

# Exploration Azimut inc.

## MANAGEMENT'S DISCUSSION and ANALYSIS

For a period of nine (9) months ended May 31<sup>st</sup>, 2005

### Scope of management's financial analysis

This Management's Discussion and Analysis supplements the financial statements and complements them by providing contextual and prospective information not provided by the financial statements.

### Corporate profile and mission

Exploration Azimut Inc. ("Azimut") is a mineral exploration company developing cutting-edge geoscience data processing methods that improve exploration targeting with the objective of discovering major ore deposits.

The company was reactivated in June 2003 following the appointment of a new president. Since then, the company has acquired ten exploration projects based on the results of regional-scale mineral potential assessments in Quebec:

- In the James Bay area:
  - 4 gold projects in the Opinaca area (A and A-East blocks, B and B-North blocks, C Block, D Block)
  - 2 gold projects in the Eastmain area (Eastmain and Wabamisk)
- In the Labrador Trough area:
  - Retty project (Cu-Ni-PGE)
  - Gillet Lake project (PGE)
  - De Romer project (polymetallic: Cu, Zn, Ag, Au, Ni)
- In the Sept Iles area:
  - Manitou project for Cu-U-Au and rare earth elements; project selected within the context of a strategic alliance between Azimut and Kennecott Exploration Company.

Azimut conducts its exploration activities by following two guiding principles. First, the company maximizes the probability of discoveries by utilizing a cutting-edge targeting methodology that reduces the exploration risk. Second, the company develops partnerships for projects generated by its targeting methodology to reduce the business risk.

## Overall performance

### Summary of activities

- Azimut acquires additional properties near the Eleonore gold discovery in the James Bay region of Quebec in October 2004.
- Azimut closes a \$100,000 private financing deal and converts a \$100,000 debenture into shares in November 2004.
- Azimut increases its holdings at Opinaca near the Eleonore gold discovery in the James Bay area in November 2004.
- Everton Resources Inc. (“Everton”) signs two partnership agreements with Azimut in December 2004 that cover four claim blocks in the Opinaca area of the James Bay region (A, A-East, B and B-North blocks) for which Azimut holds a 100% interest.
- Azimut closes a \$100,000 flow-through private financing deal in December 2004.
- Azimut hosts a booth at the Vancouver Resource Investment Conference in January 2005.
- Azimut enlarges the Eastmain property, re-elects a part as Wabamisk and enlarges it thereafter, in March and April of 2005.
- Azimut presents the company’s most recent developments and its 2005 objectives at the general annual meeting held on February 22<sup>nd</sup>, 2005.
- Eastmain Resources Inc. (“Eastmain”) signs two partnership agreements with Azimut in March 2005 covering two claim blocks in the Opinaca area (blocks C and D).
- Cambior Inc. (“Cambior”) signs a partnership agreement with Azimut in April 2005 that covers the Eastmain property.
- Placer Dome Inc. (Placer Dome) signs a partnership agreement with Azimut in May 2005 that covers the Wabamisk property.

### Summary of projects

#### Opinaca

The Opinaca area is located on the northeast side of the Opinaca reservoir in the James Bay region, 320 kilometres from Matagami or Chibougamau. The six claim blocks in the area are divided into four properties:

- A Block : 283 claims for a total area of 147.44 km<sup>2</sup>  
A-East Block : 43 claims for a total area of 22.4 km<sup>2</sup>
- B Block : 168 claims for a total area of 87.93 km<sup>2</sup>  
B-North Block : 52 claims for a total area of 27.16 km<sup>2</sup>

- C Block : 166 claims for a total area of 86.92 km<sup>2</sup>
- D Block : 188 claims for a total area of 97.99 km<sup>2</sup>

The acquisition of the Opinaca gold exploration projects began in November 2003 following Azimut's regional modeling of the gold potential in the James Bay region.

Geologically, the properties lie within the central part of the Superior province at the contact between the Opinaca (metasedimentary) and La Grande (volcanoplutonic) subprovinces. Paragneisses, amphibolites and rare conglomerate beds are generally folded along an east-west axis. Pre- to syn-tectonic intrusions (diorites to monzodiorites) and late intrusions (granodiorites and granites) are also found on the properties. The geological context is similar to that of the Eleonore property where a significant gold deposit has been discovered by Virginia Gold Mines. The Opinaca properties cover targets that follow the along-strike extension of the Eleonore mineralized corridor, or are adjacent to the corridor but display comparable geochemical signatures. Strong arsenic anomalies associated with metasediments have been identified on all Opinaca claim blocks.

A geological study covering the Opinaca claim blocks was completed during the second quarter. The focus of the study was to provide more detailed geological information about targets that had previously been defined by the regional modeling program.

Azimut and Everton signed two letters of agreement regarding claim blocks A, A-East, B and B-North in December 2004.

For the A and A-East blocks, Everton may acquire a 50% interest from Azimut during the next five years by paying a total of \$180,000 and spending \$2,800,000 in exploration work. Everton may also acquire an additional 15% interest upon delivery of a bankable feasibility study.

For the B and B-North blocks, Everton may acquire a 50% interest from Azimut during the next five years by paying a total of \$160,000 and spending \$2,000,000 in exploration work. Everton may also acquire an additional 15% interest upon delivery of a bankable feasibility study.

Everton will spend a minimum of \$500,000 in exploration work on claim blocks A, A-East, B and B-North during the upcoming quarters.

Azimut and Eastmain signed two letters of agreement regarding claim blocks C and D in March 2005.

For the C Block, Eastmain may acquire a 50% interest from Azimut during the next five years by paying a total of \$160,000 and spending \$2,700,000 in exploration work. Eastmain may also acquire an additional 15% interest upon delivery of a bankable feasibility study.

For the D Block, Eastmain may acquire a 50% interest from Azimut during the next five years by paying a total of \$140,000 and spending \$1,900,000 in exploration work. Eastmain may also acquire an additional 15% interest upon delivery of a bankable feasibility study.

Eastmain will spend a minimum of \$450,000 in exploration work on claim blocks C and D during the upcoming quarters.

The Opinaca projects incurred a total of \$18,828 in exploration-related expenses during the nine-month period covered by this report.

## Eastmain

The properties in the Eastmain area of the James Bay region (Wabamisk and Eastmain) are located 290 kilometres north of Chibougamau. They consist of one claim block each:

- Wabamisk : 668 claims for a total area of 353.6 km<sup>2</sup>.
- Eastmain : 167 claims for a total area of 88.63 km<sup>2</sup>.

The acquisition of these gold exploration projects began in November 2003 following Azimut's regional modeling of the gold potential in the James Bay territory.

Geologically, the properties lie within the central part of the Superior province at the contact between the Opinaca (metasedimentary) and La Grande (volcanoplutonic) subprovinces. Paragneisses, basalts and granitic intrusions are the dominant lithologies of the properties. A large E-W-oriented syncline crosses the Wabamisk property. Local and regional NW- and NE- trending faults are also present on the properties. Both the geological context and the geochemical signature are comparable to those of the Eleonore property where Virginia Gold Mines discovered a major gold deposit. A large portion of the Azimut properties are marked by a very strong arsenic anomaly associated with metasediments.

A geological study covering the claim blocks of both properties was completed during the second quarter. The focus of the study was to provide more detailed geological information about targets that had been previously defined by the regional modeling program.

Azimut and Cambior signed a letter of agreement regarding the Eastmain property in April 2005.

For this claim block, Cambior may acquire a 50% interest from Azimut during the next five years by paying a total of \$200,000 and spending \$2,000,000 in exploration work. Cambior may also acquire an additional 15% interest upon delivery of a bankable feasibility study.

Cambior will spend a minimum of \$200,000 in exploration work on these claims during the upcoming quarters.

In May 2005, Azimut and Placer Dome signed a letter of agreement regarding the Wabamisk property.

For this claim block, Placer Dome may acquire a 51% interest from Azimut during the next five years by paying a total of \$500,000 and spending \$4,000,000 in exploration work. Placer Dome may also acquire an additional 19% interest upon delivery of a bankable feasibility study.

Placer Dome will spend a minimum of \$400,000 in exploration work on these claims during the upcoming quarters.

The Eastmain projects incurred \$9,514 in exploration-related expenses during the nine-month period covered by this report.

## Retty

The Retty property is located 95 kilometres northeast of Schefferville. It consists of 198 contiguous claims for a total area of 96.45 km<sup>2</sup>.

Geologically, the Retty project is located in the Proterozoic Labrador Trough volcanosedimentary belt. Numerous Cu-Ni±Co±Pd±Pt sulphide deposits have been discovered in the Trough in mafic and ultramafic sills intruding sedimentary and volcanic rocks. Similar environments on the Retty property were targeted for copper, nickel and platinum exploration.

Property acquisition began in August 2003 following Azimut's regional modeling of the nickel-copper-platinum potential in the Labrador Trough. The property contains a 20-km long prospective zone related to an ultramafic sill combined with strong nickel, copper and cobalt lake bottom sediment geochemical anomalies.

Exploration work on this property was performed from late June to mid-July 2004. It consisted of sampling a 1-km wide sector that crosses the property from northeast to southwest. A total of 206 rock samples were taken and analyzed for gold, platinum, palladium, copper, cobalt, nickel, zinc and sulphur.

Abundant disseminated sulphides were observed on the property, mainly as disseminated pyrrhotite and traces of chalcopyrite in peridotite outcrops, pyroxenite blocks and sulphide-enriched argillites. The best results were from the peridotite body in the centre of the property, southeast of Nemo Lake. Grades were fairly low, with maximum values of 0.4% Cu, 0.2% Ni and 0.2 g/t of precious metals. An increase in conductivity is also observed for this area. Two other conductors in the northwest sector of the property have not yet been evaluated. Detailed exploration work is proposed for this sector in order to better define the mineral potential of the conductors.

The Retty project incurred a total of \$10,539 in exploration-related expenses during the nine-month period covered by this report.

## **Gillet Lake**

The Gillet Lake property is located 300 kilometres northwest of Schefferville, or 100 kilometres southwest of Kuujuaq. It consists of 87 contiguous claims for a total area of 41.50 km<sup>2</sup>.

Geologically, the Gillet Lake PGE exploration project is located in the Proterozoic Labrador Trough volcanosedimentary belt. Numerous Cu-Ni±Co±Pd±Pt sulphide deposits have been discovered in mafic and ultramafic sills that intrude the sedimentary and volcanic rocks of the Trough.

Property acquisition began in November 2003 following Azimut's regional modeling of the nickel-copper-platinum potential in the Labrador Trough region. The Gillet Lake property covers a 11-km long prospective zone associated with a mafic intrusion that coincides with lake bottom sediment nickel, copper and cobalt anomalies.

Exploration work on the property was performed at the beginning of July 2004. It consisted of sampling the Gillet gabbro unit, which hosts PGE mineralization on the adjacent property (Paladin showing). A total of 65 rock samples were analyzed for gold, platinum, palladium, copper, cobalt, nickel, zinc and sulphur.

The PGE mineralization discovered at the Paladin showing is not present in the gabbro found on the Gillet property. In fact, neither significant nor continuous mineralization was observed anywhere on the property. A few isolated samples revealed maximum grades of 1.6 g/t Au, 0.3% Cu and 0.3 g/t PGE. No additional exploration fieldwork is currently planned for the property.

The Gillet Lake project incurred a total of \$2,241 in exploration-related expenses during the nine-month period covered by this report.

## **De Romer**

The De Romer property is located 70 kilometres west of Kuujuaq. It consists of 26 contiguous claims for a total area of 11.84 km<sup>2</sup>.

Geologically, the De Romer project is located in the Proterozoic Labrador Trough volcanosedimentary belt. It represents a polymetallic (copper, zinc, silver, gold and nickel) exploration project.

The acquisition of the property began in November 2003 following Azimut's regional modeling of the nickel-copper-platinum potential in the Labrador Trough region. Sulphide minerals in argillites and at the base of a gabbro unit are associated with a 5-km long magnetic high.

Exploration work on this property was performed in early July 2004. Activities were concentrated near the Fort-Chimo showing, which consists of a small mass of massive sulphides at the base of a gabbro body. A total of 21 rock samples were analyzed for gold, platinum, palladium, copper, cobalt, nickel, zinc and sulphur.

The vicinity of the Fort-Chimo showing displays extensive rusty zones, although the massive sulphide horizon is relatively limited in size. The best copper values obtained from this horizon and from mineralized argillites are fairly low: 0.11 to 0.29% Cu. Moreover, there was no indication of significant values for PGE, Zn, Ni, Ag or Au. Additional exploration fieldwork is not planned for the property at this time.

The De Romer project incurred a total of \$1,699 in exploration-related expenses during the nine-month period covered by this report.

### **Strategic agreement with Kennecott**

In July 2004, Azimut and Kennecott signed a strategic agreement regarding the development of an exploration strategy for gold and base metals over a vast region of Quebec totaling 500,000 km<sup>2</sup>.

The agreement includes three main phases:

- Phase 1 : Azimut will deliver to Kennecott a mineral potential assessment study for the region in question. Kennecott will fund this phase by paying \$40,000 CA to Azimut.
- Phase 2 : For targets that require further appraisal, Kennecott will invest \$5,000 to \$30,000 per target. Azimut will be the operator.
- Phase 3 : For each target, Kennecott will have an exclusive right to enter into a joint venture with Azimut by investing \$1,000,000 over a four-year period to acquire a 60% interest per selected property. Kennecott will pay a \$50,000 bonus to Azimut for each selected property that reaches the drilling stage. Furthermore, Kennecott will have the option to acquire an additional 20% interest, for a maximum total of 80%, by delivering a feasibility study within a five-year period.

The first phase of this agreement was completed during the second quarter. Azimut successfully defined several targets by conducting precious and base metal predictive modeling across the region.

Phase 2 of the agreement was initiated during the last quarter with the acquisition of 2,377 claims divided into 12 claim blocks for a total area of 1,284 km<sup>2</sup>. These 12 claim blocks constitute the Manitou property. The planning of prospecting work on Kennecott-accepted targets began in the last quarter, and the actual work will be executed during the upcoming quarter.

## Regional modeling and project generation

During the last three quarters, Azimut has pursued mineral potential modeling for several areas in Quebec with the objective of generating and acquiring new gold and base metal projects.

### PLANNED EXPLORATION WORK

PROPERTY or PROJECT	PLANNED WORK FOR 2005-2006	BUDGET
Opinaca (blocks A, A-East, B and B-North )	By the partner	\$500,000
Opinaca (blocks C and D)	By the partner	\$450,000
Eastmain	By the partner	\$200,000
Wabamisk	By the partner	\$400,000
Retty	To be defined; by Azimut	To be defined
Lac Gillet	None planned at this time	N/A
De Romer	None planned at this time	N/A
Kennecott agreement	Phase 2	To be defined
Manitou	By Azimut	To be defined
Regional modeling and project generation	Target modeling and field verification	\$100,000

## Selected annual information

	Results as at May 31	Results as at August 31	
	2005	2004	2005
	(\$)	(\$)	
	(9 months)	(12 months)	(6 months)
<b>Revenues</b>			
Sales	--	--	16,000
Interest and other	132,100	5,520	1,636
	132,100	5,520	17,636
<b>Charges</b>			
Administrative expenses	217,127	298,938	113,830
Loss on abandonment of mining properties	--	--	563,696
Search for properties	32,659	87,944	39,615
Credit on duties refundable for losses and refundable tax credit relating to resources	(15,642)	(42,170)	(15,822)
Writedown of long-term investment	14,629	12,000	10,000
Gain on disposal of property, plant and equipment	--	--	(469)
Future income tax	(31,020)	--	--
	217,753	356,712	710,850
<b>Net loss</b>	(85,653)	(351,192)	(693,214)
<b>Basic and diluted net loss per share</b>	(0.007)	(0.035)	(0.082)
<b>Other information:</b>			
<b>Total asset</b>	1,393,704	592,606	137,563
<b>Long-term debt</b>	--	--	--
<b>Shareholders' equity</b>	1,332,717	456,395	106,482

Since its incorporation, AZIMUT EXPLORATION has not paid any cash dividends on its outstanding common shares. Any future dividend payment will depend on the Corporation's financial needs to fund its exploration programs and its future financial growth, and any other factor that the board deem necessary to consider in the circumstances. It is highly unlikely that any dividends will be paid in the near future.

### **Result of operation**

The company reported a net loss of \$85,653 during the first nine months compared to a net loss of \$256,096 for the previous comparative period. The option of the Opinaca A, A-East, B, B-North, C, D and Eastmain properties generated a payment of \$125,811. In the previous period, a lesser portion of the wage expenses were capitalized. \$75,000, representing the fair value of the options granted in February 2004, were entered in the professional fees of the preceding comparative period. The increase in the representation and travelling expenses is explained by the increase of 2 to 4 conferences at which 2 representatives of the company took part compared to 1 representative for the preceding comparative period. The capitalization of the exploration expenditures incurred on its new properties as well as the invoicing of certain exploration expenditures to Kennecott Exploration Company explains the reduction in the cost of new property evaluation. The adoption of the EIC-146 on the flow-through shares in January 2005 generated an income tax credit of \$31,020.

### **Quarterly information**

The information presented below details the total revenues, overall net loss and the net loss per participating share of the last eight quarters.

Quarter ended	Total revenues	Net earning (net loss)	Net earning (net loss)	
			Basic	Diluted
31-05-2005	130,223	28,152	0.002	(0.002)
28-02-2005	1,042	(40,437)	(0.003)	(0.003)
30-11-2004	835	(73,368)	(0.006)	(0.006)
31-08-2004	885	(95,096)	(0.011)	(0.011)
31-05-2004	1,506	(71,925)	(0.060)	(0.060)
29-02-2004	2,644	(134,856)	(0.012)	(0.012)
30-11-2003	485	(49,315)	(0.005)	(0.005)
31-08-2003	200	(83,729)	(0.012)	(0.012)

### **Liquidity**

The working capital of the company increased to \$1,051,683 at the end of the period compared to \$234,966 at the beginning of the year. The company completed two private placements during the period. One private placement in November 2004 for a total amount of \$100,000 and one flow-through private placement in December 2004 for a total amount of \$100,000. A total of 1,861,906 warrants have been exercised for an amount of \$789,048 during the third quarter. During the period, \$250,000 of cash payments were received pursuant to the grant of options of mining properties.

Contractual obligations	Payments due by period		
	Total	Less than 1 year	1-3 years
Lease	\$34,344	\$15,264	\$19,080

### **Capital resources**

During the period, the company completed two private placements.

In November 2004, the company issued 238,096 common shares for a total amount of \$100,000. This amount will be used for the administrative expenses of the company. In November 2004, the company converted a \$100,000 debenture expiring in March 2005 into 555,556 common shares of the company. In December 2004, the company issued 166,670 common flow-through shares for a total amount of \$100,000. This amount will be used to finance a part of the exploration work performed in the fiscal years 2005 and 2006. A total of 1,861,906 warrants has been exercised for an amount of \$789,048 during the third quarter.

### **Off balance sheet arrangements**

The company has no off balance sheet arrangements.

### **Related party transactions**

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

	<i>May 31, 2005</i>	<i>May 31, 2004</i>
Office expenses	\$ 0	\$ 495

These transactions are in the normal course of operations and represent the fair market value of the services provided as established and agreed to by the related parties.

### **Mining properties book values**

At the end of each quarter, exploration work performed on mining properties is reviewed to evaluate their potential. Following this analysis, write-offs can be effected.

Exploration expenses for the periods of nine (9) month interim period ended May 31, 2005 and 2004 are as follows:

	<b>2005</b>	<b>2004</b>
	<b>9 months</b>	<b>9 months</b>
	<b>\$</b>	<b>\$</b>
<b>Balance – Beginning of period</b>	109,369	--
Expenses incurred during the period		
Claims and permits	144,987	52,582
Geology	42,821	1,691
	<hr/> 187,808	<hr/> 54,273
Payment on options	(168,368)	--
Credit on duties refundable for losses and refundable tax credit relating to resources	(21,731)	(828)
	<hr/> (190,099)	<hr/> (828)
<b>Balance – End of period</b>	<hr/> 107,078	<hr/> 53,445

### **Changes in accounting policies**

The change in accounting policies and the impact of such changes are described in note 1 of the interim financial statements for the period ended May 31, 2005. In January 2005, the company adopted the abstract # 146 of the E.I.C. published in March 2004 on the flow-through shares.

In January 2005, the CICA issued four new accounting standards relating to 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.

Accordingly, Section 3250, “Surplus” has been revised to become Section 3251, “Equity”.

Sections 1530, 3251, 3855 and 3865 apply to 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.

## **Financial instruments**

### Fair value

Cash and cash equivalent, amounts receivable, exploration funds and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity or to current market rates.

The fair value of convertible debentures could not be determined due to the specific characteristics of these financial instruments.

### Interest rate risk

As at May 31, 2005 and 2004, the company's exposure to interest rate risk is summarized as follows:

- Cash and cash equivalent	Variable interest rate
- Amounts receivable	Non interest bearing
- Exploration funds	Variable interest rate
- Accounts payable and accrued liabilities	Non interest bearing
- Convertible debentures	As described in note 3 of interim financial statements

## **Disclosure of outstanding share data**

The company is authorized to issue an unlimited number of common shares, without par value. As of July 22, 2005, 14,442,456 shares were issued and outstanding.

The company maintains a stock option plan pursuant to which a maximum of 1,421,685 stock options may be granted. 1,000,000 stock options are presently issued and remain unexercised. The exercise price varies from \$0.16 to \$0.30 and their expiry dates vary from March 28, 2006 to January 24, 2010.

During the months of March and April 2005, the 1,861,906 warrants were exercised.

## **Risk and uncertainties**

### Financial risk

The company is considered to be in the exploration stage, that it is dependent on obtaining regular financing in order to continue exploration. Despite previous success in acquiring this financing, there is no guarantee of obtaining any future financing.

### Risk on the uncertainty of title

Although the company has taken steps to verify title to mining 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.

### Environmental risk

The company is subject to various environmental incidents that can occur during exploration work. The company maintains an environmental management system including operational plans and practices.

## **Additional information and continuous disclosure**

This Management's Discussion and Analysis has been prepared as of July 22, 2005. Additional information on the company is available through regular filings of press releases, financial statements and its annual information form on SEDAR ([www.sedar.com](http://www.sedar.com)).

(s) Jean-Marc Lulin  
President and Chief Executive Officer

(s) Gaétan Mercier  
Secretary - Treasurer