

# **Azimut Exploration Inc.**

Unaudited Condensed Interim Financial Statements

**May 31, 2019**

(expressed in Canadian dollars, except share amounts)

# Azimut Exploration Inc.

## Interim Statements of Financial Position

(in Canadian dollars)

(Unaudited)

|  | As at<br>May 31,<br>2019<br>\$ | As at<br>August 31,<br>2018<br>\$ |
|--|--------------------------------|-----------------------------------|
| <b>Assets</b>  |                                |                                   |
| <b>Current assets</b>  |                                |                                   |
| Cash and cash equivalents (Note 3)   | 2,725,349                      | 2,487,979                         |
| Amounts receivable (Note 4)  | 138,858                        | 826,973                           |
| Prepaid expenses   | 24,509                         | 41,871                            |
|  | <u>2,888,716</u>               | <u>3,356,823</u>                  |
| <b>Non-current assets</b>  |                                |                                   |
| Tax credit and mining rights receivable  | 387,147                        | 114,204                           |
| Investments (Note 5)   | 41,940                         | 126,930                           |
| Property and equipment (Note 6)  | 89,079                         | 96,644                            |
| Intangible assets (less accumulated amortization of \$23,006;<br>\$22,742 as at August 31, 2018) | 902                            | 1,166                             |
| Exploration and evaluation assets (Note 7)   | 5,315,251                      | 4,274,015                         |
|  | <u>5,834,319</u>               | <u>4,612,959</u>                  |
| <b>Total assets</b>  | <u>8,723,035</u>               | <u>7,969,782</u>                  |
| <b>Liabilities and Equity</b>  |                                |                                   |
| <b>Current liabilities</b>   |                                |                                   |
| Accounts payable and accrued liabilities   | 647,904                        | 1,000,369                         |
| Advances received for exploration work   | 996,269                        | 787,887                           |
| Flow-through shares premium liability (Note 9)   | -                              | 72,853                            |
|  | <u>1,644,173</u>               | <u>1,861,109</u>                  |
| <b>Non-current liabilities</b>   |                                |                                   |
| Asset retirement obligations (Note 8)  | 248,987                        | 249,168                           |
|  | <u>248,987</u>                 | <u>249,168</u>                    |
| <b>Total liabilities</b>   | <u>1,893,160</u>               | <u>2,110,277</u>                  |
| <b>Equity</b>  |                                |                                   |
| Share capital (Note 9)   | 24,895,476                     | 23,677,449                        |
| Warrants (Note 9)  | 78,800                         | -                                 |
| Stock options (Note 10)  | 1,393,351                      | 1,503,141                         |
| Contributed surplus  | 3,787,210                      | 3,761,610                         |
| Deficit  | (23,324,962)                   | (23,082,695)                      |
| <b>Total equity</b>  | <u>6,829,875</u>               | <u>5,859,505</u>                  |
| <b>Total liabilities and equity</b>  | <u>8,723,035</u>               | <u>7,969,782</u>                  |

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

(s) Jean-Charles Potvin Director

(s) Jean-Marc Lulin Director

(2)

# Azimut Exploration Inc.

## Interim Statements of Loss and Comprehensive Loss

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>May 31,</b>            |             | <b>May 31,</b>           |             |
|  | <b>2019</b>               | <b>2018</b> | <b>2019</b>              | <b>2018</b> |
|  | <b>\$</b>                 | <b>\$</b>   | <b>\$</b>                | <b>\$</b>   |
| <b>Revenues</b>  |                           |             |                          |             |
| Management income (Notes 7a, c, e, f, g, h and j)                      | 46,903                    | 48,926      | 104,127                  | 116,097     |
| <b>Expenses</b>  |                           |             |                          |             |
| General and administrative (Note 11)                                   | 118,082                   | 297,273     | 355,187                  | 486,059     |
| General exploration (Note 11)  | 18,826                    | 55,670      | 60,709                   | 63,956      |
| Impairment of property and equipment                                   | -                         | -           | -                        | 1,784       |
| Impairment of exploration and evaluation assets                        | -                         | -           | 132                      | -           |
| <b>Operating expenses</b>  | 136,908                   | 352,943     | 416,028                  | 551,799     |
| <b>Financing cost (income), net</b>                                    |                           |             |                          |             |
| Interest income  | (15,433)                  | (8,976)     | (32,248)                 | (21,557)    |
| Interest and bank charges  | 257                       | 304         | 897                      | 857         |
| Unwinding of discount on asset retirement obligations                  | 496                       | 464         | 1,328                    | 1,390       |
|  | (14,680)                  | (8,208)     | (30,023)                 | (19,310)    |
| <b>Other (gains) losses</b>  |                           |             |                          |             |
| Other gains  | (1,600)                   | (9,928)     | (2,098)                  | (12,075)    |
| Change in fair value – investments                                     | 8,914                     | 117,562     | 35,340                   | (83,675)    |
|  | 7,314                     | 107,634     | 33,242                   | (95,750)    |
| <b>Loss before income taxes</b>  | (82,639)                  | (403,443)   | (315,120)                | (320,642)   |
| Deferred income tax recovery (Note 9)                                  | -                         | 265,555     | 72,853                   | 300,738     |
| <b>Loss and comprehensive loss for the period</b>                      | (82,639)                  | (137,888)   | (242,267)                | (19,904)    |
| <b>Basic and diluted loss per share</b>                                | (0.002)                   | (0.003)     | (0.005)                  | 0.000       |
| <b>Basic and diluted weighted average number of shares outstanding</b> | 53,209,127                | 48,082,573  | 51,243,839               | 47,208,214  |

The accompanying notes are an integral part of these financial statements.

# Azimut Exploration Inc.

## Interim Statements of Changes in Equity

(in Canadian dollars, except for number of shares, warrants and options)

(Unaudited) For the three and nine months ended May 31, 2019

|  | Share capital         |                   | Warrants         |                | Stock options    |                  | Contributed surplus | Deficit             | Total            |
|--|-----------------------|-------------------|------------------|----------------|------------------|------------------|---------------------|---------------------|------------------|
|  | Number <sup>(1)</sup> | \$                | Number           | \$             | Number           | \$               | \$                  | \$                  | \$               |
| <b>Balance as at September 1, 2018</b>     | 48,559,496            | 23,677,449        | -                | -              | 4,095,000        | 1,503,141        | 3,761,610           | (23,082,695)        | 5,859,505        |
| Loss and comprehensive loss for the period | -                     | -                 | -                | -              | -                | -                | -                   | (242,267)           | (242,267)        |
|  | 48,559,496            | 23,677,449        | -                | -              | 4,095,000        | 1,503,141        | 3,761,610           | (23,324,962)        | 5,617,238        |
| Private placement (Note 9)                 | 4,421,153             | 1,070,700         | 2,210,576        | 78,800         | -                | -                | -                   | -                   | 1,149,500        |
| Stock options granted                      | -                     | -                 | -                | -              | 50,000           | 9,750            | -                   | -                   | 9,750            |
| Stock options exercised                    | 320,000               | 211,200           | -                | -              | (320,000)        | (102,400)        | -                   | -                   | 108,800          |
| Stock options expired                      | -                     | -                 | -                | -              | (80,000)         | (25,600)         | 25,600              | -                   | -                |
| Stock-based compensation                   | -                     | -                 | -                | -              | -                | 8,460            | -                   | -                   | 8,460            |
| Share issue expenses                       | -                     | (63,873)          | -                | -              | -                | -                | -                   | -                   | (63,873)         |
| <b>Balance as at May 31, 2019</b>          | <b>53,300,649</b>     | <b>24,895,476</b> | <b>2,210,576</b> | <b>78,800</b>  | <b>3,745,000</b> | <b>1,393,351</b> | <b>3,787,210</b>    | <b>(23,324,962)</b> | <b>6,829,875</b> |
| <b>Balance as at September 1, 2017</b>     | 45,459,496            | 22,676,042        | 4,489,584        | 514,032        | 3,390,000        | 1,281,201        | 3,237,178           | (23,063,770)        | 4,644,683        |
| Loss for the period                        | -                     | -                 | -                | -              | -                | -                | -                   | (19,904)            | (19,904)         |
|  | 45,459,496            | 22,676,042        | 4,489,584        | 514,032        | 3,390,000        | 1,281,201        | 3,237,178           | (23,083,674)        | 4,624,779        |
| Flow-through private placement (Note 9)    | 3,100,000             | 1,550,000         | -                | -              | -                | -                | -                   | -                   | 1,550,000        |
| Less: Premium                              | -                     | (527,000)         | -                | -              | -                | -                | -                   | -                   | (527,000)        |
| Stock options granted                      | -                     | -                 | -                | -              | 745,000          | 200,340          | -                   | -                   | 286,650          |
| Share issue expenses                       | -                     | (21,593)          | -                | -              | -                | -                | -                   | -                   | (21,593)         |
| <b>Balance as at May 31, 2018</b>          | <b>48,559,496</b>     | <b>23,677,449</b> | <b>4,489,584</b> | <b>514,032</b> | <b>4,135,000</b> | <b>1,481,541</b> | <b>3,237,178</b>    | <b>(23,083,674)</b> | <b>5,826,526</b> |

<sup>(1)</sup>An unlimited number of common shares are authorized, without par value, voting and participating. There were no unpaid common shares as at May 31, 2019 (Nil in 2018).

*The accompanying notes are an integral part of these financial statements.*

# Azimut Exploration Inc.

## Interim Statements of Cash Flows

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

|  | <b>Nine months ended<br/>May 31,</b> |                    |
|--|--------------------------------------|--------------------|
|  | <b>2019</b>                          | <b>2018</b>        |
|  | <b>\$</b>                            | <b>\$</b>          |
| <b>Cash flows from operating activities</b>  |                                      |                    |
| Loss for the period  | (242,267)                            | (19,904)           |
| Items not affecting cash   |                                      |                    |
| Depreciation of property and equipment   | 6,300                                | 2,595              |
| Amortization of intangible assets  | 264                                  | 375                |
| Change in fair value – investment  | 35,340                               | (83,675)           |
| Impairment of property and equipment   | -                                    | 1,784              |
| Impairment of exploration and evaluation assets  | 132                                  | -                  |
| Gain on sale of equipment  | -                                    | (2,147)            |
| Refundable duties credit for losses and refundable tax credit relating to resources, net | 74,805                               | (2,330)            |
| Stock-based compensation cost  | 18,211                               | 200,340            |
| Unwinding of discount on asset retirement obligations                                    | 1,329                                | 1,390              |
| Recovery of deferred income taxes  | (72,853)                             | (300,738)          |
|  | <u>(178,740)</u>                     | <u>(202,310)</u>   |
| Changes in non-cash working capital items  |                                      |                    |
| Amounts receivable   | 129,371                              | (40,579)           |
| Prepaid expenses   | 17,362                               | (3,949)            |
| Accounts payable and accrued liabilities   | (112,215)                            | (116,122)          |
|  | <u>34,518</u>                        | <u>(160,650)</u>   |
|  | <u>(144,222)</u>                     | <u>(362,960)</u>   |
| <b>Cash flows from financing activities</b>  |                                      |                    |
| Flow-through private placement, net of issue expenses                                    | 1,085,627                            | 1,528,407          |
| Stock options exercised  | 108,800                              | -                  |
|  | <u>1,194,427</u>                     | <u>1,528,407</u>   |
| <b>Cash flows from investing activities</b>  |                                      |                    |
| Proceeds from sale of investments  | 49,649                               | 87,443             |
| Proceeds from sale of equipment  | -                                    | 3,400              |
| Proceeds from sale of camp material  | -                                    | 16,000             |
| Advance received for exploration work  | 2,300,000                            | 969,276            |
| Additions to property and equipment  | (26,641)                             | (32,104)           |
| Additions to exploration and evaluation assets   | (3,604,739)                          | (4,175,089)        |
| Tax credit and mining rights received  | 468,896                              | -                  |
|  | <u>(812,835)</u>                     | <u>(3,131,074)</u> |
| <b>Net change in cash and cash equivalents</b>   | 237,370                              | (1,965,627)        |
| <b>Cash and cash equivalents – Beginning of the period</b>                               | 2,487,979                            | 4,138,853          |
| <b>Cash and cash equivalents – End of the period</b>                                     | <u>2,725,349</u>                     | <u>2,173,226</u>   |
| <b>Additional information</b>  |                                      |                    |
| Interest received  | (31,378)                             | (21,557)           |
| Interest paid  | 29                                   | -                  |
| <b>Additional cash flow information</b> (Note 13)  |                                      |                    |

The accompanying notes are an integral part of these financial statements.

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

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## 1 Nature of operations, general information and liquidity

Azimut Exploration Inc. (“Azimut” or the “Company”), governed by the Business Corporations Act (Quebec), is in the business of acquiring and exploring mineral properties. The Company’s registered office is located at 110, De La Barre Street, Suite 224, Longueuil, Quebec, Canada. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The Company’s shares are listed on the TSX Venture Exchange under the symbol AZM.

Until it is determined that a property contains mineral reserves or resources that can be economically mined, it is classified as a mineral property. It has not yet been determined whether the Company’s properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation (“E&E”) assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the exploration and evaluation of its properties, and the profitable sale of the E&E assets.

Although management has taken steps to verify title to mineral properties in which the Company has an interest, in accordance with industry standards for the current stage of exploration and evaluation of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and may not comply with regulatory requirements.

To date, the Company has not earned significant revenues and is considered to be in the exploration and evaluation stage.

As at May 31, 2019, the Company has working capital of \$1,244,544 (\$1,495,714 – August 31, 2018) including cash and cash equivalents of \$2,725,349 (\$2,487,979 – August 31, 2018) and an accumulated deficit of \$23,324,962 (\$23,082,695 – August 31, 2018). The Company incurred a loss of \$242,267 (\$19,904 – May 31, 2018) for the nine months then ended.

Management of the Company believes it has sufficient funds to pay its ongoing general and administrative expenses, to pursue its budgeted exploration and evaluation expenditures, and to meet its liabilities, obligations and existing commitments for the ensuing twelve (12) months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but not limited to twelve (12) months from the end of the reporting period. To continue the Company’s exploration and evaluation programs on its properties and the Company’s operation beyond May 31, 2020, the Company will periodically need to raise additional funds through the issuance of new equity instruments, the exercise of stock options and the search for partners to sign option agreements on certain of its mineral properties. While it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms that are acceptable to the Company.

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

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## 2 Summary of significant accounting policies

### Basis of preparation

These unaudited condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting*. The unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended August 31, 2018, which have been prepared in accordance with IFRS. The accounting policies, methods of computation and presentation applied in these unaudited condensed interim financial statements are consistent with those of the previous fiscal year. The Board of Directors approved the interim financial statements on July 17, 2019.

### New standards not yet adopted and interpretations issued but not yet effective

There are no relevant changes in accounting standards applicable to future periods other than as disclosed in the most recent annual financial statements for the year ended August 31, 2018.

## 3 Cash and cash equivalents

As at May 31, 2019, cash and cash equivalents of \$2,725,349 (\$2,487,979 – August 31, 2018) include \$254,359 (\$1,252,735 – August 31, 2018) of guaranteed investment certificates bearing interest at 1.10% (1.10% – August 31, 2018), cashable any time without penalty, and an amount of \$Nil (\$214,273 – August 31, 2018) reserved for exploration expenses pursuant to a flow-through financing agreement.

## 4 Amounts receivable

|   | <b>As at<br/>May 31,<br/>2019<br/>\$</b> | <b>As at<br/>August 31,<br/>2018<br/>\$</b> |
|---|--|---|
| Tax credit and mining rights receivable | -  | 559,084                                     |
| Commodity taxes                         | 94,144                                   | 227,112                                     |
| Amounts receivable                      | 44,714                                   | 40,777                                      |
|   | <u>138,858</u>                           | <u>826,973</u>                              |

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 5 Investments

|                              | As at May 31, 2019                 |                     |                  | As at August 31, 2018              |                     |                  |
|------------------------------|------------------------------------|---------------------|------------------|------------------------------------|---------------------|------------------|
|                              | Market<br>price per<br>share<br>\$ | Number of<br>shares | Fair value<br>\$ | Market<br>price per<br>share<br>\$ | Number of<br>shares | Fair value<br>\$ |
| Eastmain Resources Inc.      | 0.105                              | 20,000              | 2,100            | 0.205                              | 20,000              | 4,100            |
| Captor Capital Corp. (*)     | 1.400                              | 17,500              | 24,500           | 0.155                              | 350,000             | 54,250           |
| Albert Mining Inc.           | -                                  | -                   | -                | 0.030                              | 19,600              | 588              |
| Silver Spruce Resources Inc. | 0.055                              | 30,000              | 1,650            | 0.030                              | 30,000              | 900              |
| Vision Lithium Inc.          | 0.070                              | 25,000              | 1,750            | 0.250                              | 25,000              | 6,250            |
| Nemaska Lithium Inc.         | -                                  | -                   | -                | 0.800                              | 59,272              | 47,418           |
| Monarques Resources Inc.     | 0.220                              | 10,464              | 2,302            | 0.190                              | 10,464              | 1,988            |
| West African Resources Ltd   | 0.257                              | 37,500              | 9,638            | 0.310                              | 37,500              | 11,436           |
|                              |                                    |                     | <u>41,940</u>    |                                    |                     | <u>126,930</u>   |

(\*) Securities were consolidated on the basis of one (1) new security for twenty (20) existing securities.

The investments are mainly held in common shares of Canadian publicly traded companies. The fair values of the investments in common shares are based on the quoted market prices of those shares on a recognized stock exchange at the end of each reporting period.

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 6 Property and equipment

|   | Office<br>furniture<br>\$ | Office<br>equipment<br>\$ | Computer<br>equipment<br>\$ | Specialist<br>equipment<br>\$ | Camp<br>\$    | Vehicles<br>\$ | Total<br>\$   |
|---|---------------------------|---------------------------|-----------------------------|-------------------------------|---------------|----------------|---------------|
| <b>Year ended August 31, 2018</b>               |                           |                           |                             |                               |               |                |               |
| Opening net book amount                         | 1,782                     | 3,905                     | 4,612                       | 1,705                         | 95,433        | 754            | 108,191       |
| Additions                                       | -                         | 15,532                    | -                           | -                             | 20,519        | -              | 36,051        |
| Disposition                                     | -                         | -                         | -                           | (1,253)                       | -             | -              | (1,253)       |
| Write-off                                       | -                         | (1,785)                   | -                           | -                             | -             | -              | (1,785)       |
| Depreciation for the period <sup>(1)</sup>      | (356)                     | (1,976)                   | (1,384)                     | (136)                         | (40,480)      | (228)          | (44,560)      |
| <b>Closing net book amount</b>                  | <b>1,426</b>              | <b>15,676</b>             | <b>3,228</b>                | <b>316</b>                    | <b>75,472</b> | <b>526</b>     | <b>96,644</b> |
| <b>As at August 31, 2018</b>                    |                           |                           |                             |                               |               |                |               |
| Cost  | 20,542                    | 28,908                    | 39,791                      | 14,832                        | 598,322       | 3,702          | 706,097       |
| Accumulated depreciation                        | (19,116)                  | (13,232)                  | (36,563)                    | (14,516)                      | (522,850)     | (3,176)        | (609,453)     |
| <b>Net book amount</b>                          | <b>1,426</b>              | <b>15,676</b>             | <b>3,228</b>                | <b>316</b>                    | <b>75,472</b> | <b>526</b>     | <b>96,644</b> |
| <b>Period ended May 31, 2019</b>                |                           |                           |                             |                               |               |                |               |
| Opening net book amount                         | 1,426                     | 15,676                    | 3,228                       | 316                           | 75,472        | 526            | 96,644        |
| Additions                                       | 724                       | 1,006                     | 24,912                      | -                             | -             | -              | 26,642        |
| Change in asset retirement obligations estimate | -                         | -                         | -                           | -                             | (1,509)       | -              | (1,509)       |
| Depreciation for the period <sup>(1)</sup>      | (271)                     | (2,427)                   | (3,530)                     | (72)                          | (26,278)      | (120)          | (32,698)      |
| <b>Closing net book amount</b>                  | <b>1,879</b>              | <b>14,255</b>             | <b>24,610</b>               | <b>244</b>                    | <b>47,685</b> | <b>406</b>     | <b>89,079</b> |
| <b>As at May 31, 2019</b>                       |                           |                           |                             |                               |               |                |               |
| Cost  | 21,265                    | 29,914                    | 64,704                      | 14,832                        | 596,813       | 3,702          | 731,230       |
| Accumulated depreciation                        | (19,386)                  | (15,659)                  | (40,094)                    | (14,588)                      | (549,128)     | (3,296)        | (642,151)     |
| <b>Net book amount</b>                          | <b>1,879</b>              | <b>14,255</b>             | <b>24,610</b>               | <b>244</b>                    | <b>47,685</b> | <b>406</b>     | <b>89,079</b> |

<sup>(1)</sup> The depreciation of the camp and vehicles is included in E&E assets in the amount of \$26,398 (\$40,708 – August 31, 2018).

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements (in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 7 Exploration and evaluation assets

All mineral properties are located in the Province of Quebec.

### Change in exploration and evaluation assets in 2019

| Mineral property        | Undivided interest | Cost as at August 31, 2018 | Additions | Option payments | Proceeds received | Tax credit | Cost as at May 31, 2019 | Accumulated impairment as at August 31, 2018 | Impairment | Accumulated impairment as at May 31, 2019 | Net book amount as at May 31, 2019 |
|-------------------------|--------------------|----------------------------|-----------|-----------------|-------------------|------------|-------------------------|--|------------|---|------------------------------------|
|                         | %                  | \$                         | \$        | \$              | \$                | \$         | \$                      | \$   | \$         | \$  | \$                                 |
| <b>James Bay – Gold</b> |                    |                            |           |                 |                   |            |                         |  |            |   |                                    |
| Opinaca A               | (a)                | 50                         |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 35,710                     | 88        | -               | -                 | -          | 35,798                  | -  | -          | -   | 35,798                             |
| Exploration costs       |                    | 27,881                     | 8,614     | -               | -                 | (3,200)    | 33,295                  | -  | -          | -   | 33,295                             |
|                         |                    | 63,591                     | 8,702     | -               | -                 | (3,200)    | 69,093                  | -  | -          | -   | 69,093                             |
| Opinaca B               | (b)                | 50                         |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 195                        | -         | -               | -                 | -          | 195                     | -  | -          | -   | 195                                |
| Exploration costs       |                    | 5,035                      | 625       | -               | -                 | -          | 5,660                   | -  | -          | -   | 5,660                              |
|                         |                    | 5,230                      | 625       | -               | -                 | -          | 5,855                   | -  | -          | -   | 5,855                              |
| Eleonore South          | (c)                | 26.57                      |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 41,126                     | -         | -               | -                 | -          | 41,126                  | -  | -          | -   | 41,126                             |
| Exploration costs       |                    | 1,029,800                  | 564,313   | -               | -                 | (146,400)  | 1,447,713               | -  | -          | -   | 1,447,713                          |
|                         |                    | 1,070,926                  | 564,313   | -               | -                 | (146,400)  | 1,488,839               | -  | -          | -   | 1,488,839                          |
| Opinaca D               |                    | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 113,748                    | 7,080     | -               | -                 | -          | 120,828                 | (54,975)                                     | -          | (54,975)                                  | 65,853                             |
| Exploration costs       |                    | 224,214                    | 25,793    | -               | -                 | (550)      | 249,457                 | (8,006)                                      | -          | (8,006)                                   | 241,451                            |
|                         |                    | 337,962                    | 32,873    | -               | -                 | (550)      | 370,285                 | (62,981)                                     | -          | (62,981)                                  | 307,304                            |
| Wabamisk                | (d)                | 49                         |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 2,878                      | -         | -               | -                 | -          | 2,878                   | -  | -          | -   | 2,878                              |
| Exploration costs       |                    | 17,360                     | 11,035    | -               | -                 | (4,500)    | 23,895                  | -  | -          | -   | 23,895                             |
|                         |                    | 20,238                     | 11,035    | -               | -                 | (4,500)    | 26,773                  | -  | -          | -   | 26,773                             |
| SOQUEM                  | (e)                | -                          |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 4                          | -         | -               | -                 | -          | 4                       | -  | -          | -   | 4                                  |
| Exploration costs       |                    | -                          | 2,538     | -               | -                 | (1,050)    | 1,488                   | -  | -          | -   | 1,488                              |
|                         |                    | 4                          | 2,538     | -               | -                 | (1,050)    | 1,492                   | -  | -          | -   | 1,492                              |
| Dalmas                  | (f)                | 50                         |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 162                        | -         | -               | -                 | -          | 162                     | -  | -          | -   | 162                                |
| Exploration costs       |                    | -                          | 1,159     | -               | -                 | (400)      | 759                     | -  | -          | -   | 759                                |
|                         |                    | 162                        | 1,159     | -               | -                 | (400)      | 921                     | -  | -          | -   | 921                                |
| Galinée                 | (g)                | 50                         |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 163                        | -         | -               | -                 | -          | 163                     | -  | -          | -   | 163                                |
| Exploration costs       |                    | -                          | 1,382     | -               | -                 | (500)      | 882                     | -  | -          | -   | 882                                |
|                         |                    | 163                        | 1,382     | -               | -                 | (500)      | 1,045                   | -  | -          | -   | 1,045                              |
| SOQUEM Alliance         | (h)                | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs       |                    | 58,578                     | 12,060    | -               | -                 | -          | 70,638                  | (28,128)                                     | -          | (28,128)                                  | 42,510                             |
| Exploration costs       |                    | -                          | -         | -               | -                 | -          | -                       | -  | -          | -   | -                                  |
|                         |                    | 58,578                     | 12,060    | -               | -                 | -          | 70,638                  | (28,128)                                     | -          | (28,128)                                  | 42,510                             |

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements (in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 7 Exploration and evaluation assets (cont'd)

### Change in exploration and evaluation assets in 2019 (cont'd)

| Mineral property                    | Undivided interest | Cost as at August 31, 2018 | Additions        | Option payments | Proceeds received | Tax credit       | Cost as at May 31, 2019 | Accumulated impairment as at August 31, 2018 | Impairment | Accumulated impairment as at May 31, 2019 | Net book amount as at May 31, 2019 |
|-------------------------------------|--------------------|----------------------------|------------------|-----------------|-------------------|------------------|-------------------------|--|------------|---|------------------------------------|
|                                     | %                  | \$                         | \$               | \$              | \$                | \$               | \$                      | \$   | \$         | \$  | \$                                 |
| <b>James Bay – Gold (cont'd)</b>    |                    |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Elmer                               | 100                |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Acquisition costs                   |                    | 20,045                     | 13,451           | -               | -                 | -                | 33,496                  | -  | -          | -   | 33,496                             |
| Exploration costs                   |                    | 2,219                      | 83,808           | -               | -                 | (34,900)         | 51,127                  | -  | -          | -   | 51,127                             |
|                                     |                    | <u>22,264</u>              | <u>97,259</u>    | <u>-</u>        | <u>-</u>          | <u>(34,900)</u>  | <u>84,623</u>           | <u>-</u>                                     | <u>-</u>   | <u>-</u>                                  | <u>84,623</u>                      |
| Duxbury                             | 100                |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Acquisition costs                   |                    | 48,568                     | 1,539            | -               | -                 | -                | 50,107                  | -  | -          | -   | 50,107                             |
| Exploration costs                   |                    | 26,152                     | 40,848           | -               | -                 | (10,900)         | 56,100                  | -  | -          | -   | 56,100                             |
|                                     |                    | <u>74,720</u>              | <u>42,387</u>    | <u>-</u>        | <u>-</u>          | <u>(10,900)</u>  | <u>106,207</u>          | <u>-</u>                                     | <u>-</u>   | <u>-</u>                                  | <u>106,207</u>                     |
| Other                               | 100                |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Acquisition costs                   |                    | 43,734                     | 146,837          | -               | -                 | -                | 190,571                 | -  | -          | -   | 190,571                            |
| Exploration costs                   |                    | 38,339                     | 38,773           | -               | -                 | (16,200)         | 60,912                  | -  | -          | -   | 60,912                             |
|                                     |                    | <u>82,073</u>              | <u>185,610</u>   | <u>-</u>        | <u>-</u>          | <u>(16,200)</u>  | <u>251,483</u>          | <u>-</u>                                     | <u>-</u>   | <u>-</u>                                  | <u>251,483</u>                     |
| <b>Total James Bay – Gold</b>       |                    | <u>1,735,911</u>           | <u>959,943</u>   | <u>-</u>        | <u>-</u>          | <u>(218,600)</u> | <u>2,477,254</u>        | <u>(91,109)</u>                              | <u>-</u>   | <u>(91,109)</u>                           | <u>2,386,145</u>                   |
| <b>James Bay – Chromium-PGE</b>     |                    |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Chromaska                           | 100                |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Acquisition costs                   |                    | 30,672                     | 2,257            | -               | -                 | -                | 32,929                  | (10,551)                                     | -          | (10,551)                                  | 22,378                             |
| Exploration costs                   |                    | 899,494                    | 18,622           | -               | -                 | (6,500)          | 911,616                 | (105,334)                                    | -          | (105,334)                                 | 806,282                            |
|                                     |                    | <u>930,166</u>             | <u>20,879</u>    | <u>-</u>        | <u>-</u>          | <u>(6,500)</u>   | <u>944,545</u>          | <u>(115,885)</u>                             | <u>-</u>   | <u>(115,885)</u>                          | <u>828,660</u>                     |
| <b>James Bay – Base Metal</b>       |                    |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Cawachaga                           | 100                |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Acquisition costs                   |                    | 6,729                      | -                | -               | -                 | -                | 6,729                   | -  | -          | -   | 6,729                              |
| Exploration costs                   |                    | -                          | 5,047            | -               | -                 | (1,700)          | 3,347                   | -  | -          | -   | 3,347                              |
|                                     |                    | <u>6,729</u>               | <u>5,047</u>     | <u>-</u>        | <u>-</u>          | <u>(1,700)</u>   | <u>10,076</u>           | <u>-</u>                                     | <u>-</u>   | <u>-</u>                                  | <u>10,076</u>                      |
| Mercator                            | 100                |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Acquisition costs                   |                    | -                          | 53,001           | -               | -                 | -                | 53,001                  | -  | -          | -   | 53,001                             |
| Exploration costs                   |                    | -                          | 1,610            | -               | -                 | (600)            | 1,010                   | -  | -          | -   | 1,010                              |
|                                     |                    | <u>-</u>                   | <u>54,611</u>    | <u>-</u>        | <u>-</u>          | <u>(600)</u>     | <u>54,011</u>           | <u>-</u>                                     | <u>-</u>   | <u>-</u>                                  | <u>54,011</u>                      |
| Corne                               | 100                |                            |                  |                 |                   |                  |                         |  |            |   |                                    |
| Acquisition costs                   |                    | -                          | 26,727           | -               | -                 | -                | 26,727                  | -  | -          | -   | 26,727                             |
| Exploration costs                   |                    | -                          | 1,610            | -               | -                 | (600)            | 1,010                   | -  | -          | -   | 1,010                              |
|                                     |                    | <u>-</u>                   | <u>28,337</u>    | <u>-</u>        | <u>-</u>          | <u>(600)</u>     | <u>27,737</u>           | <u>-</u>                                     | <u>-</u>   | <u>-</u>                                  | <u>27,737</u>                      |
| <b>Total James Bay – Base Metal</b> |                    | <u>6,729</u>               | <u>87,995</u>    | <u>-</u>        | <u>-</u>          | <u>(2,900)</u>   | <u>91,824</u>           | <u>-</u>                                     | <u>-</u>   | <u>-</u>                                  | <u>91,824</u>                      |
| <b>Total James Bay</b>              |                    | <u>2,672,806</u>           | <u>1,068,817</u> | <u>-</u>        | <u>-</u>          | <u>(228,000)</u> | <u>3,513,623</u>        | <u>(206,994)</u>                             | <u>-</u>   | <u>(206,994)</u>                          | <u>3,306,629</u>                   |

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements (in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 7 Exploration and evaluation assets (cont'd)

### Change in exploration and evaluation assets in 2019 (cont'd)

| Mineral property                               | Undivided interest | Cost as at August 31, 2018 | Additions | Option payments | Proceeds received | Tax credit | Cost as at May 31, 2019 | Accumulated impairment as at August 31, 2018 | Impairment | Accumulated impairment as at May 31, 2019 | Net book amount as at May 31, 2019 |
|--|--------------------|----------------------------|-----------|-----------------|-------------------|------------|-------------------------|--|------------|---|------------------------------------|
|  | %                  | \$                         | \$        | \$              | \$                | \$         | \$                      | \$   | \$         | \$  | \$                                 |
| <b>Nunavik – Polymetallic</b>                  |                    |                            |           |                 |                   |            |                         |  |            |   |                                    |
| Rex  | (j)                | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs                              |                    | 1,279,411                  | 240       | -               | -                 | -          | 1,279,651               | (1,054,369)                                  | -          | (1,054,369)                               | 225,282                            |
| Exploration costs                              |                    | 4,025,297                  | 21,112    | -               | -                 | (7,900)    | 4,038,509               | (3,134,729)                                  | -          | (3,134,729)                               | 903,780                            |
|  |                    | 5,304,708                  | 21,352    | -               | -                 | (7,900)    | 5,318,160               | (4,189,098)                                  | -          | (4,189,098)                               | 1,129,062                          |
| Duquet   | (i) & (j)          | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs                              |                    | 3,776                      | 3,549     | -               | -                 | -          | 7,325                   | -  | -          | -   | 7,325                              |
| Exploration costs                              |                    | 280                        | 15,000    | -               | -                 | (6,300)    | 8,980                   | -  | -          | -   | 8,980                              |
|  |                    | 4,056                      | 18,549    | -               | -                 | (6,300)    | 16,305                  | -  | -          | -   | 16,305                             |
| Rex South                                      | (j)                | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs                              |                    | 436,197                    | 17,156    | -               | -                 | -          | 453,353                 | (104,513)                                    | -          | (104,513)                                 | 348,840                            |
| Exploration costs                              |                    | 335,864                    | 26,595    | -               | -                 | (10,700)   | 351,759                 | (145,089)                                    | -          | (145,089)                                 | 206,670                            |
|  |                    | 772,061                    | 43,751    | -               | -                 | (10,700)   | 805,112                 | (249,602)                                    | -          | (249,602)                                 | 555,510                            |
| NCG*   |                    | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs                              |                    | 738,162                    | -         | -               | -                 | -          | 738,162                 | (738,162)                                    | -          | (738,162)                                 | -                                  |
| Exploration costs                              |                    | 982,241                    | -         | -               | -                 | -          | 982,241                 | (982,241)                                    | -          | (982,241)                                 | -                                  |
|  |                    | 1,720,403                  | -         | -               | -                 | -          | 1,720,403               | (1,720,403)                                  | -          | (1,720,403)                               | -                                  |
| Nantais  | (j)                | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs                              |                    | 143,219                    | 29,138    | -               | -                 | -          | 172,357                 | (95,299)                                     | -          | (95,299)                                  | 77,058                             |
| Exploration costs                              |                    | 317,332                    | 11,931    | -               | -                 | (5,000)    | 324,263                 | (204,913)                                    | -          | (204,913)                                 | 119,350                            |
|  |                    | 460,551                    | 41,069    | -               | -                 | (5,000)    | 496,620                 | (300,212)                                    | -          | (300,212)                                 | 196,408                            |
| Qassituq                                       |                    | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs                              |                    | 41,534                     | -         | -               | -                 | -          | 41,534                  | (37,163)                                     | -          | (37,163)                                  | 4,371                              |
| Exploration costs                              |                    | 35,743                     | -         | -               | -                 | -          | 35,743                  | (35,706)                                     | -          | (35,706)                                  | 37                                 |
|  |                    | 77,277                     | -         | -               | -                 | -          | 77,277                  | (72,869)                                     | -          | (72,869)                                  | 4,408                              |
| <b>Total Nunavik – Gold &amp; Polymetallic</b> |                    | 8,339,056                  | 124,721   | -               | -                 | (29,900)   | 8,433,877               | (6,532,184)                                  | -          | (6,532,184)                               | 1,901,693                          |
| North Rae*                                     |                    | 100                        |           |                 |                   |            |                         |  |            |   |                                    |
| Acquisition costs                              |                    | 484,706                    | 132       | -               | -                 | -          | 484,838                 | (484,706)                                    | (132)      | (484,838)                                 | -                                  |
| Exploration costs                              |                    | 707,167                    | -         | -               | -                 | -          | 707,167                 | (707,167)                                    | -          | (707,167)                                 | -                                  |
| <b>Total Nunavik – Uranium</b>                 |                    | 1,191,873                  | 132       | -               | -                 | -          | 1,192,005               | (1,191,873)                                  | (132)      | (1,192,005)                               | -                                  |
| <b>Total Nunavik</b>                           |                    | 9,530,929                  | 124,853   | -               | -                 | (29,900)   | 9,625,882               | (7,724,057)                                  | (132)      | (7,724,189)                               | 1,901,693                          |
| <b>Total E&amp;E assets</b>                    |                    | 12,203,735                 | 1,193,670 | -               | -                 | (257,900)  | 13,139,505              | (7,931,051)                                  | (132)      | (7,931,183)                               | 5,208,322                          |

\* Fully impaired properties for which mining claims are still being held by the Company.

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 7 Exploration and evaluation assets (cont'd)

|                                   | May 31,<br>2019<br>\$ | August 31,<br>2018<br>\$ |
|-----------------------------------|-----------------------|--------------------------|
| Acquisition and exploration costs | 5,208,322             | 4,272,679                |
| Prepaid exploration expenses      | <u>106,929</u>        | <u>1,336</u>             |
|                                   | <u>5,315,251</u>      | <u>4,274,015</u>         |

- a) In March 2010, Everton Resources Inc. (“Everton”) earned a 50% interest in the Opinaca A Property by making cumulative cash payments of \$180,000 and incurring a total of \$2.8 million in work expenditures.
- b) In March 2010, Everton earned a 50% interest in the Opinaca B Property by making cumulative cash payments of \$160,000 and carrying out a total of \$2 million in work expenditures. In September 2010, Azimut and Everton granted Hecla Quebec Inc. (“Hecla”), the option to earn a 50% interest in the Opinaca B Property by making cumulative cash payments of \$580,000 and incurring a total of \$6.0 million in work expenditures over four (4) years, including 5,000 metres of diamond drilling by the second anniversary. On November 15, 2013, an amendment was made to extend the work schedule by two (2) additional years. According to the agreement, Hecla may also earn an additional interest of 10%, for a total interest of 60%, by making cumulative cash payments of \$300,000 and incurring a total of \$3 million in work expenditures over three (3) years from the election date, and by delivering an independent pre-feasibility study on or before the fourth (4<sup>th</sup>) anniversary. In addition, in the event that mineral resources of at least 2 million ounces of gold at an average grade of at least 6 grams of gold per tonne are discovered before the end of the eighth (8<sup>th</sup>) year of the initial option agreement, Hecla shall make a payment of \$1.5 million in Hecla common shares, subject to regulatory approval. The Company will receive 50% of these issued shares.

As at May 31, 2019, Hecla has made cumulative cash payments of \$580,000 (\$580,000 – August 31, 2018) and carried out a total of \$6.0 million in work expenditures. Of the total cash payment, Azimut has received \$290,000 (\$290,000 – August 31, 2018). Hecla’s fulfillment of its obligations to earn its 50% interest in the property is subject to the Company’s validation.

- c) In April 2006, the Company signed a letter of intent to form a three-way joint venture with Les Mines Opinaca Ltée, a wholly owned subsidiary of Newmont Goldcorp Inc. (“Newmont Goldcorp”, formerly Goldcorp Inc.), and Eastmain Resources Inc. (“Eastmain Resources”) on the Eleonore South Property, which includes 166 claims of the Opinaca C Property and 116 claims owned by Newmont Goldcorp. In February 2008, Eastmain Resources had earned a 33.33% interest in the Eleonore South Property by making cumulative cash payments of \$185,000, granting 30,000 common shares to the Company and funding a total of \$4.0 million in work expenditures.

As at May 31, 2019, the ownership of the Eleonore South Property is as follows: Azimut 26.57%, Newmont Goldcorp 36.71% and Eastmain Resources 36.72%. Azimut was the operator of the \$5.9 million cumulative work program. Each of the joint venture participants elected to contribute their proportionate share of ownership in the work program. The cumulative cost incurred under the work programs amounted to \$5,955,000 (\$5,817,916 – August 31, 2018) to cover exploration work. The allocation of expenditures was as follows: Azimut \$1,582,244 (\$1,545,820 – August 31, 2018), Newmont Goldcorp \$2,186,080 (\$2,135,757 – August 31, 2018) and Eastmain Resources \$2,186,676 (\$2,136,339 – August 31, 2018).

- d) In 2010, Newmont Goldcorp earned a 51% interest in the Wabamisk Property by making cumulative cash payments of \$500,000 and carrying out a total of \$4.0 million in work expenditures. In 2011, Newmont Goldcorp elected to proceed with the second option to earn an additional 19% interest in the property, which requires the delivery of a feasibility study within a period of ten (10) years.
- e) On September 22, 2016, the Company formed a strategic alliance with SOQUEM Inc. (“SOQUEM”) to identify, acquire and explore highly prospective gold targets in the Eeyou Istchee James Bay Territory (the “James Bay region”) of Quebec (the “James Bay Alliance”). Under the terms of the James Bay Alliance, Azimut delivered a target report to SOQUEM in exchange for a cash payment of \$100,000.

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

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## 7 Exploration and evaluation assets (cont'd)

On September 22, 2016, at SOQUEM's cost, four properties were acquired under the James Bay Alliance: Munischiwan, Pikwa, Pontois and Desceliers (the "SOQUEM Properties"). Each partner owns a 50% interest in the SOQUEM Properties. SOQUEM has the option to acquire Azimut's interest by investing a total of \$3 million in work expenditures over four (4) years, including diamond drilling. Azimut will retain a 2% net smelter return ("NSR") royalty of which 0.8% can be bought back for \$800,000 in cash.

On April 25, 2019, the Company and SOQUEM signed an agreement to amend the terms of the James Bay Alliance, whereby a 50% back-in option on the SOQUEM Properties has been granted to Azimut in exchange for \$3.31 million in exploration work over a period of three (3) years, representing the same amount of SOQUEM's cumulative investment in work expenditures on the SOQUEM Properties, the Dalmas Property and the Galinée Property. Azimut remains operator during this earn-in option period.

As at May 31, 2019, SOQUEM had earned its 100% interest by investing work expenditures of \$2,715,992 (\$2,075,746 – August 31, 2018).

- f) On June 20, 2018, based on data acquired through a reconnaissance program (see *h*), SOQUEM reached an agreement with Azimut to convert the Dalmas Property into a joint venture project by making a cash payment of \$12,421 for the staking cost of the mining claims acquired in 2017 and 2018. Each partner owns a 50% interest in the property. SOQUEM has the option to acquire Azimut's interest by investing a total of \$750,000 in work expenditures over four (4) years, including diamond drilling. Azimut will retain a 2% NSR royalty of which 0.8% can be bought back for \$800,000 in cash. On April 25, 2019, the Company and SOQUEM signed an agreement to amend the terms of the existing James Bay Alliance so that each retains a 50% interest in the property. Azimut remains the operator.

As at May 31, 2019, SOQUEM's cumulative investment in work expenditures is \$107,045 (\$80,827 – August 31, 2018).

- g) On June 20, 2018, based on data acquired through a reconnaissance program (see *h*), SOQUEM reached an agreement with Azimut to convert the Galinée Property into a joint venture project by making a cash payment of \$87,900 for the staking cost of mining claims acquired in 2017 and 2018. Each partner owns a 50% interest in the property. SOQUEM has the option to acquire Azimut's interest by investing a total of \$1.5 million in work expenditures over four (4) years, including diamond drilling. Azimut will retain a 2% NSR royalty of which 0.8% can be bought back for \$800,000 in cash. On April 25, 2019, the Company and SOQUEM signed an agreement to amend the terms of the existing James Bay Alliance so that each retains a 50% interest in the property. Azimut remains the operator.

As at May 31, 2019, SOQUEM's cumulative investment in work expenditures is \$494,390 (\$297,261 – August 31, 2018).

- h) On May 5, 2017, SOQUEM agreed to fully fund a reconnaissance exploration program to acquire data that will be used to decide which properties to retain for additional investment under the terms of the James Bay Alliance (the "SOQUEM Alliance Properties"). The program was conducted on the Dalmas (see *f*), Galinée (see *g*), Synclinal, Corvet, Sauvolles and Orsigny properties. On February 22, 2019, SOQUEM agreed to relinquish its exclusive rights to acquire an interest in Corvet and Synclinal.
- i) On September 30, 2015, an agreement was concluded with Osisko Exploration James Bay Inc., Newmont Northern Mining ULC and SOQUEM to transfer their Duquet Property to Azimut in consideration of an aggregate 2.25% NSR royalty on the property.

On April 25, 2019 the Company and SOQUEM signed an agreement to form a new strategic alliance in Nunavik (the "Nunavik Alliance") under which SOQUEM will have the option to earn an initial 50% interest in the Rex-Duquet, Rex South and Nantais properties by investing \$16 million in exploration work during a period of four (4) years, of which the first two (2) years is a firm commitment of \$4 million each year. SOQUEM may also acquire an additional 10% interest by investing \$8 million per designated property during a period of two (2) years including the delivery of a preliminary economic assessment. Azimut is the operator of the Nunavik Alliance. As at May 31, 2019, SOQUEM'S cumulative investment in work expenditures is \$1.6 million.

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 8 Asset retirement obligations

|   | May 31,<br>2019<br>\$ | August 31,<br>2018<br>\$ |
|---|-----------------------|--------------------------|
| Balance – Beginning of the period                     | 249,168               | 247,313                  |
| Change in estimate                                    | (1,509)               | -                        |
| Unwinding of discount on asset retirement obligations | 1,328                 | 1,855                    |
|   | <u>248,987</u>        | <u>249,168</u>           |
| Balance – End of the period                           | <u>248,987</u>        | <u>249,168</u>           |

The estimated undiscounted cash flows required to settle the asset retirement obligations amount to \$251,480. A discount rate of 0.8% (0.8% – August 31, 2018) was used to estimate the obligations in 2019. The calculation uses the assumption that the disbursements necessary to settle the obligations would be made in 2020. If the Company decides to discontinue its exploration of the Rex or Rex South properties, it is assumed that the asset retirement obligation will be settled in 2020. Should the Company decide to continue its activity on the Rex or Rex South properties by itself or through a partner, the obligation will be settled further into the future. Each quarter, the Company reviews the expected timing of the cash flow payments required to settle the obligations, and adjusts the asset retirement obligations accordingly.

## 9 Share capital

### Issuance of units

On December 21, 2018, the Company completed a non-brokered private placement of \$1,149,500 representing 4,421,153 units at \$0.26 per unit. 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 \$0.35 until June 21, 2020.

From the total compensation received from the units, \$78,800 has been allocated to warrants and \$1,070,700 to common shares, based on pro rata allocation of the estimated fair value determined by the Black-Scholes pricing model using the following assumptions: risk free interest of 1.9%, expected life of 18 months, annualized volatility rate of 54% (based on the Company's historical volatility for 18 months up to the issuance date) and dividend rate of 0%.

### Flow-through shares

|  | May 31,<br>2019<br>\$ | August 31,<br>2018<br>\$ |
|--|-----------------------|--------------------------|
| Flow-Through share premium – Beginning of the period | 72,853                | -                        |
| Addition   | -                     | 527,000                  |
| Amortization   | (72,853)              | (454,147)                |
| Flow-through share premiums – End of the period      | <u>-</u>              | <u>72,853</u>            |

On December 28, 2017, the Company completed a private placement by issuing 3,100,000 flow-through shares at \$0.50 per share for aggregate gross proceeds of \$1,550,000. The flow-through shares were issued at a \$0.17 premium to the closing price of the Company shares on the TSX-V at the day of issue. The premium is recognized as a flow-through share premium liability of \$527,000, with a subsequent pro-rata reduction of the liability recognized as a tax recovery expense as the eligible expenditures are incurred. No commissions or finder's fees were paid in respect of the offering.

# Azimet Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 10 Stock options

The Company maintains a stock option plan in which a maximum of 4,544,000 stock options may be granted. The number of shares reserved for issuance under the stock option plan is approximately 9.99% of the Company's 45,449,496 common shares issued and outstanding as at August 29, 2016, at which time the Company filed for an increase in the stock option plan. The exercise price of the options is set at the closing price of the Company's shares on the TSX-V, on the day before the grant date. The options have a maximum term of ten (10) years following the grant date, and they vest immediately, unless otherwise approved and disclosed by the Board of Directors.

The following tables summarize the information about stock options outstanding and vested as at May 31, 2019:

| Exercise price<br>\$ | Options<br>outstanding | Options<br>vested | Weighted average<br>remaining<br>contractual life<br>(years) |
|----------------------|------------------------|-------------------|--|
| 0.190                | 580,000                | 580,000           | 4.16   |
| 0.200                | 580,000                | 580,000           | 5.82   |
| 0.305                | 50,000                 | 50,000            | 8.76   |
| 0.330                | 50,000                 | 25,000            | 9.87   |
| 0.355                | 100,000                | 100,000           | 8.83   |
| 0.370                | 520,000                | 520,000           | 8.81   |
| 0.400                | 75,000                 | 75,000            | 8.88   |
| 0.450                | 325,000                | 325,000           | 2.94   |
| 0.520                | 735,000                | 735,000           | 7.36   |
| 0.600                | 50,000                 | 50,000            | 1.15   |
| 0.660                | 300,000                | 300,000           | 0.77   |
| 0.800                | 340,000                | 340,000           | 1.63   |
| 1.250                | 40,000                 | 40,000            | 1.84   |
|                      | <u>3,745,000</u>       | <u>3,720,000</u>  | <u>5.38</u>  |

On March 28, 2018, the Company granted 100,000 options to an employee with an exercise price of \$0.355 per option. Of these, 34,000 stock options were vested immediately, an additional 33,000 stock options were vested on September 28, 2018, and an additional 33,000 stock options will vest on March 28, 2019. The fair value of the granted options amounted to \$31,000, of which an amount of \$8,460 (\$22,540 – August 31, 2018) was charged to general exploration. The fair value was determined by the Black-Scholes option pricing model with the following assumptions: risk-free interest of 2%, expected life of 10 years, annualized volatility rate of 96.7%, and dividend rate of 0%.

On April 11, 2019, the Company granted 50,000 stock options to a consultant with an exercise price of \$0.33 per option. Of these, 25,000 were vested immediately and an additional 25,000 will vest on July 11, 2019. The fair value of the granted options amounted to \$13,000, of which an amount of \$9,750 (\$Nil – August 31, 2018) was vested. The fair value was determined by the Black-Scholes option pricing model with the following assumptions: risk-free interest of 1.6%, expected life of 10 years, annualized volatility rate of 78%, and dividend rate of 0%.

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 11 Expenses by nature

|   | Three months ended<br>May 31, |                | Nine months ended<br>May 31, |                |
|---|-------------------------------|----------------|------------------------------|----------------|
|   | 2019<br>\$                    | 2018<br>\$     | 2019<br>\$                   | 2018<br>\$     |
| Salaries and fringe benefits  | (13,096)                      | 53,192         | 63,121                       | 125,659        |
| Professional and maintenance fees   | 39,278                        | 5,252          | 74,025                       | 20,727         |
| Administration and office   | 15,952                        | 16,104         | 47,378                       | 40,675         |
| Business development and administration fees  | 17,956                        | 1,541          | 27,036                       | 7,997          |
| Advertising   | 4,677                         | 71             | 5,810                        | 507            |
| Rent  | 15,574                        | 10,363         | 46,713                       | 31,088         |
| Insurance   | 4,400                         | 4,698          | 15,200                       | 15,034         |
| Travel and entertainment  | 19,635                        | 32,662         | 56,032                       | 69,002         |
| Depreciation of property and equipment  | 3,868                         | 865            | 6,300                        | 2,595          |
| Amortization of intangible assets   | 88                            | 125            | 264                          | 375            |
| Stock-based compensation  | 9,750                         | 172,400        | 9,750                        | 172,400        |
| Part XII.6 Tax  | -                             | -              | 38                           | -              |
| Trademark   | -                             | -              | 3,520                        | -              |
| <b>General and administrative expenses</b>  | <b>118,082</b>                | <b>297,273</b> | <b>355,187</b>               | <b>486,059</b> |
| Salaries for search of properties   | 23,115                        | 23,350         | 61,455                       | 22,105         |
| Other exploration expenses  | 2,871                         | 4,380          | 5,794                        | 16,241         |
| Stock-based compensation  | 1,640                         | 27,940         | 8,460                        | 27,940         |
| Refundable duties credit for losses and refundable<br>tax credit for resources, net | (8,800)                       | -              | (15,000)                     | (2,330)        |
| <b>General exploration</b>  | <b>18,826</b>                 | <b>55,670</b>  | <b>60,709</b>                | <b>63,956</b>  |

# Azimut Exploration Inc.

Notes to Condensed Interim Financial Statements

(in Canadian dollars)

(Unaudited) For the three and nine months ended May 31, 2019

## 12 Related party transactions

### Compensation of key management

Key management includes directors, the chief executive officer (“CEO”) and the chief financial officer (“CFO”). The compensation paid or payable for services provided by key management is as follows:

|                     | Nine months ended<br>May 31, |                |
|---------------------|------------------------------|----------------|
|                     | 2019<br>\$                   | 2018<br>\$     |
| Salaries            | 244,369                      | 259,167        |
| Director fees       | 27,973                       | -              |
| Share-based payment | -                            | 172,400        |
|                     | <u>272,342</u>               | <u>431,567</u> |

As at May 31, 2019, an amount of \$92,300 for salaries (\$130,340 – May 31, 2018) is capitalized to E&E assets.

As at May 31, 2019, accounts payable and accrued liabilities include an amount of \$184,494 (\$86,873 – May 31, 2018) owed to key management.

In the event that termination of employment is for reasons other than gross negligence, the CEO and CFO will be entitled to receive an indemnity equal to twelve (12) months of salary. The indemnity paid must not represent more than 10% of the Company’s liquidities at such time.

In the event of a change of control or a termination of employment following a change of control, the CEO will be entitled to receive an indemnity equal to twenty-four (24) months of salary and the CFO will be entitled to receive an indemnity equal to eighteen (18) months of salary.

## 13 Additional cash flow information

|   | Nine months ended<br>May 31, |            |
|---|------------------------------|------------|
|   | 2019<br>\$                   | 2018<br>\$ |
| Acquisition of E&E assets included in accounts payable and accrued liabilities  | 459,613                      | 473,248    |
| Depreciation of property and equipment included in E&E assets   | 26,398                       | 30,531     |
| Refundable duties credit for losses and refundable tax credit for resources presented as a reduction in E&E assets, net | 257,900                      | 121,571    |