



**MANAGEMENT'S DISCUSSION AND ANALYSIS
QUARTERLY HIGHLIGHTS**

For the nine months ended June 30, 2020

(Expressed in Canadian dollars)

AZARGA METALS CORP.
For the nine months ended June 30, 2020
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis – quarterly highlights (“MD&A”) of the results of operations and financial condition of Azarga Metals Corp. (the “Company” or “Azarga”) for the nine months ended June 30, 2020 and up to the date of this MD&A, and has been prepared to provide material updates to the business operations, financial condition, liquidity and capital resources of the Company since its last management's discussion and analysis for the fiscal year ended September 30, 2019 (the “Annual MD&A”).

This MD&A should be read in conjunction with the Annual MD&A and the audited consolidated financial statements for the year ended September 30, 2019, together with the notes thereto, and the accompanying unaudited condensed consolidated interim financial statements and related notes thereto for the nine months ended June 30, 2020 (the “Financial Report”).

All financial information in this MD&A 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 August 27, 2020.

Description of the Business

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 Company is engaged in the exploration and, if warranted, development of the Company's 100% owned Unkur Copper-Silver project located 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.

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse impacts of the outbreak and its effects on the Company's business or ability to raise funds.

To date, the COVID-19 pandemic has not affected the progress of the ongoing exploration campaign on the Unkur Project.

Unkur Copper-Silver Project, eastern Russia

Azarga acquired control of the Unkur Copper-Silver Project, located in the Zabaikalsky administrative region of eastern Russia, in mid-2016 and then embarked on a successful initial exploration program. In 2016-2017, the Company completed 16 diamond core drill-holes at Unkur for 4,580 cumulative meters. A Maiden Resource was published in April 2017 and then in March 2018 the Resource was enlarged and a preliminary economic assessment (“PEA”) was completed.

The PEA report was filed at the end of August 2018 (see: “Technical Report and Preliminary Economic Assessment for the Unkur Copper-Silver Project, Kodar-Udokan, Russian Federation” dated effective August 30, 2018 filed on SEDAR or the Company's website).

The PEA is based on the current Inferred Mineral Resource estimate of 62 million tonnes at 0.53% copper and 38.6 g/t silver, containing 328,600 tonnes (724 million pounds) of copper and 76.8 million troy ounces of silver. The PEA was positive, envisaging an 8-year mine life producing 13.2 kilo-tonnes of copper and 3.7 million ounces of silver per year and resulting in an estimated pre-tax net present value of US\$203.6

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million (post-tax US\$147.5 million) and internal rate of return of 28.9% (post-tax 24.4%).

2019/2020 Drill program (Phase 2)

As announced on May 11, 2020, the 2019-2020 Phase 2 diamond drilling program, consisting of 15 drill-holes for a total of 5,572 meters, was completed in April 2020. Phase 2 program highlights include:

- Copper-silver mineralization is drill confirmed over a strike length of 6.5 kilometers – an extension of 3.1 kilometers compared to 2017/2017 drilling
- Copper-silver mineralization remains open to the south, north and at depth
- Oxide copper-silver mineralization extends over a 4.5 kilometer strike length, to 180-190 meters depth and there appears to be no difference in grade between the sulphide and oxide zones
- A comparison of Phase 1 drill results (2016 – 2017) and Phase 2 drill results (2019 – 2020) shows similar copper-silver grades and widths but over a larger envelope

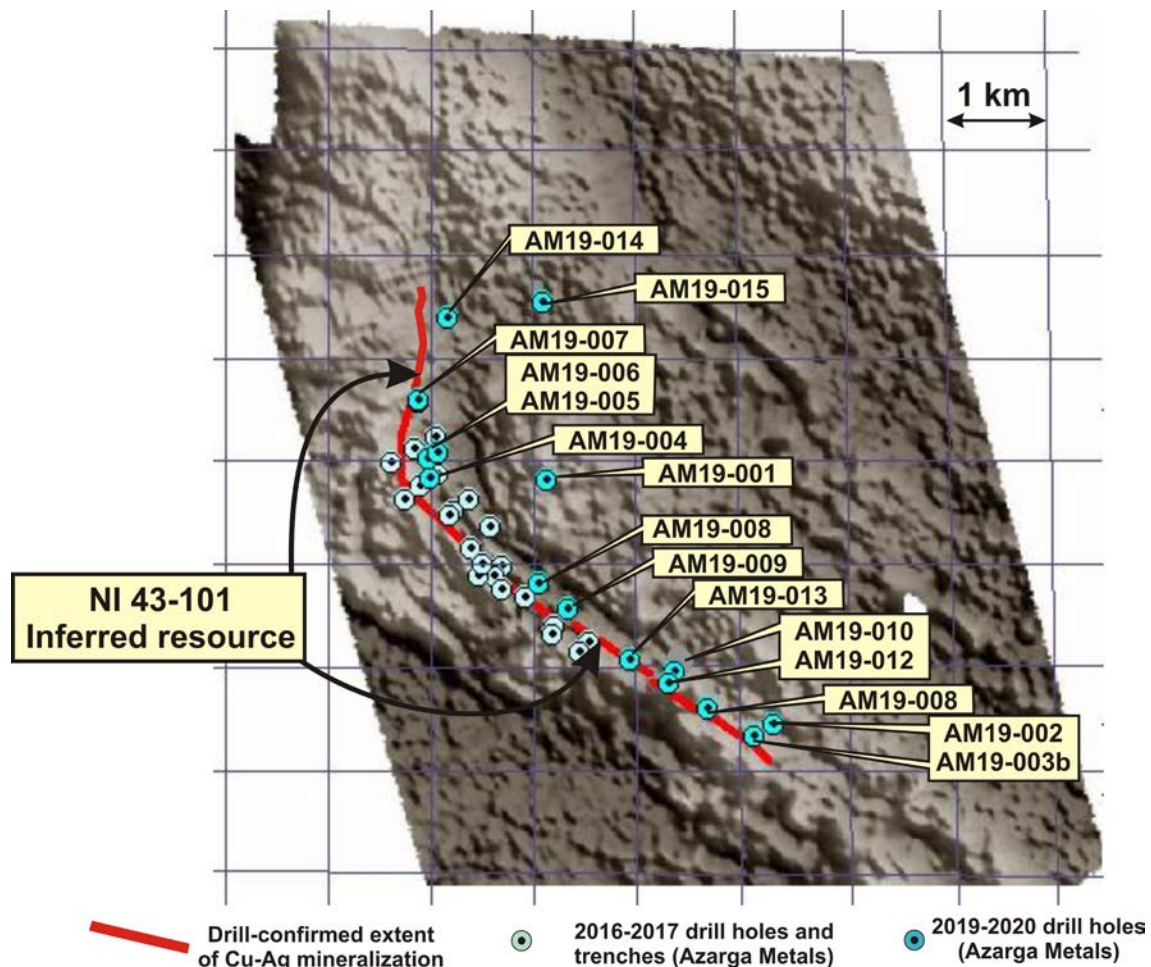


Figure 1. Drill-hole location map and position of copper-silver mineralization on reduced-to-pole grey-scale magnetic image of Unkur.

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Metallurgical testing

The Company has now received all the results from the metallurgical test work on samples taken from the drilling program. Previous metallurgical tests from Unkur used only oxidized material taken from a surface outcrop and it was therefore important to have metallurgical tests on more representative material taken from deeper parts of the Unkur mineralization (see news releases June 9, 2020 and August 4, 2020).

In the case of sulphide type mineralization, the best results were from core ground to $\pm 80\%$ -0.071 mm. Using various optimized two-stage cleaning locked cycle standard flotation tests on this material showed 87.8 to 89.1% recovery of copper producing a 25.78% to 30.9% copper concentrate. In this same test, silver showed an 81.6% to 82.7% recovery with concentrate grades ranging from 1633.6 g/t to 2034 g/t.

In the case of oxide type mineralization, tests were run on various size fractions: -20 mm, -10 mm, and -0.071 mm. The best recoveries were achieved by using the finest (-0.071 mm) fraction size. On this material, the best sulphuric acid leach test results achieved were 73.6 to 96.4% recoveries of copper. On the same fraction size, a cyanide leach over a 2-day period showed a 55.6% recovery for copper and 96.7% for silver.

Resources estimate

Azarga has engaged an independent consulting company to prepare a new Resource assessment for Unkur incorporating the data obtained from the Phase 2 program.

Qualified Person

The Company's President and Chief Executive Officer, Michael Hopley, a Qualified Person as defined by National Instrument 43-101, has reviewed and approved the exploration information and resource disclosures contained in this MD&A.

Trends

The Company is an exploration company. At this time, issues of seasonality or market fluctuations have had a minor impact on the expenditure patterns. The Company expenses its exploration, project investigation and general and administration costs, and these amounts are included in the net income (loss) for each quarter. The Company's treasury, in part, determines the levels of exploration.

The level of the Company's exploration and evaluation expenditures is largely determined by the strength of resource capital and commodity markets and its ability to obtain investor support for its projects.

Financial Condition and Results of Operations – nine months ended June 30, 2020

The Company began the current fiscal period with cash of \$2,599,062. During the nine months ended June 30, 2020, the Company spent \$2,349,784 on operating activities, net of working capital changes, and received \$674,198 from a convertible loan, net of financing costs, to end at June 30, 2020 with a cash balance of \$923,476.

The consolidated loss for the nine months ended June 30, 2020 was \$3,362,844 compared to \$867,391 for the nine months ended June 30, 2019.

The significant changes between the current period and the comparative period are discussed below.

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Exploration and evaluation expenditures totalled \$1,826,104 for the current period compared to only \$75,335 in the comparative period and the increase related to funding the Phase 2 exploration program on the Unkur project.

During the nine months ended June 30, 2020, the Company recorded the following related to the convertible loan with Baker Steel Resource Trust ("BSRT"):

- Gain in the fair value of the derivative liability of \$869,805. The derivative liability was a component of the convertible loan and was re-valued each reporting period using the Black-Scholes option pricing model by changing various assumptions including the share price, risk-free interest rate, expected volatility, and expected life, as at the end of the reporting period.
- Gain on de-recognition of derivative liability of \$746,346. As amended in April 2020, the Company determined that the convertible loan no longer contained an embedded derivative as it satisfied the "fixed for fixed" requirement as the number of potential common shares to be issued is fixed at 46,925,500 common shares being the principal of \$4,692,550 divided by the conversion price of \$0.10.
- Loss on extinguishment of convertible loan liability of \$1,845,424. The modification of the terms of the convertible loan was considered substantial and was accounted for as an extinguishment of the original loan and the recognition of a new loan.
- Interest expense on the convertible loan of \$520,238, being \$257,097 of interest expense, accretion of \$225,477, and amortization of financing costs of \$37,664.

Liquidity and Capital Resources

As at June 30, 2020, the Company had working capital of \$985,182.

In April 2020, the Company and BSRT executed an amendment to the secured convertible loan facility as follows:

- the principal amount of the convertible loan was increased from US\$3,000,000 to US\$3,500,000, and accordingly BSRT advanced the Company US\$500,000 (\$695,050);
- the principal amount of US\$3,500,000 was fixed at \$4,692,550 (effective April 1, 2020) for the purposes of conversion to shares but remains payable in US dollars;
- the conversion price at which the principal amount of the convertible loan may be converted into common shares of the Company was reduced from \$0.14 to \$0.10;
- the Company issued BSRT 6,950,500 additional share purchase warrants exercisable at \$0.10 until December 31, 2022; and
- the exercise price and expiry date of the 13,490,414 share purchase warrants previously issued to BSRT was amended from \$0.17 and April 21, 2021 to \$0.10 and December 31, 2022, respectively.

On closing, the Company issued 277,083 common shares as a finder's fee valued at \$20,781. The Company also paid cash financing costs of \$20,852.

In April 2020, the Company issued BSRT 2,134,283 common shares to settle the second semi-annual interest payment of \$160,071 on the convertible loan.

However, given that management intends to continue to explore the Unkur project, management estimates that this 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

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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 and this may be further impacted by the ongoing COVID-19 global pandemic. 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	Share Purchase Warrants	Stock Options
Balance as at June 30, 2020	95,942,780	20,440,914	7,215,000
Balance as at the date of this MD&A	95,942,780	20,440,914	7,215,000

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 address 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” in the above 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

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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.