

Azimut Exploration Inc.

Financial Statements
August 31, 2019 and 2018



Independent auditor's report

To the Shareholders of Azimut Exploration Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Azimut Exploration Inc. (the Company) as at August 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at August 31, 2019 and 2018;
- the statements of loss and comprehensive loss for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marc-Stéphane Pennee.

PricewaterhouseCoopers LLP¹

Montréal, Quebec
December 23, 2019

¹ CPA auditor, CA, public accountancy permit No. A123642

Azimut Exploration Inc.

Statements of Financial Position

(in Canadian dollars)

	As at August 31, 2019 \$	As at August 31, 2018 \$
Assets		
Current assets		
Cash and cash equivalents (Note 5)	2,979,133	2,487,979
Amounts receivable (Note 6)	398,939	826,973
Prepaid expenses	29,309	41,871
	<u>3,407,381</u>	<u>3,356,823</u>
Non-current assets		
Tax credit and mining rights receivable	839,171	114,204
Investments (Note 7)	41,246	126,930
Property and equipment (Note 8)	77,401	96,644
Intangible assets (less accumulated amortization of \$22,918; \$22,742 in 2018)	814	1,166
Exploration and evaluation assets (Note 9)	<u>5,000,443</u>	<u>4,274,015</u>
	<u>5,959,075</u>	<u>4,612,959</u>
Total assets	<u>9,366,456</u>	<u>7,969,782</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,125,448	1,000,369
Advances received for exploration work	872,469	787,887
Flow-through shares premium liability (Note 11)	-	72,853
	<u>2,997,917</u>	<u>1,861,109</u>
Non-current liabilities		
Asset retirement obligations (Note 10)	<u>249,484</u>	<u>249,168</u>
	<u>249,484</u>	<u>249,168</u>
Total liabilities	<u>3,247,401</u>	<u>2,110,277</u>
Equity		
Share capital (Note 11)	24,895,476	23,677,449
Warrants (Note 12)	78,800	-
Stock options (Note 13)	1,396,602	1,503,141
Contributed surplus	3,787,210	3,761,610
Deficit	<u>(24,039,033)</u>	<u>(23,082,695)</u>
Total equity	<u>6,119,055</u>	<u>5,859,505</u>
Total liabilities and equity	<u>9,366,456</u>	<u>7,969,782</u>

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

Subsequent event (Note 21)

Approved by the Board of Directors

(s) Jean-Charles Potvin _____ Director

(s) Jean-Marc Lulin _____ Director

(4)

Azimut Exploration Inc.

Statements of Loss and Comprehensive Loss

For the years ended August 31, 2019 and 2018

(in Canadian dollars, except number of common shares)

	2019 \$	2018 \$
Revenues		
Management income (Notes 9a, c, e, f, g, h and i)	<u>396,681</u>	<u>172,468</u>
Expenses		
General and administrative (Note 14)	482,198	607,749
General exploration (Note 14)	29,594	87,560
Write-off of property and equipment	-	1,784
Impairment of exploration and evaluation assets (Note 9)	<u>920,963</u>	<u>28,128</u>
Operating expenses	<u>1,432,755</u>	<u>725,221</u>
Financing cost (income), net		
Interest income	(43,746)	(30,478)
Interest and bank charges	1,100	1,123
Unwinding of discount on asset retirement obligations	<u>1,825</u>	<u>1,855</u>
	<u>(40,821)</u>	<u>(27,500)</u>
Other (gains) and losses		
Other gains	(2,098)	(12,261)
Change in fair value – investments	<u>36,036</u>	<u>(39,920)</u>
	<u>33,938</u>	<u>(52,181)</u>
Loss before income taxes	1,029,191	473,072
Deferred income tax recovery (Note 16)	<u>(72,853)</u>	<u>(454,147)</u>
Loss and comprehensive loss for the year	<u>956,338</u>	<u>18,925</u>
Basic and diluted loss per share (Note 17)	<u>0.02</u>	<u>0.00</u>
Basic and diluted weighted average number of shares outstanding	51,762,268	47,548,811

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

Azimut Exploration Inc.

Statements of Changes in Equity

For the years ended August 31, 2019 and 2018

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

	Share capital		Warrants		Stock options		Contributed surplus	Deficit	Total
	Number	\$	Number	\$	Number	\$	\$	\$	\$
Balance as at September 1, 2018	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 year	-	-	-	-	-	-	-	(956,338)	(956,338)
Private placement (Note 11a)	4,421,153	1,070,700	2,210,576	78,800	-	-	-	-	1,149,500
Stock option granted (Note 13)	-	-	-	-	50,000	21,461	-	-	21,461
Stock options exercised (Note 13)	320,000	211,200	-	-	(320,000)	(102,400)	-	-	108,800
Stock options expired (Note 13)	-	-	-	-	(80,000)	(25,600)	25,600	-	-
Share issue expenses	-	(63,873)	-	-	-	-	-	-	(63,873)
Balance as at August 31, 2019	53,300,649	24,895,476	2,210,576	78,800	3,745,000	1,396,602	3,787,210	(24,039,033)	6,119,055
Balance as at September 1, 2017	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 and comprehensive loss for the year	-	-	-	-	-	-	-	(18,925)	(18,925)
Flow-through private placement (Note 11b)	3,100,000	1,550,000	-	-	-	-	-	-	1,550,000
Less: Premium	-	(527,000)	-	-	-	-	-	-	(527,000)
Warrants expired	-	-	(4,489,584)	(514,032)	-	-	514,032	-	-
Stock options granted (Note 13)	-	-	-	-	745,000	232,340	-	-	232,340
Stock options expired (Note 13)	-	-	-	-	(40,000)	(10,400)	10,400	-	-
Share issue expenses	-	(21,593)	-	-	-	-	-	-	(21,593)
Balance as at August 31, 2018	48,559,496	23,677,449	-	-	4,095,000	1,503,141	3,761,610	(23,082,695)	5,859,505

There were no unpaid common shares as at August 31, 2019 (Nil in 2018).

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

Azimut Exploration Inc.

Statements of Cash Flows

For the years ended August 31, 2019 and 2018

(in Canadian dollars)

	August 31, 2019 \$	August 31, 2018 \$
Cash flows from operating activities		
Loss for the year	(956,338)	(18,925)
Items not affecting cash		
Depreciation of property and equipment	8,401	3,852
Amortization of intangible assets	352	500
Change in fair value – investment	36,036	(39,919)
Write-off of property and equipment	-	1,784
Impairment of E&E assets (Note 9)	920,963	28,128
Gain on sale of equipment	-	(2,147)
Refundable duties credit for losses and refundable tax credit relating to resources	(12,427)	(4,041)
Stock-based compensation cost	21,461	232,340
Unwinding of discount on asset retirement obligations	1,825	1,855
Recovery of deferred income taxes	(72,853)	(454,147)
	<u>(52,580)</u>	<u>(250,720)</u>
Changes in non-cash working capital items		
Amounts receivable	64,679	(106,444)
Prepaid expenses	12,562	(22,995)
Accounts payable and accrued liabilities	128,534	39,191
	<u>205,775</u>	<u>(90,248)</u>
	<u>153,195</u>	<u>(340,968)</u>
Cash flows from financing activities		
Private placement, net of issue expenses	1,085,627	1,528,407
Stock option exercised	108,800	-
	<u>1,194,427</u>	<u>1,528,407</u>
Cash flows from investing activities		
Advance received for exploration work	4,676,500	2,491,276
Additions to property and equipment	(26,642)	(36,050)
Additions to exploration and evaluation assets	(6,024,870)	(5,500,703)
Proceeds from sale of investments	49,648	87,443
Proceeds from sale of equipment	-	3,400
Proceeds from sale of camp materials (Note 9)	-	16,000
Proceeds from sale of options on exploration and evaluation assets (Note 9)	-	100,321
Tax credit and mining rights received	468,896	-
	<u>(856,468)</u>	<u>(2,838,313)</u>
Net change in cash and cash equivalents	<u>491,154</u>	<u>(1,650,874)</u>
Cash and cash equivalents – Beginning of year	<u>2,487,979</u>	<u>4,138,853</u>
Cash and cash equivalents – End of year	<u>2,979,133</u>	<u>2,487,979</u>
Additional information		
Interest received	(43,745)	(30,478)
Interest paid	17	43
Additional cash flow information (Note 20)		

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

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 the 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 the titles 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 August 31, 2019, the Company has working capital of \$409,464 (\$1,495,714 in 2018) including cash and cash equivalents of \$2,979,133 (\$2,487,979 in 2018) and an accumulated deficit of \$24,039,033 (\$23,082,695 in 2018). The Company incurred a loss of \$956,338 (\$18,925 in 2018) for the year ended August 31, 2019.

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 August 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.

2 Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are described below.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements, including the comparative figures. The Board of Directors approved the financial statements for issue on December 23, 2019.

Basis of measurement

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value.

Presentation and functional currency

The financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

Jointly controlled assets and exploration activities

A jointly controlled asset involves joint control and offers joint ownership by the Company and other venturers of assets contributed to or acquired for the purpose of the joint venture ("JV"), without the formation of a corporation, partnership or other entity.

Where the Company's activities are conducted through jointly controlled assets and exploration activities, the financial statements include the Company's share in the assets and liabilities, and the income and expenses from the joint operations.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and highly liquid short-term investments with original maturities of three (3) months or less from the date of purchase and which are readily convertible to known amounts of cash.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position when there is an unconditional and legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired.

- a) **Fair value through profit and loss investments:** Investments at fair value through profit and loss are equity investments recognized initially at fair value and subsequently measured at fair value. Gains or losses arising from changes in fair value are recorded in the Statement of loss and comprehensive loss.
- b) **Amortized cost:** Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments constituted solely of payments of principal and interest that are held within a "held to collect" business model. Financial assets at amortized cost are initially recognized at the amount expected to be received, less, when material, a discount to reduce the financial assets to fair value. Subsequently, financial assets at amortized cost are measured using the effective interest method less a provision for expected losses. The company's cash and cash equivalents and amounts receivable are classified within this category.

Investments are currently measured at fair value with changes in fair value, including any interest or dividend income, recognized in the Statement of Loss and Comprehensive Loss.

Financial liabilities at amortized cost: Accounts payable and accrued liabilities and advances received for exploration work which are classified as Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. Accounts payable and accrued liabilities and advances received for exploration work are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve (12) months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

Amortized cost: The expected loss is the difference between the amortized cost of the financial asset and the present value of the expected future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Provisions for expected losses are adjusted upwards or downwards in subsequent periods if the amount of the expected loss increases or decreases.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the Statement of Loss and Comprehensive Loss during the period in which they are incurred.

2 Summary of significant accounting policies (cont'd)**Property and equipment (cont'd)**

Property and equipment are depreciated as they become available using the declining balance method at the rates indicated below, except for the camp and the camp under a finance lease, which are amortized using the straight-line method over 36-month and 18-month periods, respectively. Depreciation of the camp and the camp under a finance lease is capitalized to E&E assets.

	Rate
Office furniture	20%
Office equipment	20%
Computer equipment	30%
Specialist equipment	30%
Vehicle	30%

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, methods of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the Statement of Loss and Comprehensive Loss.

Identifiable intangible assets

The Company's intangible assets include computer software with finite useful lives. These assets are capitalized and amortized at a 30% declining balance basis.

E&E assets

E&E assets comprise deferred exploration and evaluation expenses and mineral properties. Expenditures incurred on activities prior to the exploration and evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed as incurred and presented under general exploration in the statement of comprehensive loss.

E&E assets include rights in mineral properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits. Mineral property rights are recorded at acquisition cost. Mineral property rights and options to acquire undivided interests in mineral property rights are depreciated only as these properties are put into commercial production. These costs are impaired when properties are abandoned or when cost recovery or access to resources is uncertain.

From time to time, the Company may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the option holder, the amounts payable or receivable are not recorded. Option payments are recorded as additions to E&E assets when the payments are made, or as a reduction to E&E assets when payments are received.

Proceeds on the sale of mineral properties are applied by property in reduction of the acquisition costs, then in reduction of the exploration costs, and any residual is recorded in the statement of comprehensive loss unless there is contractual work required in which case the residual gain is deferred and will be reduced once the contractual disbursements are done.

2 Summary of significant accounting policies (cont'd)

E&E assets (cont'd)

Funds received from partners for exploration work on certain properties where the Company is the operator, as per agreements, are accounted for in the statement of financial position as advances received for exploration work. These amounts are reduced gradually once the exploration work is performed. Project management fees, received when the Company is the operator, are recorded in the statement of comprehensive loss.

The Company's E&E expenditures for each separate area of interest are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in the search for deposits including topographical, geological, geochemical and geophysical activities. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition.

E&E expenditures include the cost of:

- establishing the volume and grade of deposits through core drilling, trenching and sampling activities in an ore body;
- determining the optimal extraction methods metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

When a project moves into the development phase, E&E expenditures are capitalized to development costs in property and equipment and are tested for impairment.

E&E expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized E&E costs are classified as investing activities in the statements of cash flows.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are charged to the statement of comprehensive loss on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses, are charged to the statement of comprehensive loss as incurred.

Leases of equipment or base camps, for which the Company has substantially all the risks and rewards of ownership, are classified as finance leases and are capitalized at the lease's commencement.

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease as the fair value of the leased asset or, if lower, the present value of the lease payments. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Company. The corresponding finance charges are expensed as part of the interest on obligations under finance leases.

2 Summary of significant accounting policies (cont'd)**Borrowing costs**

Borrowing costs attributable to the acquisition of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of comprehensive loss in the period in which they are incurred.

Impairment of non-financial assets

Property and equipment and E&E assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. E&E assets are reviewed by area of interest. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the statement of comprehensive loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of the recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

Government assistance

The Company is entitled to a refundable tax credit on qualified mining exploration expenses incurred in the province of Quebec and to a mining duties credit, which are recorded against the deferred exploration expenditures or recognized in the statement of comprehensive loss when the related general mining exploration expenses have been recognized in the statement of comprehensive loss.

Provisions and asset retirement obligations

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation, and when the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for asset retirement obligations are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted. The increase in the provision due to passage of time is recognized in the statement of comprehensive loss. Changes in assumptions or estimates are reflected in the period in which they occur. The Company also records a corresponding asset amount which is amortized in a logical and systematic manner.

2 Summary of significant accounting policies (cont'd)**Share-based payment transactions**

The fair value of share options granted to employees are recognized as an expense, or capitalized to E&E assets over the vesting period with a corresponding increase in stock options. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each statement of the financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes pricing model to determine the fair value of warrants issued.

Warrants issued to brokers, in respect of an equity financing, are recognized as share issue expenses, reducing the share capital with a corresponding credit to warrants.

Flow-through shares

The Company finances some exploration and evaluation expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company recognizes a deferred tax liability for flow-through shares and a deferred tax expense at the moment the eligible expenditures are incurred. The difference between the quoted price of the common shares and the amount the investors paid for the shares (the “premium”), measured in accordance with the residual value method, is recognized as other liability which is reversed in the statement of comprehensive loss as a deferred tax recovery when eligible expenditures have been made.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the Statement of Loss and Comprehensive Loss except to the extent that it relates to items recognized directly in other comprehensive loss or in equity, in which case it is recognized in other comprehensive loss or in equity, respectively. Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes since such taxes are based on a percentage of mining profits.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regards to previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A temporary difference is not provided for if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

2 Summary of significant accounting policies (cont'd)

Income taxes (cont'd)

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss and the weighted average number of common shares outstanding for the effects of all warrants, brokers' units and stock options that may add to the total number of common shares in the case where they would not have an anti-dilutive impact.

Segment disclosures

The Company currently operates in a single segment: the acquisition, exploration and evaluation of mineral properties. All of the Company's activities are conducted in the province of Quebec, Canada.

3 New Accounting standards

a) Adopted

IFRS 15, Revenue from contracts with customers ("IFRS 15")

IFRS 15 replaces all previous revenue recognition standards, including IAS 18, Revenue, and related interpretations. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces more prescriptive guidance than was included in previous standards and may result in changes to the timing of revenue for certain types of revenues. The new standard will also result in enhanced disclosures about revenue that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. As of September 1, 2018, the Company has adopted IFRS 15 on a full retrospective basis. Management has concluded that, based on its current operations, the adoption of IFRS 15 had no significant impact on the Company's financial statements.

b) Issued but not yet effective

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard is effective for annual reporting beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15, *Revenue from contracts with customers*, has also been adopted. Management is in the process of evaluating the impact of adopting this new standard to its financial statements.

4 Critical accounting estimates, judgments and assumptions

Many of the amounts included in the financial statements require management to make judgments and/or estimates and assumptions. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the financial statements.

Areas of significant estimates and assumptions affecting the amounts recognized in the financial statements include the following:

a) **Valuation of the refundable duties credit for losses and the refundable tax credit for resources**

The refundable mining duties credit and the refundable tax credit for resources for the current and prior periods are measured at the amount expected to be recovered from the taxation authorities using the tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Uncertainties exist with respect to the interpretation of tax regulations, including the mining duties credit and the tax credit for resources for which certain expenditures could be disallowed by the taxation authorities in the calculation of credits, and the amount and timing of their collection. The calculation of the Company's mining duties credit and tax credit for resources necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessments and payments has been received from the relevant taxation authority. Differences arising between the actual results following the final resolution of some of these items and the assumptions made, or future changes to such assumptions, could necessitate adjustments to the mining duties credit and tax credit for resources, the E&E assets and expenses, and the income tax expenses in future periods.

The amounts recognized in the financial statements are derived from the Company's best estimation and judgement as described above. However, the inherent uncertainty regarding the outcome of these items means that eventual resolution could differ from the accounting estimates and therefore impact the Company's financial position and its financial performance and cash flows.

b) **Asset retirement obligations**

Asset retirement obligations arise from the development, construction and normal operation of mining property and equipment as mining activities are subject to laws and regulations governing the protection of the environment. Such costs arising from the decommissioning of site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. The discount rate used is based on a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, excluding the risks for which future cash flow estimates have already been adjusted. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The Company also records a corresponding asset amount which is amortized over the remaining service life of the asset.

Future remediation costs are accrued based on management's best estimate at the end of each period of the undiscounted cash costs expected to be incurred at each site. Changes in estimates are reflected in the period during which an estimate is revised. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs that the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each site. The Company also estimates the timing of the cash outflow, which is subject to change and is currently estimated to be 2025 (previously estimated to be 2020), and represents a significant accounting estimate by the Company. Actual costs incurred may differ from those estimated amounts. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to activities for reclamation and remediation.

4 Critical accounting estimates, judgments and assumptions (cont'd)

Areas of significant judgment affecting the amounts recognized in the financial statements include the following:

a) Going Concern

The assessment of the Company's ability to execute its strategy by funding future working capital and exploration and evaluation activities involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas of significant judgments in assessing whether the going concern assumption is appropriate relate to the expected level of E&E activities in the future, which is at least, but not limited to, twelve (12) months from the end of the reporting period and has been estimated at \$1,500,000 for the year ending August 31, 2020.

b) Impairment of non-financial assets

The Company's measurement with respect to the carrying amount of non-financial assets is based on numerous assumptions and may differ significantly from actual recoverable amounts. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The estimated recoverable amounts may differ from actual recoverable amounts and these differences may be significant and could have a material impact on the Company's financial position and result of operations. Assets are reviewed for an indication of impairment at each statement of financial position date. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities and significant drop in commodity prices.

Based on an impairment analysis performed in 2019, the following properties were impaired given that no exploration and evaluation expenses were budgeted and that some claims were abandoned or were not expected to be renewed (note 9): the polymetallic property was impaired by \$4,408 and the uranium property by \$2,202, for a total impairment of \$6,610 in the Nunavik region. The gold properties were impaired by \$75,758, the chromium-PGE property by \$829,022 and the base metal properties by \$9,573 for a total impairment of \$914,353 in the James Bay region.

c) Recognition of deferred income tax assets and measurement of income tax expenses

Periodically, the Company evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if management believes it is probable that some portion of the deferred tax assets will fail to be realized, the Company records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be applied. Assessing the recoverability of deferred income tax assets requires management to make significant judgment. If future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the statement of financial position date could be impacted.

5 Cash and cash equivalents

As at August 31, 2019, cash and cash equivalents of \$2,979,133 (\$2,487,979 in 2018) include \$255,253 (\$1,252,735 as at August 31, 2018) of guaranteed investment certificates bearing interest at 1.35% (1.10% in 2018), cashable any time without any penalties, and an amount of \$Nil (\$214,273 as at August 31, 2018) reserved for exploration expenses pursuant to a flow-through financing agreement.

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

6 Amounts receivable

	2019 \$	2018 \$
Tax credit and mining rights receivable	105,924	559,084
Commodity taxes	248,300	227,112
Amounts receivable	44,715	40,777
	<u>398,939</u>	<u>826,973</u>

7 Investments

	As at August 31, 2019			As at August 31, 2018		
	Market price per share \$	Number of shares	Fair value \$	Market price per share \$	Number of shares	Fair value \$
Eastmain Resources Inc.	0.175	20,000	3,500	0.205	20,000	4,100
Captor Capital Corp.*	0.990	17,500	17,325	0.155	350,000	54,250
Albert Mining Inc.	-	-	-	0.030	19,600	588
Silver Spruce Resources Inc.	0.045	30,000	1,350	0.030	30,000	900
Vision Lithium Inc.	0.040	25,000	1,000	0.250	25,000	6,250
Nemaska Lithium Inc.	-	-	-	0.800	59,272	47,418
Monarques Resources Inc.	0.250	10,464	2,616	0.190	10,464	1,988
West African Resources Ltd	0.412	37,500	15,455	0.310	37,500	11,436
			<u>41,246</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 Financial Statements

For the years ended August 31, 2019 and 2018

8 Property and equipment

	Office furniture \$	Office equipment \$	Computer equipment \$	Specialist equipment \$	Camp \$	Vehicles \$	Total \$
Year ended August 31, 2019							
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 year ⁽¹⁾	(360)	(3,236)	(4,709)	(96)	(35,815)	(160)	(44,376)
Closing net book amount	1,790	13,446	23,431	220	38,148	366	77,401
As at August 31, 2019							
Cost	21,266	29,914	64,703	14,832	596,813	3,702	731,230
Accumulated depreciation	(19,476)	(16,468)	(41,272)	(14,612)	(558,665)	(3,336)	(653,829)
Net book amount	1,790	13,446	23,431	220	38,148	366	77,401
Year ended August 31, 2018							
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 year ⁽¹⁾	(356)	(1,976)	(1,384)	(136)	(40,480)	(228)	(44,560)
Closing net book amount	1,426	15,676	3,228	316	75,472	526	96,644
As at August 31, 2018							
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)
Net book amount	1,426	15,676	3,228	316	75,472	526	96,644

⁽¹⁾ The depreciation of the camp and vehicles is included in E&E assets in the amount of \$35,975 (\$40,708 in 2018).

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 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 August 31, 2019	Accumulated impairment as at August 31, 2018	Impairment	Accumulated impairment as at August 31, 2019	Net book amount as at August 31, 2019
		%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
James Bay – Gold												
Opinaca A	(a)	50										
Acquisition costs			35,710	88	-	-	-	35,798	-	-	-	35,798
Exploration costs			27,881	8,614	-	-	(3,294)	33,201	-	-	-	33,201
			63,591	8,702	-	-	(3,294)	68,999	-	-	-	68,999
Opinaca B	(b)	25										
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	690,581	-	-	(208,279)	1,512,102	-	-	-	1,512,102
			1,070,926	690,581	-	-	(208,279)	1,553,228	-	-	-	1,553,228
Opinaca D		100										
Acquisition costs			113,748	7,080	-	-	-	120,828	(54,975)	-	(54,975)	65,853
Exploration costs			224,214	25,888	-	-	(4,333)	245,769	(8,006)	-	(8,006)	237,763
			337,962	32,968	-	-	(4,333)	366,597	(62,981)	-	(62,981)	303,616
Wabamisk	(d)	49										
Acquisition costs			2,878	-	-	-	-	2,878	-	-	-	2,878
Exploration costs			17,360	11,550	-	-	(4,878)	24,032	-	-	-	24,032
			20,238	11,550	-	-	(4,878)	26,910	-	-	-	26,910
Valore *		100										
Acquisition costs			33,178	-	-	-	-	33,178	-	(26,542)	(26,542)	6,636
Exploration costs			36,765	442	-	-	(183)	37,024	-	(29,619)	(29,619)	7,405
			69,943	442	-	-	(183)	70,202	-	(56,161)	(56,161)	14,041
SOQUEM	(e)	-										
Acquisition costs			4	-	-	-	-	4	-	-	-	4
Exploration costs			-	775,157	-	-	(338,342)	436,815	-	-	-	436,815
			4	775,157	-	-	(338,342)	436,819	-	-	-	436,819
Dalmas	(f)	50										
Acquisition costs			162	-	-	-	-	162	-	-	-	162
Exploration costs			-	44,727	-	-	(19,523)	25,204	-	-	-	25,204
			162	44,727	-	-	(19,523)	25,366	-	-	-	25,366
Galinée	(g)	50										
Acquisition costs			163	3,699	-	-	-	3,862	-	-	-	3,862
Exploration costs			-	77,190	-	-	(33,694)	43,496	-	-	-	43,496
			163	80,889	-	-	(33,694)	47,358	-	-	-	47,358

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 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 August 31, 2019	Accumulated impairment as at August 31, 2018	Impairment	Accumulated impairment as at August 31, 2019	Net book amount as at August 31, 2019
		%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
James Bay – Gold (cont'd)												
SOQUEM Alliance *	(h)	100										
Acquisition costs			58,578	14,023	-	-	-	72,601	(28,128)	(19,597)	(47,725)	24,876
Exploration costs			-	-	-	-	-	-	-	-	-	-
			58,578	14,023	-	-	-	72,601	(28,128)	(19,597)	(47,725)	24,876
Elmer		100										
Acquisition costs			20,045	17,377	-	-	-	37,422	-	-	-	37,422
Exploration costs			2,219	318,285	-	-	(137,408)	183,096	-	-	-	183,096
			22,264	335,662	-	-	(137,408)	220,518	-	-	-	220,518
Duxbury	(i)	100										
Acquisition costs			48,568	1,094	-	-	-	49,662	-	-	-	49,662
Exploration costs			26,152	52,910	-	-	(16,461)	62,601	-	-	-	62,601
			74,720	54,004	-	-	(16,461)	112,263	-	-	-	112,263
Kukumas	(i)	100										
Acquisition costs			10,551	56,436	-	-	-	66,987	-	-	-	66,987
Exploration costs			1,574	25,972	-	-	(11,337)	16,209	-	-	-	16,209
			12,125	82,408	-	-	(11,337)	83,196	-	-	-	83,196
Kaanaayaa		100										
Acquisition costs			-	58,089	-	-	-	58,089	-	-	-	58,089
Exploration costs			-	13,164	-	-	(5,746)	7,418	-	-	-	7,418
			-	71,253	-	-	(5,746)	65,507	-	-	-	65,507
Other		100										
Acquisition costs			-	39,713	-	-	-	39,713	-	-	-	39,713
Exploration costs			-	1,765	-	-	(770)	995	-	-	-	995
			-	41,478	-	-	(770)	40,708	-	-	-	40,708
Total James Bay – Gold			1,735,906	2,244,469	-	-	(784,248)	3,196,127	(91,109)	(75,758)	(166,867)	3,029,260
James Bay – Chromium-PGE												
Chromaska *		100										
Acquisition costs			30,672	2,257	-	-	-	32,929	(10,551)	(22,378)	(32,929)	-
Exploration costs			899,494	19,411	-	-	(6,927)	911,978	(105,334)	(806,644)	(911,978)	-
Total James Bay – Chromium-PGE			930,166	21,668	-	-	(6,927)	944,907	(115,885)	(829,022)	(944,907)	-

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 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 August 31, 2019	Accumulated impairment as at August 31, 2018	Impairment	Accumulated impairment as at August 31, 2019	Net book amount as at August 31, 2019
		%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
James Bay – Base Metal												
Cawachaga *		100										
Acquisition costs			6,729	-	-	-	-	6,729	-	(6,729)	(6,729)	-
Exploration costs			-	5,047	-	-	(2,203)	2,844	-	(2,844)	(2,844)	-
			6,729	5,047	-	-	(2,203)	9,573	-	(9,573)	(9,573)	-
Mercator		100										
Acquisition costs			-	53,001	-	-	-	53,001	-	-	-	53,001
Exploration costs			-	1,610	-	-	(703)	907	-	-	-	907
			-	54,611	-	-	(703)	53,908	-	-	-	53,908
Others		100										
Acquisition costs			-	30,351	-	-	-	30,351	-	-	-	30,351
Exploration costs			-	1,610	-	-	(703)	907	-	-	-	907
			-	31,961	-	-	(703)	31,258	-	-	-	31,258
Total James Bay – Base Metal			6,729	91,619	-	-	(3,609)	94,739	-	(9,573)	(9,573)	85,166
Total James Bay			2,672,801	2,357,756	-	-	(794,784)	4,235,773	(206,994)	(914,353)	(1,121,347)	3,114,426
Nunavik – Gold												
Rex	(k)	100										
Acquisition costs			1,279,411	-	-	-	-	1,279,411	(1,054,369)	-	(1,054,369)	225,042
Exploration costs			4,025,297	12,256	-	-	(4,910)	4,032,643	(3,134,729)	-	(3,134,729)	897,914
			5,304,708	12,256	-	-	(4,910)	5,312,054	(4,189,098)	-	(4,189,098)	1,122,956
Duquet	(j) & (k)	100										
Acquisition costs			3,776	3,549	-	-	-	7,325	-	-	-	7,325
Exploration costs			280	15,000	-	-	(6,548)	8,732	-	-	-	8,732
			4,056	18,549	-	-	(6,548)	16,057	-	-	-	16,057
Rex South	(k)	100										
Acquisition costs			436,197	17,156	-	-	-	453,353	(104,513)	-	(104,513)	348,840
Exploration costs			335,864	17,785	-	-	(6,678)	346,971	(145,089)	-	(145,089)	201,882
			772,061	34,941	-	-	(6,678)	800,324	(249,602)	-	(249,602)	550,722
NCG*		100										
Acquisition costs			738,162	120	-	-	-	738,282	(738,162)	-	(738,162)	120
Exploration costs			982,241	-	-	-	-	982,241	(982,241)	-	(982,241)	-
			1,720,403	120	-	-	-	1,720,523	(1,720,403)	-	(1,720,403)	120
Nantais	(k)	100										
Acquisition costs			143,219	29,138	-	-	-	172,357	(95,299)	-	(95,299)	77,058
Exploration costs			317,332	11,846	-	-	(5,161)	324,017	(204,913)	-	(204,913)	119,104
			460,551	40,984	-	-	(5,161)	496,374	(300,212)	-	(300,212)	196,162
Total Nunavik – Gold			8,261,779	106,850	-	-	(23,297)	8,345,332	(6,459,315)	-	(6,459,315)	1,886,017

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 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 August 31, 2019	Accumulated impairment as at August 31, 2018	Impairment	Accumulated impairment as at August 31, 2019	Net book amount as at August 31, 2019
	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Nunavik – Polymetallic											
Qassituq *	100										
Acquisition costs		41,534	-	-	-	-	41,534	(37,163)	(4,371)	(41,534)	-
Exploration costs		35,743	-	-	-	-	35,743	(35,706)	(37)	(35,743)	-
Total Nunavik – Polymetallic		<u>77,277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,277</u>	<u>(72,869)</u>	<u>(4,408)</u>	<u>(72,277)</u>	<u>-</u>
Nunavik – Uranium											
North Rae*	100										
Acquisition costs		484,706	132	-	-	-	484,838	(484,706)	(132)	(484,838)	-
Exploration costs		707,167	2,070	-	-	-	709,237	(707,167)	(2,070)	(709,237)	-
Total Nunavik – Uranium		<u>1,191,873</u>	<u>2,202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,194,075</u>	<u>(1,191,873)</u>	<u>(2,202)</u>	<u>(1,194,075)</u>	<u>-</u>
Total Nunavik		<u>9,530,929</u>	<u>109,052</u>	<u>-</u>	<u>-</u>	<u>(23,297)</u>	<u>9,616,684</u>	<u>(7,724,057)</u>	<u>(6,610)</u>	<u>(7,730,667)</u>	<u>1,886,017</u>
Total E&E assets		<u>12,203,730</u>	<u>2,466,808</u>	<u>-</u>	<u>-</u>	<u>(818,081)</u>	<u>13,852,457</u>	<u>(7,931,051)</u>	<u>(920,963)</u>	<u>(8,852,014)</u>	<u>5,000,443</u>

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

	August 31, 2019	August 31, 2018
	\$	\$
Acquisition and exploration costs	5,000,443	4,272,679
Prepaid exploration expenses	<u>-</u>	<u>1,336</u>
	<u>5,000,443</u>	<u>4,274,015</u>

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 Exploration and evaluation assets (cont'd)

Change in exploration and evaluation assets in 2018

Mineral property		Undivided interest	Cost as at August 31, 2017	Additions	Option payments	Proceeds received	Tax credit	Cost as at August 31, 2018	Accumulated impairment as at August 31, 2017	Impairment	Accumulated impairment as at August 31, 2018	Net book amount as at August 31, 2018
		%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
James Bay – Gold												
Opinaca A	(a)	50										
Acquisition costs			17,373	18,337	-	-	-	35,710	-	-	-	35,710
Exploration costs			19,091	8,790	-	-	-	27,881	-	-	-	27,881
			36,464	27,127	-	-	-	63,591	-	-	-	63,591
Opinaca B	(b)	50										
Acquisition costs			195	-	-	-	-	195	-	-	-	195
Exploration costs			3,501	2,165	-	-	(631)	5,035	-	-	-	5,035
			3,696	2,165	-	-	(631)	5,230	-	-	-	5,230
Eleonore South	(c)	26.57										
Acquisition costs			41,126	-	-	-	-	41,126	-	-	-	41,126
Exploration costs			427,547	714,421	-	-	(112,168)	1,029,800	-	-	-	1,029,800
			468,673	714,421	-	-	(112,168)	1,070,926	-	-	-	1,070,926
Opinaca D		100										
Acquisition costs			105,766	7,982	-	-	-	113,748	(54,975)	-	(54,975)	58,773
Exploration costs			55,613	168,601	-	-	-	224,214	(8,006)	-	(8,006)	216,208
			161,379	176,583	-	-	-	337,962	(62,981)	-	(62,981)	274,981
Wabamisk	(d)	49										
Acquisition costs			2,878	-	-	-	-	2,878	-	-	-	2,878
Exploration costs			16,259	1,480	-	-	(379)	17,360	-	-	-	17,360
			19,137	1,480	-	-	(379)	20,238	-	-	-	20,238
Valore		100										
Acquisition costs			17,142	16,036	-	-	-	33,178	-	-	-	33,178
Exploration costs			36,134	631	-	-	-	36,765	-	-	-	36,765
			53,276	16,667	-	-	-	69,943	-	-	-	69,943
SOQUEM	(e)	50										
Acquisition costs			4	-	-	-	-	4	-	-	-	4
Exploration costs			-	-	-	-	-	-	-	-	-	-
			4	-	-	-	-	4	-	-	-	4
Dalmas	(f)	50										
Acquisition costs			10,950	1,633	(12,421)	-	-	162	-	-	-	162
Exploration costs			-	-	-	-	-	-	-	-	-	-
			10,950	1,633	(12,421)	-	-	162	-	-	-	162
Galinée	(g)	50										
Acquisition costs			52,576	35,487	(87,900)	-	-	163	-	-	-	163
Exploration costs			-	-	-	-	-	-	-	-	-	-
			52,576	35,487	(87,900)	-	-	163	-	-	-	163

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 Exploration and evaluation assets (cont'd)

Change in exploration and evaluation assets in 2018

Mineral property	Undivided interest	Cost as at August 31, 2017	Additions	Option payments	Proceeds received	Tax credit	Cost as at August 31, 2018	Accumulated impairment as at August 31, 2017	Impairment	Accumulated impairment as at August 31, 2018	Net book amount as at August 31, 2018
	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
James Bay – Gold (cont'd)											
SOQUEM Alliance	(h)	100									
Acquisition costs		53,827	4,751	-	-	-	58,578	-	(28,128)	(28,128)	30,450
Exploration costs		-	-	-	-	-	-	-	-	-	-
		53,827	4,751	-	-	-	58,578	-	(28,128)	(28,128)	30,450
Elmer		100									
Acquisition costs		-	20,045	-	-	-	20,045	-	-	-	20,045
Exploration costs		-	2,219	-	-	-	2,219	-	-	-	2,219
		-	22,264	-	-	-	22,264	-	-	-	22,264
Duxbury	(i)	100									
Acquisition costs		21,842	26,726	-	-	-	48,568	-	-	-	48,568
Exploration costs		-	26,152	-	-	-	26,152	-	-	-	26,152
		21,842	52,878	-	-	-	74,720	-	-	-	74,720
Kukumas	(i)	100									
Acquisition costs		10,551	-	-	-	-	10,551	-	-	-	10,551
Exploration costs		64	1,510	-	-	-	1,574	-	-	-	1,574
		10,615	1,510	-	-	-	12,125	-	-	-	12,125
Total James Bay – Gold		892,439	1,056,966	(100,321)	-	(113,178)	1,735,906	(62,981)	(28,128)	(91,109)	1,644,797
James Bay – Chromium-PGE											
Chromaska		100									
Acquisition costs		25,634	5,038	-	-	-	30,672	(10,551)	-	(10,551)	20,121
Exploration costs		262,276	637,840	-	-	(622)	899,494	(105,334)	-	(105,334)	794,160
Total James Bay – Chromium-PGE		287,910	642,878	-	-	(622)	930,166	(115,885)	-	(115,885)	814,281
James Bay – Base Metal											
Cawachaga		100									
Acquisition costs		6,729	-	-	-	-	6,729	-	-	-	6,729
Exploration costs		-	-	-	-	-	-	-	-	-	-
Total James Bay – Base Metal		6,729	-	-	-	-	6,729	-	-	-	6,729
Total James Bay		1,187,078	1,699,844	(100,321)	-	(113,800)	2,672,801	(178,866)	(28,128)	(206,994)	2,465,807

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 Exploration and evaluation assets (cont'd)

Change in exploration and evaluation assets in 2018

Mineral property	Undivided interest	Cost as at August 31, 2017	Additions	Option payments	Proceeds received	Tax credit	Cost as at August 31, 2018	Accumulated impairment as at August 31, 2017	Impairment	Accumulated impairment as at August 31, 2018	Net book amount as at August 31, 2018
	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Nunavik – Gold											
Rex	100										
Acquisition costs		1,184,282	95,129	-	-	-	1,279,411	(1,054,369)	-	(1,054,369)	225,042
Exploration costs		4,018,463	7,169	-	-	(335)	4,025,297	(3,134,729)	-	(3,134,729)	890,568
		5,202,745	102,298	-	-	(335)	5,304,708	(4,189,098)	-	(4,189,098)	1,115,610
Duquet	(j) 100										
Acquisition costs		3,776	-	-	-	-	3,776	-	-	-	3,776
Exploration costs		280	-	-	-	-	280	-	-	-	280
		4,056	-	-	-	-	4,056	-	-	-	4,056
Rex South	100										
Acquisition costs		306,755	129,442	-	-	-	436,197	(104,513)	-	(104,513)	331,684
Exploration costs		342,847	9,611	-	(16,000) ⁽¹⁾	(594)	335,864	(145,089)	-	(145,089)	190,775
		649,602	139,053	-	(16,000)	(594)	772,061	(249,602)	-	(249,602)	522,459
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	100										
Acquisition costs		121,448	21,771	-	-	-	143,219	(95,299)	-	(95,299)	47,920
Exploration costs		275,520	41,959	-	-	(147)	317,332	(204,913)	-	(204,913)	112,419
		396,968	63,730	-	-	(147)	460,551	(300,212)	-	(300,212)	160,339
Total Nunavik – Gold		7,973,774	305,081	-	(16,000)	(1,076)	8,261,779	(6,459,315)	-	(6,459,315)	1,802,464
Nunavik – Polymetallic											
Qassituq	100										
Acquisition costs		37,163	4,371	-	-	-	41,534	(37,163)	-	(37,163)	4,371
Exploration costs		35,706	65	-	-	(28)	35,743	(35,706)	-	(35,706)	37
Total Nunavik – Polymetallic		72,869	4,436	-	-	(28)	77,277	(72,869)	-	(72,869)	4,408
Nunavik – Uranium											
North Rae *	100										
Acquisition costs		484,706	-	-	-	-	484,706	(484,706)	-	(484,706)	-
Exploration costs		707,167	-	-	-	-	707,167	(707,167)	-	(707,167)	-
Total Nunavik – Uranium		1,191,873	-	-	-	-	1,191,873	(1,191,873)	-	(1,191,873)	-
Total Nunavik		9,238,516	309,517	-	(16,000)	(1,104)	9,530,929	(7,724,057)	-	(7,724,057)	1,806,872
Total E&E assets		10,425,594	2,009,361	(100,321)	(16,000)	(114,904)	12,203,730	(7,902,923)	(28,128)	(7,931,051)	4,272,679

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

⁽¹⁾ Proceeds received from sale of camp materials.

9 Exploration and evaluation assets (cont'd)

- 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 (4th) 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 (8th) 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 August 31, 2019, Hecla has earned a 50% interest in the Opinaca B Property by making 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).

- 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 August 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 2016-2018 cumulative work programs for the \$5.9 million. The cumulative cost incurred under the work programs amounted to \$5,955,000 (\$5,817,916 – August 31, 2018) was allocated 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). In 2018, Eastmain Resources as the JV Manager, decided to take over the operatorship of the Eleonore South Property for the winter 2018 program. Azimut elected to contribute an amount of \$652,940, representing its proportionate share for the winter 2018 program of \$2.5 million which was carried out by Eastmain Resources.

- 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.

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.

9 Exploration and evaluation assets (cont'd)

On April 25, 2019, the Company and SOQUEM signed an agreement to amend the terms of the James Bay Alliance, whereby SOQUEM had earned its 100% interest by investing work expenditures of \$2,715,992, and a 50% back-in option on the SOQUEM Properties has been granted to Azimut in exchange for \$3,317,427 in work expenditures 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. During the field seasons, SOQUEM has the right to provide up to 30% of Azimut's field personnel at the imputed rate agreed to by SOQUEM and the Company. Azimut remains operator during this earn-in option period.

As at August 31, 2019, Azimut had invested \$940,996 in work expenditures (\$Nil – 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 mineral 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 to form a JV under which each party retains a 50% interest in the property. SOQUEM had invested \$107,045 in cumulative work expenditures before the JV was formed. During field seasons, SOQUEM has the right to provide up to 30% of Azimut's field personnel at the imputed rate agreed to by SOQUEM and the Company. Azimut remains the operator.

As at August 31, 2019, the JV partners have invested \$105,372 in work expenditures, of which \$52,686 represents Azimut's share.

- 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 mineral 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 to form a JV under which each party retains a 50% interest in the property. SOQUEM had invested \$494,390 in cumulative work expenditures before the JV was formed. During field seasons, SOQUEM has the right to provide up to 30% of Azimut's field personnel at the imputed rate agreed to by SOQUEM and the Company. Azimut remains the operator.

As at August 31, 2019, the JV partners have made an investment in work expenditures of \$182,868, of which \$91,434 represents Azimut's share.

- 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 will be retained 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 the Corvet and Synclinal properties.

- i) On September 22, 2016, the Company formed the Alliance with SOQUEM to identify, acquire and explore highly prospective gold targets in the James Bay region (Eeyou Istchee James Bay Territory) of Quebec. Under the terms of the Alliance, Azimut delivered a target report to SOQUEM in exchange for a cash payment of \$100,000. The Duxbury and Kukumas Properties were identified under the strategic alliance. On February 22, 2019, SOQUEM

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

9 Exploration and evaluation assets (cont'd)

agreed to relinquish its exclusive rights on Duxbury and Kukumas Properties.

- j) 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.
- k) 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. During field seasons, SOQUEM has the right to provide up to 30% of Azimut's field personnel at a mutually agreed upon imputed rate. Azimut is the operator of the Nunavik Alliance. As at August 31, 2019, SOQUEM'S cumulative investment in work expenditures was \$3.6 million.

10 Asset retirement obligations

	August 31, 2019 \$	August 31, 2018 \$
Balance – Beginning of the year	249,168	247,313
Change in estimate	(1,509)	-
Unwinding of discount on asset retirement obligations	1,825	1,855
Balance – End of year	<u>249,484</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 2025. 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 2025. 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.

11 Share capital

An unlimited number of common shares are authorized, without par value, voting and participating.

a) 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%.

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

11 Share capital (cont'd)

b) Flow-through shares

	August 31, 2019 \$	August 31, 2018 \$
Flow-Through share premium – Beginning of the year	72,853	-
Addition	-	527,000
Amortization	(72,853)	(454,147)
Flow-through share premiums – End of year	-	72,853

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.

12 Warrants

The following table presents the warrant activities for the years ended August 31, 2019 and 2018, and summarizes the information about warrants outstanding as at August 31, 2019:

	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable – August 31, 2017	4,489,584	514,032	0.45
Expired	(4,489,584)	(514,032)	0.45
Outstanding and exercisable – August 31, 2018	-	-	-
Granted (note 11a)	2,210,576	78,800	0.35
Outstanding and exercisable August 31, 2019	2,210,576	78,800	0.35

13 Stock option plan

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.

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

13 Stock option plan (cont'd)

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

	2019		2018	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of the year	4,095,000	0.42	3,390,000	0.43
Granted	50,000	0.33	745,000	0.37
Exercised	(320,000)	0.34	-	-
Expired	(80,000)	0.34	(40,000)	0.36
Outstanding – End of year	3,745,000	0.43	4,095,000	0.42
Vested – End of year	3,745,000		4,029,000	

Exercise price \$	Options outstanding and vested	Weighted average remaining contractual life (years)
0.190	580,000	3.91
0.200	580,000	5.57
0.305	50,000	8.51
0.330	50,000	9.62
0.355	100,000	8.58
0.370	520,000	8.56
0.400	75,000	8.63
0.450	325,000	2.69
0.520	735,000	7.11
0.600	50,000	0.90
0.660	300,000	0.52
0.800	340,000	1.38
1.250	40,000	1.59
	3,745,000	5.12

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 were vested on March 28, 2019. The fair value of the granted options amounted to \$31,000, of which an amount of \$8,461 (\$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 were vested on July 11, 2019. The fair value of the granted options amounted to \$13,000 and was charged to stock-based compensation. 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 Financial Statements

For the years ended August 31, 2019 and 2018

14 Expenses by nature

	2019 \$	2018 \$
Salaries and fringe benefits	95,853	134,231
Professional and maintenance fees	123,919	68,955
Administration and office	58,748	52,079
Business development and administration fees	31,424	12,813
Advertising	5,810	507
Rent	62,397	43,186
Insurance	21,720	21,476
Travel and entertainment	56,918	73,608
Depreciation of property and equipment	8,401	3,852
Amortization of intangible assets	352	500
Part XII.6 Tax	38	6,450
Stock-based compensation	13,000	190,092
Trademark	3,618	-
General and administrative expenses	482,198	607,749
Salaries for search of properties	28,350	37,885
Other exploration expenses	5,210	11,468
Stock-based compensation	8,461	42,248
Refundable duties credit for losses and refundable tax credit for resources, net	(12,427)	(4,041)
General exploration	29,594	87,560

15 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:

	2019 \$	2018 \$
Salaries	317,680	333,888
Director fees	37,723	15,170
Share-based payment	-	172,400
	355,403	521,458

An amount of \$162,900 (\$165,215 in 2018) for salary is capitalized to E&E assets.

As at August 31, 2019, accounts payable and accrued liabilities include an amount of \$103,047 (\$239,411 at August 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.

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

16 Income taxes

Component of income tax

	2019 \$	2018 \$
Loss before income taxes	(1,029,191)	(473,072)
Combined federal and provincial income tax of 26.60 (26.70% in 2018)	(274,000)	(126,000)
Non-deductible expenses (non-taxable revenue)	8,000	63,000
Change in unrecognized deductible temporary differences	203,000	(274,000)
Tax effect of renounced flow-through share expenditures	57,000	354,000
Non-deductible loss on sale of long-term investments	5,000	(13,000)
Amortization of flow-through share premiums	(72,853)	(454,147)
Other	1,000	(1,000)
Recovery of deferred income taxes	(72,853)	(451,147)

The ability to realize the tax benefits is dependent upon a number of factors, including the sale of properties. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recognized. Unrecognized deferred tax assets amount to \$3,508,000.

As at August 31, 2019 and 2018, the significant components of the Company's deferred income tax assets and liabilities are as follows:

	2019 \$	2018 \$
Deferred income tax assets		
Non-capital losses	1,398,000	1,379,000
Capital losses	54,000	-
Investments	88,000	138,000
Share and warrant issue expenses	26,000	22,000
Property and equipment and intangible assets	196,000	183,000
Exploration and evaluation assets	1,680,000	1,504,000
Asset retirement obligations	66,000	66,000
Unrecognized deferred income tax assets	3,508,000	3,292,000

As at August 31, 2019, the expiry dates of losses available to reduce future years' income tax are as follows:

	Federal \$	Provincial \$
2019	74,000	74,000
2018	211,000	211,000
2037	185,000	184,000
2036	306,000	306,000
2035	410,000	409,000
2034	514,000	512,000
2033	436,000	434,000
2032	790,000	787,000
2031	687,000	705,000
2030	719,000	719,000
2029	816,000	818,000
2026	139,000	99,000
	5,287,000	5,258,000

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

16 Income taxes (cont'd)

As at August 31, 2019, the Corporation has accumulated capital losses in Canada for income tax purposes amounting to approximately \$409,000 (2018: \$Nil), and these can be carried forward indefinitely against future capital gains.

17 Loss per share

For the years ended August 31, 2019 and 2018, the diluted loss per share was the same as the basic loss per share since the potential dilutive instruments had an anti-dilutive effect. Accordingly, the basic and diluted loss per share for those years were calculated using the basic weighted average number of shares outstanding of 51,762,268 in 2019 and 47,548,811 in 2018.

18 Leases

The Company's minimum aggregate commitments under a four-year lease agreement amount to \$246,621. Minimum lease payments under this agreement are as follows:

	\$
2020	62,095
2021	62,813
2022	63,531
2023	58,182

19 Financial instruments, financial risks and capital management

Classification

The Company's financial instruments as at August 31, 2019 consist of cash and cash equivalents, amounts receivable, investments and accounts payable, accrued liabilities, and advances received for exploration work. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or to current market rates. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The fair value of the investments at fair value through profit and loss is established using the closing price on the most beneficial active market for this instrument that is readily available to the Company.

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

19 Financial instruments, financial risks and capital management (cont'd)

Classification (cont'd)

The classification of the Company's financial instruments is summarized as follows:

		Fair value	
		2019	2018
		\$	\$
Financial assets	Classification		
Cash and cash equivalents	Amortized cost	2,979,133	2,487,979
Amounts receivable, net of allowance for doubtful accounts	Amortized cost	44,715	40,777
Investments	Fair value through profit and loss	41,246	126,930
		<u>3,065,094</u>	<u>2,655,686</u>
Financial liabilities			
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	2,125,448	999,308
Advances received for exploration work	Financial liabilities at amortized cost	872,469	787,887
		<u>2,997,917</u>	<u>1,787,195</u>

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities; level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liabilities, either directly or indirectly; and level 3 includes inputs for assets or liabilities that are not based on observable market data. Investments are considered level 1. There was no transfer of hierarchy level during the years ended August 31, 2019 and 2018.

Financial risks

The Company has exposure to various financial risks, such as credit risk, liquidity risk and market 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 investments. Cash and cash equivalents are deposited in Canadian chartered bank accounts or invested in a diversified manner in securities having an investment-grade rating, from which management believes the risk of loss to be minimal.

The credit risk associated with trade accounts receivable from partners arises from the possibility that the partners may not be able to repay their debts. These receivables result from expenditures incurred on behalf of partners. In 2019, no allowance for doubtful accounts was recorded. The Company closely follows its cash position to reduce its credit risk on amounts receivable.

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

19 Financial instruments, financial risks and capital management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a general downturn in stock market conditions or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at August 31, 2019, the Company had a cash and cash equivalents balance of \$2,979,133 (\$2,487,979 as at August 31, 2018) to settle current liabilities of \$2,997,917 (\$1,860,048 as at August 31, 2018). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity (refer to Note 1).

The following are the contractual maturities of financial liabilities, including interest where applicable as at August 31, 2019:

	Carrying amount \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	More than 24 months \$
Accounts payable and accrued liabilities, advances received for exploration work	2,997,917	2,997,917	2,997,917	-	-

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 held with a Canadian chartered bank.

Equity risk

Equity risk is the risk that the fair value of a financial instrument varies due to the changes in the Canadian mining sector and equity market. Changes in the fair value of investments at fair value through profit and loss are recorded under other gains and losses in the statements of loss and comprehensive loss. For the Company's investments at fair value through profit and loss, a variation of $\pm 10\%$ of the quoted market price as at August 31, 2019 would result in an estimated effect on the net income (loss) of \$4,100 (\$12,700 for the year ended August 31, 2018).

Capital management

The Company considers the items included in 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, 2019, 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 reserved in use for exploration expenses (see Note 11). The variation of capital components is explained in the statements of changes in equity.

Azimut Exploration Inc.

Notes to Financial Statements

For the years ended August 31, 2019 and 2018

20 Additional cash flow information

	2019 \$	2018 \$
Acquisition of E&E assets included in accounts payable and accrued liabilities	1,696,303	699,863
Depreciation of property and equipment included in E&E assets	35,975	40,708
Refundable duties credit for losses and refundable tax credit for resources presented as a reduction in E&E assets, net	818,081	114,905

21 Subsequent events

The Company completed a non-brokered private placement of \$1,430,000 representing 4,085,712 units at \$0.35 per unit. Each unit is comprised of one (1) common share and one half ($\frac{1}{2}$) common share purchase warrant, each full warrant entitling the holder to purchase an additional common share at an exercise price of \$0.46 for a period of 18 months from the closing date. The first tranche of \$1,080,000 representing 3,085,714 units was closed on September 27, 2019 and the second tranche of \$350,000 representing 998,998 units was completed on October 10, 2019.

On December 18, 2019, the Company completed a non-brokered private placement of 1,189,365 flow-through shares at \$0.66 per share, for aggregate gross proceeds of \$785,000. The finder fees totalling \$21,698 have been paid to third parties dealing at arm's length. Directors and officers of the Company participated in the private placement for a total consideration of \$80,071 under the same terms as other investors. The placement is subject to acceptance by the TSX Venture Exchange.