AZARGA METALS

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**For the nine months ended June 30, 2017**

(Unaudited – Expressed in Canadian dollars)

## Notice to Reader

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

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

| | Note | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current** | | | | | |
| Cash | *4* | $ | 101,388 | $ | 1,587,046 |
| Receivables | *5* | | 19,877 | | 70,031 |
| Prepaid expenses | *6* | | 33,456 | | 45,404 |
| | | | 154,721 | | 1,702,481 |
| **Exploration and evaluation assets** | *7* | | 2,742,403 | | 2,634,403 |
| | | $ | 2,897,124 | $ | 4,336,884 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current** | | | | | |
| Trade and other payables | *8* | $ | 58,193 | $ | 275,161 |
| **Due to non-controlling interest lenders** | *9* | | 994,959 | | 1,039,504 |
| | | | 1,053,152 | | 1,314,665 |
| **Shareholders' equity** | | | | | |
| Share capital | *10* | | 130,678,356 | | 129,442,943 |
| Obligation to issue shares | *10* | | 79,706 | | 657,247 |
| Share-based reserve | *10* | | 15,254,438 | | 14,741,118 |
| Deficit | | | (144,163,378) | | (141,813,939) |
| Equity attributable to Azarga shareholders | | | 1,849,122 | | 3,027,369 |
| Non-controlling interest | *15* | | (5,150) | | (5,150) |
| | | | 1,843,972 | | 3,022,219 |
| | | $ | 2,897,124 | $ | 4,336,884 |

**Nature of operations and going concern** *1*
**Subsequent events** *10c*

These condensed consolidated interim financial statements were approved for issue by the Audit Committee of the Board of Directors on August 24, 2017.

They are signed on the Company's behalf by:

*"Alexander Molyneux"*
Alexander Molyneux, Director

*"Dorian L. Nicol"*
Dorian L. Nicol, Director

## AZARGA METALS CORP.

### Condensed Consolidated Interim Statements of Net Income (Loss) and Comprehensive Income (Loss)

(Unaudited - Expressed in Canadian dollars)

| | Note | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Nine months ended June 30, 2017 | Nine months ended June 30, 2016 |
|---|---|---|---|---|---|
| **EXPENSES** | | | | | |
| Administration | | $ 15,960 | $ 6,006 | $ 36,801 | $ 6,599 |
| Depreciation | | - | - | - | 4,324 |
| Employee salaries, fees to directors and contractors | | 105,883 | 37,108 | 329,293 | 121,392 |
| Exploration and evaluation expenditures | *7* | 162,607 | 7,972 | 1,282,222 | 7,972 |
| Professional fees | | 14,381 | 17,698 | 42,028 | 19,238 |
| Public, government and investor relations | | 43,806 | - | 77,246 | - |
| Regulatory fees | | 9,208 | 30,414 | 52,336 | 50,076 |
| Share-based compensation | *10* | 87,620 | - | 386,008 | - |
| Travel | | 44,271 | 2,734 | 130,378 | 2,734 |
| | | (483,736) | (101,932) | (2,336,312) | (212,335) |
| **Foreign exchange gain** | | 19,550 | 11,393 | 55,653 | 28,902 |
| **Gain on disposal of subsidiary** | | - | - | - | 67,841 |
| **Gain on forgiveness of trade and other payables** | *8* | - | 474,308 | 31,488 | 474,308 |
| **Gain on settlement of Deferred Payment** | *10* | 10,286 | - | 10,286 | - |
| **Interest expense on due to NCI Lenders** | *9* | (30,571) | (8,173) | (102,564) | (8,173) |
| **Interest expense on notes payable** | | - | (1,387) | - | (1,687) |
| **Interest income** | | 1,123 | 3,135 | 2,656 | 3,148 |
| **Loss on sale of marketable securities** | | - | - | - | (49,074) |
| **Loss on settlement of interest due to NCI Lenders** | *10* | (10,646) | - | (10,646) | - |
| **Reversal of over-accrued liabilities** | | - | 25,000 | - | 25,000 |
| **NET INCOME (LOSS) FOR THE PERIOD** | | (493,994) | 402,344 | (2,349,439) | 327,930 |
| **ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS** | | | | | |
| Foreign currency translation differences for foreign operations | | - | (132,943) | - | (155,292) |
| **COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD** | | $ (493,994) | $ 269,401 | $ (2,349,439) | $ 172,638 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO:** | | | | | |
| Azarga shareholders | | $ (493,994) | $ 402,344 | $ (2,349,439) | $ 327,930 |
| Non-controlling interest shareholders | | - | - | - | - |
| | | $ (493,994) | $ 402,344 | $ (2,349,439) | $ 327,930 |
| **Basic and diluted income (loss) per common share** | | $ (0.01) | $ 0.02 | $ (0.05) | $ 0.03 |
| **Weighted average number of common shares outstanding** | | 46,875,022 | 18,589,480 | 46,676,594 | 10,577,908 |

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

**AZARGA METALS CORP.**

**Condensed Consolidated Interim Statements of Cash Flows**

(Unaudited - Expressed in Canadian dollars)

| | Nine months ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| **CASH PROVIDED BY (USED FOR):** | | |
| **OPERATING ACTIVITIES:** | | |
| Net income (loss) for the period | $ (2,349,439) | $ 327,930 |
| Items not affecting cash: | | |
| Depreciation | - | 4,324 |
| Share-based compensation | 386,008 | - |
| Gain on disposal of subsidiary | - | (67,841) |
| Gain on forgiveness of trade and other payables | (31,488) | (474,308) |
| Gain on settlement of Deferred Payment | (10,286) | - |
| Accrued interest expense on due to NCI Lenders | 9,813 | 8,173 |
| Loss on sale of marketable securities | - | 49,074 |
| Loss on settlement of interest due to NCI Lenders | 10,646 | - |
| Reversal of over-accrued liabilities | - | (25,000) |
| Obligation to issue shares | 62,667 | 11,909 |
| Unrealized foreign exchange gain | (9,746) | (8,446) |
| Change in non-cash working capital items: | | |
| Receivables | 50,154 | (7,265) |
| Prepaid expenses | 11,948 | (280,130) |
| Trade and other payables | (105,885) | 100,360 |
| | (1,975,608) | (361,220) |
| **INVESTING ACTIVITIES:** | | |
| Proceeds on sale of marketable securities | - | 19,050 |
| Unkur transaction costs, net of cash received | - | (43,422) |
| | - | (24,372) |
| **FINANCING ACTIVITIES:** | | |
| Private placement | 504,400 | 1,962,500 |
| Share issue costs | (14,450) | (11,365) |
| Notes payable | - | 68,875 |
| Repayment of notes payable | - | (31,375) |
| | 489,950 | 1,988,635 |
| **EFFECT OF FOREIGN EXCHANGE ON CASH** | - | (29,617) |
| **CHANGE IN CASH FOR THE PERIOD** | (1,485,658) | 1,573,426 |
| **CASH, BEGINNING OF THE PERIOD** | 1,587,046 | 3,827 |
| **CASH, END OF THE PERIOD** | $ 101,388 | $ 1,577,253 |
| **Supplementary information** | | |
| Interest paid | $ - | $ 1,687 |
| Income taxes paid | - | - |

Supplementary Cash Flow Information (Note 14)

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

# AZARGA METALS CORP.
## Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited - Expressed in Canadian dollars)

| | Number of shares | Share capital | Obligation to issue shares | Share-based reserve | Foreign exchange reserve | Deficit | Equity attributable to Azarga shareholders |
|---|---|---|---|---|---|---|---|
| Balance, September 30, 2015 | 6,594,012 | $ 125,818,934 | $ - | $ 14,614,877 | $ 22,349 | $ (141,012,878) | $ (556,718) |
| Private placement | 20,000,000 | 2,000,000 | - | - | - | - | 2,000,000 |
| Finder's fees | 32,500 | 3,250 | - | - | - | - | 3,250 |
| Share issue costs | - | (14,615) | - | - | - | - | (14,615) |
| Shares for debt | 577,572 | 57,757 | - | - | - | - | 57,757 |
| Acquisition of Unkur project | 15,776,181 | 1,577,618 | - | - | - | - | 1,577,618 |
| Obligation to issue shares | - | - | 11,909 | - | - | - | 11,909 |
| Comprehensive income for the period | - | - | - | - | (155,292) | 327,930 | 172,638 |
| Balance, June 30, 2016 | 42,980,265 | $ 129,442,944 | $ 11,909 | $ 14,614,877 | $ (132,943) | $ (140,684,948) | $ 3,251,839 |

| | Number of shares | Share capital | Obligation to issue shares | Share-based reserve | Foreign exchange reserve | Deficit | Equity attributable to Azarga shareholders |
|---|---|---|---|---|---|---|---|
| Balance, September 30, 2016 | 42,980,265 | $ 129,442,943 | $ 657,247 | $ 14,741,118 | $ - | $ (141,813,939) | $ 3,027,369 |
| Private placement | 3,437,500 | 909,962 | (595,600) | 190,038 | - | - | 504,400 |
| Share issue costs | - | (14,450) | - | - | - | - | (14,450) |
| Shares issued for services | 256,673 | 70,667 | (70,667) | - | - | - | - |
| Shares issued for bonus | 166,666 | 36,667 | (36,667) | - | - | - | - |
| Shares issued for Deferred Payment | 514,283 | 97,714 | - | - | - | - | 97,714 |
| Shares issued for interest due to NCI Lenders | 709,751 | 134,853 | - | - | - | - | 134,853 |
| Obligation to issue shares for services | - | - | 62,667 | - | - | - | 62,667 |
| Share-based compensation | - | - | 62,726 | 323,282 | - | - | 386,008 |
| Comprehensive loss for the period | - | - | - | - | - | (2,349,439) | (2,349,439) |
| Balance, June 30, 2017 | 48,065,138 | $ 130,678,356 | $ 79,706 | $ 15,254,438 | $ - | $ (144,163,378) | $ 1,849,122 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Azarga Metals Corp. (the "Company" or "Azarga") is a publicly-traded company incorporated under the laws of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") and trade under the symbol AZR. The corporate office of the Company is located at Unit 1 - 15782 Marine Drive, White Rock, B.C., V4B 1E6.

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

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. Management estimates that its working capital 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.

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

## 2. BASIS OF PRESENTATION

### Statement of compliance

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

These condensed consolidated interim financial statements do not include all of the disclosures required for annual financial statements, and therefore should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2016.

### Basis of measurement

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

### Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the parent company's functional currency as well as the functional currency of the Company's BVI, Cyprus, and Russian subsidiaries. The functional currency of the Company's one dormant Slovakian subsidiary is the Euro.

## 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:

<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.

## 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. The functional currency of the Company's one dormant Slovakian subsidiary is the Euro.

Fair value of amounts due to non-controlling interest lenders 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 non-controlling interest lenders and determined the value of embedded derivatives was $Nil.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company as at and for the year ended September 30, 2016.

**New standards, interpretations and amendments not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective as of June 30, 2017, and have not been applied in preparing these condensed consolidated interim financial statements.

Effective for annual periods beginning on or after January 1, 2018:

- New standard IFRS 9, Financial Instruments

  IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost and fair value. The existing IAS 39 categories of loans and receivables, held to maturity investments, and available for sale financial assets will be eliminated.

(Unaudited - Expressed in Canadian dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards, interpretations and amendments not yet effective (continued)**

Effective for annual periods beginning on or after January 1, 2019:

- New standard IFRS 16, Leases

  All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 Leases and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize assets and liabilities. A lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Company has not early adopted these new standards and none of these standards are expected to have a material effect on the consolidated financial statements.

## 4. CASH

| | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|
| Canadian dollar denominated deposits held in Canada | $ | 45,033 | $ | 1,102,036 |
| US dollar denominated deposits held in Canada | | 26,699 | | 171,796 |
| US dollar denominated deposits held in Cyprus | | 467 | | 1,465 |
| Euro denominated deposits held in Cyprus | | 3 | | 1,278 |
| US dollar denominated deposits held in Russia | | - | | 310,126 |
| Ruble denominated deposits held in Russia | | 29,186 | | 345 |
| Total | $ | 101,388 | $ | 1,587,046 |

## 5. RECEIVABLES

| | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|
| Amounts due from the Government of Canada pursuant to input tax credits | $ | 2,276 | $ | 372 |
| Amounts due from the Government of Russia pursuant to value added tax | | 17,601 | | 67,909 |
| Other | | - | | 1,750 |
| Total | $ | 19,877 | $ | 70,031 |

(Unaudited - Expressed in Canadian dollars)

## 6. PREPAID EXPENSES

| | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|
| Prepaid expenses in Canada | $ | 24,345 | $ | 45,404 |
| Prepaid expenses in Russia | | 9,111 | | - |
| Total | $ | 33,456 | $ | 45,404 |

Included in prepaid expenses as at June 30, 2017 was $21,000 (September 30, 2016 – $18,007) related to payments made to the Chief Executive Officer for fees related to the next fiscal period.

## 7. EXPLORATION AND EVALUATION ASSETS

Components of the Company's exploration and evaluation assets located in Russia are summarized below:

| | | Russia |
|---|---|---|
| | | Unkur |
| September 30, 2016 | $ | 2,634,403 |
| Additions | | 108,000 |
| June 30, 2017 | $ | 2,742,403 |

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

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 shareholders (the "Non-Controlling Interest Shareholders" or "NCI Shareholders"). Azarga BVI owns all of the issued and outstanding shares of Shilka Metals Ltd. ("Shilka"), a Cyprus corporation, and Shilka holds all of the issued and outstanding shares 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.

On acquisition of Azarga BVI, the Company assumed the obligation to repay existing loans made by certain of the NCI Shareholders (the "NCI Lenders"). The amount due to NCI Lenders is unsecured, bears interest at the rate of 12% per annum, and must be paid by May 31, 2023 (Note 9).

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 ("NSR") royalty. The Company has the right to buy back up to 2% of the NSR royalty at a cost of US$5 million per percentage point so that upon paying US$10 million the NSR royalty will be reduced to 3%.

(Unaudited - Expressed in Canadian dollars)

## 7. EXPLORATION AND EVALUATION ASSETS (continued)

### Unkur Copper-Silver Project, eastern Russia (continued)

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 Payments") beginning with US$80,000 (C$108,000) on June 1, 2017 (settled with common shares of the Company on June 7, 2017 – Note 10), 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 Lenders (Note 9) and the Deferred 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.

The Company recorded the following exploration and evaluation expenditures on its Unkur Project in Russia for the three and nine months ended June 30, 2017 and 2016:

| | Nine months ended June 30, 2017 | Nine months ended June 30, 2016 |
|---|---|---|
| Drilling and assays | $ 993,719 | $ 3,312 |
| Licenses and permits | 70,749 | 1,486 |
| Personnel, administration, and travel | 169,536 | 3,174 |
| Studies and evaluations | 48,218 | - |
| | $ 1,282,222 | $ 7,972 |

| | Three months ended June 30, 2017 | Three months ended June 30, 2016 |
|---|---|---|
| Drilling and assays | $ 80,877 | $ 3,312 |
| Licenses and permits | 25,551 | 1,486 |
| Personnel, administration, and travel | 19,660 | 3,174 |
| Studies and evaluations | 36,519 | - |
| | $ 162,607 | $ 7,972 |

(Unaudited - Expressed in Canadian dollars)

## 8. TRADE AND OTHER PAYABLES

| | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|
| Trade and other payables in Canada | $ | 17,370 | $ | 99,840 |
| Trade and other payables in Cyprus | | 11,137 | | 11,529 |
| Trade and other payables in Russia | | 2,951 | | 136,973 |
| Interest due to NCI Lenders (Note 9) | | 9,813 | | - |
| Director fees owing to a former director | | 14,333 | | 14,333 |
| Reimbursement of expenses owing to related parties | | 2,589 | | 12,486 |
| Total | $ | 58,193 | $ | 275,161 |

During the nine months ended June 30, 2017, the Company settled outstanding payables of $62,988 (2016 - $532,065) through the payment of $31,500 (2016 - $57,757 in common shares of the Company) and accordingly recorded a gain on forgiveness of trade and other payables of $31,488 (2016 - $474,308).

## 9. DUE TO NON-CONTROLLING INTEREST LENDERS

| | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|
| Alexander Molyneux | $ | 315,851 | $ | 328,599 |
| Eugene McCarthy | | 316,372 | | 328,793 |
| Blake Steele | | 70,247 | | 73,043 |
| OC Management Group Ltd. | | 142,926 | | 151,142 |
| Insignia Partners Limited * | | 149,563 | | 157,927 |
| Total | $ | 994,959 | $ | 1,039,504 |

* Effective February 6, 2017, Swain Investments Limited assigned the debt to Insignia Partners Limited. Both companies are nominees for a NCI Lender.

On acquisition of Azarga BVI (Note 7), the Company assumed the obligation to repay existing loans made by the NCI Lenders. The amounts due to the NCI Lenders are unsecured, bear interest at the rate of 12% per annum payable annually on each anniversary date, and must be paid by May 31, 2023. On May 31, 2016, the principal and accrued interest due to the NCI Lenders totalled US$766,709. Interest from June 1, 2016 to September 30, 2016 totalled US$25,777 for a total at September 30, 2016 of US$792,486 ($1,039,504).

At September 30, 2016, the Company reported this aggregate principal plus interest of US$792,486 as a long-term liability and as at June 30, 2017 the Company is reporting the aggregate principal as US$766,709 ($994,959) as a long-term liability.

Accrued interest due to the NCI Lenders from June 1, 2016 to May 31, 2017 totaled $124,207 (US$92,005) and this fully settled in common shares of the Company on June 7, 2017 (Note 10).

As at June 30, 2017, the accrued interest due to the NCI Lenders totaled $9,813 (US$7,562) and was included in trade and other payables (Note 8).

For the nine months ended June 30, 2017, the Company recorded $102,564 (US$73,791) (2016 - $8,173) of interest expense on the amounts due to the NCI Lenders.

## 10. SHARE CAPITAL

### a) Authorized

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

### b) Issued and Outstanding

As at June 30, 2017, the Company had 48,065,138 common shares issued and outstanding (September 30, 2016 – 42,980,265).

During the nine months ended June 30, 2017, the Company issued the following common shares:

- 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, of which $595,600 had been received as at September 30, 2016 and recorded as an obligation to issue shares. 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 Company paid finders' fees of $8,100 and other share issue costs of $6,350.

  The warrants were valued on a relative fair value basis at $190,038 using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 0.73%; an expected volatility of 100%; an expected life of 1 year; a forfeiture rate of zero; and an expected dividend of zero.

- On October 25, 2016, the Company issued 63,635 common shares to settle consulting and director fees of $28,000 which had been recorded as an obligation to issue shares as at September 30, 2016 (Note 10c).

- On January 9, 2017, the Company issued 133,333 common shares to the Chief Executive Officer and 33,333 common shares to the Corporate Secretary to satisfy the first third of a one-time bonus of $36,667 which had been recorded as an obligation to issue shares as at September 30, 2016 (Note 10c).

- On January 16, 2017, the Company issued 107,934 common shares to settle consulting and director fees of $22,667 which had been recorded as an obligation to issue shares (Note 10c).

- On May 10, 2017, the Company issued 85,104 common shares to settle director fees of $20,000 which had been recorded as an obligation to issue shares (Note 10c).

- On June 7, 2017, the Company issued 514,283 common shares valued at $97,714 to settle the first Deferred Payment of $108,000 (US$80,000) (Note 7). Accordingly, the Company recorded a gain on settlement of Deferred Payment of $10,626.

- On June 7, 2017, the Company issued 709,751 common shares valued at $134,853 to settle interest due to the NCI Lenders of $124,207 (US$92,005) (Note 9). Accordingly, the Company recorded a loss on settlement of interest payable of $10,646.

## 10. SHARE CAPITAL (continued)

### c) Obligation to issue shares

Effective October 1, 2016, the Company agreed to pay the three non-executive directors of the Company director fees of $5,000 per quarter. Effective December 1, 2016, the NCI Shareholder described below was appointed a director of the Company and is therefore paid in accordance with the other non-executive directors as described herein. During the nine months ended June 30, 2017, the Company recorded $56,667 as an obligation to issue shares. On January 16, 2017, the Company issued 79,363 common shares to settle director fees of $16,667 (Note 10b). On May 10, 2017, the Company issued 85,104 common shares to settle director fees of $20,000 (Note 10b).

Effective June 1, 2016, the Company entered into a six-month consulting agreement with one of the NCI Shareholders whereby the Company agreed to pay the NCI Shareholder a monthly fee of $2,500 payable in common shares of the Company. Effective October 1, 2016, the Company agreed to increase these fees to $3,000 per month. Effective December 1, 2016, the NCI Shareholder was appointed a director of the Company and is therefore paid in accordance with the other non-executive directors as described above. During the nine months ended June 30, 2017, the Company recorded $6,000 as an obligation to issue shares. On January 16, 2017, the Company issued 28,571 common shares to settle consulting fees of $6,000 (Note 10b).

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 Corporate Secretary. The shares are to be issued equally in three tranches beginning six months from the date of award providing the continued engagement of the Chief Executive Officer and the Corporate Secretary. During the nine months ended June 30, 2017, the Company recorded $65,585 as share-based compensation with a credit to obligation to issue shares. On January 9, 2017, the Company settled the first third of this obligation (Note 10b). Subsequent to June 30, 2017, the Company settled the second third of this obligation through the issue of 133,333 common shares to the Chief Executive Officer and 33,333 common shares to the Corporate Secretary.

On August 9, 2016, the Company entered into a consulting agreement with a financial advisor whereby the Company had agreed to pay the financial advisor, among other things, 75,000 common shares for services. However, TSX-V policies do not allow for the issue of shares for this type of service and the Company is now in the process of renegotiating payment of services to date with the financial advisor. Accordingly, the Company has reversed $2,859 of share-based compensation that had been recorded as an obligation to issue shares as at September 30, 2016 and instead has recorded an accrual of $13,653 for the nine months ended June 30, 2017 which is included in trade and other payables as at June 30, 2017.

(Unaudited - Expressed in Canadian dollars)

## 10. SHARE CAPITAL (continued)

### d) Warrants

The continuity of share purchase warrants for the nine months ended June 30, 2017 is as follows:

| Expiry date | Exercise price | Balance, September 30, 2016 | Issued | Exercised | Expired | Balance, June 30, 2017 |
|---|---|---|---|---|---|---|
| October 7, 2017 | $ 0.40 | - | 1,718,749 | - | - | 1,718,749 |
| | | - | 1,718,749 | - | - | 1,718,749 |
| Weighted average exercise price | | $ - | $ 0.40 | $ - | $ - | $ 0.40 |

### e) Options

On April 29, 2016, the Company's shareholders approved the renewal of a rolling stock option plan applicable to directors, employees and consultants, under which the total outstanding stock options 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 nine months ended June 30, 2017, is as follows:

| Expiry date | *Exercise price* | Balance, September 30, 2016 | Granted | Exercised | Expired | Balance, June 30, 2017 | |
|---|---|---|---|---|---|---|---|
| November 19, 2017 | *$ 2.20* | 24,000 | - | - | - | 24,000 | |
| July 8, 2021 | *$ 0.20* | 2,100,000 | - | - | - | 2,100,000 | * |
| August 9, 2021 | *$ 0.20* | 125,000 | - | - | - | 125,000 | * |
| October 5, 2021 | *$ 0.32* | - | 225,000 | - | - | 225,000 | * |
| | | 2,249,000 | 225,000 | - | - | 2,474,000 | |
| Weighted average exercise price | | $ 0.22 | $ 0.32 | $ - | $ - | $ 0.23 | |

* The options vest as to one-third each six-months beginning six months from the date of grant.

As at June 30, 2017, 840,667 of the stock options were exercisable. As at June 30, 2017, the weighted average remaining contractual life of the options outstanding was 4.02 years.

## 10. SHARE CAPITAL (continued)

### f) Share-based compensation

During the nine months ended June 30, 2017, the Company recorded share-based compensation of $386,008 (2016 - $Nil).

On October 5, 2016, the Company granted 225,000 stock options to consultants at a fair value of $71,113 or $0.32 per option, of which $52,723 was recorded as share-based compensation for the nine months ended June 30, 2017. The fair value of the options granted was determined using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 0.91%; an expected volatility of 160%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

On August 9, 2016, the Company granted 125,000 stock options to a consultant at a fair value of $25,607 or $0.20 per option, of which $16,752 was recorded as share-based compensation for the nine months ended June 30, 2017.

On August 9, 2016, the Company entered into a consulting agreement with a financial advisor whereby the Company agreed to pay the financial advisor, among other things, 75,000 common shares. During the nine months ended June 30, 2017, the Company recorded a credit to share-based compensation of $2,859 (Note 10c).

On July 8, 2016, the Company granted 2,100,000 stock options to directors, officers, employees, and consultants at a fair value of $428,496 or $0.20 per option, of which $253,807 was recorded as share-based compensation for the nine months ended June 30, 2017.

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 Corporate Secretary. During the nine months ended June 30, 2017, the Company recorded $65,585 as share-based compensation (Note 10c).

(Unaudited - Expressed in Canadian dollars)

## 11. RELATED PARTY TRANSACTIONS AND BALANCES

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

a) Consulting fees

During the three and nine months ended June 30, 2017, the Company paid or accrued $25,000 (2016 - $8,333) and $75,000 (2016 - $33,333) respectively, to Golden Oak Corporate Services Ltd. ("Golden Oak"). Golden Oak is a consulting company controlled by the 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.

b) Compensation of key management personnel

Key management includes members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid or accrued to key management personnel, which includes the amounts disclosed above, during the three and nine months ended June 30, 2017 and 2016 were as follows:

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Consulting fees | $ 25,000 | $ 8,333 | $ 75,000 | $ 33,333 |
| Director fees | 20,000 | 4,500 | 56,667 | 4,500 |
| Interest expense on notes payable | - | 1,387 | - | 1,687 |
| Salaries and benefits | 60,884 | 22,149 | 186,627 | 81,433 |
| Share-based compensation | 68,605 | - | 295,220 | - |
| | $ 174,489 | $ 36,369 | $ 613,514 | $ 120,953 |

Included in trade and other payables as at June 30, 2017 was $16,922 (September 30, 2016 – $26,819) due to related parties (Note 8).

## 12. 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.

(Unaudited - Expressed in Canadian dollars)

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

*Financial Instruments*

Financial instruments are classified into one of the following categories: fair value through profit or loss; 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 | | June 30, 2017 | | September 30, 2016 |
|---|---|---|---|---|---|
| Cash | FVTPL | $ | **101,388** | $ | **1,587,046** |
| Receivables | Loans and receivables | | **19,877** | | **70,031** |
| Trade and other payables | Other liabilities | | **58,193** | | **275,161** |
| Due to non-controlling interest lenders | Other liabilities | | **994,959** | | **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 is determined based on Level 1 of the fair value hierarchy. Amounts due to non-controlling interest lenders are measured using the effective interest method.

*Risk Management*

The Company's risk management objectives and policies are consistent with those disclosed by the Company for the year ended September 30, 2016.

(Unaudited - Expressed in Canadian dollars)

## 14. SUPPLEMENTARY CASH FLOW INFORMATION

During the nine months ended June 30, 2017, the Company:

- issued 256,673 common shares valued at $70,667 to settle consulting and director fees;
- issued 133,333 common shares to the Chief Executive Officer and 33,333 common shares to the Corporate Secretary to satisfy the first third of a one-time bonus of $36,667 (Note 10c);
- issued 514,283 common shares valued at $97,714 to settle the first Deferred Payment of US$80,000 (Note 7); and
- issued 709,751 common shares valued at $134,853 to settle interest due to the NCI Lenders of US$92,005 (Note 9).

During the nine months ended June 30, 2016, the Company:

- issued 15,776,181 common shares valued at $1,577,618 as partial consideration for the Unkur Project;
- issued 32,500 common shares as finder's fees valued at $3,250; and
- issued 577,572 common shares to settle debts of $57,757.

## 15. NON-CONTROLLING INTEREST

The Company owns 60% of the shares of Azarga BVI. The Company is responsible for funding 100% of all costs related to the Unkur project until commencement of commercial production. The Company controls each of the entities and makes all decisions regarding work programs. Accordingly, the Company is reporting a non-controlling interest in the consolidated working capital items only and no share of the Azarga BVI group's operations.

| | June 30, 2017 | September 30, 2016 |
|---|---|---|
| **NCI percentage** | ***40.0%*** | ***40.0%*** |
| Current assets | $ 4,302 | $ 4,302 |
| Current liabilities | (17,178) | (17,178) |
| | (12,876) | (12,876) |
| **Net working capital deficiency** | $ (5,150) | $ (5,150) |
| **Accumulated non-controlling interest** | $ (5,150) | $ (5,150) |