North Minto (648 claims)	(g)				
Mining properties	100	-	-	-	-
Exploration costs		-	818	-	818
		-	818	-	818
Central Minto (381 claims)	(i)				
Mining properties	100	-	-	-	-
Exploration costs		-	-	-	-
		-	-	-	-

Azimut Exploration Inc.

(an exploration stage company)

Notes to Financial Statements

As at August 31, 2011 and 2010

For the year ended August 31, 2010 (continued)

Nunavik – cont'd	Undivided interest %	Balance as at August 31, 2009 \$	Costs incurred \$	Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources \$	Balance as at August 31, 2010 \$
South Minto (377 claims)	(h)				
Mining properties	100	-	-	-	-
Exploration costs		-	533	-	533
		-	533	-	533
West Minto **					
Mining properties	100	2,958	100	(3,058)	-
Exploration costs		1,205	539	(1,744)	-
		4,163	639	(4,802)	-
Kativik (1,361 claims)	(k)				
Mining properties	100	-	-	-	-
Exploration costs		83,933	(2,304)	(80,000)	1,629
		83,933	(2,304)	(80,000)	1,629
Hudson Bay (132 claims)					
Mining properties	100	4,690	9,328	-	14,018
Exploration costs		1,515	418	-	1,933
		6,205	9,746	-	15,951
South Bienville (1,460 claims)	(j)				
Mining properties	100	-	-	-	-
Exploration costs		-	-	-	-
		-	-	-	-
Others, Uranium (140 claims)					
Mining properties	100	93,228	-	(78,948)	14,280
Exploration costs		1,837	-	(276)	1,561
		95,065	-	(79,224)	15,841
Total uranium properties		1,775,284	369,972	(339,561)	1,805,695
Total Nunavik		1,775,284	2,525,669	(474,059)	3,826,894

** Properties abandoned in 2010

Azimut Exploration Inc.

(an exploration stage company)

Statements of Shareholders Equity

For the years ended August 31, 2011 and 2010

For the year ended August 31, 2010 (continued)

				Mining properties written off and written down, option payments, credit on duties refundable for loss and refundable tax credit for resources	
	Undivided interest %	Balance as at August 31, 2009 \$	Costs incurred \$	\$	Balance as at August 31, 2010 \$
James Bay					
Opinaca A, A East (429 claims) (a)					
Mining properties	50	-	8,460	-	8,460
Exploration costs		-	82	(76)	6
		-	8,542	(76)	8,466
Opinaca B, B North (220 claims) (b)					
Mining properties	50	-	4,500	-	4,500
Exploration costs		-	33	(27)	6
		-	4,533	(27)	4,506
Eleonore South (282 claims) (c)					
Mining properties	29.4	-	-	-	-
Exploration costs		728	3,518	(8)	4,238
		728	3,518	(8)	4,238
Opinaca D (188 claims) (d)					
Mining properties	100	-	12,480	-	12,480
Exploration costs		990	2,245	-	3,235
		990	14,725	-	15,715
Eastmain West (61 claims)					
Mining properties	100	5,695	(1,800)	-	3,895
Exploration costs		8,680	4,024	(276)	12,428
		14,375	2,224	(276)	16,323
Wabamisk (755 claims) (e)					
Mining properties	49	-	-	-	-
Exploration costs		50	6,694	(2,112)	4,632
		50	6,694	(2,112)	4,632
Total James Bay		16,143	40,236	(2,499)	53,880
Total mining properties		1,791,427	2,565,905	(476,558)	3,880,774

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

8 Mining properties (continued)

Change in mining properties

	<u>Years Ended August 31,</u>	
	2011	2010
	\$	\$
Balance – Beginning of year	<u>3,947,274</u>	<u>1,791,427</u>
Expenses incurred during the year		
Claims and permits	915,444	719,245
Geological surveys	1,673,424	1,165,365
Geochemical surveys	797,281	360,147
Geophysical surveys	619,184	236,321
Drilling	1,068,998	-
Administration and others	64,821	4,840
Stock based compensation costs	14,200	33,060
Depreciation of property and equipment	187,707	46,927
Variation of advance for exploration work	<u>152,150</u>	<u>66,500</u>
	<u>5,493,209</u>	<u>2,632,405</u>
Write-off and write-down of mining properties	(70,895)	(158,630)
Option payments	(58,388)	(214,049)
Credit on duties refundable for loss and refundable tax credit for resources	<u>(1,749,557)</u>	<u>(103,879)</u>
	<u>(1,878,840)</u>	<u>(476,558)</u>
Balance – End of year	<u>7,561,643</u>	<u>3,947,274</u>

- (a) As at August 31, 2010, Everton Resources Inc (“Everton”) has earned a 50% interest in the Opinaca A, A East property by making a cumulative cash payment of \$180,000 and carrying out work expenditures totalling a cumulative amount of \$2,800,000.

In September 2010, Azimut and Everton granted Aurizon Mines Ltd (“Aurizon”) the option to earn a 50% interest in the Opinaca A, A East and B, B North properties by making cash payments totalling \$580,000 and incurring expenditures of \$6,000,000 over four (4) years, including 5,000 metres of diamond drilling by the second anniversary. The Company will receive 50% of the cash payments. Aurizon may also earn an additional interest of 10%, for a total interest of 60%, by making cash payments totalling \$300,000 over three (3) years from the election date, incurring expenditures totalling a minimum of \$3,000,000 over three (3) years from the election date, and delivering an independent pre-feasibility study on or before the fourth anniversary. The Company will receive 50% of the cash payments and its resulting interest will be 20%. In addition, in the event that mineral resources of at least 2,000,000 ounces of gold at an average grade of at least 6 grams of gold per tonne are discovered before the end of the eighth year of the initial

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

option agreement, Aurizon shall make a payment of \$1,500,000 in Aurizon common shares, subject to regulatory approval. The Company will receive 50% of these issued shares.

- (b) As at August 31, 2010, Everton has earned a 50% interest in the Opinaca B, B North property by making a cumulative cash payment of \$160,000 and carrying out work expenditures totalling a cumulative amount of \$2,000,000. In September 2010, Azimut and Everton signed an agreement with Aurizon regarding the Opinaca B, B North property as described in (a) above.
- (c) In April 2006, the Company signed a letter of intent to form a three-way joint venture with Les Mines Opinaca Ltée (a wholly-owned subsidiary of Goldcorp Inc; “Goldcorp”) and Eastmain Resources Inc. (“Eastmain”) on the Eleonore South property, which includes 166 claims of the Opinaca C property and 116 claims owned by Goldcorp. In February 2008, Eastmain had earned a 33.33% interest in the Eleonore South property by making a cumulative cash payment of \$185,000 granting 30,000 common shares to the Company and funding a total of \$4.0 million in work expenditures.

As at August 31, 2011, Goldcorp and Eastmain have funded \$3.2 million in cumulative work expenditures. Ownership of the property is currently as follows: Azimut 26.4% (29.4% in 2010), Goldcorp 36.8% (35.3% in 2010) and Eastmain 36.8% (35.3% in 2010).

- (d) In December 2010, the Company granted Dynasty Gold Corp. (“Dynasty”) the option to acquire a 50% interest in the Opinaca D property for a cash consideration of \$300,000, \$150,000 worth of common shares of Dynasty, and \$3.2 million in exploration work. Dynasty may also acquire an additional 15% interest with the delivery of a feasibility study. As at August 31, 2011, Dynasty has made a payment of \$50,000 in cash and granted 625,000 of its common shares (worth \$50,000) to Azimut and then the option has been terminated in December 2011.
- (e) As at August 31, 2010, Goldcorp had earned a 51% interest in Wabamisk property by making a cumulative payment of \$500,000 in cash and had carried out work expenditures totalling a cumulative amount of \$4.0 million and in 2011, Goldcorp elected to proceed with the second option to earn an additional 19% interest in the property by delivering a feasibility study during a ten-year (10-year) period.
- (f) In July 2007, the Company granted Central Uranium Corporation (“Central”) (now Abitex Resources Inc. “Abitex”) the option to acquire a 50% interest in the Kangiq property for a cash consideration of \$410,000, \$300,000 worth of common shares of Abitex, and \$4.2 million in work expenditures. Abitex may also acquire an additional 15% interest with the delivery of a bankable feasibility study. As at August 31, 2010, Abitex had made a cumulative payment of \$210,000 in cash, had issued 500,000 common shares worth \$200,000, and had carried out work expenditures totalling a cumulative amount of \$1,341,652. Abitex decided to terminate the option on November 15, 2010. The parties (Azimut and Abitex) mutually agreed that Azimut keeps the balance received in exchange for the discharge and release of all outstanding obligations.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

- (g) In April 2007, the Company granted Rukwa Minerals Inc., formerly Rukwa Uranium Ltd (“Rukwa”), a company owned by a director of Azimut, the option to acquire a 50% interest in the North Minto property for a cash consideration of \$360,000, \$200,000 worth of common shares of Rukwa, and \$4.2 million in work expenditures. Rukwa may also acquire an additional 15% interest with the delivery of a bankable feasibility study. As at August 31, 2010, Rukwa had made a cumulative payment of \$240,000 in cash, had paid \$200,000 in cash in lieu of \$200,000 worth of its common shares, and had carried out work expenditures totalling a cumulative amount of \$1,895,808. All commitments required under the option agreement were extended until March 31, 2011 and then the option was terminated.
- (h) In April 2007, the Company granted Rukwa the option to acquire a 50% interest in the South Minto property for a cash consideration of \$340,000, \$200,000 worth of common shares of Rukwa, and \$4.0 million in work expenditures. Rukwa may also acquire an additional 15% interest with the delivery of a bankable feasibility study. As at August 31, 2010, Rukwa had made a cumulative payment of \$240,000 in cash, had paid \$200,000 in cash in lieu of \$200,000 worth of its common shares, and had carried out work expenditures totalling a cumulative amount of \$1,445,762. All commitments required under the option agreement were extended until March 31, 2011 and then the option was terminated.
- (i) In May 2007, the Company granted Abitex the option to acquire a 50% interest in the Central Minto property for a cash consideration of \$340,000, \$200,000 worth of common shares of Abitex, and \$4.0 million in work expenditures. Abitex may also acquire an additional 15% interest with the delivery of a bankable feasibility study. As at August 31, 2010, Abitex had made a cumulative payment of \$160,000 in cash, had paid \$100,000 in cash, and had issued 250,000 common shares in lieu of \$200,000 worth of its common shares, and had carried out work expenditures totalling a cumulative amount of \$1,065,725. On November 15, 2010, Abitex decided to terminate the option. The parties (Azimut and Abitex) mutually agreed that Azimut keeps the balance received in exchange for the discharge and release of all outstanding obligations.
- (j) In May 2007, the Company granted Abitex the option to acquire a 50% interest in the South Bienville property for a cash consideration of \$380,000, \$200,000 worth of common shares of Abitex, and \$4.5 million in work expenditures. Abitex may also acquire an additional 15% interest with the delivery of a bankable feasibility study. As at August 31, 2010, Abitex had made a cumulative payment of \$200,000 in cash, and had paid \$100,000 in cash and issued 250,000 common shares in lieu of \$200,000 worth of its common shares, and had carried out exploration work totalling a cumulative amount of \$1,610,615. On November 15, 2010, Abitex decided to terminate the option. The parties (Azimut and Abitex) mutually agreed that Azimut keeps the balance received in exchange for the discharge and release of all outstanding obligations.
- (k) In November 2007, the Company granted Kativik Resources Inc. (“Kativik”) the option to acquire a 50% interest in the Kativik property for a cash consideration of \$440,000, \$300,000 worth of common shares of Kativik, and \$5.0 million in work expenditures. Kativik may also acquire an additional 15% interest with the delivery of a bankable feasibility study. Pursuant to a purchase and sale agreement dated October 9, 2009 between Kativik and Nemaska Exploration Inc (“Nemaska”) and an amendment letter dated December 14, 2009, Kativik transferred all of its rights and obligations in the Kativik Option agreement to Nemaska. As at August 31, 2010, Nemaska had paid for the preparation of geophysical and prospecting reports totalling \$10,170 and had issued 160,000 common shares at a fair value of \$80,000. The Company had also received from Kativik a cumulative cash payment of \$120,000 and 333,334 of

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

Kativik's common shares worth \$200,000, and Kativik had carried out work expenditures totalling a cumulative amount of \$1,112,719. All commitments required under the option agreement were extended until March 31, 2011 and then the option was terminated.

- (l) In February 2010, the Company granted 2227352 Ontario Inc. ("the Partner") the option to acquire a 50% interest in the Diana property for a cash consideration of \$325,000, \$200,000 worth of its common shares, and \$4.0 million in work expenditures. In May 2010, the Partner reached an agreement with Valencia Ventures Inc. ("Valencia") regarding the Diana property, subject to regulatory approvals, and transferred all of the rights and obligations currently held by the Partner to Valencia. Valencia could also acquire an additional 15% interest with the delivery of a bankable feasibility study. As at August 31, 2011, the Partner had made a cumulative cash payment of \$100,000 (\$100,000 in 2010), had paid \$100,000 (nil in 2010) in lieu of shares, and had carried out work expenditures totalling a cumulative amount of \$452,576 (\$250,941 in 2010). Valencia terminated the option on the property due to the Partner's inability to obtain the requisite approval of the TSX Venture Exchange. As mutually agreed by the parties (Azimut and the Partner), Azimut has paid \$127,000 to Valencia and kept the balance received in exchange for the discharge and release of all outstanding obligations.
- (m) In May 2010, the Company granted Aurizon Mines Ltd. ("Aurizon") the option to acquire a 50% interest in the Rex South property for a cash consideration of \$580,000 and \$5.0 million in work expenditures, including a minimum of 5,000 metres of diamond drilling. Aurizon may also acquire an additional 15% interest with the delivery of a bankable feasibility study. As at August 31, 2011, Aurizon had made a cumulative cash payment of \$280,000 (\$150,000 in 2010) and had carried out work expenditures totalling a cumulative amount of \$5,056,950 (\$1,279,395 in 2010).

9 Debenture payable

In November 2008, the Company issued a five-year unsecured debenture of \$500,000 bearing interest at 12% annually. The principal is to be reimbursed in cash over five (5) years-period for \$100,000 per year. The debt was later decreased by \$92,000 and was reflected in the statement of loss for the fiscal year ended 2009 as a discount on debenture so as to consider an effective interest rate of 20%.

	<u>2011</u>	<u>2010</u>
	\$	\$
Principal	300,000	400,000
Less: Unamortized discount	(41,400)	(59,800)
	<hr/> 258,600	<hr/> 340,200
Less: Current Portion	(100,000)	(100,000)
	<hr/> 158,600	<hr/> 240,200

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

10 Convertible debentures

In November 2008, the Company completed a private placement of unsecured convertible debentures of \$940,000 to fund its technical work and business development. 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. The debentures are non-interest bearing if the share has been trading at \$0.90 and over during the twenty business days preceding the dates of interest instalments for the first two six-month periods respectively ending May 20 and November 20, 2009, at \$1.35 and over for the third, fourth, fifth and sixth six-month periods respectively ending May 20, 2010; November 20, 2010; May 20, 2011 and November 20, 2011. The principal is convertible at the option of the holder into common shares of the Company. During the first 2 years, the principal is convertible into units at a price of \$0.54. 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 until November 2010. At the third year, 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. In November 2010, \$640,000 of the convertible debenture was converted into 1,185,185 units for the reimbursement of a portion of the outstanding capital on the debentures. Each unit is comprised of one common share at a price of \$0.54 per share and one share purchase warrant, each warrant entitling them to acquire one additional common share of the Company at a price of \$0.65 per share until November 20, 2011 (note 13).

In November 2008, the Company had also completed a placement of a \$500,000 secured convertible loan with SIDEX Limited Partnership ("SIDEX") which is to be reimbursed in two equal payments in 2009 and 2010 and bears interest at a rate of 12% per year, payable in cash or shares every six months. The loan is non-interest bearing if the share has been trading at \$0.90 and over during the twenty business days preceding the dates of interest instalments for the first two six-month periods respectively ending May 20 and November 20, 2009, and at \$1.35 and over for the third and fourth six-month periods respectively ending May 20, 2010 and November 20, 2010. This loan is convertible into units at a price of \$0.54 per unit. 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 a price of \$0.65 for a 24-month period following the conversion date or until the term of the loan. The loan is secured by a hypothec on the Company's movable property, including tax credits to be received. In April 2009, the Company reimbursed the first payment amounting to \$250,000. On March 25, 2010, SIDEX exercised its conversion right on the balance of the loan in the amount of \$250,000 together with accrued interest totalling \$10,274 into a total of 477,847 units at an average price of \$0.5447 per unit, each consisting of one (1) common share and one (1) warrant having an average exercise price of \$0.6565 and these were exercised in November 2010 (note 13).

The convertible debentures are accounted for in accordance with their substance and are presented in the financial statements in their 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.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

	As at August 31, 2011			As at August 31, 2010		
	Liability component \$	Equity component \$	Total \$	Liability component \$	Equity component \$	Total \$
Unsecured convertible debenture	878,847	150,050	1,028,897	828,831	150,050	978,881
Secured convertible debenture	-	-	-	222,633	44,770	267,403
	878,847	150,050	1,028,897	1,051,464	194,820	1,246,284
Reimbursement in cash or in units	(640,000)	(102,161)	(742,161)	(250,000)	(44,770)	(294,770)
Accretion expense on convertible debentures	57,271	-	57,271	77,383	-	77,383
	296,118	47,889	344,007 *	878,847	150,050	1,028,897

*Converted into 500,000 units in October 2011 (see note 20).

11 Obligation under capital lease

	As at August 31, 2011 \$	As at August 31, 2010 \$
Capital and interest payable		
Obligation under capital lease, capital and interest repayable in instalments up to July 2011	16,100	29,697
Less: Current portion of obligation under capital lease	(16,100)	(29,697)
	-	-

In January 2011, the Company had exercised its right on the capital lease. Effective February 1, 2011, the lease obligation was ended and the final payment was paid in September 2011, after all the benefits and risks incidental to the ownership of the camp were transferred to the Company.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

12 Share capital

Authorized

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

Issued and fully paid

In December 2009, the Company closed two (2) private placements for a total of \$3,376,125 representing 1,434,166 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.

In March 2011, the Company completed a non-brokered private placement of \$5,800,000 representing 5,333,332 units at \$0.90 per unit for proceeds of \$4,800,000 and flow through share at a price of \$1.20 per share for a total of \$1.0 million. 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 \$1.40 for a period of 12 months. The finder's fees totalled \$245,001.

Flow-through shares

The proceeds received from the issuance of flow-through shares amounted to \$2,300,500 in December 2009 and is committed to exploration expenses. In February 2010, the Company renounced \$2,300,500 of qualifying expenditures to the investors by using the look-back rule. The future income tax cost related to the resulting temporary difference of \$582,000 and is recorded as a share issue expense. As of August 31, 2011, an amount of \$2,300,500 (\$1,797,919 in 2010) was spent accordingly.

The proceeds received from the issuance of flow-through shares amounted to \$1,000,000 in March 2011 and is committed to exploration expenses. As of August 31, 2011, Azimut has spent \$1.0 million on the qualifying expenditures and will file the renunciation form with the tax authorities that giving effect to renunciation as of December 2011. The future income tax cost related to the resulting temporary difference will be is recorded as a share issue expense.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

13 Warrants

The following table present the warrants activity since August 31, 2009 and summarizes the information about warrants outstanding and exercisable as at August 31, 2011:

	Number	Carrying value \$	Weighted average exercise price \$
Outstanding – August 31, 2009	1,347,224	353,334	0.70
Issued	1,194,930	210,818	0.83
Outstanding – August 31, 2010	2,542,154	564,152	0.76
Issued	3,872,134	543,052	1.17
Exercised	(1,841,071)	(372,158)	0.69
Outstanding – August 31, 2011	4,573,217	735,046	1.13

The 2,666,664 warrants included in the 5,333,332 units issued under the non-brokered private placement completed in March 2011, having an exercise price of \$1.40 and valid until March 19, 2012, were recorded at a value of \$336,894 based on the Black-Scholes pricing model with the following assumptions: risk-free interest of 1.25%, expected life of 1 year, annualized volatility rate of 78% and dividend rate of 0%.

The 1,205,470 warrants included in the units issued pursuant to the conversion of the convertible loan have an average exercise price of \$0.66, valid until November 20, 2011, and were recorded at a value of 206,158 based on a Black-Scholes option pricing model using the assumptions at the time the debenture was issued: risk free interest of 3.5%, expected life of 3 years, annualized volatility rate of 80% and dividend rate of 0%.

The 717,083 warrants issued under the private placements completed in December 2009, having an average exercise price of \$0.95 and valid until December 19 and 29, 2011, were recorded at a value of \$196,375 based on a 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%.

The 477,847 warrants included in the 477,847 units issued pursuant to the conversion of the secured convertible loan have an average exercise price of \$0.66, valid until November 20, 2010 and have been exercised accordingly. They were recorded at a value of \$14,443 based on a Black-Scholes option pricing model using the assumptions at the time the debenture was issued and discounted by 25% to reflect the actual exercise period: risk free interest of 2.75%, expected life of 2 years, annualized volatility rate of 99% and dividend rate of 0%.

In July and August 2009 the Company closed a non-brokered private placement totalling \$550,000. A total of 1,222,224 common shares were issued at a price of \$0.45 per share, along with: (a) 611,112 “A” warrants, each “A” warrant entitling its holder to purchase one share of the Company at a price of \$0.60 per share over a 24-month period; and (b) 611,112 “B” warrants, each “B” warrant entitling its holder to purchase one common share of the Company at a price of \$0.80 per share over a 24-month period. All warrants have been exercised

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

during the year ended 2011. Warrants were recorded at a value of \$348,334 based on the Black-Scholes option pricing model using the following assumptions: risk free interest of 1.25%, expected life of 2 years, annualized volatility rate of 146% and dividend rate of 0%.

On November 20, 2008, the Company closed a non-brokered private placement for \$100,000 which consists of 250,000 of the Company's common shares at the exercise price of \$0.40 per share and 125,000 warrants at the exercise price of \$0.65 per share for a 24-month period. All warrants have been exercised during the year ended 2011. Warrants were recorded at a value of \$5,000 based on the Black-Scholes option pricing model using the following assumptions: risk free interest of 2.75%, expected life of 2 years, annualized volatility rate of 99% and dividend rate of 0%.

As at August 31, 2011, the following warrants were outstanding and exercisable:

Exercise price	Warrants outstanding Number	Expiry date	Weighted average remaining contractual life (years)
\$0.65	1,185,185 *	November 20, 2011	0.22
\$0.95	367,750	December 19, 2011	0.31
\$0.95	333,333	December 29, 2011	0.33
\$1.00	20,285	November 20, 2011	0.22
\$1.40	<u>2,666,664</u>	March 19, 2012	0.55
	<u>4,573,217</u>		

* Have been exercised subsequently (note 20).

14 Stock option plan

The Company maintains a stock option plan in which a maximum of 3,300,000 stock options may be granted. The number of shares reserved for issuance under the stock option plan is 15% of the shares issued and outstanding. The exercise price of the options is set at the closing price of the Company's shares on the TSX-V, on the day before the grant date. The options have a maximum term of ten years following the granting date; the options granted will vest immediately, unless otherwise approved by the Board of Directors and disclosed therein.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

The following tables present the stock option activity since August 31, 2009 and summarize the information about fixed stock options outstanding and exercisable as at August 31:

	2011		2010	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	2,440,000	1.54	1,855,000	1.82
Granted	490,000	0.84	620,000	0.65
Exercised	(80,000)	0.34	(5,000)	0.34
Expired / Cancelled	(645,000)	1.53	(30,000)	0.64
Outstanding – End of year	<u>2,205,000</u>	<u>1.43</u>	<u>2,440,000</u>	<u>1.54</u>
Exercisable – End of year	<u>2,205,000</u>	<u>1.43</u>	<u>2,425,000</u>	<u>1.53</u>

Exercise price \$	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
0.34	505,000	505,000	7.62
0.60	130,000	130,000	8.89
0.66	490,000	490,000	8.52
0.80	450,000	450,000	9.40
1.25	40,000	40,000	9.59
3.03	290,000	290,000	1.62
4.30	300,000	300,000	0.51
	<u>2,205,000</u>	<u>2,205,000</u>	<u>6.54</u>

The fair value of options granted during the year amounts to \$364,660 for 490,000 options granted based on a Black-Scholes option pricing model with the following weighted average assumptions (\$368,570 for 620,000 options granted in 2010).

	2011	2010
Risk-free interest rate	3.50%	3.50%
Expected life	10 years	10 years
Expected volatility	95%	105%
Expected dividend yield	0%	0%

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

15 Related party transactions

The Company entered into the following transactions a director, companies owned by directors, and a law firm of which one of the directors is a partner:

	2011	2010
In normal course of operation		
Mining properties and exploration work (notes 8g and h)	-	41,640
Not in normal course of business		
Conversion of debenture	340,000	-
Participation of directors in private placement	199,999	49,880
Cash payments to directors for interest on convertible debentures	20,344	40,800
Exercise of warrants	77,778	-
	<u>638,121</u>	<u>90,680</u>

An allowance for doubtful account amounting to \$40,282 related to the receivable from Rukwa, for the costs charged back and incurred on the North Minto and South Minto properties, was taken in 2011.

A law firm in which a director of the Company, is also a partner, did not charge legal fees in 2011 (\$1,943 in 2010 which were capitalized in mining properties under “administration and other”).

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

The balance receivable (payable) to related parties is subject to the same conditions as those of non-related parties and is reflected on the balance sheet as at August 31, 2011 and 2010.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

16 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:

	Years Ended August 31,	
	2011	2010
	\$	\$
Loss before income taxes	825,268	1,399,589
Combined federal and provincial income tax of 29.07% (30.23% in 2010)	(240,000)	(423,200)
Non-deductible expenses for income tax purposes	74,668	209,400
Share issue expenses		-
Change in valuation allowance	280,265	(457,600)
Change in future tax rates	9,309	55,200
Non-taxable gain (loss) on sale of long-term investments	(6,000)	32,600
Unrealized loss on available-for-sale investments not affecting earnings		900
Other	(118,243)	700
Recovery of future income taxes	-	(582,000)

The Company is entitled to the following tax benefits, for which a valuation allowance was recorded in the financial statements as at August 31, 2011.

- As at August 31, 2011, 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
	\$	\$
2031	680,000	680,000
2030	721,000	721,000
2029	816,000	816,000
2027	266,000	226,000
2016	124,000	93,000
	2,607,000	2,536,000

- The Company has accumulated capital losses of approximately \$227,000 (\$226,000 in 2010).
- As at August 31, 2011, the carrying value of mining properties exceeds the tax value by approximately \$1,512,657 (\$1,850,815 in 2010) at the federal level and \$1,131,327 (\$1,469,484 in 2010) at the provincial level. The difference between the tax value and the amounts capitalized in the financial statements mainly

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

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 write-offs of mining properties.

- The unamortized balance of capital cost for federal and provincial income tax purposes exceeds the net carrying value of property and equipment and intangible assets by \$522,000 (\$346,000 in 2010) and \$517,000 (\$341,000 in 2010), respectively.
- The tax value of long-term investments exceeds the carrying value by approximately \$1,002,000 (\$1,046,000 in 2010). 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 and financial expenses amounts to \$507,000 (\$368,000 in 2010) and will be deductible during the next four years.
- The tax value of long-term liabilities exceeds the carrying value by \$16,000 (\$29,000 in 2010). The difference between the tax value and the amounts accounted for in the financial statements results from the discount on long-term debt and the accretion expense on debentures.

17 Loss per share

For the years ended August 31, 2011 and 2010, the diluted loss per share was the same as the basic loss per share since the dilutive effect of the instruments was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding 29,247,703 in 2011 and 23,484,540 in 2010.

18 Commitments

The Company has minimum aggregate commitments under a one-year lease agreement amounting to \$35,750 for minimum lease payments.

19 Financial instruments, financial risks and capital management

Classification

The Company's financial instruments as at August 31, 2011 consist of cash and cash equivalents, amounts receivable, long-term investments, accounts payable and accrued liabilities, obligation under capital lease and debentures. The fair value of these financial instruments, with the exception of long-term investments, 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.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

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.

The classification of financial instruments as at August 31, 2011, and August 31, 2010, is summarized as follows:

	Classification	As at August 31, 2011		As at August 31, 2010	
		Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets					
Cash and cash equivalents	Held for trading	3,834,831	3,834,831	2,704,823	2,704,823
Amounts receivable	Loans and receivables	2,354,430	2,354,430	1,020,033	1,020,033
Long-term investments	Available for sale	386,405	386,405	377,561	377,561
		<u>6,575,666</u>	<u>6,575,666</u>	<u>4,102,417</u>	<u>4,102,417</u>
Financial liabilities					
Accounts payable and accrued liabilities	Other liabilities	1,539,350	1,539,350	1,802,707	1,802,707
Debenture payable and convertible debentures	Other liabilities	554,718	554,718	1,219,047	1,219,047
Obligation under capital lease	Other liabilities	16,100	16,100	29,697	29,697
		<u>2,110,168</u>	<u>2,110,168</u>	<u>3,051,451</u>	<u>3,051,451</u>

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liability, either directly or indirectly; and level 3 includes inputs for the asset or liability that are not based on observable market data. Cash and long-term investments are considered a level 1. Cash equivalents are considered a level 2.

Financial risks

The Company has exposure to various financial risks, such as credit risk, liquidity risk and market 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 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.

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

The credit risk associated with amounts receivable from partners and from a related party arises from the possibility that the partners may not be able to repay their debts. These receivables result from exploration work carried out on properties under option and operated by the Company. In 2011, an allowance for doubtful account of \$47,320 (\$nil in 2010) was taken. The Company closely follows their cash position to reduce its credit risk on amounts receivable.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company had a cash balance and cash equivalent of \$3,834,831 (\$2,704,823 at August 31, 2010, of which \$502,581 was restricted pursuant to flow-through financings) to settle current liabilities of \$1,655,450 (\$1,932,404 at August 31, 2010). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

The following are the contractual maturities of financial liabilities, including interest where applicable as at August 31, 2011:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payables and accrued liabilities	1,539,350	1,539,350	1,539,350	-	-
Long-term liabilities including the current portion and obligation under capital lease	570,818	616,100	416,100	100,000	100,000

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 held with a Canadian chartered bank.

As at August 31, 2011, 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
Obligations under capital lease	See note 11
Debentures	See notes 9 and 10

Azimut Exploration Inc.

(an exploration stage company)

Note to Financial Statements

As at August 31, 2011 and 2010

Since Cash and cash equivalents are subject to variable interest rate, a fluctuation of interest rate will have no impact on their fair value.

Equity risk

Equity risk is the risk that the fair value of a financial instrument varies due to equity market changes. Changes in fair value of available-for-sale shares are recorded in other comprehensive income (loss). For the Company's available-for-sale shares, a variation of $\pm 10\%$ of the quoted market prices as at August 31, 2011, would result in an estimated effect in Other comprehensive income (loss) of \$38,000 (\$37,000 for the year ended August 31, 2010).

Capital Management

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

In terms of capital management, the objectives of the Company are to maximize its ability to be able to continue as a going concern. Management reviews its capital management approach on an ongoing basis and, as needed, the Company raises funds through private placements.

There were no significant changes in the Company's approach to capital management during the year ended August 31, 2011 and the Company is not subject to any externally imposed capital requirements, unless the Company closes a flow-through placement in which case the funds are restricted in use for exploration expenses. The variation of capital components is explained in the statements of shareholders equity.

20 Subsequent events

- (i) In October 2011, \$300,000 of the unsecured convertible debenture was converted into 500,000 units for the reimbursement of the outstanding capital on the debentures. Each unit is comprised of one common share at a price of \$0.60 per share and one half ($\frac{1}{2}$) share purchase warrant, each warrant entitling them to acquire one additional common share of the Company at a price of \$0.75 per share until November 20, 2011. The Company has also issued 12,542 units at a price of \$1.13 per unit for payment of accrued interest amounting to \$14,203. Each unit is comprised of one common share and one-half of a common share purchase warrant, each warrant entitling them to acquire one additional common share of the Company at a price of \$1.01 until November 20, 2011.
- (ii) 1,435,185 warrants were exercised for total proceeds of \$957,870 in exchange of common shares of the Company of which 74,074 warrants were exercised in October 2011 for a cash proceed of \$48,148 and in November 2011, 1,361,111 were exercised for a cash proceed of \$909,722.
- (iii) On December 13, 2011, the option agreement concluded on December 13, 2010 with Dynasty Gold Corp on the Opinaca D property, James Bay region, was terminated.