



**MANAGEMENT DISCUSSION AND ANALYSIS  
QUARTERLY HIGHLIGHTS**

**For the three months ended December 31, 2018**

(Expressed in Canadian dollars)

**AZARGA METALS CORP.**  
**For the three months ended December 31, 2018**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following is management's discussion and analysis – quarterly highlights (“MD&A”) of the results of operations and financial condition of Azarga Metals Corp. (the “Company” or “Azarga”) for the three months ended December 31, 2018 and up to the date of this MD&A, and has been prepared to provide material updates to the business operations, financial condition, liquidity and capital resources of the Company since its last management's discussion and analysis for the fiscal year ended September 30, 2018 (the “Annual MD&A”).

This MD&A should be read in conjunction with the Annual MD&A and the audited consolidated financial statements for the year ended September 30, 2018, together with the notes thereto, and the accompanying unaudited condensed consolidated interim financial statements and related notes thereto for the three months ended December 31, 2018 (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 February 28, 2019.

### **Description of the Business**

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

The Company is engaged in the exploration and, if warranted, development of 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.

### **Proposed transaction**

On February 14, 2019, the Company entered into a binding term sheet with Baker Steel Capital Managers LLP acting on behalf of its discretionary client funds, principally Baker Steel Resources Trust Ltd. (together the “Investor”), setting out the proposed terms for an investment of a minimum of US\$3,000,000 and up to US\$3,500,000 in three tranches via a convertible loan with an 8.0% per annum interest rate and conversion price of \$0.14 per share (“Convertible Loan”). As part of the transaction, Azarga will issue between US\$1,700,000 and US\$2,000,000 of common share purchase warrants (depending on the final convertible loan size) with an exercise price of \$0.17 per share (the “Warrants”).

The Convertible Loan will be repayable by December 31, 2022 in cash or shares at the Company's election or convertible at the Investor's election at \$0.14 per share. The Convertible Loan will be secured via a negative pledge against the Company's shareholding in its wholly-owned subsidiary Azarga Metals Limited (BVI), the ultimate owner of the Unkur Copper-Silver Project. The Investor will be provided typical anti-dilution rights, including a mechanism to adjust the conversion price of the Convertible Loan for: payouts of share dividends; share splits; share reclassifications; share issuances; capital returns; or any combination of such events.

The Convertible Loan will be available in tranches: US\$1,000,000 on completion and US\$2,000,000 between four and six months following the first tranche. A third tranche of up to US\$500,000 will be drawable between four and twelve months following the second tranche if the overall final investment size exceeds US\$3,000,000.

The Company will issue the Warrants on draw of the first Convertible Loan tranche. The amount of the final Warrants issue will be determined by the final amount of the Convertible Loan.

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The parties intend to satisfy the conditions to completion by March 31, 2019 or such other date mutually agreed (the "Drop Dead Date").

In the event Azarga agrees a change of control transaction with a third party for either the Company or the Unkur Copper-Silver Project prior to the Drop Dead Date, then Azarga will pay a break fee to the Investor of US\$250,000, or if Azarga fails to achieve any of the conditions of the transaction, other than the Investor not being satisfied with confirmatory due diligence on or before the Drop Dead Date, Azarga will pay a break fee of US\$100,000.

The transaction is conditional upon

- the Investor completing legal and confirmatory due diligence to its satisfaction;
- TSX-V or regulatory approvals;
- The Investor entering into an agreement, to its satisfaction, to acquire an option from the Unkur net smelter return royalty ("Unkur NSR") holders to acquire a 40% interest in the Unkur NSR for US\$5,000,000;
- Preparation and execution of definitive documentation;
- Approval of the Azarga board of directors; and
- Shareholder approval (if required).

The Company may pay a finder's fee in connection with this transaction within the guidelines of the TSX-V.

**Unkur Copper-Silver Project, eastern Russia**

Azarga acquired the Unkur Copper-Silver Project, located in the Zabaikalsky administrative region of eastern Russia (relatively near the China-Russia border), in mid-2016 and then embarked on a successful initial exploration program. In 2016-2017, the Company completed 16 diamond core drill-holes at Unkur for 4,580 cumulative linear meters. An outstanding maiden NI 43-101 Resource was published in April 2017 and then in March 2018 the Resource was enlarged and a preliminary economic assessment ("PEA") was undertaken.

The PEA was filed at the end of August 2018 (see: "Technical Report and Preliminary Economic Assessment for the Unkur Copper-Silver Project, Kodar-Udokan, Russian Federation" dated effective August 30, 2018 for its Unkur Copper-Silver Project in Russia filed on SEDAR or the Company's website). The PEA is based on the current Inferred Mineral Resource estimate of 62 million tonnes at 0.53% copper and 38.6 g/t silver, containing 328,600 tonnes (724 million pounds) of copper and 76.8 million troy ounces of silver, as announced by the Company on March 27, 2018. The PEA was positive, envisaging an 8-year mine life producing 13.2 kt of copper and 3.7 million oz of silver per year and resulting in an estimated pre-tax net present value of US\$206.3 million (post-tax US\$147.5 million) and internal rate of return of 28.9% (see: Company's announcements of August 30 and 31, 2018).

Mineralization at the Unkur Copper-Silver Project remains open in both directions along strike and at depth. The Company believes there is potential to at least double the size of the existing Resource with a second phase drilling program. Azarga plans to finalize the next exploration program in conjunction with working to complete the BSCM-led Convertible Loan transaction such that physical exploration can re-commence at Unkur in the summer of 2019. If the Company's Resource development objectives are met or exceeded, the subsequent phase would be to complete a pre-feasibility study for Unkur.

**Qualified Person**

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

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**Trends**

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

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

**Financial Condition – three months ended December 31, 2018**

The Company began the current fiscal period with cash of \$20,449. During the three months ended December 31, 2018, the Company spent \$227,240 on operating activities net of working capital changes and received \$209,650 from certain shareholders of the Company through shareholder loans, to end at December 31, 2018 with \$2,859 cash.

**Liquidity and Capital Resources**

As at December 31, 2018, the Company had a working capital deficiency of \$1,089,643. Additional funding will be required to provide the Company with sufficient financial resources to carry out future exploration and to maintain operations through the next twelve months. Accordingly, the Company will need to seek additional sources of financing to carry on future operations. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

**Related Party Transactions**

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

**Additional Disclosure for Venture Issuers without Significant Revenue**

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

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

Authorized: an unlimited number of common shares without par value

	<b>Common Shares Issued and Outstanding</b>	<b>Share Purchase Warrants</b>	<b>Stock Options</b>
<b>Balance as at December 31, 2018 and as at the date of this MD&amp;A</b>	90,398,472	-	4,770,000

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**Cautionary Note Regarding Forward-looking Statements**

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

Although Azarga believes such forward-looking information and the expectations expressed in them are based on reasonable assumptions, investors are cautioned that any such information and statements are not guarantees of future realities and actual realities or developments may differ materially from those projected in forward-looking information and statements. Whether actual results will conform to the expectations of Azarga is subject to a number of risks and uncertainties, including those risk factors discussed under "Risk Management" in the Annual MD&A. 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](http://www.sedar.com) and at the Company's web site [www.azargametals.com](http://www.azargametals.com).