

## **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 \$184 171 for the period ended February 29, 2004, compared to a net loss of \$589 796 for the period ended February 28, 2003. In November 2002, the Company abandoned its option to acquire a 50% interest in the Flavrian property, which resulted in a loss of \$563 696. 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. \$75 000 in compensation has been included in professional fees in order to take into account a grant of 300 000 stock options in February 2004.

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

The Company's working capital was \$163 283 at February 29, 2004, 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. A value of \$161 800 has been allocated to warrants and presented separately in the shareholders' equity of the balance sheets.

### **Risks and uncertainties**

The Company is considered to be at 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**

Last Winter, the Company finalized the acquisition of five properties namely Retty, Eastmain, Lac Gillet, Opinaca and De Romer. The Company is presently in discussion with potential partners in order to option these properties and to share the risk of exploration. Preparation for the prospecting campaign on these new properties is underway and the work should start at the beginning of Summer. The Company continues to pursue the modeling of mineral potential in various regions of Québec in order to generate new projects of quality.

### **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  
April 30, 2004

**AZIMUT EXPLORATION INC.**

(An exploration company)

**Balance Sheets**

	<b>February 29, 2004</b>	<b>August 31, 2003</b>
	\$	\$
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	125,750	45,782
Amounts receivable	51,988	29,666
Prepaid expenses	18,077	13,865
	<u>195,815</u>	<u>89,313</u>
<b>Exploration funds</b>	229,315	23,534
<b>Long-term investments</b> (quoted value 36 000 \$; 24 000 \$)	24,000	24,000
<b>Mining properties</b>	43,318	---
<b>Property, plant and equipment</b>	644	716
	<u>493,092</u>	<u>137,563</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Related companies	---	402
Others	32,532	30,679
	<u>32,532</u>	<u>31,081</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Convertible debentures</b>	488,200	350,000
<b>Share capital</b>	4,063,204	3,887,960
<b>Stock options</b>	102,045	24,695
<b>Warrants</b>	161,800	---
<b>Deficit</b>	(4,354,689)	(4,156,173)
	<u>460,560</u>	<u>106,482</u>
	<u>493,092</u>	<u>137,563</u>

**AZIMUT EXPLORATION INC.**

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**Deficit**

For the periods ended February 29, 2004 and February 28, 2003 (unaudited)

	<b>2004</b>	<b>2003</b>
	\$	\$
<b>Balance - Beginning of period</b>	4,156,173	3,422,971
Interest on convertible debentures	14,345	24,299
Net loss for the period	184,171	589,796
<b>Balance - End of period</b>	<u>4,354,689</u>	<u>4,037,066</u>

**Statements of deferred exploration expenses**

For the periods of three (3) and six (6) months ended February 29, 2004 and February 28, 2003 (unaudited)

	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>3 months</b>	<b>3 months</b>	<b>6 months</b>	<b>6 months</b>
	\$	\$	\$	\$
<b>Balance - Beginning of period</b>	9,400	0	0	572,038
Expenses incurred during the period				
Claims and permits	33,587	---	42,987	8,147
Geology	610	---	610	---
	<u>34,197</u>	<u>0</u>	<u>43,597</u>	<u>8,147</u>
Abandoned mining properties	---	---	---	(570,377)
Tax credits and mining rights	(279)	---	(279)	(9,808)
	<u>(279)</u>	<u>0</u>	<u>(279)</u>	<u>(580,185)</u>
<b>Balance - End of period</b>	<u>43,318</u>	<u>0</u>	<u>43,318</u>	<u>0</u>

**AZIMUT EXPLORATION INC.**

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**Statements of Earnings**

For the periods of three (3) and six (6) months ended February 29, 2004 and February 28, 2003 (unaudited)

	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>3 months</b>	<b>3 months</b>	<b>6 months</b>	<b>6 months</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>				
Interests' income	2,644	238	3,129	562
Gain on sale of mining properties	---	16,000	---	16,000
Gain on sale of property, plant and equipment	---	468	---	568
	<u>2,644</u>	<u>16,706</u>	<u>3,129</u>	<u>17,130</u>
<b>Expenses</b>				
Salaries and fringe benefits	20,073	---	34,706	---
Professional and maintenance fees	90,912	3,880	95,644	12,318
Management fees and office expenses	18,977	11,259	31,708	20,469
Travelling and entertainment	3,784	83	4,869	230
Interests and bank charges	46	44	109	88
Amortization of property, plant and equipment	36	42	72	125
Loss (gain) on abandonment of a mining property	---	(6,681)	---	563,696
Write-off of long-term investments	---	10,000	---	10,000
Search for properties	17,373	---	47,825	---
Tax credits and mining rights	(13,701)	---	(27,633)	---
	<u>137,500</u>	<u>18,627</u>	<u>187,300</u>	<u>606,926</u>
<b>Net loss for the period</b>	<u>(134,856)</u>	<u>(1,921)</u>	<u>(184,171)</u>	<u>(589,796)</u>
<b>Basic and diluted net loss per share</b>	<u>(0.012)</u>	<u>(0.001)</u>	<u>(0.017)</u>	<u>(0.068)</u>
<b>Basic and diluted weighted average number of shares outstanding</b>	<u>10,902,072</u>	<u>8,675,168</u>	<u>10,539,725</u>	<u>8,653,113</u>

**AZIMUT EXPLORATION INC.**

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**Statements of Cash Flows**

For the periods of three (3) and six (6) months ended February 29, 2004 and February 28, 2003 (unaudited)

	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>3 months</b>	<b>3 months</b>	<b>6 months</b>	<b>6 months</b>
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Net loss for the period	(134,856)	(1,921)	(184,171)	(589,796)
Items not affecting cash				
Amortization of property, plant and equipment	36	42	72	125
Cost of compensation in stock options	77,350	---	77,350	---
Loss on abandonment of a mining property	---	(6,681)	---	563,696
Write-off of long-term investments	---	10,000	---	10,000
Gain on sale of mining properties	---	(16,000)	---	(16,000)
Gain on sale of property, plant and equipment	---	(568)	---	(568)
	<u>(57,470)</u>	<u>(15,128)</u>	<u>(106,749)</u>	<u>(32,543)</u>
Change in non-cash working capital items				
Amounts receivable	7,624	28,429	(22,322)	15,438
Prepaid expenses	5,273	(1,052)	(4,212)	(4,535)
Accounts payable and accrued liabilities	(13,611)	(13,005)	1,451	4,164
	<u>(714)</u>	<u>14,372</u>	<u>(25,083)</u>	<u>15,067</u>
	<u>(58,184)</u>	<u>(756)</u>	<u>(131,832)</u>	<u>(17,476)</u>
<b>Cash flows from financing activities</b>				
Variation in exploration funds	15,664	---	(205,781)	---
Convertible debenture contracted	(61,800)	---	138,200	---
Variation in share capital	(74,926)	---	160,899	---
Increase in warrants	161,800	---	161,800	---
	<u>40,738</u>	<u>0</u>	<u>255,118</u>	<u>0</u>
<b>Cash flows from investing activities</b>				
Variation in a mining property	(33,918)	6,681	(43,318)	8,342
Sale on property, plant and equipment	---	1,274	---	1,274
	<u>(33,918)</u>	<u>7,955</u>	<u>(43,318)</u>	<u>9,616</u>
<b>Net change in cash</b>	(51,364)	7,199	79,968	(7,860)
<b>Cash - Beginning of period</b>	177,114	58,058	45,782	73,117
<b>Cash - End of period</b>	<u>125,750</u>	<u>65,257</u>	<u>125,750</u>	<u>65,257</u>
<b>Additional information</b>				
Interests cashed	2,477	238	2,962	562
Shares issued and to be issued in consideration of the payment of interest on convertible debentures	9,474	12,083	14,345	24,299
Shares received in consideration of sale of a mining property	---	16,000	---	16,000

**AZIMUT EXPLORATION INC.**

(An exploration company)

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

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**1 Summary of significant accounting policies**

**Interim financial information**

The financial information as at February 29, 2004 and for the periods ended February 29, 2004 and February 28, 2003 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. Interim results may not necessarily be indicative of results anticipated for the year.

These interim 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 interim financial statements should be read in conjunction with the Company's most recent annual financial statements.

**Stock option plan and new accounting policy**

On December 15, 2003, the company adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to accounting for stock-based compensation and other stock-based payments. It has elected to apply the fair value method prospectively. This method is applied to the awards granted, modified or settled from the start of the fiscal year in which the Company adopted this method for these awards. Compensation expenses is recorded for the excess, if any, of the fair value of the shares of the date of grant over the exercise price of the options. The Company provides pro-forma earnings and earnings per share information for these awards of stock-based compensation to employees who are not accounted for at fair value during one or many periods for which a statement of results is presented.

**AZIMUT EXPLORATION INC.**

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**Notes to Interim Financial Statements (unaudited)****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 February 29, 2004 \$</b>
Retty (100 claims)	100				
Mining property		---	9,400	---	9,400
Exploration costs		---	145	(66)	79
		---	9,545	(66)	9,479
Eastmain (204 claims)	100				
Mining property		---	21,420	---	21,420
Exploration costs		---	94	(43)	51
		---	21,514	(43)	21,471
Lac Gillet (42 claims)	100				
Mining property		---	3,948	---	3,948
Exploration costs		---	145	(66)	79
		---	4,093	(66)	4,027
Opinaca (55 claims)	100				
Mining property		---	5,775	---	5,775
Exploration costs		---	94	(43)	51
		---	5,869	(43)	5,826
De Romer (26 claims)	100				
Mining property		---	2,444	---	2,444
Exploration costs		---	132	(61)	71
		---	2,576	(61)	2,515
		---	43,597	(279)	43,318

**AZIMUT EXPLORATION INC.**

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**Notes to Interim 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.	138,200	0
	<u>488,200</u>	<u>350,000</u>

**4 Share Capital**

## Authorized

Unlimited number of commons shares, without par value, voting and participating  
11 009 380\* shares issued and fully paid

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



**AZIMUT EXPLORATION INC.**

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**Notes to Interim Financial Statements (unaudited)****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. On December 15, 2003, the Company chose to replace its present method of accounting by the fair value method and to apply it in a prospective way. The following tables present the stock option activity since September 1, 2003 and summarize information about fixed stock options outstanding and exercisable as at February 29:

	<u>6 months</u>	
	Number	Weighted average exercise price \$
Outstanding - Beginning of period	795,000	0.18
Exercised	(155,000)	0.16
Granted	310,000	0.30
Outstanding - End of period	950,000	0.22
Exercisable - End of period	430,000	0.19

**AZIMUT EXPLORATION INC.**

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

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exercise prices	Options outstanding		Options currently exercisable
	Number	Weighted average remaining contractual life (years)	Number
\$0.16	345,000	2.49	135,000
\$0.18	175,000	5.91	175,000
\$0.24	120,000	4.31	120,000
\$0,30	310,000	4.99	0
	<u>950,000</u>	<u>3.82</u>	<u>430,000</u>

The fair value of options was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

**Period ended February 29, 2004**

Risk-free interest rate	3.27%
Expected volatility	120%
Dividend yield	zéro
Weighted average expected life	60 mois
Weighted average fair value of options granted	0.249 \$

**AZIMUT EXPLORATION INC.**

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

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The Company recognizes, as a compensation cost arising from awards to key employees, officers and directors the excess, if any, of the fair value of the shares at the date of grant over the exercise price of the options. \$75 000 compensation cost has been accounted for in the financial statements for the period ended February 29, 2004. The fair value of stock options granted to key employees, officers and directors during the previous year amounts to \$9 720. If the fair value based method had been used to account for stock-based compensation costs related to stock options granted to key employees, officers and director, the loss and related loss per share for the previous year would be as follows:

**Period ended February 28, 2003**

	\$
Pro-forma loss for the period	193,891
Pro-forma basic and diluted loss per share	0,022

The pro-forma loss considers the impact of awards granted to key employees, directors and administrators on June 19, 2003.

The compensation cost arising from stock options granted to suppliers amounts to \$2 350 for the period ended February 29, 2004. The compensation cost has been included in general exploration cost and the related credit has been recognized in the stock options recorded under Shareholders' Equity.

## **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 Advisors**

Jacquelin Gauthier, Eng.

Jack Stoch, B.Sc., geologist

#### **Legal Counsel**

M enard Mageau Valiquette (Montreal)

#### **Auditors**

PricewaterhouseCoopers LLP (Quebec)

#### **Transfer Agent**

Trust CIBC Mellon Company (Montreal)

#### **Listing**

TSX Venture

Symbol: AZM

#### **Contact and information**

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**EXPLORATION AZIMUT INC.**

**FORM 51-901F**

**QUARTERLY REPORT**

Incorporated as part of:       Schedule A  
                                                  Schedules B & C

**ISSUER DETAILS:**

Name of Issuer:                      Azimut Exploration Inc.  
Issuer address:                      200-116 St-Pierre Street, Québec (Québec) G1K 4A7  
Issuer tel. no.:                      418-692-0692  
Isser fax. no.:                      418-692-3969  
Contact name:                      Gaétan Mercier  
Contact's position:                  Controller and Secretary  
Contact tel. no:                      418-692-0692  
Contact email address:              gaetanmercier@bellnet.ca  
For period ended:                  February 29, 2004  
Dated signed:                      April 30, 2003

**CERTIFICATE**

**The schedule(s) required to complete this report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this report will be provided to any shareholder who requests it.**

Jean-Marc Lulin Name of Director	<i>“signed”</i> Director's Signature	04/04/30 Date signed (yy/mm/dd)
Jacques Bonneau Name of Director	<i>“signed”</i> Director's Signature	04/04/30 Date signed (yy/mm/dd)

## SCHEDULE A: FINANCIAL STATEMENTS

Please find attached hereto financial statements for the period ended February 29, 2004 and February 28, 2003.

## SCHEDULE B: SUPPLEMENTARY INFORMATION

### 1. Analysis of expenses

Breakdown by major category of expenses:

Salaries and fringe benefit	\$	34 706
Professional and maintenance fees	\$	95 644
Office expenses	\$	36 758
Search for properties	\$	<u>20 192</u>
	\$	187 300

### 2. Related party transactions

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

Office expenses	\$	495
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These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 3. Summary of securities issued and options granted during the period

#### a) Summary of securities issued

Date of issue	Type of securities	Type of issue	Number	Price \$	Total proceeds \$	Type of consideration	Commission paid
Nov. 10/03	Common	Private placement	892 858	0,28	250 000	cash	---
Feb. 2/04	Common	Options	120 000	0,16	19 200	cash	---
Feb. 2/04	Common	Options	35 000	0,18	6 300	cash	---

**b) Summary of options granted**

Date of issue	Number	Name of Optionee	Exercise Price \$	Expiry Date
Feb. 24/04	300 000	Directors & Officers	0,30	February 23, 2014
Feb. 24/04	10 000	Suppliers	0,30	February 23, 2014

**4. Summary of securities as at the end of the reporting period**

See schedule A

**5. List of directors and officers**

Jacques Bonneau, Chairman of the Board  
Sillery, Québec

Jean-Marc Lulin, President and Chief Executive Officer, Director  
Outremont, Québec

Louis P. Salley, Director  
West Vancouver, British Columbia

Jean-Charles Potvin, Director  
Toronto, Ontario

Gaétan Mercier, Controller and Secretary  
Beauport, Québec

**SCHEDULE C : MANAGEMENT DISCUSSION AND ANALYSIS**

See quarterly report