AZARGA METALS

2016

ANNUAL REPORT

For the year ended September 30, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended September 30, 2016

(Expressed in Canadian dollars)

The following management discussion and analysis ("MD&A") of the results of operations and financial condition of Azarga Metals Corp. (formerly European Uranium Resources Ltd.) (the "Company" or "Azarga") for the year ended September 30, 2016 and up to the date of this MD&A, should be read in conjunction with the accompanying audited consolidated financial statements for the year ended September 30, 2016, together with the notes thereto (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 January 25, 2017.

Description of the Business

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

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

On May 31, 2016, the Company changed its name from European Uranium Resources Ltd. to Azarga Metals Corp. and consolidated its shares on a 10 old for 1 new basis. All share and per share amounts in the Financial Report and this MD&A have been retroactively restated.

On May 31, 2016, the Company completed: an initial acquisition of 60% of the outstanding shares of Azarga Metals Limited, holder of the Unkur Copper-Silver Project in eastern Russia; a concurrent private placement of $2,000,000; and the settlement of certain related party debt (See below).

Unkur Copper-Silver Project

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

Further details concerning the Unkur Copper-Silver Project are contained in a technical report filed by the Company as per its news release of 5 April 2016.

Since the acquisition of the Unkur Copper-Silver Project, Azarga has completed 16 diamond core holes totalling about 4,600 cumulative linear meters. Azarga has also excavated 5 trenches covering 309 cumulative linear meters and finally, in addition to surface geologic mapping, which disclosed the presence of additional outcropping mineralization, Azarga has also completed about 130 line kilometers of detailed ground magnetic survey.

Results are still pending for a great deal of this work, including all trenching data, but the results that have come back have returned some impressive drill intersections that confirm significant grade and thickness.

Highlights include:

- AM-001 – Three separate intersections:
  - Intersection 1 – 40 meters at 0.74% copper and 65.9g/t silver (i.e. 1.34% copper equivalent or 146.7g/t silver equivalent), including a 22 meter sub-section at 1.13% copper and 103.5g/t silver (i.e. 2.08% copper equivalent or 228.9g/t silver equivalent).

  - Intersection 2 – 0.81% copper and 18 meters at 70.0g/t silver (i.e. 1.45% copper equivalent or 158.5g/t silver equivalent), including a seven meter sub-section at 1.51% copper and 137.7g/t silver (i.e. 2.77% copper equivalent or 302.6g/t silver equivalent).

  - Intersection 3 – five meters at 0.32% copper and 49.2g/t silver (i.e. 0.77% copper equivalent or 84.2g/t silver equivalent).

- AM-003 – 16 meters at 0.79% copper and 84.0g/t silver (i.e. 1.56% copper equivalent 170.3g/t silver equivalent).

- AM-017 – 10 meters at 1.63% copper and 134.2g/t silver (i.e. 1.63% copper equivalent or 312.2g/t silver equivalent).

(Note: Copper and silver equivalents assume 100% recoveries and a US$2.59/lb copper price and US$16.26/oz silver price.)

Intersections of significant mineralization have been observed in drilling across a strike length of approximately three kilometers so far, on profiles drilled approximately every 300 meters, and holes have been drilled in pairs with between 300 meters and 600 meters between them on each profile.

Historical exploration had focused on what we now refer to as the "upper zone" of mineralization. However, drill hole AM-001 provided a revelation for us in that it identified a second, stratigraphically distinct "lower zone" which will be the subject of further exploration in future programs. There is in fact potential for more, stratigraphically distinct zones of mineralization at Unkur, which is quite common in silver-copper deposits with similar geology.

All the 10 intersections of significant mineralization reported to date show grades of both copper and silver that each on a standalone basis would be considered significant. This could be an interesting dynamic for any future development plans at Unkur because the prices for these metals can move in quite different cycles, one being a base metal and the other a precious metal. Six months ago when silver was US$17.61/oz and copper US$2.07/lb, the value of the silver contained in the 10 intersections of significant mineralization outweighed the copper. However, since then copper has risen approximately 25% whilst silver has fallen approximately 8% and that change means the value of the copper now outweighs the silver in those significant intersections observed and reported to date. (Note: this discussion assumes 100% recoveries.)

Assay results are expected to be received through February and possibly into early March.

Azarga has retained SRK Consulting (Russia) Ltd. ("SRK"), with the aim that they can prepare an initial (maiden) NI 43-101 Resource estimate, and the expectation that their work is complete towards the end of the first quarter or early in the second quarter of 2017. We believe that any Resource delineated will have upside potential in both directions along strike and down dip. Our geophysical surveys in fact indicate that exciting drill targets occur contiguous to and northeast of our current exploration focus area.

Concurrently with the SRK work, we plan to compile the data we have collected during the current phase of physical exploration to enhance our geologic model of Unkur and plan another phase of physical exploration for later in 2017. Subject to continued availability of funding and relevant internal approvals, we anticipate that next year's exploration program will comprise:

- Step-out drilling and drill testing of new targets identified from geophysical data.

- Infill drilling within the area drilled during the current exploration phase (assuming a significant Resource is delineated within that area) to upgrade confidence of any maiden Resource and to obtain samples for metallurgical test work.

- Continuing geophysical exploration of the broader license area with the objective of identifying additional drill targets.

Azarga's goal for 2017 will be to complete a preliminary economic assessment or scoping study to conceptualize potential development of the Unkur Copper-Silver Project by the end of the year.

Unkur Acquisition

On May 31, 2016, the Company completed: an initial acquisition of 60% of the outstanding shares of Azarga Metals Limited, holder of the Unkur Copper-Silver Project in eastern Russia; a concurrent private placement of $2,000,000; and the settlement of certain related party debt.

Unkur Acquisition

On May 31, 2016, the Company purchased 60% of the outstanding shares of Azarga Metals Limited ("Azarga BVI"), a British Virgin Islands corporation from its six shareholders (the "Non-Controlling Interest Shareholders" or "NCI Shareholders"). Azarga BVI owns all of the issued shares of Shilka Metals Ltd. ("Shilka"), a Cyprus corporation and Shilka holds all the issued capital of Tuva-Kobalt LLC ("Tuva-Kobalt"), a Russian limited liability company. Tuva-Kobalt was awarded the Unkur mineral exploration and exploitation license via a bidding process on August 26, 2014 that is valid through December 31, 2039.

Subject to terms and conditions, the NCI Shareholders agreed to grant the Company the right to purchase the remaining 40% of the shares of Azarga BVI and the Company granted the NCI Shareholders the right to sell the remaining 40% of the shares of Azarga BVI to it. The fair value of that 40% interest will be negotiated at the time of exercise.

The acquisition of Azarga BVI was completed by way of the issuance of 15,776,181 common shares of the Company ("Consideration Shares") with a fair value of $1,577,618 and Deferred Cash Payments (as described below). The Consideration Shares are restricted from trading until May 31, 2018. In addition, the Company incurred closing costs of $43,902 to complete the transaction.

The Company has assumed the obligation to fund Azarga BVI to repay existing loans made by the NCI Shareholders to Azarga BVI of $844,827 (US$644,413) at May 31, 2016 that bear interest at the rate of 12% per annum. Interest of $160,330 (US$122,296) had accrued to May 31, 2016 so that the total amount owed at May 31, 2016 was $1,005,157 (US$766,709). The amount due to NCI Shareholders must be paid by May 31, 2023.

The NCI Shareholders 40% interest in Azarga BVI is free carried to initial production and profitability. The NCI Shareholders retain a 5% net smelter return royalty ("NSR"). The Company has the right to buy back up to 2% of the NSR at a cost of US$5 million per percentage point so that upon paying US$10 million the NSR will be reduced to 3%.

In addition, the Company agreed to the following commitments:

- to make deferred cash payments to the NCI Shareholders of US$1,680,000 (the "Deferred Cash Payments") beginning with US$80,000 payable on June 1, 2017, with a payment on each annual anniversary that increases by US$80,000 a year so that the final payment of US$480,000 will be due on June 1, 2022. In the event of a change of control of the Company, the amount due to NCI Shareholders and the Deferred Cash Payments will become due and payable within five days.

- to spend a minimum of US$3,000,000 on exploration activities on the Unkur Project prior to June 30, 2019, and an additional US$6,000,000 between July 1, 2019 and June 30, 2023.

- 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 2 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 (the "Bonus Payment Threshold"), an additional US$6,200,000 will be payable to the NCI Shareholders within 12-months notice that the Bonus Payment Threshold has been met.

If any of the above commitments are not met, then the Company would be subject to proportionate forfeiture of its 60% interest of Azarga BVI to the NCI Shareholders.

Private Placement

On May 31, 2016, the Company completed a non-brokered private placement through the issue of 20,000,000 common shares at a price of $0.10 per share for gross proceeds of $2,000,000. The Company also issued 32,500 common shares as finder's fees valued at $3,250 and incurred cash share issue costs of $11,366.

Debt Settlement

On May 31, 2016, the Company entered into settlement agreements with certain current and past related parties to fully settle an aggregate of $532,065 debt recorded in the books of the Company by a forgiveness of $474,308 of the debts and the issue of 577,572 common shares at a price of $0.10 per share to settle the remainder of $57,757.

Qualified Person

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

Selected Annual Information

	Fiscal Year Ended September 30, 2016	Fiscal Year Ended September 30 2015	Fiscal Year Ended September 30 2014
Statement of Loss			
Net revenues	$Nil	$Nil	$Nil
Net loss	$(801,061)	$(688,528)	$(1,623,567)
Net loss per share	$(0.04)	$(0.01)	$(0.03)
Financial Position:			
Total assets	$4,336,884	$83,392	$627,207
Long term debt	$1,039,504	$Nil	$Nil
Dividends	$Nil	$Nil	$Nil

Results of Operations – year ended September 30, 2016

The consolidated net loss for the year ended September 30, 2016 was $801,061 (2015 - $688,528).

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

Employee salaries, fees to directors and contractors totalled $235,949 (2015 - $371,924) for the year ended September 30, 2016. Management was not paid any fees for a significant portion of the year up until the Unkur acquisition was finalized on May 31, 2016, thereafter the CEO and CFO entered into new consulting agreements with the Company.

Exploration and evaluation expenditures for the year ended September 30, 2016, totalled $675,025 (2015 - $127,992). The Company began a first phase drill program at its Unkur Copper-Silver Project in eastern Russia which was ongoing as at September 30, 2016. Exploration expenditures in the comparative year were on the Company's now sold and abandoned Slovakian projects.

Exploration and evaluation expenditure and other recoveries for the year ended September 30, 2016 were $Nil (2015 - $273,198). In the prior year, the Company was party to a partnership agreement with Forte Energy NL ("Forte") on the Company's now abandoned Slovakian uranium projects. The agreement with Forte was terminated in October 2015.

Non-cash share-based compensation expense was $159,888 (2015 - $Nil) which relates to stock options, shares for services, and bonus shares granted during the year.

In addition to the above, the Company recorded the following non-cash items during the year ended September 30, 2016:

- Foregiveness of trade and other payables of $474,308;
- Gain on disposal of subsidiary of $67,841 related to the sale of Company's Slovakian subsidiary, Ludovika Energy s.r.o.;
- Accrued interest expense of $33,897 related to amounts owing to non-controlling interest shareholders;
- Loss on sale of marketable securities of 49,074 related to the sale of the Company's remaining GRIT shares; and
- Reversal of over-accrued liabilities of $25,000 related to an over-accrual of legal fees from a prior period.

Summary of Quarterly Results

	3 Months Ended September 30, 2016	3 Months Ended June 30, 2016	3 Months Ended March 31, 2016	3 Months Ended December 31, 2015	3 Months Ended September 30, 2015	3 Months Ended June 30, 2015	3 Months Ended March 31, 2015	3 Months Ended December 31, 2014
Total revenues	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil
Net income (loss)	$(1,128,991)	$402,344	$(59,930)	$(14,484)	$(179,687)	$(136,285)	$(172,018)	$(200,538)
Net Income (loss) per share, basic and diluted	$(0.06)	$0.02	$(0.00)	$(0.00)	$(0.00)	$(0.00)	$(0.00)	$(0.00)

Liquidity and Capital Resources

Azarga began the fiscal year with $3,827 cash. During the year ended September 30, 2016, the Company spent $976,643 on operating activities net of working capital changes, spent $24,372 on investing activities, and received $2,584,234 from financing activities to end at September 30, 2016 with $1,587,046 cash.

On May 31, 2016, the Company completed a non-brokered private placement through the issue of 20,000,000 common shares at a price of $0.10 per share for gross proceeds of $2,000,000. The Company also issued 32,500 common shares as finder's fees valued at $3,250 and incurred cash share issue costs of $11,366.

On October 7, 2016, the Company completed a non-brokered private placement through the issue of 3,437,500 units at a price of $0.32 per unit for gross proceeds of $1,100,000. Each unit consisted of one common share and one-half of one share purchase warrant. One whole warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.40 per share until October 7, 2017. The common shares issued in connection with the private placement are subject to a four-month hold period expiring on February 8, 2017. The Company paid finders' fees of $8,100. As at September 30, 2016, the Company had received $595,600 of these proceeds and recorded them as an obligation to issue shares.

As at September 30, 2016, the Company had working capital of $1,427,320. Management estimates that these funds will not provide the Company with sufficient financial resources to carry out currently planned exploration and operations through the next twelve months. Accordingly, the Company may need to seek additional sources of financing to carry on future operations. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Fourth Quarter

The Company began the fourth quarter with $1,577,253 cash. During the fourth quarter the Company expended $585,807 on operating activities and received $595,600 proceeds from financing activities so that the Company ended the quarter and the year with $1,587,046 cash.

The Company began a drill program in the fourth quarter at its Unkur Project located in eastern Russia and expended $667,053 to this end. As noted the Company also raised $595,600 in the fourth quarter towards a $1,100,000 private placement that closed on October 7, 2016.

Related Party Transactions

a) Consulting fees

During the year ended September 30, 2016, the Company paid or accrued $61,667 (2015 - $100,000), to Golden Oak Corporate Services Ltd. ("Golden Oak"). Golden Oak is a consulting company controlled by Doris Meyer, the Chief Financial Officer of the Company. Golden Oak provides the services of a Chief Financial Officer, a corporate secretary, and accounting and administrative staff to the Company.

b) Compensation of key management personnel:

Key management includes members of the Board of Directors, Dorian Nicol, the Chief Executive Officer, and Doris Meyer, the Chief Financial Officer. The aggregate compensation paid or accrued to key management personnel, which includes the amounts disclosed above, during the years ended September 30, 2016, and 2015 were as follows:

	Year ended September 30, 2016	Year ended September 30, 2015
Consulting fees	$ 61,667	$ 100,000
Director fees	18,000	-
Salaries and benefits	135,082	347,268
Share-based compensation	140,992	-
	$ 355,741	$ 447,268

c) Due to NCI Shareholders

	September 30, 2016	May 31, 2016 *(Acquisition date)*
Alexander Molyneux	$ 267,202	$ 267,060
Blake Steele	59,395	59,363
Eugene McCarthy	267,359	267,216
OC Management Group Ltd.	122,902	122,837
Swain Investments Limited *	128,419	128,351
Accrued interest	194,227	160,330
Total	$ 1,039,504	$ 1,005,157

* Nominee for a NCI Shareholder

On acquisition of the Azarga BVI, the Company assumed the obligation to fund Azarga BVI to repay existing loans made by the NCI Shareholders of $844,827 (US$644,413) at May 31, 2016 that are unsecured and bear interest at the rate of 12% per annum. Interest of $160,330 (US$122,296) had accrued to May 31, 2016 so that the total amount at May 31, 2016 is $1,005,157 (US$766,709). The amount due to NCI Shareholders must be paid by May 31, 2023.

As at September 30, 2016, the amount due to NCI Shareholders totaled $1,039,504 (US$792,486) including interest of $194,227 (US$148,073). For the year ended September 30, 2016, the Company accrued $33,897 (US$25,777) of interest expense on the amount due to NCI Shareholders.

d) Notes payable

On March 1, 2016, the Company entered into a loan agreement with three of the NCI Shareholders whereby the NCI Shareholders agreed to loan the Company up to $100,000 with a 12-month term and interest at the rate of 15% per annum. From March 2, 2016 to May 5, 2016, the Company was advanced a total of $68,875. In June 2016, the loans were repaid with interest of $1,687.

e) Trade and other payables due to related parties

	September 30, 2016	September 30, 2015
Consulting fees owing to related parties	$ -	$ 72,568
Director fees owing to related parties	14,333	64,040
Reimbursement of expenses owing to related parties	12,486	30,143
Salaries owing to related parties	-	316,859
Total	$ 26,819	$ 483,610

On May 31, 2016, the Company entered into settlement agreements with certain current and past related parties to fully settle an aggregate of $532,065 debt recorded in the books of the Company by a forgiveness of $474,308 of the debts and the issue of 577,572 common shares at a price of $0.10 per share to settle the remainder of $57,757.

f) Bonus shares

On July 8, 2016, the Board of Directors of the Company awarded a one-time bonus of 400,000 common shares to the Chief Executive Officer and 100,000 common shares to the Chief Financial Officer. The shares will be issued as to one-third each six months beginning six months from the date of award providing the continued engagement of the Chief Executive Officer and the Chief Financial Officer. During the year ended September 30, 2016, the Company recorded $30,788 as share-based compensation with a credit to obligation to issue shares. Subsequent to year-end, the Company issued 133,333 common shares to the Chief Executive Officer and 33,333 common shares to the Chief Financial Officer to satisfy the first third of this obligation.

g) Prepaid expenses

Included in prepaid expenses as at September 30, 2016, was $18,007 (2015 - $Nil) related to payments made to the Chief Executive Officer for fees related to the next fiscal year.

Additional Disclosure for Venture Issuers without Significant Revenue

The components of exploration and evaluation assets are described in Note 9 to the Financial Report.

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

Authorized: an unlimited number of common shares without par value

	Common Shares Issued and Outstanding	Common Share Purchase Warrants	Common Share Purchase Options
Balance September 30, 2016	42,980,265	-	2,249,000
Options granted	-	-	225,000
Private Placement	3,437,500	1,718,749	-
Shares for services	63,635	-	-
Bonus shares	166,666	-	-
Shares for services	107,934	-	-
Balance as at the date of this MD&A	46,756,000	1,718,749	2,474,000

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:

<u>Carrying value and recoverability of exploration and evaluation assets</u>

Management has determined that exploration and evaluation 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, scoping and feasibility studies, accessibility of facilities and existing permits.

<u>Share-based compensation</u>

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.

<u>Recovery of deferred tax assets</u>

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

(i) 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. The functional currency of the Company's now dissolved US subsidiary was also the Canadian dollar. The functional currency of the Company's Slovakian subsidiary, Ludovika Mining s.r.o. is the Euro and the functional currency of the Company's now sold Slovakian subsidiary, Ludovika Energy s.r.o. was the Euro.

Fair value of amounts due to non-controlling interest shareholders and embedded derivatives

The terms and conditions of financial liabilities may contain embedded derivatives that may or may not require embedded derivatives to be split apart and accounted for as a stand-alone derivative. These determinations require judgment. The Company considered the terms and conditions of the amounts due to the non-controlling interest shareholders and determined the value of embedded derivatives was $Nil.

The Company has estimated the initial fair value of the amounts due to the non-controlling interest shareholders financial liability at issuance based on market interest rates for financial liabilities with a 7 year term.

New Accounting Standards

Refer to the discussion of "New standards, interpretations and amendments not yet effective" in Note 3 to the Financial Report. The Company has not applied any of the new and revised IFRS detailed therein, all of which have been issued but are not yet effective at the date of this MD&A.

Financial Instruments and Risk Management

Financial Instruments

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	September 30, 2016	September 30, 2015
Cash	FVTPL	**$ 1,587,046**	**$ 3,827**
Receivables	Loans and receivables	**70,031**	**4,468**
Marketable securities	Available for sale	**-**	**68,124**
Trade and other payables	Other liabilities	**275,161**	**640,110**
Due to non-controlling interest shareholders	Other liabilities	**1,039,504**	**-**

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 market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for receivables and trade and other payables approximate their fair value due to their short-term nature. The fair value of cash and marketable securities was determined based on Level 1 of the fair value hierarchy. Amounts due to non-controlling interest shareholders are measured using the effective interest method.

Risk Management

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

<u>Credit Risk</u>

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 and guaranteed investment certificates which are available on demand by the Company for its programs. 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.

<u>Liquidity Risk</u>

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's cash is primarily on deposit in Canadian business accounts or guaranteed investment certificates which are available on demand.

<u>Market Risk</u>

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 on amounts due non-controlling interest shareholders is fixed. The interest rate risks on cash and amounts due from non-controlling interest shareholders are not considered significant.

(b) Foreign Currency Risk: The Company expects to continue 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, 2016, the Company holds 31% of its cash in foreign currencies. Management believes the foreign exchange risk related to currency conversions are 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, 2016 would be approximately $48,000.

(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 this mineral, 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 banking 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.

Cautionary Note Regarding Forward-looking Statements

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

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

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

Other Information

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