



**MANAGEMENT DISCUSSION AND ANALYSIS
QUARTERLY HIGHLIGHTS**

For the three months ended December 31, 2016

(Expressed in Canadian dollars)

AZARGA METALS CORP.

For the three months ended December 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS

The following management discussion and analysis – quarterly highlights (“MD&A - Quarterly Highlights”) of the results of operations and financial condition of Azarga Metals Corp. (the “Company” or “Azarga”) for the three months ended December 31, 2016 and up to the date of this MD&A - Quarterly Highlights, has been prepared to provide material updates to the business operations, financial condition, liquidity and capital resources of the Company since its last management discussion and analysis for the fiscal year ended September 30, 2016 (the “Annual MD&A”).

This MD&A - Quarterly Highlights should be read in conjunction with the Annual MD&A and the audited consolidated financial statements for the year ended September 30, 2016, together with the notes thereto, and the accompanying unaudited condensed consolidated interim financial statements and related notes thereto for the three months ended December 31, 2016 (the “Financial Report”).

All financial information in this MD&A - Quarterly Highlights is derived from the Company's financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

The effective date of this MD&A is February 22, 2017.

Description of the Business

Azarga is a publically-traded company incorporated under the laws of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange (“TSX-V”) and trade under the symbol AZR.

The Company is engaged in the exploration and, if warranted, development of a mineral resource project in eastern Russia. The Company is considered to be in the exploration stage as it has not placed any of its exploration and evaluation assets into production nor has it generated any revenues from operations.

Operational Highlights

Azarga owns 60% of the Unkur Copper-Silver Project along with the right to acquire the remaining 40% in the future. The Unkur Copper-Silver Project is located in the Zabaikalsky administrative region of eastern Russia. Sediment-hosted copper and silver mineralization has been identified across the 5,390 hectare project license area, in outcrops, trenches and by historical diamond drilling. The prior exploration outlined a large area of high-grade shallow stratiform sediment hosted copper-silver mineralization 20 to 50 meters thick over an area four to six kilometers long.

Since acquiring the Unkur Project on May 31, 2016, Azarga has completed its first phase exploration program comprising the completion of 16 diamond core holes totaling about 4,600 cumulative linear meters, the excavation of 5 trenches covering 309 cumulative linear meters (assay results pending) and finally, in addition to surface geologic mapping, which disclosed the presence of additional outcropping mineralization which were sampled and we have completed about 130 line kilometers of detailed ground magnetic survey. The results of the program add to our confidence that with continued exploration Unkur will continue to expand in size and grade.

Unkur phase one drilling program assays

Hole ID	Intersection	From	To	Silver grade	Copper grade
AM-001 (IS 1)	40m	82.5m	122.5m	65.9g/t	0.74%
- AM-001 sub-section	22m	82.5m	103.5m	111.9g/t	1.13%
- AM-001 sub-section	7m	85.5m	92.5m	244.1g/t	1.95%
AM-001 (IS 2)	18m	314.5m	322.5m	70.0g/t	0.81%
- AM-001 sub-section	7m	320.5m	327.5m	137.7g/t	1.51%
AM-001 (IS 3)	5m	339.5m	344.5m	49.2g/t	0.32%

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AM-002	38m	434.5m	472.5m	13.1g/t	0.32%
AM-003	16m	56.5m	72.5m	84.0g/t	0.79%
- AM-003 sub-section	5m	59.5m	64.5m	200.4g/t	1.39%
AM-004	11m	323.5m	334.5m	58.0g/t	0.87%
AM-006	13m	443.5m	456.5m	13.1g/t	0.32%
AM-007	10m	49.0m	59.0m	20.2g/t	0.29%
AM-008	11m	352.3m	363.3m	6.4g/t	0.25%
AM-011	14m	140.2m	153.9m	38.7g/t	0.59%
- AM-011 sub-section	6m	148.0m	153.9m	86.4g/t	1.25%
AM-013	6m	71.0m	77.0m	27.7g/t	0.66%
AM-015	10m	135.0m	145.0m	4.6g/t	0.29%
AM-017	10m	192.5m	202.5m	134.2g/t	1.63%
- AM-017 sub-section	6m	192.5m	198.5m	194.5g/t	2.42%
AM-019	10m	39.0m	49.0m	12.4g/t	0.48%
AM-020	10m	229.0m	239.0m	37.6g/t	0.67%
- AM-020 sub-section	4m	235.0m	239.0m	81.9g/t	1.50%

Notes: ■ = full reported intersection and ■ = sub-section of the relevant full reported intersection.

Note: drill intercepts are reported as drilled and may not be representative of true widths. Drill holes have been sited to attempt to intersect mineralization as close to perpendicular as possible, but there is not sufficient information about geometry of the mineralization at this time to estimate true widths. A Quality Assurance / Quality Control program is part of the sampling program on the Unkur prospect. This program includes chain of custody protocols as well as systematic submittals of standards, duplicates and blank samples into the flow of samples produced by the sampling including check assays of approximately 10% of the samples by another certified laboratory. Samples were analyzed at SGS Vostok Limited in Chita, Russia. Check assays will be analyzed at ALS Geochemistry in Chita, Russia. Drill-holes AM-005 and AM-009 did not intersect mineralization of significance. Holes AM 8, 10, 12 14 and 21 were not drilled and are targeted for the next drill program.

Unkur outcropping mineralization

Channel samples from each of two surface outcrops located about 800 meters apart from each other assayed 21 meters at 39.6g/t silver and 0.81% copper (ie, 126.2g/t silver equivalent or 1.18% copper equivalent) and four meters at 5.2g/t silver and 0.41% copper (ie, 49.0g/t silver equivalent or 0.46% copper equivalent), respectively. These outcrops add approximately 200 meters of potential up-dip extension to silver-copper mineralization delineated by drilling.

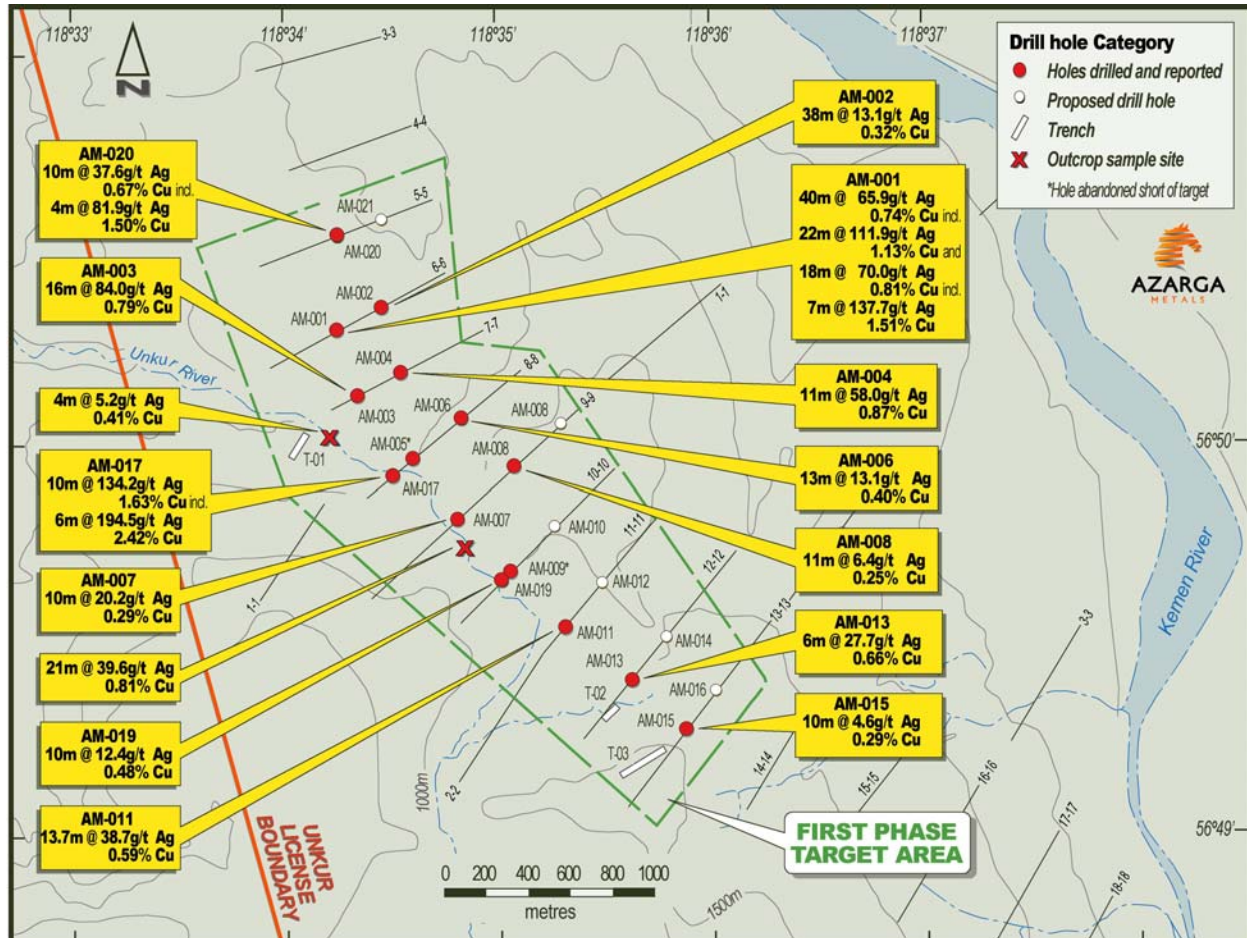
Note: copper and silver equivalencies have been calculated using US\$17.89/oz silver price and US\$2.79/lb copper price and assuming 100% recoveries.

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See below image of drill hole locations, both completed and proposed for the next phase of drilling with some selected drill-holes overlaid and the location of the outcropping mineralization sampled.



Unkur ground magnetic survey

The ground magnetic survey was a key part of the Company's first phase exploration program at Unkur. Undertaken in parallel with the drilling and trenching works, it comprised approximately 130 line kilometers of detailed ground magnetics. While the data is still being interpreted and correlated with geology and drill results, the geophysical data confirms that the silver-copper mineralization at Unkur has a strong magnetic signature and that ground magnetics can be a useful targeting tool on the project. Significantly, the ground magnetic survey data has:

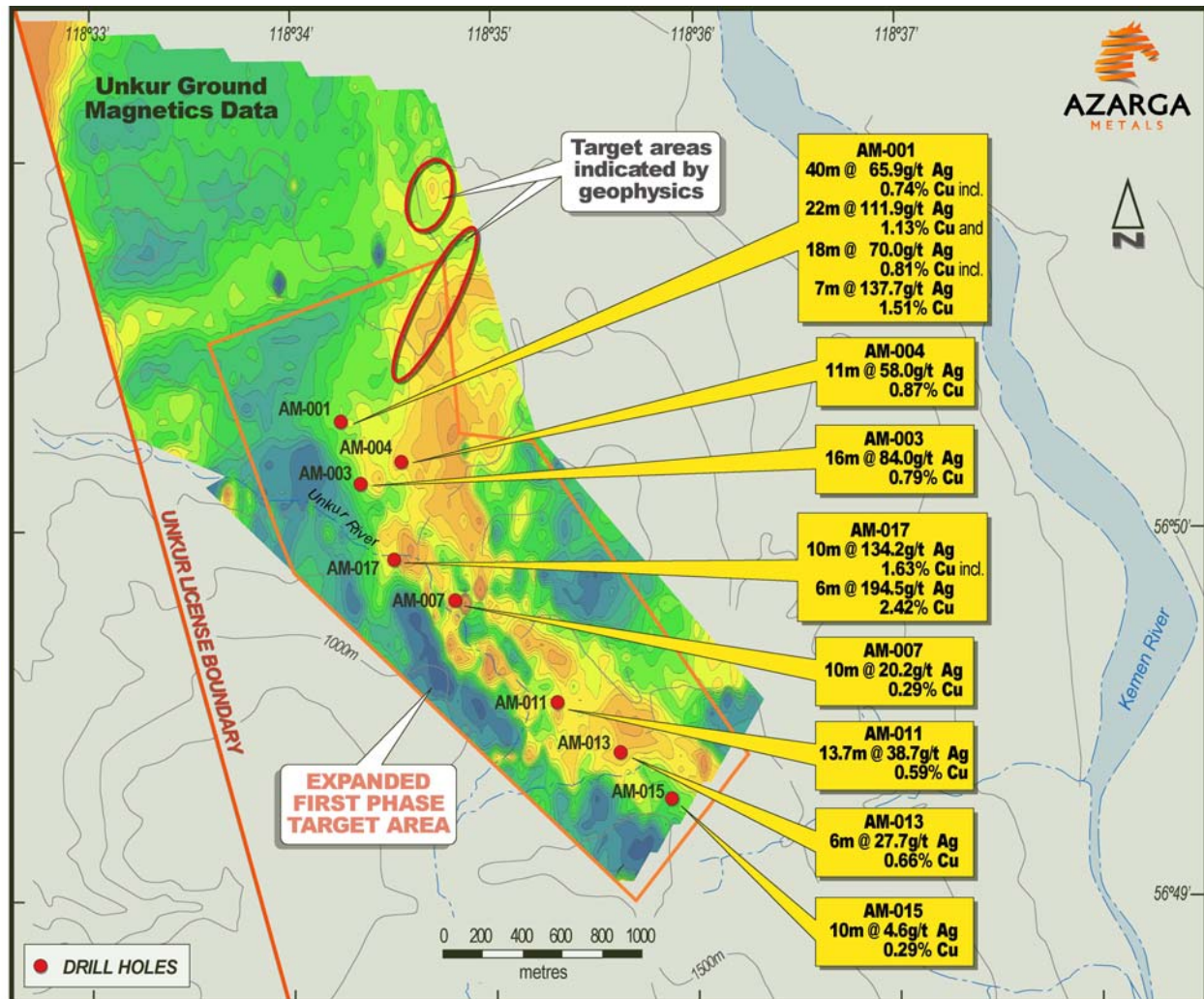
- been useful in identifying changes in direction of the mineralized horizon, which the Company believes are associated with increased thickness and grade; and
- identified targets for additional mineralization to the north of the first phase drilling area. The magnetic signatures of these targets remain open to the northeast and future surveys will aim to extend them.

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See below image of ground magnetic survey results with some selected drill-holes overlaid and highlighting on the map future targets from the mag data.



Qualified Person

The Company's President and Chief Executive Officer, Dorian L. (Dusty) Nicol, B.Sc. Geo, MA Geo, a Qualified Person as defined by NI 43-101, has reviewed and approved the exploration information and resource disclosures contained in this MD&A.

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Financial Condition – three months ended December 31, 2016

The Company began the current fiscal period with cash of \$1,587,046. During the three months ended December 31, 2016, the Company spent \$1,041,097 on operating activities net of working capital changes and received \$489,950 from financing activities to end at December 31, 2016 with \$1,035,899 cash.

Operating Activities

For the three months ended December 31, 2016, the Company had a loss of \$1,121,362 which included non-cash items of a forgiveness of trade and other payables of \$31,488 and accrued interest expense of \$30,690.

Financing Activities

On October 7, 2016, the Company completed a non-brokered private placement through the issue of 3,437,500 units at a price of \$0.32 per unit for gross proceeds of \$1,100,000, of which \$595,600 had been received as at September 30, 2016. The Company paid share issue costs \$14,450.

Liquidity and Capital Resources

As at December 31, 2016, the Company had working capital of \$1,059,005. Management estimates that these funds will not provide the Company with sufficient financial resources to carry out currently planned exploration and operations through the next twelve months. Accordingly, the Company may need to seek additional sources of financing to carry on future operations. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Related Party Transactions

The Company had no other related party transactions other than those incurred in the normal course of business as disclosed in the Financial Report.

Additional Disclosure for Venture Issuers without Significant Revenue

The components of exploration and evaluation assets are described in Note 7 to the Financial Report.

Outstanding Share Data as at the date of this MD&A

Authorized: an unlimited number of common shares without par value

	Common Shares Issued and Outstanding	Common Share Purchase Warrants	Common Share Purchase Options
Balance December 31, 2016	46,481,400	1,718,749	2,474,000
Bonus shares	166,666	-	-
Shares for services - directors	107,934	-	-
Balance as at the date of this MD&A	46,756,000	1,718,749	2,474,000

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Cautionary Note Regarding Forward-looking Statements

This MD&A may include or incorporate by reference certain statements or disclosures that constitute “forward-looking information” under applicable securities laws. All information, other than statements of historical fact, included or incorporated by reference in this MD&A that addresses activities, events or developments that Azarga or its management expects or anticipates will or may occur in the future constitute forward-looking information. Forward-looking information is provided through statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “projects”, “potential” and similar expressions, or that events or conditions “will”, “would”, “may”, “could” or “should” occur or continue. These forward-looking statements are based on certain assumptions and analyses made by Azarga and its management in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances.

Although Azarga believes such forward-looking information and the expectations expressed in them are based on reasonable assumptions, investors are cautioned that any such information and statements are not guarantees of future realities and actual realities or developments may differ materially from those projected in forward-looking information and statements. Whether actual results will conform to the expectations of Azarga is subject to a number of risks and uncertainties, including those risk factors discussed under “Risk Management” above the documents incorporated herein by reference. In particular, if any of the risk factors materialize, the expectations, and the predictions based on them, of Azarga may need to be re-evaluated. Consequently, all of the forward-looking information in this MD&A and the documents incorporated herein by reference is expressly qualified by these cautionary statements and other cautionary statements or factors contained herein or in documents incorporated by reference herein, and there can be no assurance that the actual results or developments anticipated by Azarga will be realized or, even if substantially realized, that they will have the expected consequences for Azarga.

Forward-looking statements are based on the beliefs, estimates and opinions of Azarga’s management on the date the statements are made. Unless otherwise required by law, Azarga expressly disclaims any intention and assumes no obligation to update or revise any forward-looking statements in the event that management’s beliefs, estimates or opinions, or other factors, should change, whether as a result of new information, future events or otherwise, and Azarga does not have any policies or procedures in place concerning the updating of forward-looking information other than those required under applicable securities laws. Accordingly, readers should not place undue reliance on forward-looking statements or forward-looking information.

Other Information

Additional information relating to the Company is available for viewing on SEDAR at www.sedar.com and at the Company’s web site www.azargametals.com.