



**Azarga Uranium Corp.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**June 30, 2019**

*(Unaudited – Expressed in U.S. Dollars)*

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**Notice to Reader**

These condensed consolidated interim financial statements of Azarga Uranium 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's Discussion and Analysis.

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**AZARGA URANIUM CORP.**  
**Condensed Consolidated Interim Statements of Financial Position**  
*(Unaudited – Expressed in U.S. Dollars)*

		As at	
	Notes	June 30, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,279,879	\$ 352,001
Other assets		29,158	26,810
<b>Total current assets</b>		<b>1,309,037</b>	<b>378,811</b>
<b>Non-current assets</b>			
Restricted cash		40,087	39,963
Exploration and evaluation assets	5	42,973,439	46,696,473
Property, plant and equipment		84,665	90,106
Right-of-use assets	3	133,001	-
Reclamation bonds		-	99,000
<b>Total non-current assets</b>		<b>43,231,192</b>	<b>46,925,542</b>
<b>Total assets</b>		<b>\$ 44,540,229</b>	<b>\$ 47,304,353</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables		\$ 852,947	\$ 1,302,085
Operating lease obligations	3	26,411	-
<b>Total current liabilities</b>		<b>879,358</b>	<b>1,302,085</b>
<b>Non-current liabilities</b>			
Trade and other payables		100,000	150,000
Deferred income tax liabilities		4,194,424	4,233,790
Decommissioning liabilities		240,412	223,442
Operating lease obligations	3	108,767	-
Warrant liabilities		396,516	247,654
<b>Total non-current liabilities</b>		<b>5,040,119</b>	<b>4,854,886</b>
<b>Total liabilities</b>		<b>5,919,477</b>	<b>6,156,971</b>
<b>Equity</b>			
Common shares	6	59,982,517	57,976,321
Contributed surplus	6	683,229	1,001,818
Share option reserve	7	2,700,726	2,500,078
Foreign currency translation reserve		(896,114)	(863,092)
Accumulated deficit		(23,359,294)	(18,973,266)
Equity attributable to the equity holders of the Company		39,111,064	41,641,859
Non-controlling interest	13	(490,312)	(494,477)
<b>Total equity</b>		<b>38,620,752</b>	<b>41,147,382</b>
<b>Total liabilities and equity</b>		<b>\$ 44,540,229</b>	<b>\$ 47,304,353</b>

**Approved by the Audit Committee of the Board of Directors of the Company:**

“Joseph L. Havlin”, Director \_\_\_\_\_

“Matthew O’Kane”, Director \_\_\_\_\_

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**AZARGA URANIUM CORP.**  
**Condensed Consolidated Interim Statements of Loss and Other**  
**Comprehensive Loss**  
*(Unaudited – Expressed in U.S. Dollars)*

		Three months ended June 30,		Six months ended June 30,	
	Notes	2019	2018	2019	2018
Administrative expenses	8	\$ (407,557)	\$ (373,657)	\$ (849,019)	\$ (811,382)
Foreign exchange gain		26,709	85,829	19,560	25,384
Impairment of exploration and evaluation assets	5	(4,140,444)	-	(4,140,444)	-
<b>Loss from operations</b>		(4,521,292)	(287,828)	(4,969,903)	(785,998)
Finance costs		(2,549)	(73,501)	(4,938)	(147,889)
Unrealized gain (loss)		(10,839)	25,540	239,064	(31,155)
Realized gain		-	78,672	-	78,672
<b>Loss before income tax</b>		(4,534,680)	(257,117)	(4,735,777)	(886,370)
Deferred income tax recovery		42,316	18,675	51,309	21,936
<b>Net loss</b>		(4,492,364)	(238,442)	(4,684,468)	(864,434)
<b>Other comprehensive income (loss)</b>					
<b>Item that may be reclassified subsequently as profit or loss</b>					
Foreign currency translation adjustment		42,323	(35,365)	(47,175)	(19,246)
<b>Total other comprehensive loss</b>		\$ (4,450,041)	\$ (273,807)	\$ (4,731,643)	\$ (883,680)
<b>Net loss attributable to:</b>					
Equity holders of the Company		(4,199,110)	(236,870)	(4,386,028)	(859,491)
Non-controlling interest		(293,254)	(1,572)	(298,440)	(4,943)
<b>Net loss</b>		\$ (4,492,364)	\$ (238,442)	\$ (4,684,468)	\$ (864,434)
<b>Other comprehensive income (loss) attributable to:</b>					
Equity holders of the Company		29,627	35,365	(33,022)	(19,246)
Non-controlling interest		12,696	-	(14,153)	-
<b>Other comprehensive income (loss)</b>		\$ 42,323	\$ 35,365	\$ (47,175)	\$ (19,246)
<b>Basic and diluted loss per share</b>		\$ (0.03)	\$ (0.00)	\$ (0.03)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>		183,616,851	84,570,311	177,715,106	84,570,311

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**AZARGA URANIUM CORP.**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
*(Unaudited – Expressed in U.S. Dollars)*

	Attributable to equity holders of the Company							Non-controlling interest	Total equity
	Number of shares	Common shares	Contributed surplus	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Total equity		
<b>Balances, December 31, 2018</b>	169,833,806	\$ 57,976,321	\$ 1,001,818	\$ 2,500,078	\$ (863,092)	\$ (18,973,266)	\$ 41,641,859	\$ (494,477)	\$ 41,147,382
Issuance of shares for private placement	13,106,046	1,871,110	-	-	-	-	1,871,110	-	1,871,110
Issuance of shares to settle ESPP	620,656	107,586	(107,586)	-	-	-	-	-	-
Issuance of shares to settle DSA	158,639	27,500	(27,500)	-	-	-	-	-	-
Compensation to be settled by equity	-	-	133,255	-	-	-	133,255	-	133,255
Share-based compensation	-	-	-	200,648	-	-	200,648	-	200,648
NCI adjustment on acquisition of 23% of UrAsia	-	-	(316,758)	-	-	-	(316,758)	316,758	-
Net loss for the period	-	-	-	-	-	(4,386,028)	(4,386,028)	(298,440)	(4,684,468)
Other comprehensive loss for the period	-	-	-	-	(33,022)	-	(33,022)	(14,153)	(47,175)
<b>Balances, June 30, 2019</b>	<b>183,719,147</b>	<b>\$ 59,982,517</b>	<b>\$ 683,229</b>	<b>\$ 2,700,726</b>	<b>\$ (896,114)</b>	<b>\$ (23,359,294)</b>	<b>\$ 39,111,064</b>	<b>\$ (490,312)</b>	<b>\$ 38,620,752</b>

	Attributable to equity holders of the Company							Non-controlling interest	Total equity
	Number of shares	Common shares	Contributed surplus	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Total equity		
<b>Balances, December 31, 2017</b>	83,619,850	\$ 41,286,853	\$ 768,652	\$ 1,427,563	\$ (827,984)	\$ (16,593,976)	\$ 26,061,108	\$ (449,996)	\$ 25,611,112
Issuance of shares for private placements	780,000	140,804	-	-	-	-	140,804	-	140,804
Issuance of shares for repurchase of royalties	104,166	19,390	-	-	-	-	19,390	-	19,390
Issuance of shares to settle trade and other payables	765,334	144,993	-	-	-	-	144,993	-	144,993
Issuance of shares to settle ESPP	350,937	60,901	(60,901)	-	-	-	-	-	-
Issuance of shares to settle DSA	161,722	30,516	(30,516)	-	-	-	-	-	-
Compensation to be settled by equity	-	-	134,247	-	-	-	134,247	-	134,247
Share-based compensation	-	-	-	72,292	-	-	72,292	-	72,292
Net loss for the period	-	-	-	-	-	(859,491)	(859,491)	(4,943)	(864,434)
Other comprehensive loss for the period	-	-	-	-	(19,246)	-	(19,246)	-	(19,246)
<b>Balances, June 30, 2018</b>	<b>85,782,009</b>	<b>\$ 41,683,457</b>	<b>\$ 811,482</b>	<b>\$ 1,499,855</b>	<b>\$ (847,230)</b>	<b>\$ (17,453,467)</b>	<b>\$ 25,694,097</b>	<b>\$ (454,939)</b>	<b>\$ 25,239,158</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**AZARGA URANIUM CORP.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
*(Unaudited – Expressed in U.S. Dollars)*

	Notes	Six months ended June 30,	
		2019	2018
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (4,684,468)	\$ (864,434)
Adjustments for:			
Depreciation		20,628	1,620
Share-based compensation		157,214	63,404
Impairment of exploration and evaluation assets		4,140,444	-
Deferred income tax recovery		(51,309)	(21,936)
Equity compensation expense		133,255	134,247
Finance costs		4,938	147,889
Unrealized (gain) loss		(239,064)	31,155
Realized gain		-	(78,672)
Unrealized foreign exchange gain		(20,916)	(60,193)
Operating cash flows before changes in non-cash working capital items		(539,278)	(646,920)
Change in other assets		(2,348)	88,563
Change in trade and other payables		(521,112)	(139,456)
<b>Net cash used in operating activities</b>		<b>(1,062,738)</b>	<b>(697,813)</b>
<b>INVESTING ACTIVITIES</b>			
Expenditures on exploration and evaluation assets	5	(541,513)	(364,490)
Recoveries of expenditures on exploration and evaluation assets	5	27,779	-
Option payments received for exploration and evaluation assets	5	130,000	120,000
Sale of property, plant and equipment		1,057	-
Reclamation bonds		99,000	-
<b>Net cash used in investing activities</b>		<b>(283,677)</b>	<b>(244,490)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of common shares	6	2,266,169	157,366
Share issue costs	6	(16,553)	-
Loan proceeds received		-	515,000
Payment of other loans payable		-	(30,000)
<b>Net cash generated by financing activities</b>		<b>2,249,616</b>	<b>642,366</b>
Effect of foreign exchange rate changes on cash		24,677	(159)
<b>Change in cash</b>		<b>927,878</b>	<b>(300,096)</b>
Cash, beginning of period		352,001	432,192
<b>Cash, end of period</b>		<b>\$ 1,279,879</b>	<b>\$ 132,096</b>

**Supplemental cash flow information, see Note 12**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# **AZARGA URANIUM CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### **1. CORPORATE INFORMATION AND GOING CONCERN**

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Azarga Uranium Corp. (“Azarga Uranium”) was incorporated on February 10, 1984 under the laws of the Province of British Columbia, Canada. Azarga Uranium’s common shares are publicly traded on the Toronto Stock Exchange (“TSX”) (Symbol: AZZ), the Frankfurt Stock Exchange (Symbol: P8AA), and the OTCQB Venture Market (Symbol: AZZUF). Azarga Uranium, together with its subsidiaries (collectively referred to as the “Company”), is an integrated uranium exploration and development company.

The Company controls uranium properties located in the United States of America (“USA”) and in the Kyrgyz Republic, with a primary focus of developing in-situ recovery uranium projects in the USA. The Company’s Dewey Burdock Project, located in South Dakota, is the Company’s initial development priority. The Company also owns uranium projects in Wyoming, Colorado, Utah and 93% of a project in the Kyrgyz Republic.

The Company’s corporate and registered and records office address is Unit 1 – 15782 Marine Drive, White Rock, BC, V4B 1E6.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business as they fall due. To date, the Company has not generated revenues from operations and is currently in the exploration and development stage. As at June 30, 2019, the Company had working capital of \$429,679 and an accumulated deficit of \$23,359,294 and will continue incurring losses in the foreseeable future. Additional funding will be required by the Company to complete its strategic objectives and continue as a going concern. There is no certainty that additional financing, at terms that are acceptable to the Company, will be available. These material uncertainties cast significant doubt on the Company’s ability to continue as a going concern. The Company has successfully raised financing in the past and will continue to assess available alternatives; however, there is no assurance that the Company will be able to raise additional funds in the future.

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



# **AZARGA URANIUM CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### **2. BASIS OF PRESENTATION**

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#### **2.1 Statement of compliance**

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” using accounting policies in compliance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee.

These condensed consolidated interim financial statements for the six months ended June 30, 2019 were approved and authorized for issue by the Company’s Audit Committee on August 12, 2019.

#### **2.2 Basis of presentation**

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 December 31, 2018.

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments which are measured at fair value. The Company’s financial instruments are further disclosed in Note 10 of these condensed consolidated interim financial statements.

#### **2.3 Presentation and functional currency**

These condensed consolidated interim financial statements are presented in United States Dollars, unless otherwise indicated. All references to \$ refer to the United States Dollar and all references to C\$ refer to the Canadian Dollar.

The functional currency of each entity is determined by the currency of the primary economic environment in which the entity operates. The functional currency of each entity is the United States Dollar, with the exception of UrAsia in Kyrgyzstan Limited Liability Company, whose functional currency is the Kyrgyz Som.

#### **2.4 Significant accounting judgments and estimates**

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company’s consolidated financial statements are included in Note 2.4 to the Company’s December 31, 2018 consolidated annual financial statements. There were no material changes to the significant accounting judgments and estimates from December 31, 2018.

# **AZARGA URANIUM CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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 December 31, 2018, except for those accounting policies which have changed as a result of the adoption of new and revised standards and interpretations as described below.

#### **3.1 Adoption of new standards, interpretations and amendments**

The Company adopted the requirements of IFRS 16 – Leases (“IFRS 16”) as of January 1, 2019. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the leased asset. For assets that meet the definition of a lease, IFRS 16 requires a single, on-balance sheet accounting model similar to finance lease accounting, with exceptions for short-term leases, leases of low value assets, and mineral exploration leases. Accordingly, IFRS 16 applies only to the Company’s office leases. The Company has applied IFRS 16 on a prospective basis.

On January 1, 2019 the Company recorded right-of-use assets totaling \$152,214 with a corresponding entry to operating lease obligations. The Company calculated the present value of the minimum lease payments using an interest rate of 7% and an exchange rate of \$/C\$ 1.3642. Thereafter, the right-of-use assets are depreciated on a straight-line basis over the term of the leases which range from 2 to 5 years.

During the three and six months ended June 30, 2019, the Company recorded interest expense of \$2,549 and \$4,938, respectively, and depreciation of \$10,822 and \$19,213, respectively.

#### **3.2 Standards issued but not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective as of June 30, 2019 and have not been applied in preparing these condensed consolidated interim financial statements. In addition, none of these standards are applicable to the Company.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 4. SEGMENTED INFORMATION

The Company has two reportable business segments being the United States Uranium Division and the Kyrgyzstan Uranium Division. The Company's chief operating decision maker reviews both business segments' discrete financial information to make decisions about resources to be allocated to each segment and to assess their performance.

The carrying amount of the Company's assets, liabilities and exploration and evaluation assets and the Company's income (loss) before income tax and impairment of exploration and evaluation assets analyzed by operating segment are as follows:

	Kyrgyzstan Uranium Division	United States Uranium Division	Unallocated <sup>(i)</sup>	Consolidated Total
<b>Segment assets</b>				
As at June 30, 2019	\$ 34,000	\$ 43,162,299	\$ 1,343,930	\$ 44,540,229
As at December 31, 2018	\$ 4,389,464	\$ 42,730,212	\$ 184,677	\$ 47,304,353
<b>Segment liabilities</b>				
As at June 30, 2019	\$ 1,489,926	\$ 3,599,508	\$ 830,043	\$ 5,919,477
As at December 31, 2018	\$ 1,633,878	\$ 3,589,458	\$ 933,635	\$ 6,156,971
<b>Exploration and evaluation assets (Note 5)</b>				
As at June 30, 2019	\$ -	\$ 42,973,439	\$ -	\$ 42,973,439
As at December 31, 2018	\$ 4,225,090	\$ 42,471,383	\$ -	\$ 46,696,473
<b>Income (loss) before income tax</b>				
Six months ended June 30, 2019	\$ (4,201,099)	\$ (137,507)	\$ (397,171)	\$ (4,735,777)
Six months ended June 30, 2018	\$ (37,635)	\$ (195,031)	\$ (653,704)	\$ (886,370)
Three months ended June 30, 2019	\$ (4,169,560)	\$ (48,993)	\$ (316,127)	\$ (4,534,680)
Three months ended June 30, 2018	\$ 41,149	\$ (111,067)	\$ (187,199)	\$ (257,117)
<b>Impairment of exploration and evaluation assets (Note 5)</b>				
Six months ended June 30, 2019	\$ (4,140,444)	\$ -	\$ -	\$ (4,140,444)
Six months ended June 30, 2018	\$ -	\$ -	\$ -	\$ -
Three months ended June 30, 2019	\$ (4,140,444)	\$ -	\$ -	\$ (4,140,444)
Three months ended June 30, 2018	\$ -	\$ -	\$ -	\$ -

(i) The unallocated amount contains all amounts associated with the corporate division.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 5. EXPLORATION AND EVALUATION ASSETS

	South Dakota	Wyoming			Colorado		Utah	Kyrgyz Republic	
	Dewey Burdock	Gas Hills	Juniper Ridge	Other	Centennial	JB	Ticaboo	Kyzyl Ompul	Total
Balance, December 31, 2018	\$26,908,029	\$ 8,634,378	\$ 2,747,392	\$ 911,128	\$ 2,379,738	\$ 427,716	\$ 463,002	\$ 4,225,090	\$46,696,473
Salaries and consulting	260,294	42,293	21,905	18,952	14,000	2,800	7,000	17,940	385,184
License fees	79,108	960	1,920	6,331	-	-	200	67,810	156,329
Decommissioning liabilities	-	5,944	-	-	7,603	-	3,423	-	16,970
Share-based compensation	21,928	1,566	626	1,879	3,132	626	1,566	12,111	43,434
Depreciation	-	-	-	-	-	-	-	2,943	2,943
Option payments received	-	-	-	-	-	-	-	(130,000)	(130,000)
Recoveries	-	-	-	-	-	-	(2,000)	(25,779)	(27,779)
Currency translation effect	-	-	-	-	-	-	-	(29,671)	(29,671)
Impairment	-	-	-	-	-	-	-	(4,140,444)	(4,140,444)
Balance, June 30, 2019	\$27,269,359	\$ 8,685,141	\$ 2,771,843	\$ 938,290	\$ 2,404,473	\$ 431,142	\$ 473,191	\$ -	\$42,973,439

Details on the Company's exploration and evaluation assets are found in Note 7 of the December 31, 2018 consolidated financial statements and only material differences are noted below.

#### Kyzyl Ompul Project, Kyrgyz Republic

The Kyzyl Ompul Project is 100% owned and operated by UrAsia in Kyrgyzstan Limited Liability Company ("UrAsia"), in which the Company owns a 93% interest, and consists of one exploration license. The license is valid until December 31, 2020 and permits exploration for uranium.

In April 2018, as amended, UrAsia entered into an earn-in agreement (the "Earn-in Agreement") with Central Asian Uranium Company Limited Liability Company ("Central") pursuant to which Central has an option to earn a 100% interest in the Kyzyl Ompul Project in exchange for \$5,850,000 in cash payments and a commitment to fund \$1,500,000 of exploration and development expenditures through December 1, 2020.

# **AZARGA URANIUM CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### **5. EXPLORATION AND EVALUATION ASSETS (Continued)**

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#### **Kyzyl Ompul Project, Kyrgyz Republic (Continued)**

In 2018, Central made cash payments of \$290,000 to the Company. During the six months ended June 30, 2019, Central made cash payments to UrAsia of \$130,000. The remaining cash payments of \$5,430,000 are payable as follows: \$95,104 on April 30, 2019 (not received), \$16,828 per month from April 1 to September 1, 2019 (April to August 2019 not received), \$245,828 per month from October 1 to December 1, 2019, \$378,911 from January 1 to September 1, 2020, and \$362,082 per month from October 1 to December 1, 2020. Cash payments received from Central over the course of the Earn-in Agreement are not refundable if Central does not exercise its purchase option.

Aggregate exploration and development expenditures are to be incurred as follows: \$400,000 by December 31, 2018, \$1,000,000 by December 31, 2019 and \$1,500,000 by December 1, 2020. Central exceeded the minimum exploration and development expenditures required by December 31, 2018.

Subject to Central completing all required funding and exercising its option to acquire a 100% interest in the Kyzyl Ompul Project, UrAsia will retain a 2% net smelter return royalty that is payable on commencement of commercial production and is subject to a minimum of \$2,500,000 and a maximum of \$5,000,000.

If Central fails to make any of the payments under the Earn-in Agreement, UrAsia will retain its 100% interest in the Kyzyl Ompul Project. Subsequent to June 30, 2019, UrAsia issued Central a notice of default, which if Central fails to cure, will result in the termination of the Earn-in Agreement.

In May 2019, the Kyrgyz Republic's parliament voted to ban uranium exploration and mining in the country. However, before this ban can be implemented into law, an established lawmaking process must be followed, including but not limited to further parliamentary readings and the President's sign-off of the proposed law. The Company has not received official notification from the State Committee on Industry, Energy and Subsoil Use or the Government of the Kyrgyz Republic that the Kyzyl Ompul Project license has been revoked; however, the Kyzyl Ompul Project license has been suspended due to force majeure circumstances resulting from the Kyrgyz government's actions. The Company will continue to evaluate the situation and work with its other stakeholders to ensure that the Company's rights are preserved.

These events in the Kyrgyz Republic cast significant doubt over the future validity of the Company's exploration license on the Kyzyl Ompul Project as well as on the future cash flows expected from Central. Accordingly, during the six months ended June 30, 2019, the Company recognized an impairment charge of \$4,140,444 for the Kyzyl Ompul Project.

# **AZARGA URANIUM CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### **6. EQUITY**

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#### **6.1 Authorized share capital**

The Company has authorized the issuance of an unlimited number of common and preferred shares with no par value. As at June 30, 2019 and December 31, 2018, the Company had 183,719,147 and 169,833,806 common shares outstanding, respectively, and no preferred shares were outstanding.

#### **6.2 Issued share capital**

During the six months ended June 30, 2019, the Company completed the following equity transactions:

- In March 2019, the Company closed a non-brokered private placement for gross proceeds of \$2,266,169 (C\$3,014,391) through the issuance of 13,106,046 units at a price of C\$0.23 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of C\$0.31 per share until March 20, 2022.

The warrants were valued on a relative fair value basis at \$378,506 using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.61%; an expected volatility of 63.4%; an expected life of 3 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of \$/C\$ 1.3335.

The Company paid cash finder's fees of \$5,696 and other share issue costs of \$10,857.

- During the six months ended June 30, 2019, the Company issued 620,656 common shares to settle \$107,586 owing pursuant to the Company's employee share purchase plan ("ESPP") and 158,639 common shares to settle \$27,500 owing pursuant to the Company's director services agreements ("DSA").

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 6. EQUITY (Continued)

#### 6.3 Share purchase warrants

The continuity of share purchase warrants for the six months ended June 30, 2019 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2018	Issued	Exercised	Expired	Balance, June 30, 2019				
June 19, 2019	\$ 0.375	2,304,184	-	-	(2,304,184)	-				
September 23, 2019	\$ 0.35	4,621,665	-	-	-	4,621,665				
July 27, 2020	\$ 0.36	2,333,968	-	-	-	2,333,968				
December 22, 2020	\$ 0.35	1,567,500	-	-	-	1,567,500				
March 20, 2022	\$ 0.31	-	6,553,022	-	-	6,553,022				
		10,827,317	6,553,022	-	(2,304,184)	15,076,155				
Weighted average exercise price (C\$)	\$	0.36	\$	0.31	\$	-	\$	0.38	\$	0.33

The weighted average remaining contractual life is 1.58 years.

#### 6.4 Equity settled compensation arrangements

##### ESPP

In 2015, the Company adopted an ESPP which was amended in July 2018. The Company is authorized to issue up to 6,000,000 common shares pursuant to the terms and conditions of the ESPP. Employees, who elect to participate in the ESPP, can contribute up to 50% of their salary (the “Employee Contribution”). The Company will then match 66.67% of the Employee’s Contribution (the “Matching Contribution”). The purchase price of the common shares is calculated based on the five-day volume weighted average trading price of the common shares on the TSX immediately preceding the end of each calendar quarter. The Employee Contribution and the Matching Contribution are expensed in the period in which they are incurred with the offsetting amount being recorded in contributed surplus until the common shares are issued.

# **AZARGA URANIUM CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### **6. EQUITY (Continued)**

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#### **6.4 Equity settled compensation arrangements (Continued)**

##### **ESPP (Continued)**

For the three and six months ended June 30, 2019, Employee Contributions totaled \$31,175 and \$63,450, respectively, and Matching Contributions totaled \$20,787 and \$42,305, respectively. For the three and six months ended June 30, 2018, Employee Contributions totaled \$34,775 and \$63,300, respectively, and Matching Contributions totaled \$19,014 and \$42,197, respectively. As at June 30, 2019, a cumulative total of 4,302,825 common shares have been issued pursuant to the ESPP. Subsequent to June 30, 2019, the Company issued 266,667 common shares pursuant to the ESPP, see Note 14.

##### **DSA**

In 2015, the Company adopted the DSA. The Company is authorized to issue up to 2,000,000 common shares pursuant to the terms and conditions of the DSA. Directors who elect to participate in the DSA contribute 50% of their director fee/salary to the ESPP and the remaining 50% of their director fee/salary is settled through the issuance of common shares in accordance with the DSA. The purchase price of the common shares is calculated based on the five-day volume weighted average trading price of the common shares on the TSX immediately preceding the end of each calendar quarter. Amounts settled in accordance with the DSA are expensed in the period in which they are incurred with the offsetting amount being recorded in contributed surplus until the common shares are issued.

For the three and six months ended June 30, 2019, \$13,750 and \$27,500, respectively, were expensed under the DSA. For the three and six months ended June 30, 2018, \$14,375 and \$28,750, respectively, were expensed under the DSA. As at June 30, 2019, a cumulative total of 1,391,680 common shares had been issued pursuant to the DSA. Subsequent to June 30, 2019, the Company issued 70,566 common shares pursuant to the DSA, see Note 14.

### **7. SHARE OPTION RESERVE**

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#### **7.1 Stock option plan**

In July 2018, the Company adopted a new rolling stock option plan, which permits the Board of Directors of the Company to grant stock options for up to 10% of the outstanding common shares of the Company. 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. The maximum term of the stock options is ten years from the grant date. Vesting terms are at the discretion of the Board of Directors.



# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 7. SHARE OPTION RESERVE (Continued)

#### 7.2 Stock option continuity

The continuity of stock options for the six months ended June 30, 2019 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2018	Issued	Exercised	Expired/ Forfeited	Balance, June 30, 2019				
October 27, 2019	\$ 1.20	393,336	-	-	-	393,336				
May 19, 2020	\$ 0.335	1,015,000	-	-	(65,000)	950,000				
May 19, 2021	\$ 0.36	1,165,000	-	-	(35,000)	1,130,000				
May 16, 2022	\$ 0.32	2,040,000	-	-	(45,000)	1,995,000				
August 22, 2023	\$ 0.24	3,692,500	-	-	-	3,692,500				
May 23, 2024	\$ 0.23	-	2,395,000	-	-	2,395,000				
March 14, 2027	\$ 0.075	4,480,000	-	-	-	4,480,000				
		12,785,836	2,395,000	-	(145,000)	15,035,836				
Weighted average exercise price (C\$)	\$	0.24	\$	0.23	\$	-	\$	0.34	\$	0.24

As at June 30, 2019, 10,977,503 stock options were exercisable.

The weighted average remaining contractual life is 4.69 years.

#### 7.3 Share-based compensation

During the three and six months ended June 30, 2019, the Company recognized share-based compensation expense of \$140,072 and \$200,648, respectively, of which \$110,110 and \$157,214, respectively has been allocated to administrative expenses and \$29,962 and \$43,434, respectively has been allocated to exploration and evaluation assets.

During the three and six months ended June 30, 2018, the Company recognized share-based compensation expense of \$26,124 and \$72,292, respectively, of which \$23,082 and \$63,404, respectively has been allocated to administrative expenses and \$3,042 and \$8,888, respectively has been allocated to exploration and evaluation assets.

In May 2019, the Company granted 2,395,000 stock options to officers, employees, directors and other eligible persons at an exercise price of C\$0.23 with an expiry date of May 23, 2024. The weighted average fair value of the options granted was estimated at C\$0.12 per option at the grant date using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.57%; an expected volatility of 62.6%; an expected life of 5 years; a forfeiture rate of zero; an expected dividend of zero; and a Canadian to USA exchange rate of 1.348.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 8. ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Salaries and benefits	\$ 131,608	\$ 210,510	\$ 316,550	\$ 411,624
Consulting and professional fees	70,394	65,635	179,991	159,597
Corporate administration	83,943	73,851	174,636	175,137
Depreciation	11,502	579	20,628	1,620
Share-based compensation	110,110	23,082	157,214	63,404
	\$ 407,557	\$ 373,657	\$ 849,019	\$ 811,382

### 9. RELATED PARTY TRANSACTIONS AND BALANCES

#### 9.1 Key management personnel compensation

The remuneration of the Company's directors and other key management personnel, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Salaries and benefits *	\$ 173,544	\$ 159,166	\$ 347,083	\$ 358,330
Consulting and professional fees	33,150	29,083	65,782	59,031
Share-based compensation	96,604	20,653	135,347	56,712
	\$ 303,298	\$ 208,902	\$ 548,212	\$ 474,073

\* Salaries and benefits are included in administrative expenses (Note 8) and exploration and evaluation assets (Note 5)

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### 9. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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#### 9.2 Related party liabilities

	As at	
	June 30, 2019	December 31, 2018
Trade and other payables - current	\$ 149,637	\$ 176,422
Trade and other payables - non-current	100,000	150,000
	<u>\$ 249,637</u>	<u>\$ 326,422</u>

Included in trade and other payables as at June 30, 2019 and December 31, 2018 is \$249,637 and \$326,422, respectively, owing to related parties of the Company, of which \$180,000 and \$230,000, respectively, is owed to a former director of the Company pursuant to a severance agreement. During the six months ended June 30, 2019, the Company paid the former director \$50,000 towards the outstanding balance. The Company has classified \$80,000 as current and \$100,000 as non-current as at June 30, 2019.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 10.1 Categories of financial instruments

Financial instruments are classified into one of the following categories: fair value through profit or loss; fair value through other comprehensive income (loss); or, at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

<b>Financial assets</b>	<b>As at</b>	
	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Amortized cost</b>		
Cash	\$ 1,279,879	\$ 352,001
Restricted cash	40,087	39,963
Right-of-use assets	133,001	-
Reclamation bonds	-	99,000
	<b>\$ 1,452,967</b>	<b>\$ 490,964</b>

<b>Financial liabilities</b>	<b>As at</b>	
	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Amortized cost</b>		
Trade and other payables	\$ 952,947	\$ 1,452,085
Decommissioning liabilities	240,412	223,442
Operating lease obligations	135,178	-
<b>Fair value through profit or loss</b>		
Warrant liabilities	396,516	247,654
	<b>\$ 1,725,053</b>	<b>\$ 1,923,181</b>

# **AZARGA URANIUM CORP.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

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### **10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

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#### **10.2 Fair value**

The fair value of financial assets and financial liabilities measured at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value.

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 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

The fair value of the Company's warrant liabilities is recorded at fair value using Level 3 of the fair value hierarchy. The carrying value of warrant liabilities is determined using the Black-Scholes option pricing model.

The carrying values of cash and trade and other payables approximate their fair values because of the short-term nature of these financial instruments and are classified as financial assets and liabilities at amortized cost and are reported at amortized cost.

The carrying values of restricted cash, right-of-use assets, decommissioning liabilities, and operating lease obligations approximate their fair values and are classified as financial assets and liabilities at amortized cost and are reported at amortized cost.

#### **10.3 Financial risk management objectives and policies**

The Company's risk management objectives and policies are consistent with those disclosed by the Company for the year ended December 31, 2018.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 11. COMMITMENTS

	Within 1 year	2-4 years	Over 4 years	Total
Annual license payments *	\$ 880,694	\$ 888,249	\$ 1,408,223	\$ 3,177,166
Centennial option agreement **	3,165,000	-	-	3,165,000
Dewey Burdock option agreements	62,500	187,500	1,737,500	1,987,500
	\$ 4,108,194	\$ 1,075,749	\$ 3,145,723	\$ 8,329,666

\* annual license payments include lease, mineral claim, and exploration license payments

\*\* the Company will use best efforts to renegotiate the Centennial Project option agreement before the contingent payment is due in September 2019

Certain of the Company's exploration and evaluation commitments may provide the Company with the ability to avoid funding those commitments; however, the Company discloses the contractual maturities of the Company's exploration and evaluation commitments based on management's intent.

### 12. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended June 30, 2019, the Company completed the following non-cash investing and financing activities:

- Issued 620,656 common shares to settle \$107,586 owing pursuant to the Company's ESPP;
- Issued 158,639 common shares to settle \$27,500 owing pursuant to the Company's DSA;
- Issued 6,553,022 share purchase warrants valued at \$378,506 as part of the March 2019 financing; and
- No cash interest or income taxes were paid.

During the six months ended June 30, 2018, the Company completed the following non-cash investing and financing activities:

- Issued 350,937 common shares to settle \$60,901 owing pursuant to the Company's ESPP;
- Issued 161,722 common shares to settle \$30,516 owing pursuant to the Company's DSA;
- Issued 104,166 common shares to repurchase royalties for \$19,390;
- Issued 765,334 common shares to settle trade and other payables of \$144,993;
- Issued 390,000 share purchase warrants valued at \$16,562 as part of the January 2018 financing; and
- No cash interest or income taxes were paid.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2019

*(Unaudited – Expressed in U.S. Dollars and in shares, unless otherwise indicated)*

### 13. NON-CONTROLLING INTEREST

As at December 31, 2018, the Company held a 70% interest in UrAsia. On May 23, 2019, the Company acquired an additional 23% interest from two minority shareholders for a nominal cost giving the Company a 93% interest in UrAsia. The Company accounted for the 23% increase as a capital transaction, recognizing \$316,758 as a reduction in contributed surplus.

Changes in the Company's non-controlling interest for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Balance, beginning of period	\$ (526,512)	\$ (453,367)	\$ (494,477)	\$ (449,996)
NCI adjustment on acquisition of 23% of UrAsia	316,758	-	316,758	-
Non-controlling interest from net loss	(293,254)	(1,572)	(298,440)	(4,943)
Non-controlling interest from other comprehensive income (loss)	12,696	-	(14,153)	-
Balance, end of period	\$ (490,312)	\$ (454,939)	\$ (490,312)	\$ (454,939)

### 14. SUBSEQUENT EVENTS

Subsequent to June 30, 2019, the Company completed the following transactions:

- In July 2019, the Company issued 266,667 common shares to settle \$51,962 owing pursuant to the Company's ESPP and 70,566 common shares to settle \$13,750 owing pursuant to the Company's DSA.
- In July 2019, the Company issued 900,000 common shares to settle \$170,068 of outstanding employee remuneration.