



**MANAGEMENT DISCUSSION AND ANALYSIS  
QUARTERLY HIGHLIGHTS**

**For the nine months ended June 30, 2018**

(Expressed in Canadian dollars)

## **AZARGA METALS CORP.**

**For the nine months ended June 30, 2018**

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

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The following management 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 nine months ended June 30, 2018 and up to the date of this MD&A, 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, 2017 (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, 2017, 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, 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 August 22, 2018.

#### **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.

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

The now 100% owned Unkur Copper-Silver Project, located in the Zabaikalsky administrative region of eastern Russia, is the Company’s principal asset.

As announced May 10, 2018, the Company filed a technical report regarding its Unkur Copper-Silver Project (the “Unkur Report”) to support the updated Mineral Resource estimate made and announced on March 27, 2018. The updated Mineral Resource estimate was independently prepared by Tetra Tech Mining and Minerals (“Tetra Tech”), in accordance with National Instrument 43-101 (“NI 43-101”).

The updated estimate contains an Inferred Mineral Resource of 62 million tonnes at 0.53% copper and 38.6g/t silver, containing 328,600 tonnes (724 million pounds) of copper and 76.8 million troy ounces of silver. This equates to copper equivalent grade of 0.90%, assuming a copper price of US\$3.00/lb, silver price of US\$20/oz and 100% recovery for copper and silver. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The updated Mineral Resource estimate represents an increase of approximately 20 million tonnes (ie, 47%) in the size of the Inferred Resource, compared to the Company’s maiden NI 43-101 Mineral Resource estimate (see the Company’s news release dated April 4, 2017), with both copper and silver grades having increased marginally. The increase in tonnage, as compared to the Company’s maiden Mineral Resource estimate, was caused by two factors. Firstly, as a result of a recent detailed review of the geology and style of mineralization of Unkur by Azarga and Tetra Tech staff, a less restrictive approach has been deemed appropriate to the physical constraints applied to the three-dimensional geological model of the deposit thereby including some mineralized zones that were previously excluded in the estimation of the maiden Mineral Resource. Secondly, the current work on the preliminary economic assessment (“PEA”) for Unkur has provided a more detailed understanding of the possible operating options for Unkur and associated

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costs, and Tetra Tech considers that there is a reasonable expectation of economic viability of some material that was excluded from the maiden Mineral Resource based on a hypothetical open-pit design. This material has now been included into the updated Mineral Resource estimate. The work underway on the PEA for Unkur is based on this updated resource estimate.

Azarga's overall strategy remains to continue physical exploration at Unkur to increase mineralization. The information gained from the PEA in terms of metallurgical processing options, infrastructure and operating costs in the region will greatly assist in refining the strategy for further exploration activities.

#### **Acquisition of Unkur Project**

In May 2016, the Company purchased 60% of the outstanding shares of Azarga Metals Limited ("Azarga BVI"), a British Virgin Islands corporation. As consideration, the Company issued 15,776,181 common shares, agreed to pay deferred cash payments of US\$1,680,000 (US\$80,000 was settled through the issuance of 514,283 common shares in June 2017), and assumed the obligation to repay certain existing loans made by certain selling shareholders of Azarga BVI.

Azarga BVI indirectly holds the Unkur mineral exploration and exploitation license that is valid through December 31, 2039.

In March 2018, the Company acquired the remaining 40% outstanding shares of Azarga BVI. As consideration for the acquisition of the remaining 40% interest and the cancellation of the remaining \$1,600,000 of deferred cash payments (as described above), the Company issued 42,000,000 common shares valued at \$5,250,000.

The selling 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\$5,000,000 per percentage point so that upon paying US\$10,000,000 the NSR royalty will be reduced to 3%.

If at any time, a Resource (adding Measured, Indicated and Inferred of all combined deposits within the Unkur Project area) is estimated to contain copper and silver to the equivalent of two million tonnes or more of copper where Measured plus Indicated Resources comprise at least 70% of that estimate, taking the value of silver as copper equivalent (the "Bonus Payment Threshold"), an additional US\$6,200,000 will be payable to the selling shareholders within 12 months' notice that the Bonus Payment Threshold has been met.

#### **Kremnica Gold Project, Slovakia**

The Company had a 2% NSR royalty on the first one million ounces of gold and silver produced and a 1% NSR royalty on the second one million ounces of gold and silver produced from the Kremnica Gold project in Slovakia, part of the Šturec Project, owned by Ortac Resources Limited ("Ortac"). In addition, under the terms of a sale agreement with Ortac, the Company would be paid US\$15 per ounce in either shares of Ortac or cash on the first 250,000 ounces of gold equivalent resource defined as proven and probable reserve in a bankable feasibility study which would be payable within 60 days of all required permits being obtained to allow commercial production at the Kremnica property (the "Deferred Payments").

In February 2018, the Company received \$86,485 (£50,000) from Ortac to cancel the NSR royalty and the Deferred Payments. In the event of a sale or disposal of the Kremnica project by Ortac within 12 months, Azarga will be entitled to 30% of the net proceeds received by Ortac for such sale or disposal.

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#### **Other**

In addition to working on the PEA, Azarga has continued to move forward a number of initiatives including: (a) engaging with a number of potential strategic partners at both the Unkur project and parent level; (b) re-interpretation of the results of the 2016-2017 exploration program to refine plans for upcoming physical exploration works; and (c) reviewing potentially attractive acquisitions in the broader Chara-Aldan region within which Unkur is situated and for which the Company executed an exclusive Memorandum of Understanding with Azarga Resources Partners, OC Management Group and Insignia Partners Limited for cooperation on such opportunities.

#### **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.

#### **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, 2018**

The Company began the current fiscal period with cash of \$36,196. During the nine months ended June 30, 2018, the Company spent \$270,952 on operating activities, net of working capital changes, received \$56,485 net from investing activities and received \$182,000 from a loan facility with certain shareholders of the Company, to end at June 30, 2018 with \$3,729 cash.

#### *Operating Activities*

Exploration and evaluation expenditures for the nine months ended June 30, 2018 totalled \$300,846 (2017 - \$1,282,222). Activity in the current quarter consisted primarily of work on the PEA for the Unkur project by Tetra Tech. Other expenses included land payments and general and administration expenses such as salaries and office expenses. The Company is currently operating on a care and maintenance basis.

Salaries and benefits for the nine months ended June 30, 2018 totalled \$146,205 (2017 - \$329,293). The decrease from the prior period relates to the Chief Executive Officer and Golden Oak agreeing to reduce their fees by half effective September 1, 2017 in order to conserve cash as the Company is currently operating on a care and maintenance basis as noted above. To date, these half fees have been accrued but not paid and are included in trade and other payables.

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#### *Investing Activities*

In February 2018, the Company received \$86,485 (£50,000) from Ortac to cancel the NSR royalty and the Deferred Payments described above under Kremnica Gold Project, Slovakia.

In March 2018, the Company incurred \$30,000 in transaction costs in relation to the acquisition of the remaining 40% interest in the Unkur project.

#### *Financing Activities*

On December 6, 2017, the Company entered into a loan facility agreement with certain shareholders of the Company whereby the shareholders agreed to loan the Company up to \$400,000 to be drawn in four equal advances over a period of nine months. All advances must be repaid by December 14, 2018. As at June 30, 2018, the Company had been advanced \$182,000.

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

As at June 30, 2018, the Company had a working capital deficiency of \$678,747. Additional funding will be required to provide the Company with sufficient financial resources to carry out currently planned exploration and 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>Common Share Purchase Warrants</b>	<b>Common Share Purchase Options</b>
<b>Balance June 30, 2018</b>	90,398,472	-	4,770,000
<b>Balance 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 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.

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).