



**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

For the three months ended December 31, 2019

(Unaudited – Expressed in Canadian dollars)

Notice to Reader

These condensed consolidated interim financial statements of Azarga Metals Corp. have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to the financial statements or the related quarterly Management's Discussion and Analysis.

AZARGA METALS CORP.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited – Expressed in Canadian dollars)

	Note	December 31, 2019	September 30, 2019
ASSETS			
Current assets			
Cash	4	\$ 1,564,647	\$ 2,599,062
Receivables	5	186,778	42,751
Prepaid expenses	6	20,137	93,818
		1,771,562	2,735,631
Exploration and evaluation assets	7	8,012,117	8,012,117
		\$ 9,783,679	\$ 10,747,748
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	8	\$ 296,067	\$ 205,928
		296,067	205,928
Convertible loan - liability component	9	2,347,358	2,260,863
Convertible loan - derivative component	9	746,139	1,616,151
Shareholder loans	10	1,304,528	1,299,430
		4,694,092	5,382,372
Shareholders' equity			
Share capital	11	136,270,859	136,182,632
Share-based reserve	11	16,304,414	16,304,414
Deficit		(147,485,686)	(147,121,670)
		5,089,587	5,365,376
		\$ 9,783,679	\$ 10,747,748
Nature of operations and going concern	1		

These condensed consolidated interim financial statements were approved for issue by the Audit Committee of the Board of Directors on February 27, 2020.

They are signed on the Company's behalf by:

"Michael Hopley"
Michael Hopley, Director

"Blake Steele"
Blake Steele, Director

AZARGA METALS CORP.**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**

(Unaudited – Expressed in Canadian dollars)

		Three months ended December 31,	
	Note	2019	2018
EXPENSES			
Consulting fees	12	\$ 65,173	\$ 49,196
Exploration and evaluation expenditures	7	824,266	39,856
Investor relations		37,415	-
Office expenses		11,612	21,819
Professional fees		7,219	19,285
Regulatory fees		4,151	1,403
Travel expense		7,367	-
		(957,203)	(131,559)
Change in fair value of derivative liability	9	870,012	-
Foreign exchange loss		(36,371)	(59,567)
Interest expense on convertible loan	9	(210,334)	-
Interest expense on shareholders loans	10	(30,120)	(31,636)
Interest expense on other shareholders loans		-	(10,198)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		\$ (364,016)	\$ (232,960)
Basic and diluted loss per common share		\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding		93,163,803	90,398,472

The accompanying notes form an integral part of these condensed consolidated interim financial statements

AZARGA METALS CORP.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited – Expressed in Canadian dollars)

	Three months ended December 31,	
	2019	2018
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Loss for the period	\$ (364,016)	\$ (232,960)
Items not affecting cash:		
Change in fair value of derivative liability	(870,012)	-
Accrued interest expense on convertible loan	210,334	-
Accrued interest on shareholders loans	30,120	31,636
Accrued interest on other shareholders loans	-	10,198
Unrealized foreign exchange	(68,556)	61,996
Change in non-cash working capital items:		
Receivables	(144,027)	(2,367)
Prepaid expenses	73,681	1,186
Trade and other payables	98,061	(96,929)
	(1,034,415)	(227,240)
FINANCING ACTIVITIES:		
Other shareholder loans	-	209,650
	-	209,650
DECREASE IN CASH FOR THE PERIOD	(1,034,415)	(17,590)
CASH, BEGINNING OF THE PERIOD	2,599,062	20,449
CASH, END OF THE PERIOD	\$ 1,564,647	\$ 2,859
Non-cash investing and financing activities		
Issuance of shares for convertible loan interest	\$ 88,227	\$ -
Supplemental information		
Interest paid	\$ -	\$ -
Income taxes paid	-	-

The accompanying notes form an integral part of these condensed consolidated interim financial statements

AZARGA METALS CORP.**Condensed Consolidated Interim Statements of Changes in Equity**

(Unaudited – Expressed in Canadian dollars)

	Number of shares	Share capital	Share-based reserve	Deficit	Shareholders' equity
Balance, September 30, 2019	92,060,971	\$ 136,182,632	\$ 16,304,414	\$ (147,121,670)	\$ 5,365,376
Issuance of shares for convertible loan interest	1,470,443	88,227	-	-	88,227
Comprehensive loss for the period	-	-	-	(364,016)	(364,016)
Balance, December 31, 2019	93,531,414	\$ 136,270,859	\$ 16,304,414	\$ (147,485,686)	\$ 5,089,587

	Number of shares	Share capital	Share-based reserve	Deficit	Shareholders' equity
Balance, September 30, 2018	90,398,472	\$ 136,038,548	\$ 15,629,747	\$ (145,558,806)	\$ 6,109,489
Comprehensive loss for the period	-	-	-	(232,960)	(232,960)
Balance, December 31, 2018	90,398,472	\$ 136,038,548	\$ 15,629,747	\$ (145,791,766)	\$ 5,876,529

The accompanying notes form an integral part of these condensed consolidated interim financial statements

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended December 31, 2019

(Unaudited – Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Azarga Metals Corp. (the “Company” or “Azarga”) is a publicly-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 corporate office of the Company is located at Unit 1 - 15782 Marine Drive, White Rock, B.C., V4B 1E6.

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.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. As at December 31, 2019, the Company had working capital of \$1,475,495. However, given that management intends to continue to explore the Unkur project, management estimates that its working capital will not provide the Company with sufficient financial resources to carry out currently planned operations and exploration through the next twelve months. Additional financing will be required by the Company to complete its strategic objectives and continue as a going concern. 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.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

These condensed consolidated interim financial statements do not include all of the disclosures required for annual financial statements, and therefore should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2019.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the parent company’s functional currency as well as the functional currency of its subsidiaries.

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended December 31, 2019

(Unaudited – Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Use of accounting estimates, judgments and assumptions

Information about estimates and judgments used in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 2 to the Company's September 30, 2019 consolidated annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company as at and for the year ended September 30, 2019, except as noted below.

Adoption of new standards, interpretations and amendments

The Company adopted the requirements of IFRS 16 – Leases ("IFRS 16") as of October 1, 2019. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the leased asset. For assets that meet the definition of a lease, IFRS 16 requires a single, on-balance sheet accounting model similar to finance lease accounting, with exceptions for short-term leases, leases of low value assets, and mineral exploration leases. The Company does not have any leases that fall within the application of IFRS 16.

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2019 and have not been applied in preparing these condensed consolidated interim financial statements. In addition, none of these standards are applicable to the Company.

AZARGA METALS CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three months ended December 31, 2019

(Unaudited – Expressed in Canadian dollars)

4. CASH

	December 31, 2019	September 30, 2019
Canadian dollar denominated deposits held in Canada	\$ 64,747	\$ 125,593
US dollar denominated deposits held in Canada	1,395,061	2,200,485
US dollar denominated deposits held in Cyprus	3,478	4,985
US dollar denominated deposits held in Russia	95,702	-
Ruble denominated deposits held in Russia	5,659	267,999
Total	\$ 1,564,647	\$ 2,599,062

5. RECEIVABLES

	December 31, 2019	September 30, 2019
Amounts due from the Government of Canada pursuant to input tax credits	\$ 1,988	\$ 1,614
Amounts due from the Government of Russia pursuant to value added tax	116,430	17,497
Other receivables	68,360	23,640
Total	\$ 186,778	\$ 42,751

6. PREPAID EXPENSES

	December 31, 2019	September 30, 2019
Prepaid insurance	\$ 3,333	\$ 5,833
Prepaid investor relations	3,448	22,662
Prepaid exploration and evaluation expenditures	-	49,104
Prepaid other	13,356	16,219
Total	\$ 20,137	\$ 93,818

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended December 31, 2019

(Unaudited – Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

	Russia
	Unkur
September 30, 2019	\$ 8,012,117
Additions	-
December 31, 2019	\$ 8,012,117

The Company's 100% owned Unkur Copper-Silver Project is located in eastern Russia. Details of the Company's Unkur Project are found in Note 7 of the September 30, 2019 annual consolidated financial statements.

The Company recorded the following exploration and evaluation expenditures on its Unkur Project for the three months ended December 31, 2019 and 2018.

	Three months ended December 31,	
	2019	2018
Drilling and assays	\$ 721,266	\$ -
Licenses and permits	36,945	5,996
Personnel, administration, and travel	28,941	10,790
Studies and evaluations	37,114	23,070
	\$ 824,266	\$ 39,856

8. TRADE AND OTHER PAYABLES

	December 31,	September 30,
	2019	2019
Trade and other payables in Canada	\$ 58,435	\$ 80,926
Trade and other payables in Cyprus	11,658	11,370
Trade and other payables in Russia	141,289	20,079
Interest on convertible loan (Note 9)	69,854	78,740
Due to related parties (Note 12)	14,831	14,813
Total	\$ 296,067	\$ 205,928

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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9. CONVERTIBLE LOAN

In April 2019, the Company and Baker Steel Resource Trust (“BSRT”) completed a secured convertible loan facility pursuant to which BSRT loaned the Company US\$3,000,000 (the “Convertible Loan”).

Details of the Convertible Loan are found in Note 10 of the September 30, 2019 annual consolidated financial statements.

In October 2019, the Company issued BSRT 1,470,443 common shares to settle the first semi-annual interest payment of \$88,227 (Note 11).

Liability component

	December 31, 2019	September 30, 2019
Opening balance	\$ 2,260,863	\$ -
Value on initial recognition	-	2,382,347
Financing costs - cash	-	(20,415)
Financing costs - warrants	-	(171,118)
Financing costs - common shares	-	(84,461)
	2,260,863	2,106,353
Accretion	111,418	127,842
Amortization of financing costs	18,611	28,904
Foreign exchange	(43,534)	(2,236)
Closing balance	\$ 2,347,358	\$ 2,260,863

During the three months ended December 31, 2019, the Company recorded interest expense of \$210,334, being \$80,305 of interest expense on the Convertible Loan which is included in trade and other payables as at December 31, 2019, accretion of \$111,418, and amortization of financing costs of \$18,611.

Derivative component

	December 31, 2019	September 30, 2019
Opening balance	\$ 1,616,151	\$ -
Value on initial recognition	-	1,600,553
Change in fair value of derivative liability	(870,012)	15,598
Closing balance	\$ 746,139	\$ 1,616,151

The derivative component is re-valued each reporting period. As at December 31, 2019, the derivative component was revalued at \$746,139 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.06; a risk-free interest rate of 1.68%; an expected volatility of 99.05%; an expected life of 3.00 years; a forfeiture rate of zero; and an expected dividend of zero. Accordingly, the Company recorded a change in the fair value of the derivative liability of \$870,012.

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited – Expressed in Canadian dollars)

10. SHAREHOLDER LOANS

		December 31, 2019	September 30, 2019
Related shareholders	Relationship		
Principal payable			
Alexander Molyneux	Director	\$ 316,119	\$ 322,325
Eugene McCarthy	greater than 10% shareholder	316,640	322,857
Blake Steele	Director	70,306	71,687
OC Management Group Ltd.	Principal is a Director	143,047	145,855
Serhii Stefanovych		149,690	152,629
		995,802	1,015,353
Interest payable		308,726	284,077
Total		\$ 1,304,528	\$ 1,299,430

The amounts due are unsecured, bear interest at the rate of 12% per annum, and are payable by May 31, 2023. Accrued interest was due annually but as part of the financing with BSRT, all accrued interest is now payable once the Convertible Loan is settled (Note 9).

During the three months ended December 31, 2019, the Company accrued interest of \$30,120 (2018 – \$31,636) on the shareholder loans.

11. SHARE CAPITAL

a) Authorized

The Company has an unlimited number of common shares without par value authorized for issuance.

b) Issued and outstanding

As at December 31, 2019, the Company had 93,531,414 common shares issued and outstanding (September 30, 2019 – 92,060,971).

In October 2019, the Company issued BSRT 1,470,443 common shares to settle the first semi-annual interest payment of \$88,227 (Note 9).

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited – Expressed in Canadian dollars)

11. SHARE CAPITAL (continued)

c) Warrants

The continuity of share purchase warrants for the three months ended December 31, 2019, is as follows:

Expiry date	Exercise price	Balance, September 30, 2019	Granted	Exercised	Expired	Balance, December 31, 2019
April 12, 2021	\$ 0.17	13,490,414	-	-	-	13,490,414
		13,490,414	-	-	-	13,490,414
Weighted average exercise price	\$ 0.17	\$ -	\$ -	\$ -	\$ -	\$ 0.17

As at December 31, 2019, the weighted average remaining contractual life of the share purchase warrants outstanding was 1.28 years.

d) Options

The Company has a shareholder approved rolling stock option plan (“the Plan”) which is applicable to directors, officers, employees and consultants. Under the Plan, the total outstanding stock options that may be granted are limited to 10% of the outstanding common shares of the Company at any one time. The exercise price of an option shall not be less than the discounted market price at the time of granting as prescribed by the policies of the TSX-V. The maximum term of stock options is ten years from the grant date. Vesting terms are at the discretion of the directors.

The continuity of stock options for the three months ended December 31, 2019, is as follows:

Expiry date	Exercise price	Balance, September 30, 2019	Granted	Exercised	Expired	Balance, December 31, 2019
July 8, 2021	\$ 0.20	1,600,000	-	-	-	1,600,000
August 9, 2021	\$ 0.20	125,000	-	-	-	125,000
October 5, 2021	\$ 0.32	225,000	-	-	-	225,000
January 5, 2023	\$ 0.15	1,845,000	-	-	-	1,845,000
May 24, 2024	\$ 0.09	3,420,000	-	-	-	3,420,000
		7,215,000	-	-	-	7,215,000
Weighted average exercise price	\$ 0.14	\$ -	\$ -	\$ -	\$ -	\$ 0.14

As at December 31, 2019, all of the outstanding stock options were exercisable.

As at December 31, 2019, the weighted average remaining contractual life of the stock options outstanding was 3.28 years.

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited – Expressed in Canadian dollars)

12. RELATED PARTY TRANSACTIONS AND BALANCES

Except as disclosed elsewhere in these condensed consolidated interim financial statements, the Company incurred the following related party transactions:

Compensation of key management personnel

Key management includes members of the Board of Directors, the Chief Executive Officer, the VP Exploration, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid or accrued to key management personnel during the three months ended December 31, 2019 and 2018 were as follows:

		Three months ended December 31,	
		2019	2018
Consulting fees			
Michael Hopley	Officer	\$ 16,463	\$ -
Alexander Yakubchuk	Officer	23,710	-
Golden Oak *	Officers	25,000	12,500
Dorian Nicol	Former Officer	-	36,696
		\$ 65,173	\$ 49,196

* Golden Oak is a consulting company controlled by the Chief Financial Officer and Corporate Secretary of the Company. Golden Oak provides the services of a Chief Financial Officer, Corporate Secretary, and accounting and administrative staff to the Company.

As at December 31, 2019, the Company owed \$14,831 (September 30, 2019 – \$14,813) of which \$498 was owing to Golden Oak for the reimbursement of expenditures and \$14,333 was owing to a former director for director fees. All amounts are unsecured and non-interest bearing.

13. SEGMENTED INFORMATION

The Company operates in one business and geographical segment being the exploration of mineral properties in Russia. The total assets attributable to the geographical location relate primarily to exploration and evaluation assets and have been disclosed in Note 7.

AZARGA METALS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended December 31, 2019

(Unaudited – Expressed in Canadian dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Financial instruments are classified into one of the following categories: fair value through profit or loss (“FVTPL”); fair value through other comprehensive income (“FVTOCI”); or at amortized cost. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instruments	Category	December 31, 2019	September 30, 2019
Cash	FVTPL	\$ 1,564,647	\$ 2,599,062
Receivables	Amortized cost	186,778	42,751
Trade and other payables	Amortized cost	296,067	205,928
Convertible loan - liability component	Amortized cost	2,347,358	2,260,863
Convertible loan - derivative component	FVTPL	746,139	1,616,151
Shareholder loans	Amortized cost	1,304,528	1,299,430

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying values for receivables and trade and other payables approximate their fair value due to their short-term nature. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost. The carrying value of cash is determined based on Level 1 of the fair value hierarchy.

The carrying values of the Convertible Loan (liability component) and shareholders loans are measured at amortized cost. The carrying value of the Convertible Loan (derivative component) is determined based on Level 3 of the fair value hierarchy.

Risk Management

The Company’s risk management objectives and policies are consistent with those disclosed by the Company for the year ended September 30, 2019.