



CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Azarga Metals Corp.

Opinion

We have audited the accompanying consolidated financial statements of Azarga Metals Corp. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that management estimates that its working capital at September 30, 2020 will not provide the Company with sufficient financial resources to carry out currently planned operations and exploration through the next twelve months. As stated in Note 1, these material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Guy Thomas.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

January 26, 2021

AZARGA METALS CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	September 30, 2020	September 30, 2019
ASSETS			
Current assets			
Cash	4	\$ 775,220	\$ 2,599,062
Receivables	5	62,939	42,751
Prepaid expenses	6	11,125	93,818
		849,284	2,735,631
Exploration and evaluation assets	7	8,012,117	8,012,117
		\$ 8,861,401	\$ 10,747,748
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	8	\$ 263,833	\$ 205,928
		263,833	205,928
Convertible loan - liability component	9	4,257,836	2,260,863
Convertible loan - derivative component	9	-	1,616,151
Shareholder loans	10	1,431,912	1,299,430
		5,953,581	5,382,372
Shareholders' equity			
Share capital	11	136,543,461	136,182,632
Share-based reserve	11	16,752,357	16,304,414
Deficit		(150,387,998)	(147,121,670)
		2,907,820	5,365,376
		\$ 8,861,401	\$ 10,747,748
Nature of operations and going concern	1		
Subsequent event	18		

These consolidated financial statements were approved for issue by the Board of Directors on January 26, 2021.

They are signed on the Company's behalf by:

"Michael Hopley"
Michael Hopley, Director

"Blake Steele"
Blake Steele, Director

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

(Expressed in Canadian dollars)

		Year ended September 30,	
	Note	2020	2019
EXPENSES			
Consulting fees	12	\$ 264,101	\$ 207,099
Exploration and evaluation expenditures	7	1,756,239	252,217
Investor relations		115,774	29,276
Office expenses		46,143	17,638
Professional fees		99,374	92,682
Regulatory fees		34,530	47,206
Share-based compensation	11 & 12	-	282,695
Travel		17,302	29,025
		(2,333,463)	(957,838)
Change in fair value of derivative liability	9	869,805	(15,598)
Financing costs	9	-	(306,825)
Foreign exchange loss		(101,345)	(72,745)
Gain on de-recognition of derivative liability	9	746,346	-
Gain (loss) on settlement of trade and other payables	8	(65,552)	171,552
Interest expense on convertible loan	9	(705,039)	(235,486)
Interest expense on shareholder loans	10	(125,526)	(122,348)
Interest expense on other shareholder loans	12	-	(23,576)
Loss on extinguishment of convertible loan liability	9	(1,551,554)	-
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		\$ (3,266,328)	\$ (1,562,864)
Basic and diluted loss per common share		\$ (0.03)	\$ (0.02)
Weighted average number of common shares outstanding		94,532,689	90,767,410

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

AZARGA METALS CORP.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended September 30,	
	2020	2019
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Loss for the year	\$ (3,266,328)	\$ (1,562,864)
Items not affecting cash:		
Share-based compensation	-	282,695
Change in fair value of derivative liability	(869,805)	15,598
Financing costs	-	306,825
Gain on de-recognition of derivative liability	(746,346)	-
(Gain) loss on settlement of trade and other payables	65,552	(171,552)
Loss on extinguishment of convertible loan	1,551,554	-
Accrued interest expense on convertible loan	705,039	235,486
Accrued interest on shareholder loans	125,526	122,348
Accrued interest on other shareholder loans	-	23,576
Unrealized foreign exchange (gain) loss	(109,302)	20,613
Change in non-cash working capital items:		
Receivables	(20,188)	(38,088)
Prepaid expenses	82,693	(88,469)
Trade and other payables	(30,735)	(209,584)
	(2,512,340)	(1,063,416)
FINANCING ACTIVITIES:		
Proceeds on convertible loan, net of financing costs	688,498	3,936,137
Other shareholder loans	-	232,650
Repayment of other shareholder loans	-	(526,758)
	688,498	3,642,029
CHANGE IN CASH FOR THE YEAR	(1,823,842)	2,578,613
CASH, BEGINNING OF THE YEAR	2,599,062	20,449
CASH, END OF THE YEAR	\$ 775,220	\$ 2,599,062

Supplemental Cash Flow Information (Note 16)

AZARGA METALS CORP.**Consolidated Statements of Changes in Shareholders' Equity**

(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	3,604,726	330,350	-	-	330,350
Issuance of shares for financing costs	277,083	30,479	-	-	30,479
Issuance of warrants for financing costs	-	-	224,696	-	224,696
Amendment of warrants for financing costs	-	-	223,247	-	223,247
Comprehensive loss for the year	-	-	-	(3,266,328)	(3,266,328)
Balance, September 30, 2020	95,942,780	\$ 136,543,461	\$ 16,752,357	\$ (150,387,998)	\$ 2,907,820

	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
Shares issued for financing costs	1,662,499	144,084	-	-	144,084
Issuance of warrants for financing costs	-	-	391,972	-	391,972
Share-based compensation	-	-	282,695	-	282,695
Comprehensive loss for the year	-	-	-	(1,562,864)	(1,562,864)
Balance, September 30, 2019	92,060,971	\$ 136,182,632	\$ 16,304,414	\$ (147,121,670)	\$ 5,365,376

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

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(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.

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 exploration program on the Unkur Project.

These consolidated 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 September 30, 2020, the Company had working capital of \$585,451. 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of measurement

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

Functional and presentation currency

These consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Use of accounting estimates, judgments, and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Carrying value and recoverability of exploration and evaluation assets

Management has determined that acquisition costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, preliminary economic assessment, accessibility of facilities and existing permits.

Share-based compensation

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

Going concern assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include the results from the exploration and development of its properties, forecasted capital deployment, and general industry conditions. Changes in these inputs may alter the Company's ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (Note1).

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Use of accounting estimates, judgments, and assumptions (continued)

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Determination of functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency of the parent Company as well as the functional currency of the Company's BVI, Cyprus, and Russian subsidiaries is the Canadian dollar.

Convertible loan

The terms and conditions of financial liabilities may contain embedded derivatives. In April 2019, the Company completed a secured convertible loan facility (Note 9). The Company evaluated whether the convertible loan contained an embedded derivative and determined that the conversion feature did not qualify as equity as it did not satisfy the "fixed for fixed" requirement. The number of potential common shares to be issued was contingent on a variable carrying amount for the financial liability. The liability was variable because the functional currency of the Company is Canadian dollars and the convertible loan was denominated in US dollars, therefore the amount to be settled depended on the foreign exchange rate at the date of settlement. Consequently, the conversion feature was classified as a derivative liability recorded at fair value and was separated from the debt host instrument. The derivative value was determined using the Black-Scholes option pricing model and the residual value was attributed to the host loan component.

In April 2020, the Company amended the terms of the convertible loan to fix the number of potential common shares to be issued on conversion. As a result, the conversion feature now satisfies the "fixed for fixed" requirement and is no longer classified as a derivative liability.

The modification of the terms of the convertible loan is considered substantial and is accounted for as an extinguishment of the original loan and the recognition of a new loan. Transaction costs associated with the modification of the loan have been expensed as incurred and included in loss on extinguishment of the convertible loan.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of Azarga and its subsidiaries, from the date control was acquired. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. All inter-company balances and transactions, and any income and expenses arising from inter-company transactions, are eliminated on consolidation.

For partially owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Adjustments to non-controlling interest are accounted for as transactions with owners and adjustments that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Name of subsidiary	Place of incorporation	Ownership interest at September 30, 2020	Principal activity
Azarga Metals Limited	BVI	100%	Holding company
Shilka Metals Ltd.	Cyprus	100%	Holding company
Tuva-Kobalt LLC	Russia	100%	Operating mineral exploration company

Foreign currency translation

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate on the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

Exploration and evaluation assets and expenditures

Upon acquiring the legal right to explore a property, all direct costs related to the acquisition of mineral property interests are capitalized as exploration and evaluation assets. Exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred.

Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method upon reaching production. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to operations during the period such determination is made.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Restoration, rehabilitation and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount.

Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates.

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss. The Company has no restoration, rehabilitation or environmental obligations.

Impairment

The carrying amounts of the Company's non-financial assets, other than deferred income tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Convertible loan

A convertible loan is considered to be a compound financial instrument which requires assessment to determine if it contains a liability and an equity component related to the conversion feature. When the conversion feature is for a variable number of shares, there is no equity component but rather is a potential embedded derivative.

The proceeds received for the issuance of a convertible loan are allocated to a liability component and equity component, if any, on the date of issuance. The fair value of the liability component is estimated using the market interest rate for a similar non-convertible loan. The initial carrying amount of the equity component is the residual amount after separating the liability component. The liability component is measured using amortized cost and the equity component is not remeasured.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable.

The host instrument is accounted for as a hybrid instrument with a debt component and a separate embedded derivative component classified as a liability. The initial carrying amount of the host instrument is the residual amount after separating the embedded derivative which is measured at fair value.

The debt component is subsequently accounted for at amortized cost using the effective interest rate method. The embedded derivative is subsequently measured at fair value at each reporting date, with gains and losses in fair value recognized in profit or loss.

Transaction costs that relate to the initial issuance of the convertible loan are allocated to the liability component and embedded derivative component in proportion to the allocation of the gross proceeds. Transaction costs relating to the embedded derivative liability component are expensed directly in profit or loss and transaction costs relating to the financial liability component are included in the carrying amount of the liability component and are amortized over the expected life of the convertible loan using the effective interest method.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVTOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Receivables are measured at amortized cost with subsequent impairments recognized in profit or loss. Cash is classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to the estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) FVTPL; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Trade and other payables, shareholder loans, and the liability component of the convertible loan are classified as other financial liabilities and carried on the statement of financial position at amortized cost. The derivative component of the convertible loan was classified as FVTPL.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

Warrants

The Company accounts for warrants issued in unit offerings comprising a common share and warrant (or portion thereof) using the relative fair value method. Under this method, the fair value of common shares and warrants are measured at the issuance date and the proceeds raised are allocated to the common shares and warrants proportionately. The fair value of common shares is measured based on the quoted market price of the Company's stock and the warrant issued is measured at the issue date using the Black-Scholes valuation model. The warrant is recorded as share capital if and when the warrants are exercised.

Loss per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options and share purchase warrants on loss per share would be anti-dilutive.

Share-based compensation

The stock option plan allows Company directors, employees, and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. 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. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from share-based reserve to share capital.

The fair value is measured at grant date and each tranche is 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 financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, and there is the intention to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is probable that the related tax benefit will be realized.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

AZARGA METALS CORP.
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of IFRS 16

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 September 30, 2020 and have not been applied in preparing these consolidated financial statements. In addition, none of these standards are applicable to the Company.

4. CASH

	September 30, 2020	September 30, 2019
Canadian dollar denominated deposits held in Canada	\$ 20,388	\$ 125,593
US dollar denominated deposits held in Canada	637,286	2,200,485
US dollar denominated deposits held in Cyprus	12,116	4,985
Ruble denominated deposits held in Russia	105,430	267,999
Total	\$ 775,220	\$ 2,599,062

5. RECEIVABLES

	September 30, 2020	September 30, 2019
Amounts due from the Government of Canada pursuant to input tax credits	\$ 1,839	\$ 1,614
Amounts due from the Government of Russia pursuant to value added tax	52,650	17,497
Other receivables	8,450	23,640
Total	\$ 62,939	\$ 42,751

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6. PREPAID EXPENSES

	September 30, 2020	September 30, 2019
Prepaid insurance	\$ 6,125	\$ 5,833
Prepaid investor relations	5,000	22,662
Prepaid exploration and evaluation expenditures	-	49,104
Prepaid other	-	16,219
Total	\$ 11,125	\$ 93,818

7. EXPLORATION AND EVALUATION ASSETS

	Russia
	Unkur
September 30, 2018	\$ 8,012,117
Additions	-
September 30, 2019	\$ 8,012,117
Additions	-
September 30, 2020	\$ 8,012,117

Unkur Copper-Silver Project, eastern Russia

The Company's 100% owned Unkur Copper-Silver Project is located in eastern Russia. The Unkur mineral exploration and exploitation license is valid through December 31, 2039.

The Unkur Project is subject to a 5% net smelter return ("NSR") royalty. The Company has the right to buy back up to 2% of the NSR royalty at a cost of US\$5,000,000 per percentage point so that upon paying US\$10,000,000 the NSR royalty will be reduced to 3%.

As part of the acquisition of the Unker Project, the Company agreed to make payment of US\$6,200,000 if at any time, a Resource (adding Measured, Indicated and Inferred of all combined deposits within the Unkur Project area) is estimated to contain copper and silver to the equivalent of two million tonnes or more of copper where Measured plus Indicated Resources comprise at least 70% of that estimate, taking the value of silver as copper equivalent.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. EXPLORATION AND EVALUATION ASSETS (continued)

Unkur Copper-Silver Project, eastern Russia (continued)

The Company recorded the following exploration and evaluation expenditures on its Unkur Project for the years ended September 30, 2020 and 2019.

	Year ended September 30,	
	2020	2019
Drilling and assays	\$ 1,234,718	\$ -
Licenses and permits	49,322	3,041
Personnel, administration, and travel	228,268	98,646
Studies and evaluations	243,931	150,530
	<u>\$ 1,756,239</u>	<u>\$ 252,217</u>

8. TRADE AND OTHER PAYABLES

	September 30,	September 30,
	2020	2019
Trade and other payables in Canada	\$ 44,178	\$ 80,926
Trade and other payables in Cyprus	4,789	11,370
Trade and other payables in Russia	18,656	20,079
Interest on Convertible Loan (Note 9)	181,556	78,740
Due to related parties (Note 12)	14,654	14,813
Total	<u>\$ 263,833</u>	<u>\$ 205,928</u>

In April 2019, the Company paid \$46,763 to the former Chief Executive Officer of the Company to settle fees and expenses totalling \$188,415 and accordingly recorded a gain on settlement of \$141,652 for the year ended September 30, 2019.

In May 2019, the Company paid \$10,000 to settle outstanding trade and other payables of \$39,900 and accordingly recorded a gain on settlement of \$29,900 for the year ended September 30, 2019.

In October 2019, the Company issued 1,470,443 common shares valued at \$95,579 to settle interest payable of \$88,227 and accordingly recorded a loss on settlement of \$7,352 (Note 9 and 11).

In April 2020, the Company issued 2,134,283 common shares valued at \$234,771 to settle interest payable of \$160,071 and accordingly recorded a loss on settlement of \$74,700 (Note 9 and 11).

In May 2020, the Company settled a debt with a financial advisor and recorded a gain on settlement of \$16,500 during the year ended September 30, 2020.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. CONVERTIBLE LOAN

Original Convertible Loan

In April 2019, the Company and Baker Steel Resource Trust Ltd. ("BSRT") completed a secured convertible loan facility pursuant to which BSRT loaned the Company US\$3,000,000 (the "Convertible Loan"). The first advance of \$1,336,100 (US\$1,000,000) was received on signing (the "First Advance") and the second advance of \$2,646,800 (US\$2,000,000) was received in August 2019 (the "Second Advance").

The Convertible Loan bears interest at 8% per annum, payable semi-annually, and matures on December 31, 2022. BSRT was permitted to convert some or all of the principal amount of the Convertible Loan into common shares of the Company at a conversion price of \$0.14 per common share. Azarga is permitted to convert the interest owing under the Convertible Loan into common shares of the Company at a conversion price equal to the market price on the day of the interest election notice.

The Convertible Loan is secured against the shares of the Company's wholly owned subsidiary Azarga Metals Limited (BVI), the beneficial owner of the Unkur Copper-Silver Project. While the Convertible Loan is outstanding, any equity issuance will require the consent of BSRT.

On closing of the First Advance, a director of BSRT became a director of the Company.

On closing of the First Advance, the Company:

- issued BSRT 13,490,414 share purchase warrants exercisable at a price of \$0.17 until April 12, 2021. The share purchase warrants were valued at \$391,972 using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.67%; an expected volatility of 79.85%; an expected life of 2 years; a forfeiture rate of zero; and an expected dividend of zero;
- issued 554,166 common shares valued at \$55,417 as a finder's fee (Note 11); and
- paid cash financing costs of \$46,763.

On closing of the Second Advance, the Company issued 1,108,333 common shares valued at \$88,667 as a finder's fee (Note 11).

The Company determined that the Convertible Loan contained an embedded derivative and that the conversion feature does not qualify as equity as it does not satisfy the "fixed for fixed" requirement as the number of potential common shares to be issued is contingent on a variable carrying amount for the financial liability. The financial liability is variable because the functional currency of the Company is Canadian dollars and the Convertible Loan is denominated in US dollars, therefore the amount of common shares to be issued depends on the foreign exchange rate at the date of settlement. Consequently, the conversion feature is classified as a derivative liability.

The Company allocated the proceeds of \$3,982,900 first to the derivative component for \$1,600,553, with the residual value to the liability component for \$2,382,347. The derivative component of the First Advance was valued on initial recognition using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.67%; an expected volatility of 137.5%; an expected life of 3.72 years; a forfeiture rate of zero; and an expected dividend of zero. The derivative component of the Second Advance was valued on initial recognition using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.25%; an expected volatility of 102.4%; an expected life of 3.39 years; a forfeiture rate of zero; and an expected dividend of zero.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. CONVERTIBLE LOAN (continued)

As described above, financing costs totalled \$582,819 and were allocated on a pro-rata basis to the derivative and liability components using the same ratio as the allocation of the proceeds being \$306,825 to the derivative component and \$275,994 to the liability component. The financing costs allocated to the liability component are amortized over the life of the Convertible Loan using the effective interest method while the financing costs allocated to the derivative component were expensed to the statement of loss and comprehensive loss for the year ended September 30, 2019.

In October 2019, the Company issued BSRT 1,470,443 common shares valued at \$95,579 to settle the first semi-annual interest payment of \$88,227 and accordingly recorded a loss on settlement of \$7,352 (Note 11).

Amended Convertible Loan

In April 2020, the Company and BSRT executed an amendment to the Convertible Loan which the Company has accounted for as an extinguishment of the old loan and the recognition of a new loan. The terms of the new loan are 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 (\$709,350) in April 2020 (the "Third Advance");
- 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 Convertible Loan continues to be secured by the Unkur Project and still bears interest at 8% per annum. No value was attributed to the conversion feature as the interest rate was considered to be the market borrowing rate for the Company;
- the Company issued BSRT 6,950,500 additional share purchase warrants exercisable at \$0.10 until December 31, 2022. The share purchase warrants were valued at \$224,696 using the Black-Scholes option pricing model with the following assumptions: an exercise price of \$0.10, a risk-free interest rate of 0.47%; an expected volatility of 89.63%; an expected life of 2.74 years; a forfeiture rate of zero; and an expected dividend of zero;
- 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. The incremental value recorded due to amending the share purchase warrants was \$223,247. The Company used the Black-Scholes option pricing model with the following assumptions: an exercise price of \$0.10, a risk-free interest rate of 0.47%; an expected volatility of 89.63%; an expected life of 2.74 years; a forfeiture rate of zero; and an expected dividend of zero.

On closing of the Third Advance, the Company issued 277,083 common shares as a finder's fee valued at \$30,479 (Note 11). The Company also paid cash financing costs of \$20,852.

AZARGA METALS CORP.
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9. CONVERTIBLE LOAN (continued)

The Company has determined that the Convertible Loan no longer contains an embedded derivative as it satisfies 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.

In April 2020, the Company issued BSRT 2,134,283 common shares valued at \$234,771 to settle the second semi-annual interest payment of \$160,071 and accordingly recorded a loss on settlement of \$74,700 (Note 11).

Liability component

	September 30, 2020	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	225,477	127,842
Amortization of financing costs	37,664	28,904
Foreign exchange	180,542	(2,236)
	2,704,546	2,260,863
Proceeds on convertible loan	709,350	-
Loss on extinguishment of convertible loan liability	1,551,554	-
Cash financing costs	(20,852)	-
Issuance of shares for financing costs	(30,479)	-
Issuance of warrants for financing costs	(224,696)	-
Amendment of warrants for financing costs	(223,247)	-
Amortization of financing costs	88,460	-
Foreign exchange	(296,800)	-
Closing balance	\$ 4,257,836	\$ 2,260,863

During the year ended September 30, 2020, the Company recorded interest expense of \$705,039, being \$353,438 of interest expense on the Convertible Loan, accretion of \$225,477, and amortization of financing costs of \$126,124.

During the year ended September 30, 2019, the Company recorded interest expense of \$235,486, being \$78,740 of interest expense on the Convertible Loan, accretion of \$127,842, and amortization of financing costs of \$28,904.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. CONVERTIBLE LOAN (continued)

Derivative component

	September 30, 2020	September 30, 2019
Opening balance	\$ 1,616,151	\$ -
Value on initial recognition	-	1,600,553
Change in fair value of derivative liability	(869,805)	15,598
Gain on de-recognition of derivative liability	(746,346)	-
Closing balance	\$ -	\$ 1,616,151

The derivative component was re-valued each reporting period up until April 1, 2020. As at March 31, 2020, the derivative component was revalued at \$746,346 using the Black-Scholes option pricing model with the following assumptions: share price of \$0.065; a risk-free interest rate of 1.71%; an expected volatility of 89.77%; an expected life of 2.75 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 \$869,805 for the year ended September 30, 2020.

10. SHAREHOLDER LOANS

Shareholders	Relationship	September 30, 2020	September 30, 2019
Principal payable			
Alexander Molyneux	Director	\$ 324,662	\$ 322,325
Eugene McCarthy	greater than 10% shareholder	325,197	322,857
Blake Steele	Director	72,207	71,687
OC Management Group Ltd.	Principal is a Director	146,913	145,855
Serhii Stefanovych *		153,735	152,629
		1,022,714	1,015,353
Interest payable		409,198	284,077
Total		\$ 1,431,912	\$ 1,299,430

* assigned from Insignia Partners Limited to Serhii Stefanovych in September 2019

On acquisition of the Unker Project, the Company assumed the obligation to repay certain existing loans. 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 year ended September 30, 2020, the Company accrued interest of \$125,526 (2019 – \$122,348) on the shareholder loans.

AZARGA METALS CORP.
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(Expressed in Canadian dollars)

11. SHARE CAPITAL

a) Authorized

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

b) Issued and outstanding

During the year ended September 30, 2020, the Company:

- issued BSRT 1,470,443 common shares valued at \$95,579 to settle the first semi-annual interest payment of \$88,227 and accordingly recorded a loss on settlement of \$7,352 (Note 9).
- issued BSRT 2,134,283 common shares valued at \$234,771 to settle the second semi-annual interest payment of \$160,071 and accordingly recorded a loss on settlement of \$74,700 (Note 9).
- issued 277,083 common shares valued at \$30,479 as a finder's fee on the Third Advance of the Convertible Loan (Note 9).

During the year ended September 30, 2019, the Company:

- issued 554,166 common shares valued at \$55,417 as a finder's fee on the First Advance of the Convertible Loan (Note 9).
- issued 1,108,333 common shares valued at \$88,667 as a finder's fee on the Second Advance of the Convertible Loan (Note 9).

c) Warrants

The continuity of share purchase warrants for the year ended September 30, 2020, is as follows:

Expiry date	Exercise price	Balance, September 30, 2019	Granted	Exercised	Expired	Balance, September 30, 2020				
December 31, 2022	\$ 0.10	13,490,414	-	-	-	13,490,414				
December 31, 2022	\$ 0.10	-	6,950,500	-	-	6,950,500				
		13,490,414	6,950,500	-	-	20,440,914				
Weighted average exercise price	\$	0.10	\$	0.10	\$	-	\$	-	\$	0.10

As at September 30, 2020, the weighted average remaining contractual life of the share purchase warrants outstanding was 2.25 years.

In April 2020, the Company amended the exercise price and expiry date of the 13,490,414 share purchase warrants previously issued to BSRT from \$0.17 and April 21, 2021 to \$0.10 and December 31, 2022, respectively (Note 9).

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. SHARE CAPITAL (continued)

c) Warrants (continued)

The continuity of share purchase warrants for the year ended September 30, 2019, is as follows:

Expiry date	Exercise price	Balance,	Granted	Exercised	Expired	Balance,
		September 30, 2018				September 30, 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

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 year ended September 30, 2020, is as follows:

Expiry date	Exercise price	Balance,	Granted	Exercised	Expired	Balance,	
		September 30, 2019				September 30, 2020	
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 September 30, 2020, all of the outstanding stock options were exercisable.

As at September 30, 2020, the weighted average remaining contractual life of the stock options outstanding was 2.53 years.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

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11. SHARE CAPITAL (continued)

d) Options (continued)

The continuity of stock options for the year ended September 30, 2019, is as follows:

Expiry date	Exercise price	Balance,	Granted	Exercised	Expired	Balance,
		September 30, 2018				September 30, 2019
July 8, 2021	\$ 0.20	2,100,000	-	-	(500,000)	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	2,320,000	-	-	(475,000)	1,845,000
May 24, 2024	\$ 0.09	-	3,420,000	-	-	3,420,000
		4,770,000	3,420,000	-	(975,000)	7,215,000
Weighted average exercise price	\$ 0.18	\$ 0.09	\$ -	\$ 0.18	\$ 0.14	

e) Share-based compensation

No stock options were granted during the year ended September 30, 2020.

On May 24, 2019, the Company granted 3,420,000 stock options to directors, officers, employees and consultants at a fair value of \$282,695 or \$0.08 per option, all of which was recorded as share-based compensation for the year ended September 30, 2019. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.59%; an expected volatility of 154%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. RELATED PARTY TRANSACTIONS AND BALANCES

Except as disclosed elsewhere in these consolidated 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 years ended September 30, 2020 and 2019 were as follows:

		Year ended September 30,	
		2020	2019
Consulting fees			
Michael Hopley	Chief Executive Officer	\$ 67,248	\$ 24,823
Alexander Yakubchuk	VP Exploration	96,853	35,764
Golden Oak *	Officers	100,000	72,917
Dorian Nicol	Former Chief Executive Officer	-	73,595
Share-based compensation		-	282,695
		\$ 264,101	\$ 489,794

* Golden Oak Corporate Services Ltd. ("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.

Due to related parties

As at September 30, 2020, the Company owed \$14,654 (2019 – \$14,813) to related parties of which \$321 (2019 - \$480) was owing to Golden Oak for the reimbursement of expenditures and \$14,333 (2019 - \$14,333) was owing to a former director for director fees. All amounts are unsecured and non-interest bearing.

Other shareholder loans

During the year ended September 30, 2019, the Company was advanced \$232,650 by certain shareholders of the Company. During the year ended September 30, 2019, the Company accrued interest of \$23,576 on the amounts advanced by these shareholders. On April 15, 2019, the Company paid \$526,758, being the outstanding principal of \$491,400 and the outstanding interest of \$35,358, in full and final settlement of these shareholders loans.

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 CONSOLIDATED FINANCIAL STATEMENTS

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Financial instruments are classified into one of the following categories: FVTPL; FVTOCI; or at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instruments	Category	September 30, 2020	September 30, 2019
Cash	FVTPL	\$ 775,220	\$ 2,599,062
Receivables	Amortized cost	62,939	42,751
Trade and other payables	Amortized cost	263,833	205,928
Convertible loan - liability component	Amortized cost	4,257,836	2,260,863
Convertible loan - derivative component	FVTPL	-	1,616,151
Shareholder loans	Amortized cost	1,431,912	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 shareholder loans are measured at amortized cost. The carrying value of the Convertible Loan (derivative component) was determined based on Level 3 of the fair value hierarchy.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Risk Management

The Company's risk exposures and the impact on the Company's financial instruments are summarized as follows:

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and receivables. The Company limits the exposure to credit risk in its cash by only investing its cash with high credit quality financial institutions in business and savings accounts. The Company's receivables primarily include balances receivable from government agencies. The Company is exposed to some risk on amounts due from these government agencies; however, to date the Company has been successful on collecting on its receivables.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that there is sufficient capital in order to meet short-term business requirements. The Company is exposed to liquidity risk.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

- (a) Interest Rate Risk: The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risk on cash is not considered significant. The interest rates on the Convertible Loan and amounts due to shareholders are fixed.
- (b) Foreign Currency Risk: The Company expects to raise equity predominately in Canadian dollars; however, transactions are transacted in Canadian dollars, US dollars, and Russian Rubles. As such, the Company is subject to fluctuations in the exchange rate between the Canadian dollar and the US dollar and Russian Ruble. As at September 30, 2020, the Company holds 97% of its cash in foreign currencies (Note 4). Management believes the foreign exchange risk related to currency conversions is minimal and therefore, does not hedge its foreign exchange risk. The effect of a 10% change in the foreign exchange rate on cash held in US dollars and Russian Rubles at September 30, 2020 would be approximately \$75,000. In addition, the Company holds its Convertible Loan and shareholder loans in US dollars and is therefore subject to fluctuations in the exchange rate between the US dollar and the Canadian dollar. The effect of a 10% change in the foreign exchange rate on the Convertible Loan and shareholder loans held in US dollars at September 30, 2020 would be approximately \$569,000.

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For the year ended September 30, 2020

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Risk Management (continued)

- (c) **Commodity Price Risk:** While the value of the Company's exploration and evaluation assets is related to the price of copper and silver and the outlook for these minerals, the Company currently does not have any operating mines and hence does not have any hedging or other commodity-based risks in respect to its operational activities.

Historically, the price of copper and silver has fluctuated significantly and is affected by numerous factors outside of the Company's control, including but not limited to industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and certain other factors related specifically to copper and silver.

- (d) **Political Uncertainty:** In conducting operations in Russia, the Company is subject to considerations and risks not typically associated with companies operating in North America. These include risks such as the political, economic and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions in Russia and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

15. MANAGEMENT OF CAPITAL

The Company considers its common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable level of risk. The Company is not subject to any externally imposed capital restrictions.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure forecasts that are updated as necessary depending on various factors including successful capital deployment and general industry conditions. In order to maximize ongoing exploration expenditures, the Company does not pay out dividends.

The Company's investment policy is to keep its cash treasury on deposit in interest bearing Canadian chartered bank accounts. The Company does not expect that its current capital resources will be sufficient to carry out its currently planned exploration and operations through the next twelve months (Note 1).

There have been no changes to the Company's approach to capital management for the years presented.

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(Expressed in Canadian dollars)

16. SUPPLEMENTARY CASH FLOW INFORMATION

During the year ended September 30, 2020, the Company:

- issued BSRT 1,470,443 common shares valued at \$95,579 to settle the first semi-annual interest payment (Note 9);
- issued BSRT 2,134,283 common shares valued at \$234,771 to settle the second semi-annual interest payment (Note 9);
- issued 277,083 common shares valued at \$30,479 as a finder's fee on the Third Advance of the Convertible Loan (Note 9);
- issued BSRT 6,950,500 common share purchase warrants valued at \$224,696 (Note 9); and
- amended 13,490,414 common share purchase warrants issued to BSRT and recorded an incremental value of \$223,247 (Note 9).

During the year ended September 30, 2019, the Company:

- issued 554,166 common shares valued at \$55,417 as a finder's fee on the First Advance of the Convertible Loan (Note 9);
- issued 1,108,333 common shares valued at \$88,667 as a finder's fee on the Second Advance of the Convertible Loan (Note 9); and
- issued BSRT 13,490,414 common share purchase warrants valued at \$391,972 (Note 9).

During the year ended September 30, 2020, the Company paid interest of \$Nil (2019 - \$35,358) in cash.

During the year ended September 30, 2020, the Company paid income tax of \$Nil (2019 - \$Nil) in cash.

17. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year ended September 30,	
	2020	2019
Loss for the year	\$ (3,266,328)	\$ (1,562,864)
Expected income tax recovery	\$ (882,000)	\$ (422,000)
Change in statutory, foreign tax, foreign exchange rates and other	85,000	(21,000)
Permanent differences	175,000	137,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	2,103,000	(537,000)
Change in unrecognized deductible temporary differences	(1,481,000)	843,000
Total	\$ -	\$ -

AZARGA METALS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2020

(Expressed in Canadian dollars)

17. INCOME TAXES (continued)

The significant components of the Company's unrecorded deferred tax assets are as follows:

	September 30, 2020	September 30, 2019
Deferred tax assets		
Exploration and evaluation assets	\$ 1,022,000	\$ 2,768,000
Equipment	57,000	57,000
Share issue costs	1,000	3,000
Debt with accretion	(117,000)	(29,000)
Allowable capital losses	10,090,000	10,090,000
Non-capital losses available for future periods	8,295,000	7,940,000
Total unrecognized deferred tax assets	\$ 19,348,000	\$ 20,829,000

Deferred tax assets have not been recognized in these financial statements as it is not probable that they will be realized.

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	September 30, 2020	Expiry date range
Temporary differences		
Exploration and evaluation assets	\$ 4,754,000	no expiry date
Equipment	212,000	no expiry date
Share issue costs	3,000	2021
Allowable capital losses	37,369,000	no expiry date
Non-capital losses available for future periods	30,727,000	
Non-capital loss summary		
Canada	\$ 30,663,000	2027 to 2040
Cyprus	63,000	2021 to 2025
Russia	1,000	no expiry date

Tax attributes are subject to review and potential adjustment by tax authorities.

18. SUBSEQUENT EVENT

In October 2020, the Company issued BSRT 2,747,575 common shares to settle the third semi-annual interest payment of \$192,330 (Note 9).