AZIMUT

Azimut Exploration Inc.

# MANAGEMENT'S DISCUSSION and ANALYSIS

**For the fiscal year ended August 31, 2010**

## Scope of management's financial analysis

This report represents a complementary addition to the financial statements by providing additional contextual and prospective information. All figures are in Canadian dollars unless otherwise noted. The Company's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. Some statements in this analysis are forward-looking statements and reflect the Company's present assumptions regarding future events. Forward-looking statements involve risks and uncertainties that could cause actual results to differ from current expectations.

## Corporate profile and mission

Azimut Exploration Inc. ("Azimut" or the "Company") is a publicly traded Canadian exploration company that specializes in mineral potential assessment and targeting to discover major ore deposits. Azimut conducts its exploration activities by following two main guiding principles. Firstly, the Company maximizes the probability of discovery by using a cutting-edge targeting methodology that reduces exploration risk. Secondly, the Company reduces the business risk by developing partnerships for projects generated by its targeting methodology

As at December 24, 2010, the Company holds thirty (34) exploration properties (18,566 claims) it acquired using the results of its regional-scale mineral potential assessments in the province of Quebec. Azimut owns a 100% interest in all of its properties, with the exception of Eleonore South for which it holds an interest of approximately 30.0%, and the Opinaca A and B properties for which it holds an interest of 50.0%. In addition, the Company will be validating the work expenditures incurred on its Wabamisk property to confirm that its partner has earned a 51% interest. The Company's properties are:

In the Ungava Bay region:

- 5 uranium properties (North Rae, Daniel Lake, Kangiq, South Rae and Burrel Lake)
- 1 copper, cobalt and rare earth element (REE) property (Diana)

In the Central Quebec region:

- 7 uranium properties (North Minto, South Minto, Central Minto, South Bienville, Kativik, Hudson Bay and Vernot Lake. The latter property is shown under Others in the financial statements)
- 1 copper and REE property (Rex)
- 1 gold, copper and REE property (Rex South)

- 8 gold properties (Barvilier, Chavigny, Kapisililik, Mezard, Nantais, Stillwell, Tasiat and Tassialouc. These properties are indicated as Nunavik Gold in the financial statements)

In the James Bay region:
- 4 gold properties in the Opinaca area (Opinaca A, Opinaca B, Eleonore South and Opinaca D)
- 1 gold property (Wabamisk) in the Eastmain area
- 1 chromium-platinum-palladium property (Eastmain West), also in the Eastmain area

The locations of Azimut's most significant properties are shown on the attached map of the province of Quebec.

## Overall performance

**Summary of activities for the last quarter and subsequent activities**

*July 2010*
- Aurizon begins a $1.5-million exploration program on the Rex South property, Nunavik

*September 2010*
- Azimut reports encouraging drilling results on the Wabamisk Gold Property, James Bay region
- Azimut, Aurizon and Everton sign a Letter of Intent for the Opinaca gold property, James Bay region
- Azimut informs that a 3,300-m drilling program is underway at Eleonore South

*October 2010*
- Azimut discovers district-scale copper (gold, silver) mineralization at REX, Nunavik
- Azimut reports new results and confirm REX discovery

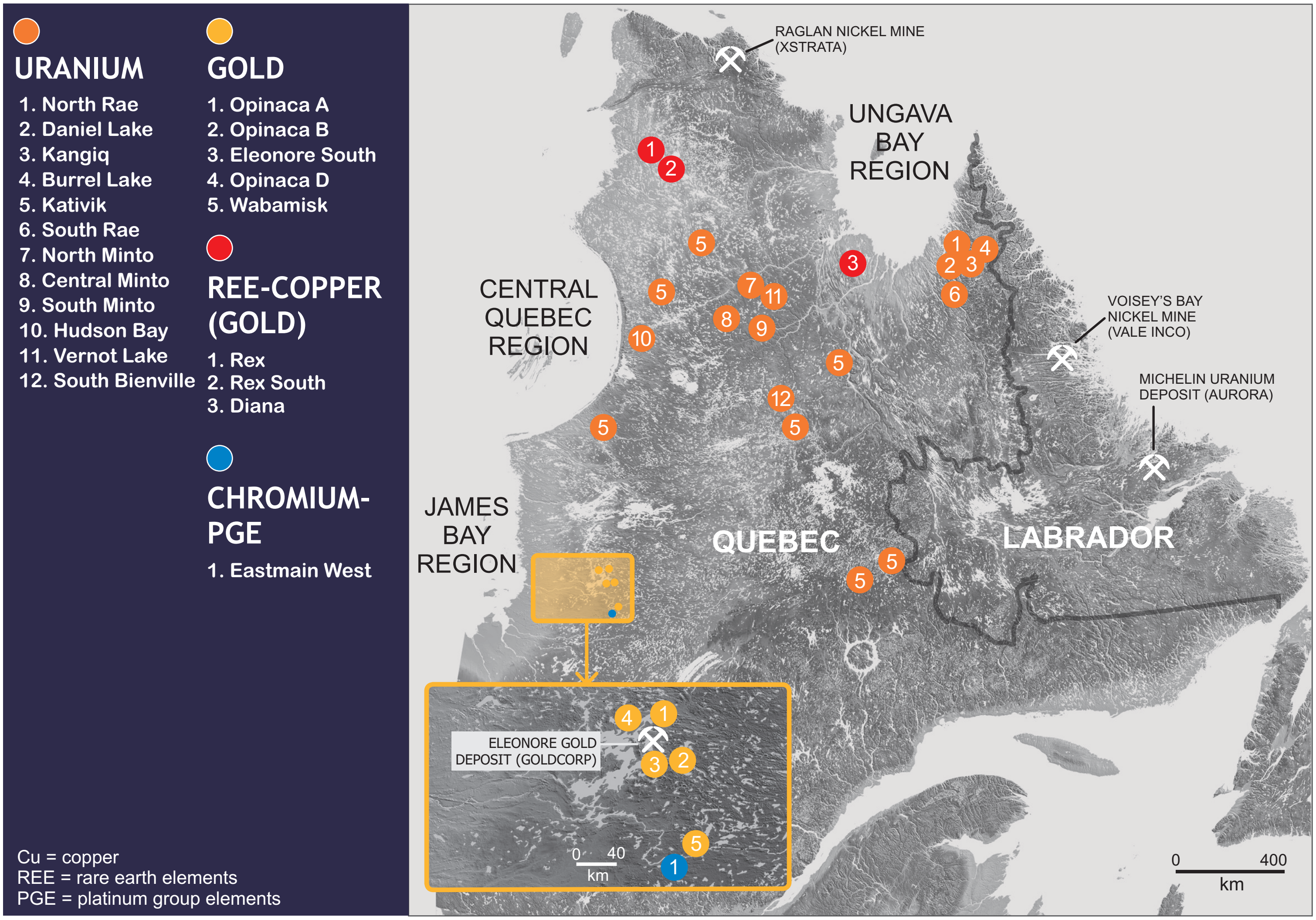
*November 2010*
- Azimut and Aurizon discover major polymetallic porphyry-type mineralization (Gold-Silver-Copper-Tungsten) at Rex South, Nunavik

*December 2010*
- Azimut reports major progress in Nunavik
- Azimut and Dynasty sign a Letter of Intent for the Opinaca D gold property, James Bay region

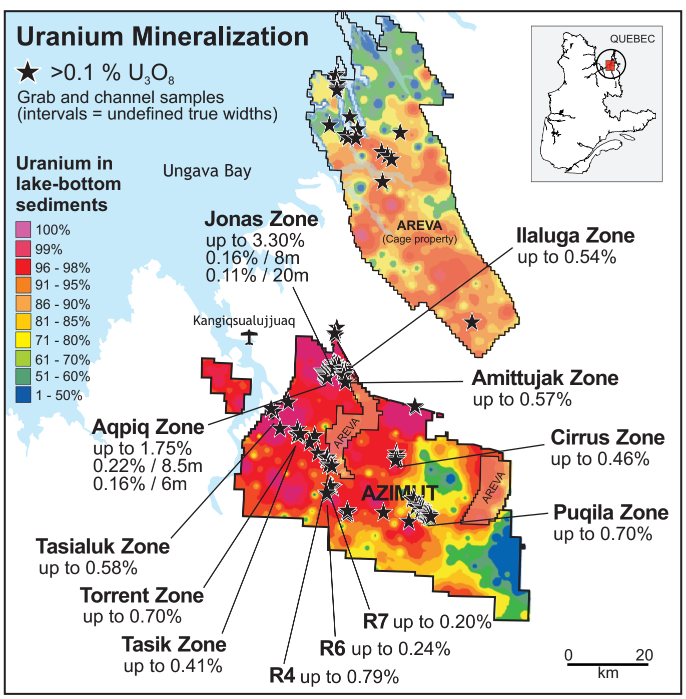
**Northern Quebec (including the Ungava Bay and Central Quebec regions, see below)**

Azimut believes northern Quebec has significant potential for large-tonnage uranium deposits related to intrusive rocks in high-grade metamorphic environments. A well-known example of this type is Rössing in Namibia, one of the world's largest uranium mines. Azimut's uranium potential assessment over 640,000 $km^2$ of land in northern Quebec generated numerous exploration targets, many of which were quite large and subsequently acquired.

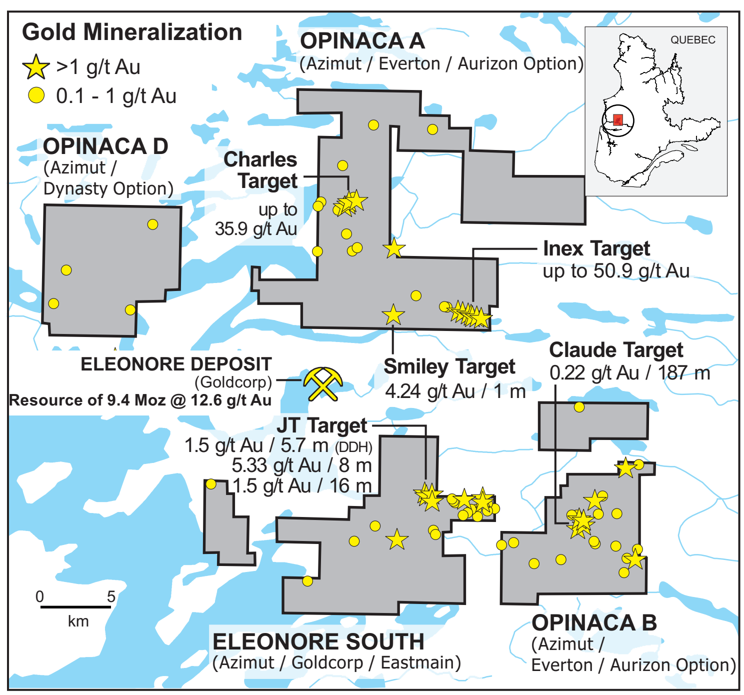
The targeted terrain includes parts of the Minto and Bienville subprovinces and the Rae Province. The selected properties have a strong potential for uranium given their geochemical signatures, associations with anatectic granites, and spatial relationships to deep-seated structures. The exploration model is large-tonnage, disseminated uranium mineralization in intrusions and surrounding rocks. Proximal secondary concentrations along late- to post-intrusive brittle or ductile-brittle faults are also considered. These properties share strong similarities with the footprint of several major uranium sites in Quebec, as well as the neighbouring Central Mineral Belt in Labrador, a well-known prospective region for uranium.




**URANIUM** Ungava Bay Region, Quebec
Discovery of a new uranium district




**GOLD** James Bay Region, Quebec
Eleonore gold deposit area



The information used in the targeting process included multi-element lake-bottom sediment geochemistry, geophysics, geology and remote sensing data. Many strong uraniferous targets of regional extent were identified and subsequently acquired by Azimut via map designation. In northern Quebec, two prospective district-scale targets stand out in the Ungava Bay and Central Quebec regions.

Using the same data processing approach, supported by extensive field knowledge, Azimut considers that northern Quebec is also highly prospective for large-scale gold, copper and REE deposits. Several deposit types are envisioned like sediment-hosted gold, Iron Oxide Copper Gold (IOCG) and gold-copper porphyry deposits. Very significant results have been obtained with the initial exploration programs conducted on each of the Rex and Rex South properties.

**Ungava Bay region**

Azimut holds six (6) properties in the Ungava Bay region:

- North Rae: 1,781 claims for a total surface area of 794.7 $km^2$
- Daniel Lake: 664 claims for a total surface area of 300.8 $km^2$
- Kangiq: 851 claims for a total surface area of 385.7 $km^2$ (this property is covered by a letter of agreement with Abitex Resources Inc.)
- South Rae: 79 claims for a total surface area of 36.4 $km^2$
- Burrel Lake: 892 claims for a total surface area of 402.4 $km^{2(}$
- Diana: 600 claims for a total surface area of 271.7 $km^2$ (this property has been optioned to Valencia Ventures Inc.)

The five (5) uranium properties are located in a region measuring 80 by 220 km in which another uranium company, AREVA, holds a very large land position. AREVA reported the discovery of fourteen (14) mineralized zones with grades up to 9.34% $U_3O_8$, most of them hosted in metasedimentary rocks of the Lake Harbour Group. In a report filed with the Ministry of Natural Resources and Wildlife of Quebec in 2007, AREVA describes the Lake Harbour Group as an "important uranium-thorium province". Azimut believes that with its five (5) properties, it controls a large portion of the significant uranium targets in the region. This includes targets located along a 70-km-long contact between the Proterozoic metasedimentary rocks of the Lake Harbour Group and the Archean granitized basement.

*North Rae and Daniel Lake properties*

The North Rae property is located east of Ungava Bay in northern Quebec, about 20 km from the coast and 160 km east of the town of Kuujjuaq. The Daniel Lake property is adjacent to the southern edge of North Rae. The properties cover a combined area of 50 by 60 km. Recent results further confirm the large-scale uranium mineralized system discovered on the two properties in 2006. To date, twelve (12) mineralized zones have been discovered at surface with a cumulative length of 17 km and grades up to 3.3% $U_3O_8$. These zones show an excellent spatial correlation with uranium anomalies identified by geophysical surveys flown over the two properties. Azimut believes the overall uranium potential of the region is well represented by its airborne uranium footprint. Many targets have yet to be field-tested.

The goal of the 2009 summer program was to further assess the grade continuity of six (6) of the mineralized zones through channel sampling. In all, 297 metres of channel samples were collected by rock saw from extensive surface exposures at the Aqpiq, Jonas, Amitujaq, Cirrus, Puqila and R7 zones. New field observations made during the program were as follows:

- At the regional scale, weakly deformed pegmatitic bodies hosting uranium mineralization appear to be conformable with the enclosing foliated rocks. These pegmatitic bodies are near the contact between Archean basement and the overlying Proterozoic metasedimentary rocks, and are now interpreted to be an extensive sill system rather than dyke swarms. This key Archean-Proterozoic contact has a strike length of more than 70 km along a major synform on the North Rae and Daniel Lake properties, and presents a strong potential for additional discoveries.
- At the prospect scale, several of the mineralized zones represent kilometric, shallow-dipping targets with significant near-surface uranium potential. Stacked mineralized pegmatitic bodies are also a possibility.

- Within the Proterozoic metasedimentary sequence, a radioactive, grey to black, silica-rich banded facies has been interpreted as a quartzite horizon and may represent sediment-hosted uranium mineralization with potentially significant lateral extensions.

Channel sampling includes the following results:
*Jonas Zone*
- 0.11% $U_3O_8$ over 20.0 m
- 0.16% $U_3O_8$ over 8.0 m

*Aqpiq Zone*
- 0.22% $U_3O_8$ over 8.5 m
- 0.16% $U_3O_8$ over 6.0 m

Channel sample results indicate reasonable grade continuity and probable lateral extensions for several of the mineralized zones investigated during the program. Channel lengths were often limited by outcrop dimensions, and so many mineralized intervals remain open. The true widths of the sampled sections were generally difficult to assess due to the shallow dips of the pegmatites, but where contacts were observed, the minimum true widths ranged from one to several metres.

A significant upside to both properties is the presence of more than one hundred (>100) uranium showings previously identified by Azimut. Most of these mineralized zones are associated with an extensive system of shallow dipping pegmatitic sills occurring at or near the contact between Archean bedrock and the overlying Proterozoic metasedimentary rocks. Azimut controls more than 70 km of this highly prospective geological contact. The U/Th ratios are good and generally range from 3 to 10. Uranium grades in fresh rocks at surface (grab and channel samples) correlate well with the presence of uraninite crystals, silica-rich facies, and/or biotite-rich facies, indicating that variations in surface grades are mainly related to the primary uranium content of the intrusive pegmatitic sill system.

Prior to the 2009 program, 2,096 grab rock samples were collected on the North Rae and Daniel Lake properties, including 1,046 collected in 2008. The average uranium value for all samples is 430 ppm $U_3O_8$ (0.043%), which includes 1,228 unmineralized or weakly mineralized samples with less than 100 ppm $U_3O_8$. When the latter are excluded, the average is 840 ppm $U_3O_8$ (0.084%) for the 868 samples grading more than 100 ppm $U_3O_8$, or 1,264 ppm $U_3O_8$ (0.13%) for the 567 samples with more than 200 ppm $U_3O_8$. Corresponding U/Th ratios are 1.5, 2.6 and 3.2 respectively for the groups of 2,096, 868 and 567 samples. In general, higher uranium values reflect an enrichment of uranium relative to thorium.

These developments, as well as AREVA's significant exploration work on their neighbouring CAGE property (e.g., more than 10,000 m of drilling in 2009), underscore Azimut's appraisal that the region could become Canada's newest uranium district. Azimut considers that North Rae and Daniel Lake benefit from three strategic advantages:
- The properties have the potential for a large resource base at shallow depth, amenable to open pit mining.
- The properties are well positioned only a short distance from port facilities on the Ungava Bay coast, near deep sea water, and close to a permanent airport and other infrastructure.
- The province of Quebec is recognized around the world as a low-risk region for exploration and mining.

*Kangiq property*
Kangiq is adjacent to Azimut's North Rae and Daniel Lake properties and to one of AREVA's claim blocks. In 2007, five (5) sharply defined uranium targets with a cumulative length of 18 km were delineated using the results of helicopter-borne spectrometric and magnetic surveying (1,932 line-km). In addition, the results of a lake-bottom sediment survey (472 samples) revealed a strong spatial correlation between geochemical anomalies and the uranium targets identified by the geophysical survey. Work performed to date consists of:
- surface rock sampling and prospecting on the western half of the property (149 grab samples)
- mapping of the Puqila Zone

- helicopter-borne spectrometric and magnetic surveying

Uranium rock sample results are as follows:

- 24 samples with values above 0.05% $U_3O_8$, including: 0.94% $U_3O_8$, 0.51% $U_3O_8$, 0.49% $U_3O_8$, 0.44% $U_3O_8$, 0.42% $U_3O_8$, 0.39% $U_3O_8$, 0.36% $U_3O_8$, 0.24% $U_3O_8$, 0.20% $U_3O_8$, 0.18% $U_3O_8$, and 0.15% $U_3O_8$;
- 53 samples with values from 0.01% to 0.05% $U_3O_8$;
- 72 samples with values less than 0.01% $U_3O_8$.

The U/Th ratios range from 2 to 10 for twelve (12) samples containing more than 0.1% $U_3O_8$. Most mineralized facies are hosted in biotite-rich pegmatitic dykes.

*South Rae property*
The South Rae property is located on the eastern side of Ungava Bay in northern Quebec, approximately 130 km southeast of the town of Kuujjuaq. At least twelve (12) well-defined targets with a cumulative length of 56 km have been identified. These targets are located in three sectors that form a prospective trend at least 30 km long. Mineralized facies comprise pegmatitic dykes and granitic gneisses that are generally conformable to the regional foliation.

Assay results for 128 rock samples include:

- 37 samples with values higher than 0.05% $U_3O_8$, including 18 samples with values above 0.1% $U_3O_8$;
- 57 samples with values between 0.01% and 0.05% $U_3O_8$;
- 34 samples with values less than 0.01% $U_3O_8$.

A comprehensive follow-up program (prospecting and preliminary drilling) was carried out in the summer of 2008 on the basis of the results obtained in 2007. About $1,348,000 has been spent to date on the property, resulting in the definition of significant exploration targets. Azimut believes that the South Rae property has good uranium potential.

The results for the North Rae property, the progress at Daniel Lake, Kangiq and South Rae, and AREVA's discoveries on their CAGE project collectively provide further evidence that the eastern part of the Ungava Bay region is an emerging uranium district.

Work expenditures on Azimut's uranium properties in the Ungava Bay region were about $0.725 million in 2009.

*Diana property*
Azimut acquired the Diana property by map staking in 2009. The property comprises six (6) separate claim blocks totalling 600 claims over a surface area of 272 $km^2$. It is defined by a strong, 45-km-long, multi-element geochemical footprint in lake-bottom sediments and is considered to be a major exploration project for copper, cobalt and REE. The property is well positioned, just 40 km northwest of the town of Kuujjuaq and about 50 km southwest of the Ungava Bay shoreline.

In May 2010, Azimut announced that its partner 2227352 Ontario Inc. (a private Ontario company) had reached an agreement with Valencia Ventures Inc. ("Valencia") regarding the Diana property. Valencia shall have the right to acquire an interest of up to 65% in the project by assuming all of the rights and obligations currently held by the private Ontario company and issuing a total of five million (5,000,000) common shares to the private Ontario company over a period of two (2) years, subject to regulatory approval. This new partner can acquire an initial 50% interest in the project by performing $4.0 million in exploration work over a four (4)-year period, and an additional 15% interest upon delivery of a bankable feasibility study.

During the summer of 2010 work on the Diana property included airborne magnetic and spectrometric surveys, detailed lake-bottom sediment geochemistry, and intensive prospecting. The minimum work expenditure commitment is $700,000. Results are pending.

**Central Quebec region**

Azimut holds eighteen (18) properties in the Central Quebec region:

- North Minto: 648 claims for a total surface area of 297.2 $km^2$; this property is covered by a letter of intent with Rukwa Uranium Ltd. ("Rukwa")
- South Minto: 377 claims for a total surface area of 176.2 $km^2$; this property is covered by a letter of intent with Rukwa
- Central Minto: 381 claims for a total surface area of 178.0 $km^2$; this property is covered by a letter of intent with Abitex Resources Inc. ("Abitex")
- South Bienville: 558 claims for a total surface area of 270.9 $km^2$; this property is covered by a letter of intent with Abitex
- Kativik: 1,361 claims for a total surface area of 651.0 $km^2$; this property is covered by a letter of intent with Nemaska Exploration Inc. ("Nemaska")
- Hudson Bay: 132 claims for a total surface area of 622.5 $km^2$
- Vernot Lake: 140 claims for a total surface area of 64.3 $km^2$
- Rex: 4,704 claims for a total surface area of 2,007.5 $km^2$
- Rex North: 133 claims for a total surface area of 55.7 $km^2$
- Rex South: 1,679 claims for a total surface area of 731.4 $km^2$
- Barvilier, Chavigny, Kapisililik, Mezard, Nantais, Stillwell, Tasiat and Tassialouc (collectively: Nunavik Gold): 895 claims

The three Minto properties and the South Bienville property are aligned along a regional-scale, lake-bottom sediment uranium anomaly referred to by Azimut as the "Central Quebec Uranium Lineament". This roughly north-south geochemical trend measuring 350 km long by 10-30 km wide correlates well with late Archean intrusions and crustal-scale structures. The Kativik property is also characterized by strong uranium lake-bottom sediment anomalies in addition to other favourable geochemical, geophysical, geological and structural parameters. The region has seen little exploration in the past, but there are strong indications that it has significant uranium potential. The Dieter Lake deposit of Fission Energy Corp is hosted in Paleoproterozoic metasedimentary rocks 40 km east of the South Bienville property and has inferred resources of 11,000 tonnes $U_3O_8$ @ 0.063% $U_3O_8$ according to an estimate released in 2007.

At North Minto, 103 rock samples have been collected and analyzed: 100 from outcrops and 3 from boulders. Outcrop samples returned assays up to 0.14% $U_3O_8$, but boulder samples yielded assays less than 0.01% $U_3O_8$. One soil sample returned 0.74% $U_3O_8$. Uranium results for the grab samples are as follows:

- 6 samples with values above 0.05% $U_3O_8$, including: 0.14% $U_3O_8$, 0.13% $U_3O_8$, 0.10% $U_3O_8$ and 0.07% $U_3O_8$;
- 7 samples with values from 0.01% to 0.05% $U_3O_8$;
- 90 samples with values less than 0.01% $U_3O_8$.

The U/Th ratios range from 0.7 to 3.3 for the six (6) samples containing more than 0.05% $U_3O_8$. Mineralization is hosted mainly in pegmatite dykes and granite. Significant mineralization has been identified in the southwestern portion of the property over a 2-km-long target area. It occurs along an important NW-trending structure that coincides with a tonalite-granite contact. Metavolcanic and metasedimentary rocks occur near this contact. The mineralization shows a good spatial correlation with lake-bottom sediment and helicopter-borne radiometric anomalies.

On the South Minto property, a total of nine (9) samples were collected and analyzed: 7 from outcrops and 2 from boulders. Outcrop samples returned assays up to 1.21% $U_3O_8$ and a boulder sample yielded 0.36% $U_3O_8$. Uranium results for grab rock samples are as follows:

- 3 samples with values above 0.05% $U_3O_8$, including 1.21% $U_3O_8$, 0.89% $U_3O_8$ and 0.36% $U_3O_8$;
- 6 samples with values less than 0.01% $U_3O_8$.

The most interesting prospect on South Minto occurs in the central portion of the property along an important structure. The prospect correlates with high uranium values in lake-bottom sediments (up to 1,030 ppm U) and helicopter-borne uranium anomalies. It returned grades of 1.21% $U_3O_8$ and 0.89% $U_3O_8$ with U/Th ratios of 25,600 and 10,800 respectively. The two samples are chlorite-rich rocks with anomalous values in gold (up to 267 ppb), lead (up to 0.39%) and copper (up to 759 ppm).

At the Central Minto property, uranium mineralization was discovered in 2008 during follow-up prospecting of two strong targets with a cumulative length of 30 km that were first recognized during the 2007 program. Uranium results for the fifteen (15) grab rock samples are as follows:

- 4 samples with values above 0.05% $U_3O_8$, including: 0.65% $U_3O_8$, 0.17% $U_3O_8$, 0.11% $U_3O_8$ and 0.059% $U_3O_8$;
- 6 samples with values from 0.01% to 0.05% $U_3O_8$;
- 5 samples with values less than 0.01% $U_3O_8$.

At the South Bienville property, a prospecting program during the summer of 2008 assessed target areas that were previously defined using results from the 2007 exploration work, which included anomalous uranium values in lake-bottom sediments (up to 841 ppm U), helicopter-borne geophysics, and ground-based prospecting. In 2007 and 2008, a total of 138 samples were collected from outcrops (51) and boulders (87). A showing of chalcocite (a copper-bearing mineral) in a granite outcrop yielded >40% Cu and 12 g/t Ag. Abundant hematite veinlets, some silicification, and lesser amounts of disseminated pyrite and pyrrhotite were also observed. The showing is located in an area underlain by a major structure that correlates with a multi-kilometre copper anomaly in lake-bottom sediments (up to 316 ppm Cu). This target is considered highly attractive.

Other outcrop samples from South Bienville returned assays up to 0.67% $U_3O_8$, and boulder samples yielded up to 0.77% $U_3O_8$. Uranium-bearing rock samples are spatially related to multi-kilometre helicopter-borne radiometric anomalies and lake-bottom sediment anomalies. Uranium results are as follows:

- 8 samples with values above 0.05% $U_3O_8$, including: 0.67% $U_3O_8$ and 0.065% $U_3O_8$ from outcrops, and 0.77% $U_3O_8$, 0.097% $U_3O_8$ and 0.087% $U_3O_8$ from boulders;
- 39 samples with values from 0.01% to 0.05% $U_3O_8$;
- 91 samples with values less than 0.01% $U_3O_8$.

At the Kativik property, mineralization has been discovered on 7 of the 9 claim blocks that were subject to an 11-day prospecting program in 2008. Highlights include 0.27 % $U_3O_8$, 146.0 g/t Ag and 2.89 % $ZrO_2$ on the Giraud C Block and 10.6 % $REE_2O_3$, 0.77 % $Y_2O_3$, 14.3 % $P_2O_5$ and 0.12 % $U_3O_8$ on the Giraud D Block. A recent geophysical interpretation adds value to the prospecting results by ranking several helicopter-borne anomalies detected on the property as first-priority targets. A follow-up prospecting program took place on the most promising targets in 2010. Results are pending.

At the Hudson Bay property, the 2008 uranium prospecting program generated positive results for previously identified target areas defined by anomalous uranium values in lake-bottom sediments (up to 1,950 ppm U) and radiometric anomalies from helicopter-borne geophysics. Ninety-four (94) outcrop samples yielded up to 3.01% $U_3O_8$ (66.3 lbs/t), and three (3) boulder samples returned up to 0.027% $U_3O_8$. While the mineralization to date appears limited in extent, the initial results and the favourable geological and structural settings are encouraging and suggest that additional work is warranted in the unexplored areas of the property.

*Rex and Rex South properties*

The Rex and Rex South properties were identified by Azimut's systematic mineral potential modelling for gold, copper and REE. The properties are largely unexplored and represent very strong geochemical footprints for REE, gold and copper, and are one of the most extensive such footprints for REE at the scale of Quebec and Labrador. Several of the areas on these properties contain high-grade gold-silver-copper and copper-cobalt prospects that were explored prior to Azimut's land acquisition.

Azimut's further examination of the existing regional-scale geoscientific database covering the Rex property areas led to the recognition of a large Iron Oxide Copper-Gold ("IOCG") target. The IOCG deposit-type encompasses a wide spectrum of ore bodies, often polymetallic and of significant size, which may notably produce iron, copper, gold, uranium, silver, cobalt and REE. The best known IOCG example is Olympic Dam in Western Australia, one of the largest known deposits in the world.

On its Rex property Azimut announced a major copper (gold, silver) discovery. The mineralization, which occurs over a largely outcropping zone several kilometres long and about 100 metres wide or more, was discovered during an initial exploration program conducted on the property this summer. Results received to date, including copper grades up to 11.3 % Cu in grab samples, reveal the RBL Zone as a very attractive drilling target. Furthermore, major targets for copper (Cipmyluk-Mevanuk and Kaam zones) and copper-gold-silver (Volcan, Pir and Pap prospects) yielded significant grades for copper (up to 4.4 % Cu), gold (up to 580 g/t Au), silver (up to 196.0 g/t Ag) and cobalt (up to 0.19% Co). A total of 1,485 analyses of grab samples have been received, 220 of which returned copper grades higher than 0.1% Cu, including 73 samples with grades higher than 0.5% Cu.

Azimut's management is of the opinion that the Rex property, over a 100-km strike length, has the potential to become an important metal district in northern Quebec. The field work and analytical results to date validate Azimut's assessment of the Rex property as highly prospective for IOCG-type deposits.

The RBL and Cipmyluk mineralized zones, each of multi-kilometre extent, are related to large breccia systems spatially associated with regional-scale structures. These features may indicate significant depth to the systems, and Azimut considers both zones to be major IOCG-type targets. Furthermore, these two zones, spaced 27 km apart, demonstrate the regional scale of mineralization on the Rex property. Pending airborne geophysical (15,969 line-km) and lake-bottom sediment geochemical (2,006 samples) results may delineate other large-scale high-quality targets. In addition to RBL and Cipmyluk, other prospective zones on the property may be related to deposit types typical of Archean greenstone belts, such as copper-gold mineralization in shear zones and volcanogenic massive sulphides. Drilling will start in 2011 with the objective of assessing large-scale surface and high-quality exploration targets.

In May 2010, Azimut announced the signing of a letter of intent with Aurizon Mines Ltd. ("Aurizon") regarding the Rex South property. This new partner can acquire an initial 50% interest in the project by performing $5.0 million in exploration work over a five (5)-year period, and an additional 15% interest upon delivery of a bankable feasibility study.

Following the completion of the 2010 summer exploration program Azimut announced the discovery of a major gold-silver-copper-tungsten mineralized zone on the Rex South property. Twenty (20) other significant mineralized prospects have also been identified on the property. The main mineralized zone, which occurs in an area of significant outcrop exposure, has been recognized over a strike length of 3.3 km and a width of 50 to 200 m, and is open in all directions. This zone, named the Augossan Zone, was identified during an initial exploration program conducted on the property this summer. Grab samples returned gold grades up to 23.3 g/t Au, silver grades up to 90.0 g/t Ag, copper grades up to 2.56% Cu and tungsten grades up to 0.93% W. Significant values in bismuth (up to 0.13% Bi), molybdenum (up to 0.11% Mo) and rubidium (up to 0.18% Rb) were also obtained.

The results for 1,079 rock grab samples out of a total of 1,162 have been received and can be summarized as follows:

- Gold: 134 samples returned grades higher than 0.1 g/t Au, including 30 samples with grades ranging from 1.0 g/t to 23.3 g/t Au
- Silver: 151 samples returned grades higher than 1.0 g/t Ag, including 39 samples with grades ranging from 10.0 g/t to 124.0 g/t Ag

- Copper: 125 samples returned grades higher than 0.1 % Cu, including 37 samples with grades ranging from 0.5% to 8.25% Cu
- Tungsten: 34 samples returned grades higher than 0.05 % W, including 24 samples with grades ranging from 0.1% to 0.99% W. This is the first time significant grades of tungsten have been found in Nunavik.

Several areas also returned significant values for the following commodities: bismuth: 39 samples with values ranging from 0.01% to 0.19% Bi; molybdenum: 30 samples with values ranging from 0.01% to 0.35% Mo; rubidium: 61 samples with values ranging from 0.05% to 0.18% Rb.

Rex South is located in the Archean Minto Subprovince. The mineralized areas on the property – the Augossan and Le Breuil trends and the Larissa, Kumo, Aura, Ferrus and Moly prospects – are considered porphyry-type targets associated with granitic intrusions, dykes and their surrounding host rocks. This type of deposit is of considerable economic importance worldwide and includes many examples of world-class mines. The identification of porphyry-type mineralization is viewed as an exploration breakthrough for this large region of Northern Quebec. Field observations at Rex South this summer indicate a very large exploration target, corresponding to a typical target size for this deposit type. Other target types considered for the property are sediment-hosted gold-copper and volcanogenic massive sulphides.

Results of a property-scale airborne geophysical survey and a detailed lake-bottom sediment geochemical survey are pending. Azimut and Aurizon will design a comprehensive follow-up exploration program including an initial drilling campaign, when all pending results are received and interpreted including an airborne geophysical survey (5,410 line-km) and lake bottom sediment survey (765 samples). Azimut and Aurizon consider the Augossan Zone to be a very attractive exploration target.

*Other properties (1,895 claims, 1,160 km$^2$)*
These properties consist of 8 claim blocks for gold (895 claims) and 11 blocks mainly for copper (1,000 claims). Three of these blocks include notable historical mineralized grab samples:
- Nantais Block: 15.9 g/t Au and 7.9 g/t Au (Nantais-2 prospect); 1,315 g/t Ag, 0.6 g/t Au, 2.77% Zn, 5% Pb and 0.11% Cu (Cabane prospect)
- Quutsuki Block: 7.9 g/t Au and 7.0 g/t Au (PNAR prospect)
- Pelican Block: 1% Cu (PN-2055 prospect); 4.7% Zn and 29.2 g/t Ag (Pelican Lake prospect).

Total work expenditures to date on Azimut's properties in the Central Quebec region total $8.3 million. Exploration results generally confirm the strong uranium potential of Azimut's properties in this region and validate the Company's initial regional targeting. In addition, the Company identified large IOCG and porphyry-type gold targets on its Rex and Rex South properties.

**James Bay region - Opinaca sector**

The Opinaca sector is located northeast of the Opinaca reservoir in the James Bay region, 320 km from Matagami or Chibougamau. The region is underlain by the volcano-plutonic La Grande Subprovince and the metasedimentary Opinaca Subprovince. Conglomeratic metasedimentary sequences are unconformably deposited above mafic volcanic rocks in the upper part of the La Grande stratigraphy. Metamorphic grade increases gradually from the La Grande Subprovince towards the Opinaca Subprovince. There appear to be at least three generations of structures in the area.

In 2004, Virginia Mines Inc. discovered and delineated the major Roberto (Eleonore) gold deposit on their Eleonore project. The definition was made at surface and in drill holes over a lateral distance of roughly 1,900 m and to a depth of more than 1,100 m. Goldcorp Inc. ("Goldcorp") has since acquired the Eleonore project and undertaken a feasibility study. In its latest estimate, Goldcorp declared a resource of 3.15 million ounces (measured and indicated) at a grade of 11.92 g/t Au, and 6.25 million ounces (inferred) at a grade of 12.93 g/t Au. The Eleonore deposit straddles the contact between the volcano-plutonic La Grande Subprovince and the metasedimentary Opinaca Subprovince. Gold mineralization is disseminated within metasedimentary rocks with pervasive microcline-quartz-tourmaline alteration. Mineralized zones appear to be associated with a major structure.

Azimut acquired extensive holdings both before and after the Eleonore discovery, and as a result gained one of the leading property positions in the area. The geological setting of Azimut's properties is comparable to that of Goldcorp's Eleonore property. Azimut's claim blocks are divided into four (4) properties:

Agreement with Everton Resources Inc. ("Everton") and Aurizon – two properties:
- Opinaca A: 429 claims for a total surface area of 223.4 $km^2$
- Opinaca B: 220 claims for a total surface area of 115.1 $km^2$

Agreement with Dynasty Gold Corp., ("Dynasty"):
- Opinaca D: 188 claims for a total surface area of 98.0 $km^2$

Three-party agreement with Eastmain Resources Inc. ("Eastmain") and Goldcorp:
- Eleonore South: 282 claims for a total surface area of 147.6 $km^2$

Azimut began acquiring these claim blocks in November 2003 based on the targeting results of its regional-scale gold potential modeling of the James Bay region.

*Opinaca A and B*
The 2005 surface prospecting results for the A Block revealed a 1.7-km-long trend of gold showings now known as the Inex Zone. Everton's follow-up work in 2006 consisted of a soil sampling program (1,552 samples), a ground-based induced polarization (IP) survey (31.5 line-km), and a six(6)-hole drilling program (632 m) to test targets along the zone. This work demonstrated a strong correlation between IP anomalies, gold soil anomalies and gold-bearing outcrops with values up to 50.9 g/t Au. Drilling confirmed that the IP anomalies coincide with biotite-rich horizons containing up to 5% pyrite-pyrrhotite in metasedimentary rocks. Mineralization is also locally associated with silicified garnetiferous bands, and several specks of visible gold were observed in drill core. The best results were obtained from Hole OP-06-03 with an intersection grading 1.5 g/t Au over 4.0 m.

During the summer of 2007, follow-up prospecting work led to the discovery of the Charles Target in the central part of Opinaca A. This zone represents a 1.3-km-long corridor. Everton collected 161 surface rock samples from this target area, and results yielded gold values up to 35.9 g/t Au. Both the Charles Target and the Smiley Target (the latter identified by coinciding IP and soil anomalies) were drill tested during Everton's eleven-(11) hole program (1,248 m) on the A Block. All drill holes intersected altered metasedimentary rocks containing variable amounts of sulphide mineralization. The most recent interpretation of the Charles Target suggests a possible extension further south. The most significant results were obtained from hole AC-07-01 where an intersection graded 0.8 g/t Au over 9.0 m, including 2.7 g/t Au over 2.0 m.

Azimut's early work on the Opinaca B Block revealed a major NE-SW to E-W gold-bearing system with possible extensions for at least 11 km. The Claude Target is in the middle of this trend, with Everton's Manuel gold showing 8 km to the northeast (channel sample with 12.0 g/t Au over 4.6 m) and Azimut's Eleonore South gold property (see below) 9 km to the west.

During the winter of 2007, a nine (9)-hole diamond drill program totalling 2,142 m was completed at the Claude Target on Opinaca B. The objective was to follow up on the extensions of a mineralized zone that had been identified in the initial drill-test hole, OP-06-07. Assay results from this initial hole revealed an intersection grading 221 ppb Au over 186.5 m, including 1.0 g/t Au over 21.5 m, within an arsenopyrite-mineralized silica alteration zone. The lateral extensions of the mineralization in OP-06-07 have now been tested over a strike length of 350 m to an average depth of 100 m.

All nine (9) holes encountered several intense alteration zones varying from several metres to 20 metres thick. These zones are characterized by strong silica alteration and low sulphide contents, which makes the alteration context at the Claude Target comparable to that of Goldcorp's Eleonore deposit. Six (6) of the holes encountered gold mineralization over intervals of at least 1 m. The last hole, OP-07-20, tested the Claude Target to a vertical depth of 200 m. The results were encouraging and included visible gold at two locations, as well as very strong alteration.

During the summer of 2007, several rock samples collected along the Claude-Manuel corridor returned significant gold values up to 6.1 g/t Au over a strike length of 3 km, including a new mineralized zone that trends parallel to the northern edge of the main Claude Target. The mineralization contains up to 5% pyrite and is associated with silicified and chloritized metasedimentary rocks hosting quartz and pegmatite veins. Three (3) holes were drilled (402 m), without significant results.

During the winter of 2008, Everton completed the following program:

- A geophysical component consisting of 160 line-km of induced polarization (IP) and magnetic ground surveys;
- A 1,600-metre drill program based on the results of the geophysical surveys (Opinaca A: Charles, Smiley and Lola targets; Opinaca B: Dominic Target).

Results included 4.2 g/t Au over 1 m and 0.4 g/t Au over 1 m in hole OS-08-04A at the Smiley Target (Opinaca A), and 0.6 g/t Au over 0.3 m and 0.6 g/t Au over 1.2 m in hole DB-08-01 at the Dominic Target (Opinaca B).

In April 2010, Azimut confirmed that Everton has earned its 50% interest on the Opinaca A and B gold properties.

In September 2010 Azimut announced the signing of a Letter of Intent with Aurizon and Everton whereby Aurizon can acquire up to a 60% undivided ownership interest in the Opinaca property by incurring $6.0 million in exploration work over a four (4)-year period, and an additional 15% interest upon delivery of a bankable feasibility study..

*Eleonore South and Opinaca D*

The Eleonore South property is covered by a three-party agreement between Azimut, Goldcorp and Eastmain. Eastmain has been project operator since 2006, conducting major exploration programs that include prospecting, geophysical work, trenching and drilling.

To date, Eastmain has channel-sampled thirty-five (35) trenches, producing 5,063 one (1)-metre samples. The most significant result was a mineralized section from the JT Target area that assayed 5.3 g/t Au over 8 m. The JT Target is hosted by altered, sulphide-bearing sedimentary rocks that are comparable to the mineralized sedimentary rocks of Goldcorp's Eleonore gold deposit 12 km to the northwest.

The collective results to date indicate that Eleonore South is characterized by several significant multi-kilometre gold-arsenic soil anomalies forming a property-wide trend. During 2006 and 2007, surveying included 194 line-km of gradient IP and 49 line-km of dipole-dipole IP. In 2008, the results of trenching, soil sampling and IP surveying were used to design a 16-hole program (3,129 m) to test a variety of exploration targets based on geochemical, geophysical and geological criteria. Seven (7) of the drill holes were collared in the JT Target area to test the depth extension of gold mineralization exposed as a highly prospective zone more than 400 m wide by trenching during earlier programs. Gold-bearing metasedimentary rocks associated with disseminated arsenopyrite and aluminous alteration were intersected in all seven drill holes at JT. The gold-bearing intervals are of a similar geological character to those observed at the Eleonore gold deposit. Assays from the JT holes include:

- 10.8 g/t Au over 0.5 m and 1.54 g/t Au over 5.7 m in hole ES08-08
- 0.70 g/t Au over 10 m in hole ES08-09
- 0.49 g/t Au over 7.5 m in hole ES08-11

- 7.06 g/t Au over 0.5 m in ES08-12
- 10.4 g/t Au over 0.5 m and 0.46 g/t Au over 8.2 m in hole ES08-13

As Azimut's partners, Goldcorp and Eastmain funded a $1.6-million exploration program in 2009. The program mostly consists of a 3,697-m drilling program in fourteen (14) holes to test sediment-hosted gold targets. In the JT Target area, nine (9) out of twelve (12) holes intersected gold-bearing sedimentary rocks over wide intervals along a 1-km-long corridor. Results from this drilling program include:

- 0.93 g/t Au over 4.0 m (from 47.0 to 51.0 m) in hole ES09-17
- 0.55 g/t Au over 6.2 m (from 162.8 to 169.0 m) in hole ES09-18
- 0.82 g/t Au over 7.0 m (from 115.0 to 122.0 m) in hole ES09-19
- 1.33 g/t Au over 7.5 m (from 147.5 to 155.0 m) in hole ES09-20
- 0.64 g/t Au over 17.5 m (from 212.0 to 230.5 m), including 3.73 g/t Au over 2.0 m, in hole ES09-22
- 1.40 g/t Au over 10.0 m (from 186.0 to 196.0 m), including 9.22 g/t Au over 0.5 m, in hole ES09-23
- 0.54 g/t Au over 14.0 m (from 161.0 to 175.0 m), including 1.43 g/t Au over 3.5 m, in hole ES09-29

The JT Target area is open to the north and at depth. Drilling to date suggests a large, gold-enriched halo comparable in nature with the geochemical halo around Goldcorp's Eleonore gold deposit.

In September, Azimut announced that a $1.6 million diamond drilling program is underway on the Eleonore South property in 2010. Goldcorp and Eastmain will fund entirely the 3,300 m drilling program. Ownership of the property is currently as follows: Azimut 30%, Opinaca 35% and Eastmain 35%. Azimut has reviewed and approved the 2010 technical program, but has decided not to contribute to it. Consequently, Azimut's interest will be about 27% upon completion of the program. Depending on the results, Azimut may decide to contribute its share in the future. Exploration expenditures to date incurred by Azimut's partners amount to about $7.1 million.

*Opinaca D*

Reconnaissance geological mapping and prospecting on the Opinaca D property covered a number of exploration targets defined by VTEM and/or soil geochemistry anomalies. Soil geochemistry surveys confirmed a broad trend of gold, arsenic and antimony anomalies associated with a band of biotite paragneiss in the western part of the property. This band yielded the maximum value obtained for gold (7,320 ppb Au), as well as the maximum values for arsenic (447 ppm As) and antimony (2.3 ppm Sb). These peak values were for samples from the southern portion of the biotite paragneiss band. Strong gold-arsenic-antimony soil anomalies have not yet been tested. About $980,000 has already been spent on the property.

In December 2010 Azimut announced the signing of a Letter of Intent with Dynasty regarding the Opinaca D property. Dynasty can acquire an initial 50% interest in the project by conducting $3.2 million in exploration work over a four (4)-year period, and an additional 15% interest upon delivery of a bankable feasibility study. A drilling program is planned for 2011 to test already defined high-quality targets.

Dynasty will also have the option to earn an additional 15% interest by:

- Issuing $100,000 of its common shares to Azimut as a one-time grant;
- Incurring minimum work expenditures of $500,000 per year over a five (5)-year period;
- Making cash payments of $50,000 per year; and
- Delivering a bankable feasibility study.

**James Bay region - Eastmain sector**

The Eastmain sector (Wabamisk and Eastmain West properties) is 290 km north of Chibougamau in the James Bay territory. It straddles the contact between the Opinaca (metasedimentary) and La Grande (volcano-plutonic) subprovinces. The dominant rock types are paragneiss, basalt and granitic intrusions. Azimut's properties consist of one (1) claim block each:

- Eastmain West:  61 claims for a total surface area of 32.4 $km^2$
- Wabamisk: 755 claims for a total area of 399.5 $km^2$ (this property is covered by a Letter of Intent with Goldcorp)

Azimut began acquiring these properties in November 2003 based on targeting results from its regional-scale gold potential modeling of the James Bay territory.

*Eastmain West*
IAMGOLD conducted work on the Eastmain West property during the summer of 2005 and confirmed the presence of geochemical gold anomalies and a series of electromagnetic conductors in the northern part of the property.

IAMGOLD conducted additional work in 2006 that consisted of ground-based geophysical surveying, prospecting (84 rock samples), detailed geological mapping, and till and boulder sampling. This program resulted in the discovery of significant chromium-platinum-palladium (Cr-Pt-Pd) mineralization associated with an ultramafic sill. The sill appears to be at least 4 km long and 500 m thick. The best results from surface grab samples are 18.5% Cr, 0.44 g/t Pd, and 0.1 g/t Pt (sample F-266111). The best nickel results are from two samples grading 0.24% Ni (F-266103 and F-266104). The Cr-Pt-Pd-Ni potential of the property is still largely underexplored and now constitutes a priority target in addition to the initial focus on gold.

IAMGOLD terminated the option agreement on the property in 2007 following its decision to cease regional exploration activities in Quebec. In the fall of 2010 Azimut carried out additional exploration work on its Cr-Pt-Pd-Ni targets on the Eastmain West property. Results are pending.

*Wabamisk*
A large E-W syncline crosses the Wabamisk property. Local and regional NW- or NE-trending faults are also present. Much of the property is marked by a very strong arsenic anomaly associated with metasedimentary rocks. The geological context and the geochemical signature are comparable to those of the Eleonore property hosting the Eleonore deposit.

Goldcorp's work on the Wabamisk property in 2005 identified several major gold targets. Most historical gold showings in the area are found in these target zones.

The targets clearly extend laterally for several kilometres and were under-explored until now. Prospecting on reconnaissance traverses spaced 2 km apart revealed four (4) new outcropping gold showings. A showing that assayed 8.2 g/t Au is hosted by metasedimentary rocks. This geological context underscores the potential of the Wabamisk property for gold deposits associated with metasedimentary rocks.

The results of the 2006 soil geochemistry survey, which produced 2,644 samples from an area 2.5 km by 11.5 km, indicate several strong, multi-kilometre arsenic-antimony anomalies. The follow-up program in 2007, which consisted of prospecting, geological mapping, soil sampling (1,904 samples) and rock sampling (108 samples), further extended and delineated the gold targets.

In 2008, exploration work at Wabamisk consisted of line cutting (124 line-km), IP geophysical surveying (103 line-km), prospecting, geological mapping and rock sampling (555 grab and channel samples).

The 2009 program was designed to test several quality gold targets on the property. The work comprised:
- Prospecting, grab sampling (260 samples) and channel sampling (66 m);
- An initial fifteen(15)-hole diamond drilling program (3,243 m);
- Soil sampling (800 samples).

Field exploration work highlighted the potential of four (4) priority sectors in the western half of the Wabamisk property, all of which remain untested by drilling:

- GH prospect: felsic volcanics with intense quartz veining, silica and potassic alteration. The prospect is positioned within a strong 3.5-km-long antimony-arsenic (Sb-As) soil anomaly and an IP geophysical anomaly that correlates well with soil geochemistry. Results of grab samples from the scarce outcrops in the area include 428 ppb Au, 1.94% Sb and 0.18% As. Antimony and arsenic are excellent pathfinders for gold.
- Brenda prospect: mafic volcanics with intense silica alteration and quartz veining in an area with few outcrops. Channel sampling returned 453 ppb Au and 0.83% As over 5.0 m. Grab samples collected in 2007 returned gold values up to 2.09 g/t Au. The minimum length of the Brenda target is 500 m.
- Duchably prospect: quartz breccia veins hosted by a felsic intrusive unit. A grab sample returned 27.1 g/t Au, 14.2 g/t Ag, 30.0 g/t Bi and 0.13% Pb.
- ML prospect: altered mafic volcanics with tourmaline returned 7.53 g/t Au in a grab sample. The ML prospect lies along the eastern extension of the gold-bearing Dome area, which is recognized over a strike length of at least 1.7 km. Historical gold values for the Dome area include 80.7 g/t Au, 21.0 g/t Au and 10.8 g/t Au in grab samples.

The drilling program, which was designed to test a number of geochemical-geophysical targets in the eastern half of the property, mainly intersected sulphides or graphite with little or no gold. The notable exception was hole W-09-08, which yielded very encouraging results along a 75-m section with mineralized intervals. These intervals have a total cumulative downhole length of 30 m and contain disseminated to semi-massive sulphides yielding anomalous copper, zinc and silver values accompanied by strong chloritic and aluminous alteration. Results of interest are as follows:

- Hole W-08-03: 1,198 ppm Cu and 1,362 ppm Mo over 2.2 m (from 83.8 to 86.0 m)
- Hole W-08-04: 446 ppb Au and 2,030 ppm Cu over 1.0 m (from 119.5 to 120.5 m)
- Hole W-09-08: 6,100 ppm Cu, 5,280 ppm Zn and 6.1 g/t Ag over 1.4 m (from 122.0 to 123.4 m), 850 ppm Cu and 704 ppm Zn over 3.0 m (from 154.5 to 157.5 m), 226 ppm Cu, 3,935 ppm Zn, 1,629 ppm Pb and 18.0 g/t Ag over 7.0 m (from 175.0 to 182.0 m)

In September 2010, Azimut reported that Goldcorp completed an 8-hole diamond drilling campaign totalling 2,008 metres on two (2) gold targets on the Wabamisk property. A key result was the discovery of a gold-antimony-arsenic mineralized zone associated with a diorite intrusion and metasedimentary rocks. The best intercept returned 2.27 g/t Au over 4.3 m (core length) within a large envelope of 0.7 g/t Au, 0.39% Sb and 0.20% As over 19 m. Antimony (Sb) and arsenic (As) are classic pathfinders for gold. The widths and extents of the Sb-As anomaly identified during this program indicate the possibility of significant gold mineralization in the vicinity, ranking this target as a top exploration priority.

Goldcorp renewed its Wabamisk option commitments in 2010. In addition the Company will be validating the work expenditures incurred on its Wabamisk property to confirm that Goldcorp has earned a 51% interest.

The 2010 exploration programs on Azimut's gold properties in the James Bay region reached about $2.0 million, funded by Azimut's partners.

## Regional modelling and project generation

Azimut continues to pursue the mineral potential modelling of several regions in Quebec with the objective of generating new projects, most notably for gold, uranium, copper and rare earth elements. Opportunities in other regions and for other commodities are also considered.

## 2010 and 2011 perspectives

The status of the work programs on Azimut's properties and the preliminary 2011 exploration budgets are included in the table below.

| Property | Status | Planned 2011 budget |
|---|---|---|
| **Ungava Bay region** | | |
| **North Rae (uranium)** | Technical reassessment in progress, best approach to be defined | To be determined |
| **Daniel Lake (uranium)** | Technical reassessment in progress, best approach to be defined | To be determined |
| **Diana (copper, cobalt, REE)** | Pending results, interpretation in progress | $1.0 million<br>Program funded by partner may include airborne and ground geophysics, prospecting and drilling |
| **Central Quebec region** | | |
| **Rex (copper, gold, silver, REE)** | Compilation, interpretation in progress | To be determined<br>Program will include prospecting, ground geophysics and drilling |
| **Rex South (gold, silver, copper, tungsten)** | Pending results, interpretation in progress | Minimum $0.7 million<br>Program funded by partner will include prospecting, ground geophysics and drilling |
| **Other uranium properties** | Technical reassessment in progress | To be determined |
| **James Bay region** | | |
| **Opinaca A & B (gold)** | Technical reassessment in progress | $1.0 million<br>Program funded by partner will include prospecting, ground geophysics and drilling |
| **Opinaca D (gold)** | Technical reassessment in progress | $0.5 million<br>Program funded by partner will include prospecting, ground geophysics and drilling |
| **Eleonore South (gold)** | Pending results and interpretation | To be determined<br>Program funded by partners will include drilling |
| **Wabamisk (gold)** | Technical reassessment in progress | To be determined<br>Drilling funded by partner |
| **Eastmain West (chromium, platinum, palladium,, nickel)** | Pending results | Minimum $0.3 million<br>Program funded by Azimut will include ground geophysics, stripping and prospecting |

Azimut is moving forward with a focus primarily on initial exploration work for its major copper-gold-silver properties (Rex, Rex South and Diana). In addition, the Company carried out comprehensive surface sampling on its Eastmain West Cr-Pt-Pd-Ni property. The Company has adequate financial resources to undertake its self-funded exploration programs and to maintain its management team, and does not anticipate having to contribute to work expenditure commitments on its partnered properties to maintain the Company's interest. The one exception is the Eleonore South gold property: Azimut may decide to contribute its share in the future depending on the results of the 2010 program.

This strategy will safeguard the value added to Azimut's projects. In addition, and most importantly, the Company will maintain its pursuit of identifying early-stage and quality exploration targets, most recently exemplified by the acquisition of the Rex, Rex South and Diana properties in Nunavik, which contain large copper-gold-silver and/or REE targets. Azimut will continue to actively seek new partnerships in Quebec and elsewhere.

**Financial Information**

The following selected financial data is extracted from the audited financial statements of the Company that were prepared in accordance with Canadian generally accepted principles:

**Selected financial information**

| | Earnings for the fiscal years ended August 31 | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | ($) | ($) | ($) |
| **Other income (expenses)** | 136,483 | (314,456) | 1,927,860 |
| **Expenses** | | | |
| Administration fees | 621,305 | 716,848 | 875,011 |
| Write-off and write-down of mining properties | 158,630 | 622,783 | 49,531 |
| Search for properties | 111,600 | 104,331 | 85,681 |
| Credit on duties refundable for losses and refundable tax credits for resources | (9,564) | (45,253) | (29,324) |
| Professional fees related to the decision of not proceeding with a short-form prospectus | - | 202,805 | 405,864 |
| Allowance for bad debts | - | - | 267,734 |
| Interest on debentures | 151,093 | 154,777 | - |
| Interest on obligation under capital lease | 1,386 | - | - |
| Discount on a debenture | - | (92,000) | - |
| Accretion expense on debentures | 80,612 | 70,601 | - |
| Stock-based compensation costs | 421,010 | 627,490 | 798,525 |
| | 1,536,072 | 2,362,382 | 2,453,022 |
| **Recovery of income taxes** | (582,000) | - | - |
| **Net loss for the year** | (817,589) | (2,676,838) | (525,162) |
| **Basic and diluted loss per share** | (0.03) | (0.15) | (0.03) |

**Result of operations**

***2010 compared to 2009***

For the fiscal year ended 2010, the Company reported a net loss of $817,589, compared to a net loss of $2,676,838 for the fiscal year ended 2009. The net decrease of $1,859,249 is mainly due to the recovery of future income taxes of $582,000 (Nil in 2009) related to the tax deductions that the Company renounced to the holders of flow-through shares and important changes for expenses and other income as follows:

*Expenses*

Expenses totalled $1,536,072 in 2010 compared to $2,362,382 in 2009. The net decrease of $826,310 is principally related to the following variations:

- The cost of administration fees during 2010 of $621,305 ($716,848 in 2009) as a result of the decrease in the cost of salaries $187,571 in 2010 compared to $378,179 in 2009. There is a decrease of $190,608 in connection with the allocation to mining properties due to more involvement of the Company's personnel in conducting work on the properties. Increase in professional and maintenance fees of $36,796 is due to higher audit fees in 2010 and a higher volume of activity. Travelling and entertainment costs were $75,904 in 2010 ($36,910 in 2009), an increase of $38,994 resulting from increased participation at industry conventions.

The Company has contributed $20,000 ($Nil in 2009) to Minalliance, an organization that aims to make the general public more aware of the mineral industry and to highlight the industry's contribution to the growth of Québec and its regions, integrating economic, social and environmental aspects.

- No write-off of deferred charges, which consist of professional fees related to the decision not to proceed with a proposed transaction and the preparation of a short form prospectus ($202,805 in 2009).
- The cost related to the write-off and write-down of mining properties during 2010 for $158,630 ($622,783 in 2009). Write-offs of the Tasirlaq property in Ungava Bay and the West Minto property in Central Quebec were performed. The Burrel Lake property in Ungava Bay was written down.
- The decrease in stock-based compensation costs of $206,480, from $627,490 in 2009 to $421,010 in 2010, is mainly attributable to the fair value of stock options granted and exercisable during the year.

*Other income (expenses)*

Other income (expenses) totalled $136,483 in 2010 compared to ($314,456) in 2009. The net variation of $450,939 is due to the following important variations:

- The Company receives management fees for its role as project operator for the Diana and Rex South properties for $86,783 ($Nil in 2009). Azimut is conducting the exploration work funded by the partners and charges management fees ranging from 5% to 10%.
- The loss realized on the sale of long term investments was $215,567 in 2010 compared to a gain of $5,009 in 2009.
- The write-down on long term investments was $224,000 ($801,728 in 2009), reclassified from comprehensive loss for other than temporary write-down on available-for-sale investments, following the stock market decline.

## Changes in mining properties

| | Years Ended August 31, | |
|---|---|---|
| | **2010** **$** | **2009** **$** |
| **Balance – Beginning of year** | 1,791,427 | 1,244,727 |
| Expenses incurred during the year | | |
| Claims and permits | 719,245 | 887,139 |
| Geological surveys | 1,165,365 | 377,520 |
| Geochemical surveys | 360,147 | - |
| Geophysical surveys | 236,321 | 152,229 |
| Drilling | - | 337,251 |
| Administration and others | 4,840 | - |
| Stock based compensation costs | 33,060 | - |
| Depreciation of property and equipment | 46,927 | - |
| Advance for exploration work | 66,500 | - |
| | 2,632,405 | 1,754,139 |
| Write-off and write-down of mining properties | (158,630) | (622,783) |
| Option payments | (214,049) | (185,314) |
| Credit on duties refundable for loss and refundable tax credit for resources | (103,879) | (399,342) |
| | (476,558) | (1,207,439) |
| **Balance – End of year** | 3,947,274 | 1,791,427 |

## Other information

| | August 31, 2010 | August 31, 2009 |
|---|---|---|
| **Cash and cash equivalents** | $2,704,823 | $1,349,818 |
| **Total assets** | $8,358,558 | $4,496,448 |
| **Long-term-liabilities** | $1,119,047 | $1,123,781 |
| **Shareholders' equity** | $5,307,107 | $2,604,090 |
| **Number of shares outstanding** | 25,111,070 | 20,383,979 |
| **Number of stock options outstanding** | 2,440,000 | 1,855,000 |
| **Number of warrants outstanding** | 2,542,154 | 1,347,224 |

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.

## Liquidity and Capital resources

***2010 compared to 2009***

The Company's working capital was $1,814,300 as at August 31, 2010, compared to $1,332,003 as at August 31, 2009. Management is of the opinion that the current cash position is sufficient to meet current commitments on a continuous basis. The Company does not anticipate having to contribute to work expenditure commitments on its partnered properties in order to maintain its interest, with the exception of the Eleonore South property.

The Company has $1,340,000 ($1,690,000 in 2009) of unsecured convertible and non convertible debentures and secured convertible debentures and presented in the financial statements under its liability component for $1,219,047 ($1,473,781 in 2009) and its equity component for $150,050 ($194,820 in 2009). In 2010, the lender has exercised its right of conversion the balance of secured convertible debentures in the amount of $250,000 together with accrued interest totalling $10,274 were converted into 477,847 units at an average price of $0.5447 per unit. Subsequent to year ended $640,000 of unsecured convertible were also converted pursuant to exercising their rights of conversion (see "Subsequent Events" section). The Company reimbursed $100,000 ($250,000 in 2009) in cash of the secured convertible debenture and unsecured non-convertible debenture. With the expected receipt of provincial tax credits in 2011, it anticipates having sufficient cash to reimburse the principal and interest on the unsecured non-convertible debenture due in November 2011.

During the fiscal year 2010, the Company completed two (2) private placements for a total of $3,376,125 ($650,000 in 2009) representing 1,434,166 units at $0.75 per unit for proceeds of $1,075,625 and 2,675,000 flow-through shares at $0.86 per share for proceeds of $2,300,500 (Nil in 2009). 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 finder's fee totalled $208,107. The proceeds received from the issuance of flow-through shares amounted to $2,300,500 and is committed to exploration expenses by December 2010. As at August 31, 2010, $1,797,919 (nil as at August 31, 2009) was used for exploration expenses pursuant to flow-through financing agreements.

Advanced exploration of part of the North Rae, Daniel Lake uranium properties and of the Rex copper-gold-REE property and identifying early-stage and major exploration targets is a pursuit that requires substantial financial resources. In the past, the Company has been able to rely on its ability to raise financing in privately negotiated equity offerings. There is no assurance that the Company will be successful in raising the additional required funds. For more details, refer to the going concern assumption note in the financial statements.

## Quarterly information

The information presented below details the total other income (expense), the net earnings (net loss), and the net earnings (net loss) per share for the last eight quarters.

| Quarter ended | Other income (expenses) | Net earnings (Net loss) | Net earnings (Net loss) per share | |
|---|---|---|---|---|
| | | | Basic | Diluted |
| 31-08-2010 | (32,166) | (495,950) | (0.018) | (0.018) |
| 31-05-2010 | 104,299 | (478,418) | (0.020) | (0.020) |
| 29-02-2010 | 63,665 | 375,898* | 0.016 | 0.016 |
| 30-11-2009 | 685 | (219,119) | (0.011) | (0.011) |
| 31-08-2009 | (781,778) | (1,781,275)** | (0.094) | (0.094) |
| 31-05-2009 | 305,218 | (49,804) | (0.003) | (0.003) |
| 28-02-2009 | 161,203 | (359,150) | (0.021) | (0.021) |
| 30-11-2008 | 19,950 | (486,609) | (0.029) | (0.029) |

* Due to the recovery of future income taxes related to the tax deductions that the Company renounced to the holders of flow-through shares.
** Due to the cost related to the write-off of mining properties and write-down on long term investments reclassified from comprehensive loss for other than temporary write-down on available-for-sale investments, following the stock market decline.

## Fourth quarter

The Company's net loss for the three-month period ended August 31, 2010 was $495,950 compared to $1,781,275 in 2009. Other expenses totalled $32,166 compared to $781,778 in 2009. The increase in revenues was caused mainly by a gain related to cash and share payments in connection with an option agreement ($100,000 in 2010 compared to Nil in 2009), the revenue realized for the Company's role as the operator of Diana and Rex South properties ($86,224 in 2010 compared to Nil in 2009) and also by the write-down on long term investments ($224,000 in 2010 compared to $801,728 in 2009), reclassified from comprehensive loss for other than temporary write-down on available-for-sale investments, following the stock market decline.

Significant changes in expenses during the fourth quarter of the current fiscal year arose from the cost related to the write-off and write-down of mining properties ($79,406 in 2010 compared to $295,391 in 2009) and stock-based compensation costs ($38,570 in 2010 compared to $516,750 in 2009).

No funds were raised through private placement during current quarter ended August 31, 2010 as compared to $550,000 in 2009 raised through non-brokered private placements by issuing 1,222,224 common shares at a price of $0.45 per share and 1,222,224 of warrants.

## Contractual obligations

As at August 31, 2010 the Company has contractual obligations payments due by period as follows:

| | Less than 1 year | 1 – 3 years | 4 – 5 years | After 5 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Obligation under capital lease | 29,697 | - | - | - |
| Operating leases | 38,571 | 35,750 | - | - |
| Debentures | 100,000 | 1,240,000* | - | - |
| Total contractual obligations | 168,268 | 1,275,750* | - | - |

* In November 2010, $640,000 of the unsecured convertible debenture was converted into 1,185,185 units (see "Subsequent event" section)

## Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

## Related party transactions

The Company entered into option agreements with Rukwa on the North Minto and South Minto properties in April 2007. Rukwa is a related party since Mr Jean-Charles Potvin is the president and director of Rukwa is also a director of the Company. The Company's Board of Directors approved the entering of agreements without Mr Potvin being present. The cost of renewal mining claims $39,697 ($39,882 in 2009) on the properties and charged back to Rukwa are equivalent to what the Company would otherwise charge to an unrelated third partner. Mr Potvin subscribed in November 2008 an amount of $40,000 on the convertible debenture; the conditions on the debenture issued to Mr Potvin were the same as to other unrelated party. Interest on debenture $4,800 ($2,117 in 2009) was paid to Mr Potvin. Also in December 2009, Mr Potvin's participated in a private placement of 58,000 flow-through shares at $0.86 per share for an aggregate amount of $40,800 at the same conditions as an unrelated party.

A law firm in which Me Louis Paul Salley, director is also a partner charged legal fees amounting to $1,943 (Nil in 2009) capitalized in mining properties under "administration and other". The fees paid by the Company to the Law firm are equivalent to what the Company would otherwise pay to an unrelated third party in the industry.

In November 2008, a company controlled by Mr Dennis Wood, director subscribed an amount of $300,000 on the convertible debenture; the conditions on the debenture issued were the same as to other unrelated party. Interest paid on debenture was $36,000 ($17,852 in 2009) was paid to Mr Wood.
Also, Mr Wood had participated in August 2009 private placement of 111,112 common shares at $0.45 per share for an aggregate amount of $50,000. The shares were issued at the same conditions as the private placements completed with others unrelated parties in July and August 2009. Each share accompanied by: (a) one half-warrant "A", each whole warrant "A" are exercisable at a price of $0.60 per share over a 24-month period; and (b) one half-warrant "B" each whole warrant "B" are exercisable at at a price of $0.80 per share over a 24-month period. All warrants are subject to the terms of an acceleration clause.

The related party transactions are summarized as follows:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **In normal course of operation** | | |
| Mining properties and exploration work | 41,640 | 39,882 |
| **Not in normal course of business** | | |
| Subscription of directors in issuance of convertible debentures | - | 340,000 |
| Participation of director in private placement | 49,880 | 50,000 |
| Cash payments to directors for interest on convertible debentures | 40,800 | 19,969 |

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 are reflected on the balance sheet as at August 31, 2010 and 2009.

## Subsequent events

*Conversion of debentures and exercising warrants*

(i) In November 2010, $640,000 of the unsecured 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.

(ii) Also in November 2010, 587,963 warrants were exercised for a total proceeds of $382,176 in exchange of 587,963 common shares of Azimut.

*Sale of Option on mining properties*

In September 2010, the Company and Everton granted Aurizon the option to earn a 50% interest in the Opinaca A and B properties by making cash payments totalling $580,000 and incurring expenditures of $6,000,000 over four years, including 5,000 metres of drilling by the second anniversary. Azimut 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 years from the election date, incurring expenditures totalling a minimum of $3,000,000 over three years from the election date, and delivering an independent pre-feasibility study on or before the fourth anniversary. Azimut 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 option agreement, Aurizon shall make a payment of $1,500,000 in Aurizon common shares, subject to regulatory approval. Azimut will receive 50% of these issued shares.

In December 2010, the Company granted Dynasty the option to earn an initial 50% interest in the Opinaca D property for cash consideration of $300,000, $150,000 worth of common shares of Dynasty and by conducting $3.2 million in exploration work over a four (4)-year period. Dynasty may also earn an additional interest of 15% interest by issuing $100,000 of its common shares to Azimut as a one-time grant; making cash payments of $50,000 per year, Incurring minimum work expenditures of $500,000 per year over a five (5)-year period and delivering a bankable feasibility study. This transaction is subject to the approval of regulatory authorities.

## Mining properties carrying values

At the end of each quarter, management reviews the carrying value of its mining properties to determine whether any write-offs are necessary. Following this analysis, $158,630 in write-offs and write-down were deemed necessary for the fiscal year (Tasirlaq in the Ungava Bay region, West Minto in the Central Quebec region and Burrel Lake in the Ungava Bay region) compared to $622,783 in 2009 (George River in the Ungava Bay region; West Bienville in the Central Quebec region; the Comptoir project and a gold project in the James Bay region; a nickel project and the Grenium project in the North Shore region).

## 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 and warrants included in units issued in private placement. Actual results could differ from those estimates.

**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, loans and receivables, and other than held-for-trading 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 amount 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. 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

**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 the contractual disbursements when 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 when the exploration work are performed. The project management fees received when the Company is the operator are recorded in the statement of loss.

**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.

## New accounting standards

On September 1, 2009, the Company adopted an amendment to Section 3862, Financial Instruments – disclosures. This amendment establishes additional disclosure requirements regarding the level in the fair value of hierarchy in which fair value measurements are categorized for assets and liabilities measured at fair value in the balance sheet. The adoption of this amendment did not have any impact on the Company’s financial statements.

## International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board (“AcSB”) announced that Canadian public issuers will be required to report under International Financial Reporting Standards (“IFRS”), which will replace the Canadian GAAP for years beginning on or after January 1, 2011. The transition from Canadian Generally Accepted Accounting Principles to IFRS will be applicable for the Company’s first quarter of the 2012 fiscal year, which is November 30, 2011. As a result, the work will be performed by internal resources and supported by external resources from PricewaterhouseCoopers (“PwC”). Management will prepare and direct the transition plan. The Secretary-Treasurer will act as project manager. The President and the audit committee will validate the proposed accounting policy choices, the proposed choices in respect of the IFRS 1 – First adoption of International Financial Reporting Standards and review and approve of the new financial statements and the management’s discussion and analysis.The Company has developed a changeover plan which includes the following three phases and sets out activities to be performed in each phase over the life of the project:

Phase 1 - Diagnosis phase: The initial diagnostic stage has been completed in 2009. The Company hired PwC to perform a diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS. The final report was received and reviewed in August 2009. The diagnosis has identified the main differences between the accounting treatments applied by the Company under Canadian GAAP and the IFRS as well as the practical implications related to the measure. The differences were further classified according to their degree of complexity and by the amount of work to implement with respect to the measure. The most significant areas of difference to the Company which include:

- IFRS 1 First-time adoption of IFRS
- IFRS 2 Share-based payment
- IFRS 6 Exploration and evaluation
- IAS 1 Presentation of financial statements
- IAS 12 Accounting for income taxes
- IAS 16 Property, plant and equipment
- IAS 32 Financial instruments presentation
- IAS 36 Impairment of assets

Phase 2 - Evaluation and design phase: This phase involves the development of the detailed plan for convergence and implementation, analyses of policy alternatives allowed under IFRS, the specification of changes required to existing accounting policies, and the development of solutions for information systems and business processes. The Company is at the stage of analyzing of theses changes and certain decisions need to be made with respect to the choice of accounting methods offered and expected to be completed this phase by the third quarter ending May 31, 2011. However, analysis of these changes is still in process, the selection of accounting policies where choices are available under IFRS has not been completed and will be conducted on a continuous basis. The organizations setting Canadian GAAP and IFRS are currently working on major projects that could also have repercussions on the final differences between both bases of accounting and on their impact on the Company's financial statements. At the present time, the Company is not able to measure with certainty the overall impact of these differences, and others that may arise, on the financial statements.

Phase 3 - Implementation phase: This phase will involve the implementation of all changes approved in the evaluation and design phase and will culminate in the preparation of the Company's financial reporting under IFRS.

## Information regarding outstanding shares

The Company can issue an unlimited number of common shares, without par value. As at December 24, 2010, there were 26,938,829 issued and outstanding shares and no shares were held in escrow.

The Company maintains a stock option plan in which a maximum of 2,560,000 stock options may be granted. The number of shares reserved for issuance under the stock option plan was increased to 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 Venture Exchange, on the day before the grant date. The options have a maximum term of ten years following the granting date; the options granted will be exercisable, unless otherwise approved by the Board of Directors. As at December 24, 2010, 2,335,000 stock options were outstanding, of which 2,320,000 were exercisable. Their exercise prices range from $0.34 to $4.30 and expiry dates from February 21, 2011 to July 23, 2020.

Also as at December 24, 2010, 3,144,777 warrants were outstanding. Their exercise prices range from $0.60 to $1.00 and expiry dates from July 29, 2011 to December 29, 2011. The Company has unsecured convertible debentures of $300,000. The principal is convertible at the option of the holder into units at a price of $0.60; each unit consists of one common share and one-half of a share purchase warrant.

**Financial instruments**

The Company has exposure to various financial risks, such as credit risk, liquidity risk and equity 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 investmentgrade rating, from which management believes the risk of loss to be minimal.

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. The Company follows closely their cash position to reduce its credit risk on amounts receivable.

**Liquidity Risk**

Liquidity risk is the risk that the Company may be unable to fulfill its financial obligations related to financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidities to meet liabilities when due. The Company anticipates that these funds are sufficient to support its corporate and administrative obligations on a continuous basis. Management is evaluating other alternatives to secure the necessary financing so that the Company can continue as a going concern. Nevertheless, there is no assurance that these initiatives will be successful. The amount and timing of additional funding will be impacted by among others things, the strength of the capital markets.

The Company manages its liquidity needs by carefully monitoring cash outflows due in day-today business. Due to the nature of the activities of the Company, funding for long-term liquidity needs are dependent on the Company's ability to obtain additional financing, through various means, including equity financing.

The following are the contractual maturities of financial liabilities, including interest where applicable as at August 31, 2010:

| | **Carrying amount** | **Contractual cash flows** | **0 to 12 months** | **12 to 24 months** | **More than 24 months** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Accounts payables and accrued liabilities | 1,802,707 | 1,802,707 | 1,802,707 | - | - |
| Long-term liabilities including the current portion and obligation under capital | 1,248,744 | 1,369,697 | 129,697 | 1,040,000 | 200,000 |

**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 guaranteed by and held with a Canadian charted bank.

As at August 31, 2010, 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 |
| Obligation under capital lease | |
| Debentures | 12% interest bearing |

A fluctuation of interest rates of 1% would not affect significantly the fair value of cash and cash equivalents.

**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 ± 10 % of the quoted market prices as at August 31, 2010, would result in an estimated effect in Other comprehensive income (loss) of $37,000 ($53,000 for the year ended August 31, 2009).

**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, 2010 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. During the year, the Company conformed to these conditions.

**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, and that those steps are in accordance with industry standards regarding the current exploration stage on the properties, these procedures do not guarantee the Company's right to the property title. The 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 implements and maintains an environmental risk management system that includes operational plans and practices. The Company is in compliance with the regulatory requirements.

**Uninsured hazards**

Hazards, such as unusual geological conditions, are involved in exploring for and developing mineral deposits. The Company may become subject to liability for pollution or other hazards, which cannot be insured against or against which the Company may elect not to insure because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company assets or the insolvency of the Company

**Competition**
The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for recruitment and retention of qualified employees.

**Conflicts of interest**
Certain directors, proposed directors or officers of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors and officers of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider in addition to economic value, the degree of risk to which the Company may be exposed and its financial position at that time.

**Key employees**
Management of the Company rests on a few key officers, the loss of any of whom could have a detrimental effect on its operations.

**Canada Revenue Agency and provincial tax agencies**
No assurance can be made that the Canada Revenue Agency and the provincial tax agencies will agree with the Company's characterization of expenditures as Canadian exploration expenses or Canadian development expenses, or the eligibility of such expenses as Canadian exploration expenses under the *Income Tax Act* (Canada).

**Internal controls over disclosure and financial reporting**
As an emerging company, the Company's management is composed of a limited number of key persons, which means that the segregation of duties is limited and must be offset by a more reliable supervision by the Chief Executive Officer and the Secretary Treasurer. During the fiscal year ended August 31, 2010, the President and Chief Executive Officer, as well as the Secretary Treasurer, concluded that the design of these controls and procedures were efficient and were executed in order to provide reasonable assurance as to the appropriate disclosure of material information relating to the Company. Quarterly and annual financial statements are reviewed by the Company’s Audit Committee and Board of Directors. Since the increased funding costs of additional key persons could place a heavy burden on the Company’s finances, the Company’s management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when budgets will enable that action.

**Outlook**
In the coming year, the Company is moving forward with a focus primarily on initial exploration work for its major copper-gold-silver properties (Rex, Rex South and Diana). Based on current industry trends and demand, the Company will also consider acquiring additional properties for exploration. Financing may be required for this purpose in the current fiscal year.

**Additional information and continuous disclosure**

This Management’s Discussion and Analysis report was prepared on December 24, 2010. The Company regularly divulges additional information through press releases, financial statements, and its annual information form on the SEDAR website (www.sedar.com).

**Caution regarding forward-looking information**

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. To the extent that any statements in this document contain information that is not historical, the statements are essentially forward-looking and are often identified by words such as "anticipate", "expect", "estimate", "intend", "project", "plan" and "believe". The forward-looking statements involve risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are many factors which could cause such differences, particularly volatility and sensitivity to market metal prices, impact of change in foreign currency exchange rates and interest rates, imprecision in reserve estimates, environmental risks including increased regulatory burdens, unexpected geological conditions, adverse mining conditions, changes in government regulations and policies, including laws and policies, and failure to obtain necessary permits and approvals from government authorities, as well as other development and operating risks. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this document. The Company disclaims any intention or obligation to update or revise any forward looking statement, whether or not it should be revised because of new information, future events or otherwise required to do so by applicable Securities Laws.

| (s) Jean-Marc Lulin | (s) Moniroth Lim |
|---|---|
| President and CEO | Secretary Treasurer |