

## **Management's analysis of financial condition and results of operations**

### **Nature of operations**

Azimut's strategy is to develop new geoscience data processing techniques in order to improve the selection of prospective zones to explore and lead to the discovery of major ore deposits. The Company was reactivated last June, following the appointment of a new president. The Company is currently focussing its search for new projects in Québec, in the James Bay region (for gold) and in the Labrador Trough (for nickel-copper-platinum).

### **Results of operations**

The Company incurred a net loss of \$49 315 for the period ended November 30, 2003, compared to a net loss of \$587 875 for the period ended November 30, 2002. In November 2002, the Company abandoned its option to acquire a 50% interest in the Flavrian property, which resulted in a loss of \$570 377. Expenses in salaries and fringe benefits are related to the appointment of the new president. Expenses related to the search for properties mainly consist in an assessment of the mineral potential in Québec.

### **Liquidity and sources of financing**

The Company's working capital was \$213 933 at November 30, 2003, compared to \$58 232 at the beginning of the fiscal year. In November 2003, Azimut concluded two private financings for a total of \$450 000, of which \$250 000 was allocated for exploration programs.

### **Risks and uncertainties**

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

### **Outlook**

The Company has been very active in terms of property acquisitions during the fall 2003 and requests for acquisition of properties are presently being processed by the Ministère des Ressources Naturelles, Faune et Parcs. During the next months, the Company will pursue the modeling of mineral potential in different regions of Québec in order to identify new targets. The Company will then begin prospecting these properties in order to enhance their value. During the same period, Azimut will seek partners in order to redistribute part of its exploration costs.

### **Management's Responsibility for Financial Information**

Azimut's financial statements are the responsibility of the company's management, and have been approved by the board of directors. The financial statements were prepared by the company's management in accordance with generally accepted Canadian accounting principles. The financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

(s) Jean-Marc Lulin  
President

(s) Gaétan Mercier  
Controller

Quebec City, Québec, Canada  
January 21, 2004

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Balance Sheets**

	<b>November 30, 2003</b>	<b>August 31, 2003</b>
	<b>\$</b>	<b>\$</b>
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	177 114	45 782
Amounts receivable	59 612	29 666
Prepaid expenses	23 350	13 865
	<u>260 076</u>	<u>89 313</u>
<b>Exploration funds</b>	244 979	23 534
<b>Long-term investments</b> (quoted value 24 000 \$; 24 000 \$)	24 000	24 000
<b>Mining properties</b>	9 400	---
<b>Property, plant and equipment</b>	680	716
	<u>539 135</u>	<u>137 563</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Related companies	507	402
Others	45 636	30 679
	<u>46 143</u>	<u>31 081</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Convertible debentures</b>	550 000	350 000
<b>Share capital</b>	4 128 656	3 887 960
<b>Stock options</b>	24 695	24 695
<b>Deficit</b>	(4 210 359)	(4 156 173)
	<u>492 992</u>	<u>106 482</u>
	<u>539 135</u>	<u>137 563</u>

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**Deficit**

For the periods ended November 30, 2003 and 2002 (unaudited)

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	<b>2003</b>	<b>2002</b>
	\$	\$
<b>Balance - Beginning of period</b>	4 156 173	3 422 971
Interest on convertible debentures	4 871	12 216
Net loss for the period	49 315	587 875
<b>Balance - End of period</b>	<u>4 210 359</u>	<u>4 023 062</u>

**Statements of deferred exploration expenses**

For the periods of three (3) months ended November 30, 2003 and 2002 (unaudited)

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	<b>2003</b>	<b>2002</b>
	\$	\$
<b>Balance - Beginning of period</b>	<u>0</u>	<u>572 038</u>
Expenses incurred during the period		
Claims and permits	9 400	8 147
	<u>9 400</u>	<u>8 147</u>
Abandoned mining properties	---	(570 377)
Tax credits and mining rights	---	(9 808)
	<u>---</u>	<u>(580 185)</u>
<b>Balance - End of period</b>	<u>9 400</u>	<u>0</u>

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**Statements of Earnings**

For the periods of three (3) months ended November 30, 2003 and 2002 (unaudited)

	<b>2003</b>	<b>2002</b>
	<b>3 months</b>	<b>3 months</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>		
Interests' income	485	324
Gain on sale of property, plant and equipment	---	100
	<u>485</u>	<u>424</u>
<b>Expenses</b>		
Salaries and fringe benefits	14 633	---
Professional and maintenance fees	4 732	8 438
Management fees and office expenses	12 731	9 210
Travelling and entertainment	1 085	147
Interests and bank charges	63	44
Amortization of property, plant and equipment	36	83
Loss on abandonment of a mining property	---	570 377
Search for properties	30 452	---
Tax credits and mining rights	(13 932)	---
	<u>49 800</u>	<u>588 299</u>
<b>Net loss for the period</b>	<u>49 315</u>	<u>587 875</u>
<b>Basic and diluted net loss per share</b>	<u>(0,005)</u>	<u>(0,072)</u>
<b>Basic and diluted weighted average number of shares outstanding</b>	<u>10 177 378</u>	<u>8 156 269</u>

**AZIMUT EXPLORATION INC.**

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**Statements of Cash Flows**

For the periods of three (3) months ended November 30, 2003 and 2002 (unaudited)

	<b>2003</b>	<b>2002</b>
	<b>3 months</b>	<b>3 months</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Net loss for the period	(49 315)	(587 875)
Items not affecting cash		
Amortization of property, plant and equipment	36	83
Loss on abandonment of a mining property	---	570 377
	<u>(49 279)</u>	<u>(17 415)</u>
Change in non-cash working capital items		
Amounts receivable	(29 946)	(12 991)
Prepaid expenses	(9 485)	(3 483)
Accounts payable and accrued liabilities	15 062	17 169
	<u>(24 369)</u>	<u>695</u>
	<u>(73 648)</u>	<u>(16 720)</u>
<b>Cash flows from financing activities</b>		
Variation in exploration funds	(221 445)	---
Convertible debenture contracted	200 000	---
Increase in share capital	235 825	---
	<u>214 380</u>	<u>---</u>
<b>Cash flows from investing activities</b>		
Variation in a mining property	(9 400)	1 661
	<u>(9 400)</u>	<u>1 661</u>
<b>Net change in cash</b>	131 332	(15 059)
<b>Cash - Beginning of period</b>	45 782	73 117
<b>Cash - End of period</b>	<u>177 114</u>	<u>58 058</u>
<b>Additional information</b>		
Interests cashed	485	324
Shares issued and to be issued in consideration of the payment of interest on convertible debentures	4 871	12 216

**AZIMUT EXPLORATION INC.**

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

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**1 Intermediary financial information**

The financial information as at November 30, 2003 and for the periods ended November 30, 2003 and 2002 is unaudited; however, in the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Intermediary results may not necessarily be indicative of results anticipated for the year.

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

**2 Mining properties**

	<b>Undivided participation %</b>	<b>Balance as at Sept. 1, 2003 \$</b>	<b>Costs incurred \$</b>	<b>Tax credits and abandoned mining properties \$</b>	<b>Balance as at November 30, 2003 \$</b>
Retty (100 claims)	100				
Mining property		---	9 400	---	9 400
Exploration costs		---	---	---	---
		---	9 400	---	9 400

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

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**3 Convertible debentures**

	2003	2002
	\$	\$
Debentures convertible at the company's option into common shares		
At a conversion price of \$0.40 per share, 14%, interest payable by half-yearly instalments through commons shares of the company, at the base rate on the date of payment, non-interest bearing if the share is traded at \$0.80 and over during the twenty business days preceding the dates of interest instalments, maturing in May 2003.	0	250 000
At a conversion price of \$0.15 per share, 14%, interest payable by half-yearly instalments through common shares of the company at the base rate on the date of payment, non-interest bearing if the share is traded at \$0.36 and over during the twenty business days preceding the dates of interest instalments, maturing in March 2005.	100 000	100 000
At a conversion price of \$0.425 per share, 12%, interest payable by half-yearly instalments through common shares of the company at the base rate on the date of payment, non-interest bearing if the share is traded at \$0.15 and over for the first/second six-month period, and \$0.20 and over for the subsequent six-month period during the twenty business days preceding the dates of interest instalments, maturing in March 2006.	250 000	0
At a conversion price varying from \$0.33 to \$0.44 per share, 12%, interest payable by half-yearly instalments through common shares of the company at the base rate on the date of payment, non-interest bearing if the share is traded at more than \$0.37 for the first/second six-month period, at more than \$0.45 for the third/forth six-month period, at more than \$0.55 for the fifth/sixth six-month period, at more than \$0.65 for the seventh/eighth six-month period and at more than \$0.75 for the ninth/tenth six-month period during the twenty business days preceding the dates of interest instalments, maturing in November 2008.	200 000	0
	<u>550 000</u>	<u>350 000</u>

**4 Share Capital**

## Authorized

Unlimited number of commons shares, without par value, voting and participating  
10 854 380\* shares issued and fully paid

\*482 685 shares are subject to escrow and cannot be release without the consent of regulatory authorities.

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

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**5 Purchase warrants**

	Number	Weighted average exercise price \$
Outstanding - beginning of period	0	0,00
Granted	1 492 858	0,42
Exercised	0	0,00
Expired	0	0,00
Outstanding - end of period	1 492 858	0,42

Warrants expire at the latest in May 2005.

**6 Stock Option Plan**

The company established a stock option plan as described in note 9 of the audited annual financial statements. The following tables present the stock option activity since September 1, 2003 and summarize information about fixed stock options outstanding and exercisable as at November 30, 2003:

	<u>3 months</u>	
	Number	Weighted average exercise price \$
Outstanding - Beginning of period	795 000	0,18
Outstanding - End of period	795 000	0,18
Exercisable - End of period	585 000	0,19



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

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exercise prices	Options outstanding		Options currently exercisable
	Number	Weighted average remaining contractual life	Number
\$0,16	500 000	2,86	290 000
\$0,18	175 000	6,16	175 000
\$0,24	120 000	4,56	120 000
	795 000	3,84	585 000

## **AZIMUT EXPLORATION INC.**

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### **CORPORATE INFORMATION**

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#### **Board of Directors**

Jacques Bonneau, Eng., M.Sc., Chairman of the Board (Quebec City)

Jean-Marc Lulin, Ph.D., geologist, Director (Montreal)

Jean-Charles Potvin, B.Sc., M.B.A., Director (Toronto)

Louis P. Salley, B.A., LL.B., Director (Vancouver)

#### **Management**

Jean-Marc Lulin, President and Chief Executive Officer

Ga etan Mercier, Controller and Secretary

#### **Management's Advisors**

Jacquelin Gauthier, Eng.

Jack Stoch, B.Sc., geologist

#### **Legal Counsels**

M enard Mageau Valiquette (Montreal)

#### **Auditors**

PricewaterhouseCoopers LLP (Quebec)

#### **Transfer Agents**

Trust CIBC Mellon Company (Montreal)

#### **Transactions**

TSX Venture

Symbole: AZM

#### **Contact and information**

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