



AZIMUT

Exploration Azimut Inc.

## MANAGEMENT'S DISCUSSION and ANALYSIS

For the three-month period ended February 28, 2006

### Scope of management's financial analysis

This report represents a complimentary addition to the financial statements by providing contextual and prospective information that is not found in the latter. This analysis was prepared in accordance with Canadian generally accepted accounting principles (GAAP).

### Corporate profile and mission

Exploration Azimut Inc. ("Azimut") is a mineral exploration company that develops cutting-edge geoscience data processing methods to improve the selection of favourable exploration zones and discover major ore deposits.

Since June 2003, the company has acquired fourteen wholly owned exploration projects based on the results of its 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)
  - the Comptoir gold project
  - the Obamsca gold project
- In the region north of Sept-Îles and elsewhere in Quebec, within the framework of a strategic agreement with Kennecott Exploration Company ("Kennecott"):
  - 4 copper and uranium projects (Manitou, Aguanish, Baskatong and Mont Merry)
  - the Grenium uranium project
- In the Labrador Trough area:
  - the Retty copper-nickel-platinum group element (PGE) project

Azimut conducts its exploration activities by following two guiding principles. Firstly, the company maximizes the probability of discovery by using a cutting-edge targeting methodology that reduces the

exploration risk. Secondly, the company reduces the business risk by developing partnerships for the projects generated by its targeting methodology.

## **Overall performance**

### **Summary of activities**

- In December 2005, Kennecott and Azimut develop an exploration program that will be conducted in 2006 on a copper-uranium target (Manitou project) northeast of Sept-Îles in Quebec.
- In December 2005, Azimut and Placer Dome CLA (“Placer Dome”) announce the identification of gold targets on the Wabamisk property in the James Bay region of Quebec.
- In December 2005, Azimut and Eastmain Resources Inc. (“Eastmain”) announce the identification of gold targets on the Opinaca property (C and D blocks) in the James Bay region of Quebec.
- In January 2006, Everton agrees to a second year option on the A, A East, B and B North blocks on the Opinaca project and commits to an investment of at least \$900,000 in exploration work.
- In February 2006, Azimut and Everton announce the identification of new gold targets on the Opinaca project in the James Bay region of Quebec.
- In February 2006, Azimut and Kennecott extend their strategic agreement concerning the exploration of uranium deposits.
- In early 2006 Azimut acquires the North Rae uranium project in the eastern Ungava Bay region.
- Azimut names Dennis Wood as a director of the company in February 2006.

### **Project summaries**

#### **Opinaca sector**

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

Everton agreement:

- A Block 353 claims for a total area of 183.9 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 87.9 km<sup>2</sup>
- B North Block 52 claims for a total area of 27.2 km<sup>2</sup>

Eastmain agreement:

- C Block 166 claims for a total area of 86.9 km<sup>2</sup>
- D Block 188 claims for a total area of 98.0 km<sup>2</sup>

All the properties represent gold projects. The acquisition of these claim blocks began in November 2003 based on the targeting results of Azimut’s regional-scale gold potential modeling of 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, amphibolites and rare conglomerate beds are folded along an east-west axis. Pre- to syn-tectonic intrusions (dioritic to monzodioritic) and late intrusions (granodioritic and granitic) are also found on the properties. The geological context is similar to that of the Eleonore property where a major gold deposit has been discovered by Virginia Gold Mines Inc. ("Virginia"). The Opinaca properties cover targets that coincide with the along-strike projection of the Eleonore mineralized trend, or that are peripheral to the trend but display comparable geochemical signatures. Strong arsenic anomalies associated with metasedimentary rocks have been identified on all the Opinaca claim blocks.

#### *A, A East, B and B North blocks*

Everton performed exploration work on the A, A East, B and B North claim blocks during the summer and autumn of 2005. Work expenditures reached the minimum amount of \$500,000 by the end of the first year of the agreement (December 2005).

Surface prospecting results were received at the end of 2005 and revealed a 1.7-km long trend of gold showings on the A Block. This zone is notable for 22 selected outcrop samples yielding assays from 0.1 g/t to 29.0 g/t Au. Samples exceeding more than 0.5 g/t were distributed as follows: 2.9 g/t (westernmost sample), 29.1 g/t Au, 10.9 g/t Au, 6.6 g/t Au, 6.7 g/t Au, 1.6 g/t Au, 0.8 g/t Au, 3.6 g/t Au, 0.6 g/t Au, 0.5 g/t Au, 0.8 g/t Au and 1.2 g/t Au (easternmost sample).

The host rock is a metasedimentary rock containing trace to 3% sulphides. The mineralized horizon displays an apparent lateral continuity that remains open in all directions. The western limit of the trend lies 12 km northeast of the Virginia discovery.

In February 2006, new gold targets were identified following the compilation of the latest results from a lake bottom sediment survey during the 2005 sampling program. The results for 286 samples, which cover the entire project, defined 6 different anomalous zones for gold, silver, arsenic and antimony. These elements are known potential gold indicators. The targets, defined by samples derived from several different lakes, measure more than one kilometre each. One of the identified zones likely represents the signature of the 1.7-km gold bearing trend discovered on the A Block.

In addition, 3 till samples collected on the A Block yielded gold values of 2.4 g/t Au, 0.2 g/t Au and 0.8 g/t Au. With respect to glacial movements, the samples were collected up-ice from the Eleonore deposit, suggesting a gold source on the A Block.

In January 2006, Everton announced that it would commit to a second year option on these claim blocks. Everton will invest a minimum of \$900,000 in exploration work on the project during the 2006 year.

#### *C and D blocks*

Exploration work was conducted by Eastmain during the summer and autumn of 2005. By the end of February, work expenditures totalled a minimum of \$450,000. The work included an airborne VTEM survey (2,068 line-kilometres), a systematic B-horizon soil sampling program over a 100 x 500 m grid with more detailed local sampling (total of 3,686 samples), as well as reconnaissance prospecting (781 rock samples).

On the C Block, the main result was the identification of gold-arsenic soil anomalies that collectively form a zone measuring at least 7 km long. Outcrop showings with rock assays of up to 3.0 g/t Au were discovered in the soil anomaly zones. On the D Block, the main result was the identification of several anomalies—discontinuous but well defined—for gold and arsenic in soil.

Azimut considers the results from the C and D blocks to be very encouraging. The planned budget for the 2006 exploration program is \$700,000 and will include detailed geochemical surveys, systematic rock sampling, trenching and drilling.

## **Eastmain sector**

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

- Wabamisk 755 claims for a total area of 400 km<sup>2</sup>
- Eastmain 167 claims for a total area of 88.6 km<sup>2</sup>

Both these properties represent gold projects. The acquisition of the properties began in November 2003 based on the targeting results from Azimut's regional-scale gold potential modeling of 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. A large E–W-trending syncline crosses the Wabamisk property. Local and regional NW- and NE-trending faults are also present on the properties. The geological contexts and geochemical signatures are comparable to those of the Eleonore property where Virginia Gold Mines discovered a major gold deposit. The majority of the ground covered by these properties is characterized by a very strong arsenic anomaly associated with metasedimentary rocks.

Cambior Inc. performed exploration work on the Eastmain property during the summer of 2005. By the end of February 2006, work expenditures reached the minimum amount of \$200,000. Results will soon be reported.

Placer Dome performed exploration work on the Wabamisk property during the summer of 2005. As of February 2006, work expenditures reached the minimum amount of \$400,000. The work may be carried on by Goldcorp Inc. in accordance with the conditions of Goldcorp's acquisition of Placer Dome mineral properties in Canada.

The results of the summer 2005 work were used to identify several significant auriferous targets on the Wabamisk property.

The targets were identified by combining the results of lake bottom sediment analyses, till analyses, and rock assays with geological and structural mapping in addition to magnetic data that were acquired for the property. Most of the known historical gold showings lie within these target zones. The targets clearly extend for several kilometres and are under explored to date. Prospecting along reconnaissance traverses spaced 2 km apart revealed four new auriferous outcrop showings. The new showing that returned 8.2 g/t Au is hosted by metasedimentary rocks. The geologic context underscores the potential of the Wabamisk property for gold deposits associated with sediments.

## **Comptoir property**

The Comptoir property is located 330 kilometres north of Matagami in the James Bay region. It consists of 796 contiguous claims for a total surface area of 415.4 km<sup>2</sup>.

Comptoir is a gold exploration project. The claim block was acquired beginning in July 2005 based on the targeting results from Azimut's regional-scale gold potential modeling of the James Bay territory.

Geologically, the property lies within the Superior Province at the contact between the Opinaca (metasedimentary) and La Grande (volcanoplutonic) subprovinces. The main lithological units on the property are paragneisses, amphibolites and late granodioritic to granitic intrusions.

A geological study of this property was conducted during the summer of 2005. The goal of the study was to more precisely define the geological context of the targets identified by regional modeling. An exploration program is being planned for the property in collaboration with a potential partner.

### **Obamsca property**

The Obamsca property lies 140 km north of Matagami in the James Bay region. It comprises 39 contiguous claims covering a surface area of 21.3 km<sup>2</sup>.

The Obamsca property is a gold exploration project. The claim block was acquired beginning in July 2005 based on the targeting results from Azimut's regional-scale gold potential modeling of the James Bay territory.

Geologically, the property is located in the Superior Province at the contact between the Opinaca and Opatoca subprovinces. The property is partly underlain by the Obamsca River volcano-sedimentary greenstone belt. The most common rock types are greywackes, iron formations, felsic volcanics and gabbros.

An exploration program is being planned for the property in collaboration with a potential partner.

### **Retty property**

The Retty property is located 95 kilometres northeast of Schefferville. It consists of 178 contiguous claims covering a total surface area of 86.7 km<sup>2</sup>.

Geologically, the Retty project is located in the Proterozoic Labrador Trough volcanosedimentary belt. Numerous copper, nickel, cobalt, palladium and platinum sulphide deposits have been discovered in mafic and ultramafic sills intruding the sedimentary and volcanic rocks of the region. Exploration for copper, nickel and platinum on the Retty property is focused on similar geologic environments.

Property acquisition began in August 2003 based on the results of Azimut's regional-scale modeling of the nickel-copper-platinum potential in the Labrador Trough. The property covers a promising 20-km long zone associated with an ultramafic sill and coincides 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. The work included the sampling of a 1-km wide sector that crosses the property from northeast to southwest. A total of 206 rock samples were analyzed for gold, platinum, palladium, copper, cobalt, nickel, zinc and sulphur.

A lot of 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 Lake Nemo. 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 observed for the area. Detailed exploration work is needed to better define the mineral potential for the sector.

## Rae North property

The Rae North property is located east of Ungava Bay in northern Quebec, 10 to 20 km from the coast and approximately 160 km east of the town of Kuujuaq. The property consists of 3 claim blocks comprising 688 claims that cover a total surface area of 298.9 km<sup>2</sup>.

The property represents a uranium exploration project. The property covers a major part of a strong regional geochemical uranium anomaly in lake bottom sediments. The geological environment is favourable (presence of felsic intrusions, pegmatites, leucocratic gneisses) for uranium deposits related to intrusions. An exploration program is being planned for the property in collaboration with a potential partner.

## Strategic agreement with Kennecott

In July 2004, Azimut and Kennecott signed a strategic agreement to develop an exploration strategy for copper, uranium and gold over a vast region of Quebec totalling 500,000 km<sup>2</sup>.

The agreement includes three main phases:

- Phase 1: Azimut will deliver to Kennecott a predictive mineral potential assessment study for the region in question. Kennecott funded this phase by paying \$40,000 to Azimut.
- Phase 2: For targets that require further appraisal, Kennecott will invest \$5,000 to \$30,000 per target. Azimut is 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 per project 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 winter of 2005. Azimut successfully defined several targets by conducting predictive modeling for copper, uranium and rare earth elements at the scale of the territory covered by the agreement.

Phase 2 of the agreement was initiated in the spring of 2005. Four projects were staked during this stage of the agreement: Manitou, Aguanish, Baskatong and Mont Merry.

The Manitou project lies 115 km northeast of Sept-Îles. It comprises 12 claim blocks for a total of 2,478 claims covering 1,340 km<sup>2</sup>. Geologically, the project is located in the eastern part of the Grenville Province and is underlain by paragneisses, quartzites, anorthosites, gabbro-norites and various granitoids.

The results confirm the mineral potential modeling performed by Azimut and justify the development of an exploration program. The work, which will take place during 2006 at a minimum cost of \$500,000, will include lake bottom sediment sampling, airborne geophysics and mapping with the objective of defining drilling targets. If the results are positive, a drilling budget will be developed.

The Aguanish project, 340 km east of Sept-Îles, comprises 102 contiguous claims covering 55 km<sup>2</sup>. Geologically, the project is part of the Grenville Province and is underlain by rocks of the Aguanus Group, which forms part of the Wakeham Supergroup.

The Basketong project, 30 km north of Mont Laurier, consists of 107 contiguous claims covering 63.0 km<sup>2</sup>. Geologically, the project lies within the Mont-Laurier Basin of the Central Metasedimentary Belt of the Grenville Province.

The Mont Merry project lies 265 km north of Sept-Îles and consists of 12 contiguous claims covering 6.3 km<sup>2</sup>. Geologically, the project is located in the Gagnon terrane near the Grenville Front Tectonic Zone.

In February, Azimut and Kennecott announced the extension of their strategic agreement concerning uranium exploration. Within the framework of this addition to the agreement, 20 additional claim blocks were staked north of Sept-Îles for a total of 2,230 claims (1,203.4 km<sup>2</sup>). These claim blocks represent the Grenium project.

### **Regional modeling and project generation**

During the last two quarters, Azimut has pursued mineral potential modeling for several regions in Quebec with the objective of generating new projects, most notably for gold and base metals.

## PLANNED EXPLORATION WORK

PROPERTY or PROJECT	WORK PLANNED FOR 2006	BUDGET
Opinaca (A, A East, B, B North blocks)	By the partner	\$900,000
Opinaca (C and D blocks)	By the partner	\$650,000
Eastmain	By the partner	\$300,000
Wabamisk	By the partner	\$600,000
Comptoir	By Azimut or the partner	To be determined
Obamsca	By Azimut or the partner	To be determined
Retty	By Azimut	To be determined
Aguanish, Baskatong, Mont Merry	By the partner	To be determined
Manitou	By the partner	\$500,000
Grenium	By the partner	\$200,000
Rae North	By Azimut or the potential partner	To be determined
Regional modeling and project generation	Target modeling and field checks by Azimut	Minimum of \$75,000

### Selected financial information

	Results to February 28		Results to August 31	
	2006	2005	2004	
	\$	\$	\$	
	<i>(6 months)</i>	<i>(12 months)</i>	<i>(12 months)</i>	
<b>Revenues</b>	17,151	135,660	5,520	
<b>Expenses</b>				
Salaries, honorariums and administration fees	215,931	301,500	298,938	
Written-off properties	7,300	31,811	--	
Search for properties	104,029	86,409	87,944	
Credit on duties refundable for losses and refundable tax credits relating to resources	(11,701)	(748)	(42,170)	
Write down of long-term investments	--	14,629	12,000	
Future taxes	--	(31,020)	--	
	315,559	402,581	356,712	
<b>Net loss</b>	(298,408)	(266,921)	(351,192)	
<b>Basic and diluted net loss per share</b>	(0.020)	(0.021)	(0.035)	
<b>Other information</b>				
<b>Total assets</b>	1,368,696	1,287,247	592,606	
<b>Shareholders' equity</b>	1,107,135	1,204,325	456,395	



Since its incorporation, the company has not declared cash dividends on its outstanding common shares. Any future dividend payment will depend on the company's financial needs for its exploration programs and its future financial growth, and any other factor that the Board of Directors deems necessary to consider in the circumstances. It is unlikely that any dividends will be paid in the near future.

### **Result of operations**

The company realized a net loss of \$298,408 during the current period compared to a net loss of \$113,805 during the previous period. The interest income increased from \$1,877 to \$10,662 as at February 28, 2006, due to the increase in available funding from the exercise of stock options. The company received management fees for its role as project operator in its partnership with Kennecott. The increases in the categories of "Salaries and social benefits" and "Professional and maintenance fees" are mainly due to the fair value attributed to the stock options that were granted in September 2005. The increase in costs related to the search for properties is explained by the growth in exploration activities. There was no recovery of future income tax recorded for the period ending February 28, 2006, compared to \$31,020 for the previous period, due to the fact that exploration costs were not waived for flow-through share investors. During the period, certain claims on the Retty property were abandoned.

### **Quarterly information**

The information presented below details the total revenue, the net income (net loss), and the net profit (net loss) per participating share for the last eight quarters.

Quarter ending	Total revenue	Net profit (net loss)	Net profit (net loss) per share	
			basic	diluted
28-02-2006	5,841	(136,184)	(0.009)	(0.009)
30-11-2005	11,310	(162,224)	(0.011)	(0.011)
31-08-2005	3,560	(181,268)	(0.014)	(0.014)
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	(10,825)	(0.012)	(0.012)
31-05-2004	1,506	(71,925)	(0.006)	(0.006)

### **Cash flow situation**

The company's working capital decreased to \$866,577 at the end of the period compared to \$935,801 at the beginning of the fiscal year. The decrease is mainly explained by the prepaid expenses related to the staking of mining claims that will be offered to potential partners. During the period, the company proceeded with a private flow-through share financing of \$100,230. A total of 200,000 stock options were exercised for the amount of \$35,000.

Contractual obligations	Payments due per period		
	Total	Less than 1 year	1 to 3 years
Lease	\$26,712	\$15,264	\$11,448

### **Financing sources**

In December 2005, the company issued 77,100 common flow-through shares for a total of \$100,230. This sum will be used to finance the company's exploration expenses. A total of 200,000 stock options were exercised for a total of \$35,000 during the first and second quarter. The total for the first quarter was 140,000 stock options for \$24,200, with the remaining 60,000 being exercised during the second quarter for a total of \$10,800.

### **Off-balance sheet arrangements**

The company has no off-balance sheet arrangements.

### **Mining properties book values**

At the end of each quarter, the exploration work is analyzed in order to evaluate the future potential of each of the properties. If needed, write-offs are done following this analysis.

### **Changes in accounting policies**

In January 2005, the CICA published 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 instructions set forth in Section 3860, "Financial Instruments — Disclosure and Presentation", by prescribing when a financial instrument is to be recognized in 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 companies that choose to designate qualifying transactions 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 fiscal years beginning on or after October 1, 2006. The company will adopt these new standards on September 1, 2007, and has not yet determined their impact on its financial statements.

## **Financial instruments**

### Fair value

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

The fair value of convertible debentures could not be determined given the particular characteristics of these financial instruments.

### Interest rate risk

The company's exposure to interest rate risk is summarized as follows:

- Cash and cash equivalents	Variable interest rate
- Accounts 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 the financial statements.

## **Information regarding outstanding shares**

The company can issue a limited number of common shares, without par value. As at April 27, 2006, there were **14,972,556** issued and outstanding shares.

The company maintains a stock option plan in which a maximum of 1,421,685 stock options may be granted. As at April 27, 2006, **1,227,000** stock options are granted. Their exercise prices range from \$0.16 to \$1.80, and expiry dates range from November 6, 2007, to April 21, 2011.

As at April 27, 2006, two convertible debentures are outstanding. As a result of these debentures, a minimum of 1,042,780 and a maximum of 3,343 239 shares can be granted.

## **Risks and uncertainties**

### Financial risks

The company is considered to be an exploration company. It must therefore regularly obtain financing in order to pursue its activities. Despite previous success in acquiring such financing, there is no guarantee of success in the future.

### Property title risk

Although the company has taken steps to verify property titles relating to its mining properties in which it holds an interest, in accordance with industry standards for the current stage of exploration on these 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 susceptible 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 was prepared on April 27, 2006. The company regularly divulges additional information through press releases, financial statements, and its annual information form on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

(s) Jean-Marc Lulin

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President and CEO

(s) Moniroth Lim

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Secretary Treasurer