



**MANAGEMENT DISCUSSION AND ANALYSIS  
QUARTERLY HIGHLIGHTS**

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

(Expressed in Canadian dollars)

# **AZARGA METALS CORP.**

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

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

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The following management discussion and analysis – quarterly highlights (“MD&A - Quarterly Highlights”) of the results of operations and financial condition of Azarga Metals Corp. (the “Company” or “Azarga”) for the nine months ended June 30, 2017 and up to the date of this MD&A - Quarterly Highlights, has been prepared to provide material updates to the business operations, financial condition, liquidity and capital resources of the Company since its last management discussion and analysis for the fiscal year ended September 30, 2016 (the “Annual MD&A”).

This MD&A - Quarterly Highlights should be read in conjunction with the Annual MD&A and the audited consolidated financial statements for the year ended September 30, 2016, together with the notes thereto, and the accompanying unaudited condensed consolidated interim financial statements and related notes thereto for the nine months ended June 30, 2017 (the “Financial Report”).

All financial information in this MD&A - Quarterly Highlights is derived from the Company's financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

The effective date of this MD&A is August 24, 2017.

### **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 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.

### **Operational Highlights**

Azarga owns 60% of the Unkur Copper-Silver Project along with the right to acquire the remaining 40% in the future. The Unkur Copper-Silver Project is located in the Zabaikalsky administrative region of eastern Russia. 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 mineralization 20 to 50 meters thick over an area four to six kilometers long.

Since acquiring the Unkur Project on May 31, 2016, Azarga has completed its first phase exploration program. This program comprised 16 diamond core holes totaling about 4,600 meters, the excavation of 5 trenches covering 309 cumulative linear meters, surface geologic mapping which disclosed the presence of additional outcropping mineralization, and 130 line kilometers of detailed ground magnetic survey. The results of the program add to our confidence that with continued exploration Unkur will continue to expand in size and grade.

On May 17, 2017, the Company announced that it had filed a technical report regarding its Unkur Copper-Silver Project in Russia (“Unkur Report”) to support the maiden Mineral Resource estimate announced on April 4, 2017. The Unkur Report was authored by Robin Simpson, MAIG, of SRK Consulting (Russia) Ltd. (“SRK”) an independent Qualified Person as defined by NI 43-101.

The estimate is an Inferred Mineral Resource of 42 million tonnes at 0.52% copper and 38g/t silver, containing 220,000 tonnes (ie, 480 million pounds) of copper and 52 million ounces of silver. This equates to approximately 380,000 tonnes (ie, 840 million pounds) of copper equivalent at 0.90% or approximately 124 million ounces of silver equivalent at 91g/t, assuming a copper price of US\$3.00/lb, silver price of US\$20/oz and 100% recovery.

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The Unkur Report titled "Technical Report for the Unkur Copper-Silver Deposit, Kodar- Udokan Area, Russian Federation", dated effective March 31, 2017, is filed on the Company's profile on [www.sedar.com](http://www.sedar.com) and is also available on the Company's website.

Azarga considers that there is strong potential to grow the Mineral Resource at the Unkur Copper-Silver Project beyond that identified in this maiden Mineral Resource estimate. The mineralization is open in both directions along strike and further exploration drilling will aim to extend mineralization along strike in Zone 1 as well as Zone 2. Zone 2 is a distinct zone of mineralization occurring stratigraphically below Zone 1. Further drilling will test for at least one additional mineralized zone below Zone 1 and 2, as suggested by interpretation of trench and geologic data. Of key interest for growth potential is the zone of thicker and higher grade mineralization in the northern part of the Inferred Mineral Resource area. The next phase of work will focus on using geologic and geophysical exploration to target potential extensions of this higher grade zone. The mineralization also remains open down-dip. In addition to this Unkur Copper-Silver Project Inferred Mineral Resource area and its potential extensions, there are numerous additional occurrences of copper-silver mineralization and geochemical / geophysical anomalies within the Company's 5,390 hectare Unkur License.

On June 5, 2017, the Company announced its proposed second phase work program subject to funding. The second phase of exploration at Unkur is expected to be carried out during the 2017-2018 field season and will focus on the potential for the discovery of additional copper and silver mineralization from three target concepts: (i) drilling along strike or down dip from currently defined mineralization; (ii) drilling to confirm the presence of at least one additional mineralized zone below Zone 1 and 2; and (iii) drilling new targets expected to be generated by planned geophysical surveys.

The exploration plan is expected to comprise:

- Geophysical exploration: continuation of ground magnetics and initiation of electrical prospecting (induced polarization or IP and electrical tomography) to the north and northeast of the currently defined resource. On a lower priority basis, the area to the south of the current resource will also be covered with ground magnetics and IP.
- Near-resource drilling: eight diamond drill holes totaling approximately 2,370 meters. These drill holes are planned to confirm Zone 1 mineralization as estimated in the current resource model, extend Zone 2 mineralization along strike, and in some cases test for a postulated Zone 3 of mineralization, stratigraphically below Zone 2, as suggested by geologic mapping and historic trenching.
- New target drilling: approximately 1,500 meters of additional diamond drilling is earmarked to test new targets expected to be identified by the planned geophysical surveys.
- Metallurgical characterization: mineralized samples from the Company's prior drilling campaign, as well as sample composites from new mineralization expected to be drilled, will be characterized for sulphide / oxide content and identification of copper minerals to guide future metallurgical testing that will develop a suitable process flowsheet for Unkur mineralization.

#### **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 expenditures is largely determined by the strength of the resource capital and commodity markets and its ability to obtain investor support for its projects.

#### **Financial Condition – nine months ended June 30, 2017**

The Company began the current fiscal period with cash of \$1,587,046. During the nine months ended June 30, 2017, the Company spent \$1,975,608 on operating activities net of working capital changes and received \$489,950 from financing activities to end at June 30, 2017 with \$101,388 cash.

##### *Operating Activities*

Exploration and evaluation expenditures for the nine months ended June 30, 2017 totalled \$1,282,222. As described above, the Company completed a first phase exploration program on its Unkur Project in eastern Russia during the period with \$993,719 being spent on drilling and assays. There were minimal exploration and evaluation expenditures in the prior period as the Unkur Project was only acquired on May 31, 2016.

Employee salaries, fees to directors and contractors for the nine months ended June 30, 2017 totalled \$329,293 (2016 – \$121,392). The increase in salaries and fees relates directly to the increased activity of the Company upon the acquisition of the Unkur Project in May 2016.

##### *Financing Activities*

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. The Company paid share issue costs \$14,450.

#### **Liquidity and Capital Resources**

As at June 30, 2017, the Company had working capital of \$96,528. 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.

In addition to the private placement disclosed above and in an effort to conserve cash, the Company issued the following common shares during the nine months ended June 30, 2017:

- issued 256,673 common shares to settle consulting and director fees of \$70,667.
- 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.
- issued 514,283 common shares valued at \$97,714 to settle the first Deferred Cash Payment of US\$80,000.

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- issued 709,751 common shares valued at \$134,853 to settle interest due to the NCI Lenders of US\$92,005.

#### Related Party Transactions

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

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

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

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

Authorized: an unlimited number of common shares without par value

	Common Shares Issued and Outstanding	Common Share Purchase Warrants	Common Share Purchase Options
<b>Balance June 30, 2017</b>	48,065,138	1,718,749	2,474,000
Shares for bonus – second tranche	166,666	-	-
<b>Balance as at the date of this MD&amp;A</b>	<b>48,231,804</b>	<b>1,718,749</b>	<b>2,474,000</b>

#### 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 above documents incorporated herein by reference. In particular, if any of the risk factors materialize, the expectations, and the predictions based on them, of Azarga may need to be re-evaluated. Consequently, all of the forward-looking information in this MD&A and the documents incorporated herein by reference is expressly qualified by these cautionary statements and other cautionary statements or factors contained herein or in documents incorporated by reference 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.

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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).