



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

For the nine months ended June 30, 2021

AZARGA METALS CORP.
For the nine months ended June 30, 2021
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 nine months ended June 30, 2021 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, 2020 (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, 2020, 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, 2021 (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 25, 2021.

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 the Company's 100% owned Unkur Copper-Silver project located 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.

Highlights:

- Gordon Tainton appointed as director, and President and Chief Executive Officer of Azarga.
- Private placement raised \$1,250,000 from the issuance of 20,833,329 units.
- Unkur positive preliminary economic assessment report based on updated 2021 Inferred Mineral Resource of 51.1 million tonnes at 0.59% copper and 40 grams per tonne silver supported by technical report filed August 16, 2021.
- Exclusivity agreement setting out the principal commercial terms upon which the Company can acquire a 100% interest in the Marg Project located in the Yukon Territory of Canada from Golden Predator Mining Corp.

Management Change

In April 2021, the Company appointed Gordon Tainton as director and President and Chief Executive Officer, succeeding Michael Hopley who stepped down to pursue other interests.

Mr. Tainton is an experienced, successful business leader who, since the early 2000's has held senior management and board positions in both public and private companies within the mining and extractive industries as well as physical commodity marketing. His project experience includes involvement with studies and development plans, trading, logistics, off-take agreements and project financing, and he has significant experience in project generation in the junior mining sector. Mr. Tainton holds a BA from Simon Fraser University.

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Unkur Copper-Silver Project, eastern Russia

Azarga announced the positive findings of an updated preliminary economic assessment (“**PEA**”) for the development of its wholly owned Unkur Copper-Silver Project in the Zabaikalsky administrative region of Eastern Russia.

HIGHLIGHTS:

- Base PEA case proposes average annual production of 11.7 thousand tonnes per annum copper and 2.9 million ounces per annum silver in concentrates over a 14-year mine life
- 4-years open-pit mining at 2.75 million tonnes per annum followed by 10-years underground mining at 2.0 million tonnes per annum
- Use of SART processing in early years to process oxide material, followed by conventional sulphide flotation
- At consensus prices (US\$3.86 per pound copper and US\$25 per ounce silver), post-tax net present value (“NPV”) of US\$205.5 million and internal rate of return (“IRR”) of 26.7%
- At May 21, 2021 spot prices (US\$4.54 per pound copper and US\$28 per ounce), post-tax NPV of US\$380.4 million and IRR of 44.4%
- Post-tax NPVs of the updated PEA are 39-158% higher than the previous PEA prepared on Unkur in 2018. Substantial improvements include: lower pre-production capital expenditure; higher average annual throughput; and a 75% longer mine life
- The PEA also considered an alternative open-pit only case to mine and process the oxide material for 4 years with post-tax NPV of US\$95.1 million and IRR of 46.3% (at consensus prices) and NPV of US\$162.2 million and IRR of 70.1% (at May 2021 spot prices)
- Positive PEA result based on updated 2021 Inferred Mineral Resource estimate of 51.1 million tonnes at 0.59% copper and 40 grams per tonne silver

This updated PEA is based on the new 2021 Inferred Mineral Resource estimate, which is largely the product of the modern exploration campaigns conducted by Azarga at Unkur in 2016-2017 and 2019-2021. Azarga considers that there is strong potential to grow the 2021 Mineral Resource estimate. Mineralization is open in both directions along strike and at depth. The updated resource estimate and PEA were independently prepared by Wardell Armstrong (“**WAI**”). WAI estimated 51.1 million tonnes of mineralization at 0.59% copper and 40 grams per tonne silver, optimized for open pit and underground operation. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

When considering the PEA outcomes, the Company is of the opinion that relatively small amounts of additional open-pit mineable resources (even 1-2+ years' worth) could have a beneficial impact on economics of both the base case and alternative open-pit only scenarios. In that regard, new copper mineralization was discovered in 2020 in outcrops at Kemen, some 5 kilometres east of the main Unkur deposit, and at Unkur Southwest, approximately 1 kilometres from Unkur. Azarga Metals aims to continue to grow mineral resources at Unkur, with a particular focus on high-value near-surface material.

The PEA assumes a one-year pre-development timeline prior to first production. Initial development in the first year consists mainly of infrastructure works, site preparation and commencement of plant construction. Pre-stripping will also occur in the first pre-development year along with completion of the processing plant. This is considered reasonable giving the heap leach treatment for oxide mineralization chosen under base case scenario. Tailing's storage facility development will be completed before the project transits to underground mining, although some of the waste material generated during the first years of open pit mining

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will be used for construction of the tailing's facility.

Details of the assumptions and parameters used with respect to the Unkur Copper-Silver Project PEA, including information on data verification, are set out in the "Preliminary Economic Assessment of the Unkur Copper Deposit, Zabaikalsky Krai, Russian Federation", dated August 16, 2021 with an effective date of July 31, 2021, a copy of which is available under the Company's profile at www.sedar.com.

The Unkur Copper-Silver Project PEA is preliminary in nature; it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the Unkur Copper-Silver Project PEA will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The 2021 Mineral Resource estimate was prepared by Alan Clarke, an employee of WAI. Mr. Clarke is a Chartered Geologist (CGeol) and Fellow of the Geological Society of London, and European Geologist (EurGeol) of the European Federation of Geologists and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Qualified Person as defined by National Instrument 43-101 ("NI 43-101").

The results of the 2021 Mineral Resource estimate and PEA prepared by WAI have been reviewed by the Company's technical staff, including Alexander Yakubchuk, Ph.D., MoIMMM, the Company's Vice-President Exploration, a Qualified Person as defined by NI 43-101. Dr. Yakubchuk is also the person responsible for preparation of the technical information contained in this MD&A.

Marg Copper Project Acquisition

In July 2021, the Company entered into an agreement setting out the principal commercial terms upon which the Company proposes, subject to certain conditions, to acquire a 100% interest in the Marg Project located in the Yukon Territory of Canada from Golden Predator Mining Corp. ("Golden Predator").

On completion of the Company's due diligence and negotiation and execution of a definitive agreement, the Company will have the right to acquire 100% of the Marg project in consideration for the following:

- paying a non-refundable deposit of \$50,000 (paid) for a 60-day exclusivity period to enable the Company to conduct its due diligence investigations;
- issuing on closing fully paid ordinary shares in the Company to the value of \$700,000. The shares may be subject to an involuntary escrow period as determined by the TSX-V. If the escrow period is longer than 6 months, a further cash payment of \$100,000 will be payable;
- paying \$200,000 on the first anniversary of closing;
- paying \$350,000 on the second anniversary of closing;
- paying \$300,000 upon making a decision to mine, payable in cash or shares at the option of the Company; and
- granting Golden Predator a 1% net smelter return ("NSR") royalty of all metals extracted from the Marg Project. The Company will have the option to buy back 100% of the NSR royalty for cash consideration of \$1,500,000.

A finder's fee based on a sliding scale will be payable in accordance with the transaction milestones up to \$110,000, payable in cash or the Company's shares at the Company's discretion.

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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.

COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse impacts of the outbreak and its effects on the Company's business or ability to raise funds. To date, the COVID-19 pandemic has not affected the progress of the exploration program on the Unkur Project.

Financial Condition and Results of Operations – nine months ended June 30, 2021

The Company began the current fiscal period with cash of \$775,220. During the nine months ended June 30, 2021, the Company spent \$795,209 on operating activities, net of working capital changes, and raised \$1,184,282 from financing activities, to end at June 30, 2021 with a cash balance of \$1,164,293.

The loss and comprehensive loss for the nine months ended June 30, 2021 was \$1,285,237 compared to \$3,362,844 for the nine months ended June 30, 2020.

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

Exploration and evaluation expenditures for the nine months ended June 30, 2021 totalled \$276,905 (2020 – \$1,826,104) and related to exploration work on the Unkur project. In the current period, the Company conducted a reconnaissance geochemical exploration program whereas in the prior period, the Company was drilling the Unkur project and incurred \$1,407,993 of drilling and assay expenditures.

Foreign exchange loss for the nine months ended June 30, 2021 totalled \$57,858 compared to \$285,154 in the prior period. The loss related to foreign exchange fluctuations on the Company's US dollar denominated convertible loan and shareholder loans, as well as certain fluctuations in exchange rates due to the Company's Russian operations.

During the nine months ended June 30, 2021, the Company recorded interest expense of \$420,815 (2020 – \$520,238), being \$284,377 (2020 – \$257,097) of interest expense on the convertible loan (included in trade and other payables), accretion of \$Nil (2020 – \$225,477), and amortization of financing costs of \$136,438 (2020 – \$37,664).

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During the nine months ended June 30, 2020, the Company recorded the following related to the convertible loan with Baker Steel Resource Trust ("BSRT"):

- Gain in fair value of derivative liability of \$869,805. The derivative liability was a component of the convertible loan and was re-valued each reporting period using the Black-Scholes option pricing model by changing various assumptions including the share price, risk-free interest rate, expected volatility, and expected life, as at the end of the reporting period. There was no change in fair value of derivative liability in the current period as the convertible loan was amended in April 2020 to fix the number of potential common shares to be issued.
- Gain on de-recognition of derivative liability of \$746,346. As amended in April 2020, the Company determined that the convertible loan no longer contained an embedded derivative as it satisfied the "fixed for fixed" requirement as the number of potential common shares to be issued is fixed at 46,925,500 common shares being the principal of \$4,692,550 divided by the conversion price of \$0.10.
- Loss on extinguishment of convertible loan liability of \$1,845,424. The modification of the terms of the convertible loan was considered substantial and was accounted for as an extinguishment of the original loan and the recognition of a new loan.

Liquidity and Capital Resources

In March 2021, the Company completed a non-brokered private placement through the issuance of 20,833,329 units at a price of \$0.06 per unit for gross proceeds of \$1,250,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one common share of the Company at a price of \$0.12 per share until March 25, 2023.

As at June 30, 2021, the Company had working capital of \$1,102,226. Management estimates that its working capital may not provide the Company with sufficient financial resources to carry out currently planned operations and exploration through the next twelve months. Additional financing may be required by the Company to complete its strategic objectives and continue as a going concern. 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.

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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	Share Purchase Warrants	Stock Options
Balance as at June 30, 2021	121,092,414	32,047,375	10,152,000
Options expired	-	-	(1,725,000)
Balance as at the date of this MD&A	121,092,414	32,047,375	8,427,000

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 address 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 and at the Company’s website www.azargametals.com.