



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

**September 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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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

|  |       | As at                 |                      |
|--|-------|-----------------------|----------------------|
|  | Notes | September 30,<br>2019 | December 31,<br>2018 |
| <b>ASSETS</b>  |       |                       |                      |
| <b>Current assets</b>                                    |       |                       |                      |
| Cash   |       | \$ 343,778            | \$ 352,001           |
| Other assets   |       | 45,163                | 26,810               |
| <b>Total current assets</b>                              |       | <b>388,941</b>        | <b>378,811</b>       |
| <b>Non-current assets</b>                                |       |                       |                      |
| Restricted cash  |       | 39,999                | 39,963               |
| Exploration and evaluation assets                        | 5     | 41,261,707            | 46,696,473           |
| Property, plant and equipment                            |       | 82,361                | 90,106               |
| Right-of-use assets                                      | 3     | 122,179               | -                    |
| Reclamation bonds  |       | -                     | 99,000               |
| <b>Total non-current assets</b>                          |       | <b>41,506,246</b>     | <b>46,925,542</b>    |
| <b>Total assets</b>                                      |       | <b>\$ 41,895,187</b>  | <b>\$ 47,304,353</b> |
| <b>LIABILITIES AND EQUITY</b>                            |       |                       |                      |
| <b>Current liabilities</b>                               |       |                       |                      |
| Trade and other payables                                 |       | \$ 952,974            | \$ 1,302,085         |
| Operating lease obligations                              | 3     | 47,537                | -                    |
| <b>Total current liabilities</b>                         |       | <b>1,000,511</b>      | <b>1,302,085</b>     |
| <b>Non-current liabilities</b>                           |       |                       |                      |
| Trade and other payables                                 |       | 85,000                | 150,000              |
| Deferred income tax liabilities                          |       | 4,258,045             | 4,233,790            |
| Decommissioning liabilities                              |       | 247,903               | 223,442              |
| Operating lease obligations                              | 3     | 77,825                | -                    |
| Warrant liabilities                                      |       | 307,794               | 247,654              |
| <b>Total non-current liabilities</b>                     |       | <b>4,976,567</b>      | <b>4,854,886</b>     |
| <b>Total liabilities</b>                                 |       | <b>5,977,078</b>      | <b>6,156,971</b>     |
| <b>Equity</b>  |       |                       |                      |
| Common shares  | 6     | 60,218,297            | 57,976,321           |
| Contributed surplus                                      | 6     | 533,076               | 1,001,818            |
| Share option reserve                                     | 7     | 2,764,908             | 2,500,078            |
| Foreign currency translation reserve                     |       | (874,942)             | (863,092)            |
| Accumulated deficit                                      |       | (26,237,793)          | (18,973,266)         |
| Equity attributable to the equity holders of the Company |       | 36,403,546            | 41,641,859           |
| Non-controlling interest                                 | 13    | (485,437)             | (494,477)            |
| <b>Total equity</b>                                      |       | <b>35,918,109</b>     | <b>41,147,382</b>    |
| <b>Total liabilities and equity</b>                      |       | <b>\$ 41,895,187</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)*

|   | Notes | Three months ended<br>September 30, |                     | Nine months ended<br>September 30, |                       |
|---|-------|-------------------------------------|---------------------|------------------------------------|-----------------------|
|   |       | 2019                                | 2018                | 2019                               | 2018                  |
| Administrative expenses   | 8     | \$ (404,906)                        | \$ (628,282)        | \$ (1,253,925)                     | \$ (1,439,664)        |
| Foreign exchange gain (loss)  |       | (70,457)                            | (11,172)            | (50,897)                           | 14,212                |
| Impairment of exploration and evaluation assets                     | 5     | (2,422,398)                         | -                   | (6,562,842)                        | -                     |
| <b>Loss from operations</b>   |       | <b>(2,897,761)</b>                  | <b>(639,454)</b>    | <b>(7,867,664)</b>                 | <b>(1,425,452)</b>    |
| Finance costs   |       | (2,442)                             | (6,599)             | (7,380)                            | (154,488)             |
| Unrealized gain (loss)  |       | 85,052                              | 24,681              | 324,116                            | (6,474)               |
| Realized gain   |       | -                                   | 80,126              | -                                  | 158,798               |
| <b>Loss before income tax</b>                                       |       | <b>(2,815,151)</b>                  | <b>(541,246)</b>    | <b>(7,550,928)</b>                 | <b>(1,427,616)</b>    |
| Deferred income tax recovery (expense)                              |       | (67,547)                            | (16,206)            | (16,238)                           | 5,730                 |
| <b>Net loss</b>   |       | <b>(2,882,698)</b>                  | <b>(557,452)</b>    | <b>(7,567,166)</b>                 | <b>(1,421,886)</b>    |
| <b>Other comprehensive income (loss)</b>                            |       |                                     |                     |                                    |                       |
| <b>Item that may be reclassified subsequently as profit or loss</b> |       |                                     |                     |                                    |                       |
| Foreign currency translation adjustment                             |       | 30,246                              | (22,503)            | (16,929)                           | (41,749)              |
| <b>Total other comprehensive loss</b>                               |       | <b>\$ (2,852,452)</b>               | <b>\$ (579,955)</b> | <b>\$ (7,584,095)</b>              | <b>\$ (1,463,635)</b> |
| <b>Net loss attributable to:</b>                                    |       |                                     |                     |                                    |                       |
| Equity holders of the Company                                       |       | (2,878,499)                         | (541,450)           | (7,264,527)                        | (1,400,941)           |
| Non-controlling interest  |       | (4,199)                             | (16,002)            | (302,639)                          | (20,945)              |
| <b>Net loss</b>   |       | <b>\$ (2,882,698)</b>               | <b>\$ (557,452)</b> | <b>\$ (7,567,166)</b>              | <b>\$ (1,421,886)</b> |
| <b>Other comprehensive income (loss) attributable to:</b>           |       |                                     |                     |                                    |                       |
| Equity holders of the Company                                       |       | 21,172                              | (9,978)             | (11,850)                           | (29,224)              |
| Non-controlling interest  |       | 9,074                               | (12,525)            | (5,079)                            | (12,525)              |
| <b>Other comprehensive income (loss)</b>                            |       | <b>\$ 30,246</b>                    | <b>\$ (22,503)</b>  | <b>\$ (16,929)</b>                 | <b>\$ (41,749)</b>    |
| <b>Basic and diluted loss per share</b>                             |       | <b>\$ (0.02)</b>                    | <b>\$ (0.00)</b>    | <b>\$ (0.04)</b>                   | <b>\$ (0.01)</b>      |
| <b>Weighted average number of common shares outstanding</b>         |       |                                     |                     |                                    |                       |
|   |       | 184,643,360                         | 160,167,810         | 180,049,902                        | 110,243,323           |

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 |                      |                     |                      |                                      |                        | Total equity         | Non-controlling interest | Total equity         |
|--|---|----------------------|---------------------|----------------------|--------------------------------------|------------------------|----------------------|--------------------------|----------------------|
|  | Number of shares                              | Common shares        | Contributed surplus | Share option reserve | Foreign currency translation reserve | Accumulated deficit    |                      |                          |                      |
| <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 employee remuneration | 900,000                                       | 170,068              | (170,068)           | -                    | -                                    | -                      | -                    | -                        | -                    |
| Issuance of shares to settle ESPP                  | 887,323                                       | 159,547              | (159,547)           | -                    | -                                    | -                      | -                    | -                        | -                    |
| Issuance of shares to settle DSA                   | 229,205                                       | 41,251               | (41,251)            | -                    | -                                    | -                      | -                    | -                        | -                    |
| Compensation to be settled by equity               | -   | -                    | 218,882             | -                    | -                                    | -                      | 218,882              | -                        | 218,882              |
| Share-based compensation                           | -   | -                    | -                   | 264,830              | -                                    | -                      | 264,830              | -                        | 264,830              |
| NCl adjustment on acquisition of 23% of UrAsia     | -   | -                    | (316,758)           | -                    | -                                    | -                      | (316,758)            | 316,758                  | -                    |
| Net loss for the period                            | -   | -                    | -                   | -                    | -                                    | (7,264,527)            | (7,264,527)          | (302,639)                | (7,567,166)          |
| Other comprehensive loss for the period            | -   | -                    | -                   | -                    | (11,850)                             | -                      | (11,850)             | (5,079)                  | (16,929)             |
| <b>Balances, September 30, 2019</b>                | <b>184,956,380</b>                            | <b>\$ 60,218,297</b> | <b>\$ 533,076</b>   | <b>\$ 2,764,908</b>  | <b>\$ (874,942)</b>                  | <b>\$ (26,237,793)</b> | <b>\$ 36,403,546</b> | <b>\$ (485,437)</b>      | <b>\$ 35,918,109</b> |

|   | Attributable to equity holders of the Company |                      |                     |                      |                                      |                        | Total equity         | Non-controlling interest | Total equity         |
|---|---|----------------------|---------------------|----------------------|--------------------------------------|------------------------|----------------------|--------------------------|----------------------|
|   | Number of shares                              | Common shares        | Contributed surplus | Share option reserve | Foreign currency translation reserve | Accumulated deficit    |                      |                          |                      |
| <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        |
| Acquisition of URZ Energy                             | 58,107,109                                    | 11,273,920           | 686,314             | 769,169              | -                                    | -                      | 12,729,403           | -                        | 12,729,403           |
| Issuance of shares to settle Shareholders' Loan       | 11,269,243                                    | 2,201,024            | -                   | -                    | -                                    | -                      | 2,201,024            | -                        | 2,201,024            |
| Issuance of shares for private placements             | 780,000                                       | 140,804              | -                   | -                    | -                                    | -                      | 140,804              | -                        | 140,804              |
| Issuance of shares on exercise of warrants            | 11,950,866                                    | 2,347,295            | (520,217)           | -                    | -                                    | -                      | 1,827,078            | -                        | 1,827,078            |
| Issuance of shares for repurchase of royalties        | 104,166                                       | 19,390               | -                   | -                    | -                                    | -                      | 19,390               | -                        | 19,390               |
| Issuance of shares to settle trade and other payables | 2,033,334                                     | 391,014              | -                   | -                    | -                                    | -                      | 391,014              | -                        | 391,014              |
| Issuance of shares to settle employee remuneration    | 550,000                                       | 93,500               | (93,500)            | -                    | -                                    | -                      | -                    | -                        | -                    |
| Issuance of shares to settle ESPP                     | 868,742                                       | 166,398              | (166,398)           | -                    | -                                    | -                      | -                    | -                        | -                    |
| Issuance of shares to settle DSA                      | 234,522                                       | 44,891               | (44,891)            | -                    | -                                    | -                      | -                    | -                        | -                    |
| Allocation gain on expiry of warrants                 | -   | -                    | (124,313)           | -                    | -                                    | -                      | (124,313)            | -                        | (124,313)            |
| Compensation to be settled by equity                  | -   | -                    | 196,971             | -                    | -                                    | -                      | 196,971              | -                        | 196,971              |
| Share-based compensation                              | -   | -                    | -                   | 240,781              | -                                    | -                      | 240,781              | -                        | 240,781              |
| Net loss for the period                               | -   | -                    | -                   | -                    | -                                    | (1,400,941)            | (1,400,941)          | (20,945)                 | (1,421,886)          |
| Other comprehensive loss for the period               | -   | -                    | -                   | -                    | (29,224)                             | -                      | (29,224)             | (12,525)                 | (41,749)             |
| <b>Balances, September 30, 2018</b>                   | <b>169,517,832</b>                            | <b>\$ 57,965,089</b> | <b>\$ 702,618</b>   | <b>\$ 2,437,513</b>  | <b>\$ (857,208)</b>                  | <b>\$ (17,994,917)</b> | <b>\$ 42,253,095</b> | <b>\$ (483,466)</b>      | <b>\$ 41,769,629</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)*

|   |              | <b>Nine months ended September 30,</b> |                    |
|---|--------------|--|--------------------|
|   | <b>Notes</b> | <b>2019</b>                            | <b>2018</b>        |
| <b>OPERATING ACTIVITIES</b>   |              |  |                    |
| Net loss  |              | \$ (7,567,166)                         | \$ (1,421,886)     |
| Adjustments for:  |              |  |                    |
| Depreciation  |              | 32,130                                 | 1,901              |
| Share-based compensation  | 7            | 212,187                                | 210,981            |
| Impairment of exploration and evaluation assets                       | 5            | 6,562,842                              | -                  |
| Deferred income tax (recovery) expense                                |              | 16,238                                 | (5,730)            |
| Equity compensation expense   |              | 218,882                                | 196,971            |
| Finance costs   |              | 7,380                                  | 154,488            |
| Unrealized (gain) loss  |              | (324,116)                              | 6,474              |
| Realized gain   |              | -                                      | (158,798)          |
| Unrealized foreign exchange (gain) loss                               |              | 28,764                                 | (60,312)           |
| Operating cash flows before changes in non-cash working capital items |              | (812,859)                              | (1,075,911)        |
| Change in other assets  |              | (18,353)                               | 58,778             |
| Change in trade and other payables                                    |              | (448,343)                              | (443,612)          |
| <b>Net cash used in operating activities</b>                          |              | <b>(1,279,555)</b>                     | <b>(1,460,745)</b> |
| <b>INVESTING ACTIVITIES</b>   |              |  |                    |
| Cash received on acquisition of URZ Energy, net of transaction costs  |              | -                                      | 423,924            |
| Expenditures on exploration and evaluation assets                     | 5            | (1,235,479)                            | (1,131,778)        |
| Recoveries of expenditures on exploration and evaluation assets       | 5            | 27,779                                 | 48,906             |
| Option payments received for exploration and evaluation assets        | 5            | 130,000                                | 180,000            |
| Sale of property, plant and equipment                                 |              | 1,126                                  | -                  |
| Reclamation bonds   |              | 99,000                                 | (2,000)            |
| <b>Net cash used in investing activities</b>                          |              | <b>(977,574)</b>                       | <b>(480,948)</b>   |
| <b>FINANCING ACTIVITIES</b>   |              |  |                    |
| Proceeds from issuance of common shares                               | 6            | 2,266,169                              | 1,984,444          |
| Share issue costs   | 6            | (16,553)                               | -                  |
| Loan proceeds received  |              | -                                      | 515,000            |
| Payment of other loans payable  |              | -                                      | (50,000)           |
| <b>Net cash generated by financing activities</b>                     |              | <b>2,249,616</b>                       | <b>2,449,444</b>   |
| Effect of foreign exchange rate changes on cash                       |              | (710)                                  | 105                |
| <b>Change in cash</b>   |              | <b>(8,223)</b>                         | <b>507,856</b>     |
| Cash, beginning of period   |              | 352,001                                | 432,192            |
| <b>Cash, end of period</b>  |              | <b>\$ 343,778</b>                      | <b>\$ 940,048</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 nine months ended September 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”) with a primary focus of developing in-situ recovery uranium projects. The Company’s Dewey Burdock Project, located in South Dakota, USA, is the Company’s initial development priority. The Company also owns uranium projects in Wyoming, Colorado, and Utah.

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 September 30, 2019, the Company had a working capital deficiency of \$611,570 and an accumulated deficit of \$26,237,793 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 nine months ended September 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 nine months ended September 30, 2019 were approved and authorized for issue by the Company’s Audit Committee on November 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 nine months ended September 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 nine months ended September 30, 2019, the Company recorded interest expense of \$2,442 and \$7,380, respectively, and depreciation of \$10,822 and \$30,035, 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 September 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 nine months ended September 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 loss before income tax and impairment of exploration and evaluation assets analyzed by operating segment are as follows:

|   | Kyrgyzstan<br>Uranium<br>Division | United States<br>Uranium<br>Division | Unallocated <sup>(i)</sup> | Consolidated<br>Total |
|---|-----------------------------------|--------------------------------------|----------------------------|-----------------------|
| <b>Segment assets</b>   |                                   |                                      |                            |                       |
| As at September 30, 2019  | \$ 31,246                         | \$ 41,525,738                        | \$ 338,203                 | \$ 41,895,187         |
| As at December 31, 2018   | \$ 4,389,464                      | \$ 42,730,212                        | \$ 184,677                 | \$ 47,304,353         |
| <b>Segment liabilities</b>                                      |                                   |                                      |                            |                       |
| As at September 30, 2019  | \$ 1,521,703                      | \$ 3,703,799                         | \$ 751,576                 | \$ 5,977,078          |
| 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 September 30, 2019  | \$ -                              | \$ 41,261,707                        | \$ -                       | \$ 41,261,707         |
| As at December 31, 2018   | \$ 4,225,090                      | \$ 42,471,383                        | \$ -                       | \$ 46,696,473         |
| <b>Loss before income tax</b>                                   |                                   |                                      |                            |                       |
| Nine months ended September 30, 2019                            | \$ (4,239,198)                    | \$ (2,561,035)                       | \$ (750,695)               | \$ (7,550,928)        |
| Nine months ended September 30, 2018                            | \$ (77,770)                       | \$ (305,514)                         | \$ (1,044,332)             | \$ (1,427,616)        |
| Three months ended September 30, 2019                           | \$ (38,099)                       | \$ (2,423,528)                       | \$ (353,524)               | \$ (2,815,151)        |
| Three months ended September 30, 2018                           | \$ (40,135)                       | \$ (110,483)                         | \$ (390,628)               | \$ (541,246)          |
| <b>Impairment of exploration and evaluation assets (Note 5)</b> |                                   |                                      |                            |                       |
| Nine months ended September 30, 2019                            | \$ (6,562,842)                    | \$ -                                 | \$ -                       | \$ (6,562,842)        |
| Nine months ended September 30, 2018                            | \$ -                              | \$ -                                 | \$ -                       | \$ -                  |
| Three months ended September 30, 2019                           | \$ (2,422,398)                    | \$ -                                 | \$ -                       | \$ (2,422,398)        |
| Three months ended September 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 nine months ended September 30, 2019

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

### 5. EXPLORATION AND EVALUATION ASSETS

|                             | <u>South<br/>Dakota</u>  | <u>Wyoming</u>   |                          |              | <u>Colorado</u>   |            | <u>Utah</u>    | <u>Kyrgyz<br/>Republic</u> |               |
|-----------------------------|--------------------------|------------------|--------------------------|--------------|-------------------|------------|----------------|----------------------------|---------------|
|                             | <u>Dewey<br/>Burdock</u> | <u>Gas Hills</u> | <u>Juniper<br/>Ridge</u> | <u>Other</u> | <u>Centennial</u> | <u>JB</u>  | <u>Ticaboo</u> | <u>Kyzyl<br/>Ompul</u>     | <u>Total</u>  |
| 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     | 385,070                  | 57,673           | 39,821                   | 28,429       | 21,000            | 4,200      | 9,333          | 17,940                     | 563,466       |
| License fees                | 338,157                  | 104,756          | 23,370                   | 115,016      | 6,000             | 11,006     | 5,898          | 67,810                     | 672,013       |
| Decommissioning liabilities | -                        | 8,160            | -                        | -            | 11,607            | -          | 4,694          | -                          | 24,461        |
| Share-based compensation    | 28,371                   | 2,027            | 811                      | 2,432        | 4,053             | 811        | 2,027          | 12,111                     | 52,643        |
| 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                  | -                        | -                | -                        | -            | (2,422,398)       | -          | -              | (4,140,444)                | (6,562,842)   |
| Balance, September 30, 2019 | \$ 27,659,627            | \$ 8,806,994     | \$ 2,811,394             | \$ 1,057,005 | \$ -              | \$ 443,733 | \$ 482,954     | \$ -                       | \$ 41,261,707 |

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.

# **AZARGA URANIUM CORP.**

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

For the nine months ended September 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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#### **Centennial Project, Colorado**

The Centennial Uranium Project is located in the western part of Weld County in northeastern Colorado.

In 2006, the Company entered into an option agreement, as amended, to purchase uranium rights on certain areas of the Centennial Project for consideration of \$1,895,000 plus contingent payments of \$3,165,000. Pursuant to the agreement, the contingent payments are payable upon receipt of regulatory permits and licenses allowing uranium production on the area of the Centennial Project pertaining to these uranium interests. Further, unless otherwise agreed, as the Company did not obtain such permits and licenses by September 27, 2019, the uranium rights, at the option of the seller, can be transferred back to the seller.

To date, the Company has neither obtained the regulatory permits and licenses allowing uranium production on the area of the Centennial Project pertaining to these uranium interests nor has the Company been able to renegotiate the option agreement. However, the Company is attempting to renegotiate the option agreement and the seller has not exercised its option to have the uranium rights transferred back. As a result of the uncertainty surrounding this option agreement, which represents 5,760 of the 6,238 mineral acres at the Centennial Project, significant doubt over the future recoverability of the carrying value exists. Accordingly, during the nine months ended September 30, 2019, the Company recognized an impairment charge of \$2,422,398 for the Centennial Project.

#### **Kyzyl Ompul Project, Kyrgyz Republic**

Subsequent to September 30, 2019, the Company sold its 93.1% interest in UrAsia in Kyrgyzstan Limited Liability Company (“UrAsia”) to Central Asian Uranium Company Limited Liability Company (“Central”). UrAsia holds a 100% interest in the Kyzyl Ompul Project with a uranium exploration license valid until December 31, 2020.

In April 2018, as amended, UrAsia entered into an earn-in agreement (the “Earn-in Agreement”) with Central pursuant to which Central had 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 nine months ended September 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 under the Earn-in Agreement. During the nine months ended September 30, 2019, Central made cash payments of \$130,000 to the Company under the Earn-in Agreement. No additional payments were made subsequent to September 30, 2019 under 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 exploration license has been suspended due to force majeure circumstances, among other reasons, resulting from the Kyrgyz Republic government's actions.

In May 2019, the Company determined that 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 nine months ended September 30, 2019, the Company recognized an impairment charge of \$4,140,444 for the Kyzyl Ompul Project.

Subsequent to September 30, 2019, the Company sold its 93.1% interest in UrAsia for cash consideration of \$232,750, of which US\$116,375 has been received and the remaining US\$116,375 is expected upon registration of the shares of UrAsia to Central. In addition, UrAsia granted the Company and two minority shareholders a 2% net smelter return ("NSR") royalty on any future uranium production from the Kyzyl Ompul Project up to \$5,000,000. The Company is entitled to its pro-rata 93.1% share of the NSR royalty.

# **AZARGA URANIUM CORP.**

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

For the nine months ended September 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 September 30, 2019 and December 31, 2018, the Company had 184,956,380 and 169,833,806 common shares outstanding, respectively, and no preferred shares were outstanding.

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

During the nine months ended September 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.

- In July 2019, the Company issued 900,000 common shares to settle \$170,068 of outstanding employee remuneration.
- During the nine months ended September 30, 2019, the Company issued 887,323 common shares to settle \$159,547 owing pursuant to the Company's employee share purchase plan ("ESPP") and 229,205 common shares to settle \$41,251 owing pursuant to the Company's director services agreements ("DSA").

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 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 nine months ended September 30, 2019 is as follows:

| Expiry date                           | Exercise price<br>C\$ | Balance,<br>December 31,<br>2018 | Issued    | Exercised | Expired     | Balance,<br>September 30,<br>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 | -         | (6,925,849) | 10,454,490                        |    |      |    |      |
| Weighted average exercise price (C\$) | \$                    | 0.36                             | \$        | 0.31      | \$          | -                                 | \$ | 0.36 | \$ | 0.33 |

The weighted average remaining contractual life is 1.92 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.

For the three and nine months ended September 30, 2019, Employee Contributions totaled \$43,125 and \$106,575, respectively, and Matching Contributions totaled \$28,752 and \$71,055, respectively. For the three and nine months ended September 30, 2018, Employee Contributions totaled \$29,366 and \$92,666, respectively, and Matching Contributions totaled \$19,577 and \$61,778, respectively. As at September 30, 2019, a cumulative total of 4,569,490 common shares have been issued pursuant to the ESPP. Subsequent to September 30, 2019, the Company issued 493,198 common shares pursuant to the ESPP, see Note 14.



# **AZARGA URANIUM CORP.**

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

For the nine months ended September 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)**

##### **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 nine months ended September 30, 2019, \$13,751 and \$41,251, respectively, were expensed under the DSA. For the three and nine months ended September 30, 2018, \$13,777 and \$42,527, respectively, were expensed under the DSA. As at September 30, 2019, a cumulative total of 1,462,246 common shares had been issued pursuant to the DSA. Subsequent to September 30, 2019, the Company issued 94,348 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 nine months ended September 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 nine months ended September 30, 2019 is as follows:

| Expiry date                           | Exercise price<br>C\$ | Balance,<br>December 31,<br>2018 | Issued    | Exercised | Expired/<br>Forfeited | Balance,<br>September 30,<br>2019 |    |      |    |      |
|---------------------------------------|-----------------------|----------------------------------|-----------|-----------|-----------------------|-----------------------------------|----|------|----|------|
| October 27, 2019                      | \$ 1.20               | 393,336                          | -         | -         | -                     | 393,336                           |    |      |    |      |
| May 19, 2020                          | \$ 0.335              | 1,015,000                        | -         | -         | (85,000)              | 930,000                           |    |      |    |      |
| 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 | -         | (165,000)             | 15,015,836                        |    |      |    |      |
| Weighted average exercise price (C\$) | \$                    | 0.24                             | \$        | 0.23      | \$                    | -                                 | \$ | 0.34 | \$ | 0.24 |

As at September 30, 2019, 12,188,336 stock options were exercisable.

The weighted average remaining contractual life is 4.43 years.

#### 7.3 Share-based compensation

During the three and nine months ended September 30, 2019, the Company recognized share-based compensation expense of \$64,182 and \$264,830, respectively, of which \$54,973 and \$212,187, respectively has been allocated to administrative expenses and \$9,209 and \$52,643, respectively has been allocated to exploration and evaluation assets.

During the three and nine months ended September 30, 2018, the Company recognized share-based compensation expense of \$168,489 and \$240,781, respectively, of which \$147,577 and \$210,981, respectively has been allocated to administrative expenses and \$20,912 and \$29,800, respectively has been allocated to exploration and evaluation assets.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2019

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

### 7. SHARE OPTION RESERVE (Continued)

#### 7.3 Share-based compensation (Continued)

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.

### 8. ADMINISTRATIVE EXPENSES

|                                  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |              |
|----------------------------------|-------------------------------------|------------|------------------------------------|--------------|
|                                  | 2019                                | 2018       | 2019                               | 2018         |
| Salaries and benefits            | \$ 150,095                          | \$ 201,947 | \$ 466,645                         | \$ 613,571   |
| Consulting and professional fees | 43,363                              | 125,628    | 223,354                            | 285,225      |
| Corporate administration         | 144,973                             | 152,849    | 319,609                            | 327,986      |
| Depreciation                     | 11,502                              | 281        | 32,130                             | 1,901        |
| Share-based compensation         | 54,973                              | 147,577    | 212,187                            | 210,981      |
|                                  | \$ 404,906                          | \$ 628,282 | \$ 1,253,925                       | \$ 1,439,664 |

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2019

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

### 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<br>September 30, |            | Nine months ended<br>September 30, |            |
|----------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                  | 2019                                | 2018       | 2019                               | 2018       |
| Salaries and benefits *          | \$ 160,417                          | \$ 162,371 | \$ 507,500                         | \$ 545,701 |
| Consulting and professional fees | 32,744                              | 28,676     | 98,526                             | 87,707     |
| Share-based compensation         | 41,902                              | 103,953    | 177,249                            | 160,665    |
|                                  | \$ 235,063                          | \$ 295,000 | \$ 783,275                         | \$ 794,073 |

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

#### 9.2 Related party liabilities

|  | As at                 |                      |
|--|-----------------------|----------------------|
|  | September 30,<br>2019 | December 31,<br>2018 |
| Trade and other payables - current     | \$ 147,735            | \$ 176,422           |
| Trade and other payables - non-current | 85,000                | 150,000              |
|  | \$ 232,735            | \$ 326,422           |

Included in trade and other payables as at September 30, 2019 and December 31, 2018 is \$232,735 and \$326,422, respectively, owing to related parties of the Company, of which \$170,000 and \$230,000, respectively, is owed to a former director of the Company pursuant to a severance agreement. During the nine months ended September 30, 2019, the Company paid the former director \$60,000 towards the outstanding balance. The Company has classified \$85,000 as current and \$85,000 as non-current as at September 30, 2019.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 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>September 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
| <b>Amortized cost</b>   |                               |                              |
| Cash                    | \$ 343,778                    | \$ 352,001                   |
| Restricted cash         | 39,999                        | 39,963                       |
| Right-of-use assets     | 122,179                       | -                            |
| Reclamation bonds       | -                             | 99,000                       |
|                         | <b>\$ 505,956</b>             | <b>\$ 490,964</b>            |

| <b>Financial liabilities</b>             | <b>As at</b>                  |                              |
|--|-------------------------------|------------------------------|
|  | <b>September 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
| <b>Amortized cost</b>                    |                               |                              |
| Trade and other payables                 | \$ 1,037,974                  | \$ 1,452,085                 |
| Decommissioning liabilities              | 247,903                       | 223,442                      |
| Operating lease obligations              | 125,362                       | -                            |
| <b>Fair value through profit or loss</b> |                               |                              |
| Warrant liabilities                      | 307,794                       | 247,654                      |
|  | <b>\$ 1,719,033</b>           | <b>\$ 1,923,181</b>          |

# **AZARGA URANIUM CORP.**

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

For the nine months ended September 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 the 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 nine months ended September 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 *       | \$ 540,356    | \$ 407,344 | \$ 1,352,286 | \$ 2,299,986 |
| Centennial option agreement **  | -             | -          | 3,165,000    | 3,165,000    |
| Dewey Burdock option agreements | 62,500        | 187,500    | 1,737,500    | 1,987,500    |
|                                 | \$ 602,856    | \$ 594,844 | \$ 6,254,786 | \$ 7,452,486 |

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

\*\* the contingent payments are payable upon receipt of regulatory permits and licenses allowing uranium production on the area of the Centennial Project pertaining to these uranium interests, which have not yet been received, and the Company is attempting to renegotiate the Centennial Project option agreement (Note 5)

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

### 12. SUPPLEMENTAL CASH FLOW INFORMATION

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

- Issued 887,323 common shares to settle \$159,547 owing pursuant to the Company's ESPP;
- Issued 229,205 common shares to settle \$41,251 owing pursuant to the Company's DSA;
- Issued 900,000 common shares to settle \$170,068 of outstanding employee remuneration;
- 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.

# **AZARGA URANIUM CORP.**

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

For the nine months ended September 30, 2019

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

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### **12. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)**

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

- Issued 57,920,716 common shares valued at \$11,237,756 for acquisition of URZ Energy;
- Issued 186,393 common shares valued at \$36,164 for transaction costs;
- Issued 11,269,243 common shares to settle Shareholders' Loan of \$2,201,024;
- Issued 868,742 common shares to settle \$166,398 owing pursuant to the Company's ESPP;
- Issued 234,522 common shares to settle \$44,891 owing pursuant to the Company's DSA;
- Issued 104,166 common shares for acquisition of a royalty of \$19,391;
- Issued 2,033,334 common shares to settle trade and other payables of \$391,014;
- Issued 550,000 common shares to settle \$93,500 of outstanding employee remuneration;
- 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 nine months ended September 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 70.0% interest in UrAsia. On May 23, 2019, the Company acquired an additional 23.1% interest from two minority shareholders for a nominal cost giving the Company a 93.1% interest in UrAsia. The Company accounted for the 23.1% 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 nine months ended September 30, 2019 and 2018 were as follows:

|   | Three months ended<br>September 30, |              | Nine months ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2019                                | 2018         | 2019                               | 2018         |
| Balance, beginning of period  | \$ (490,312)                        | \$ (454,939) | \$ (494,477)                       | \$ (449,996) |
| NCI adjustment on acquisition of<br>23.1% of UrAsia                   | -                                   | -            | 316,758                            | -            |
| Non-controlling interest from net<br>loss                             | (4,199)                             | (16,002)     | (302,639)                          | (20,945)     |
| Non-controlling interest from<br>other comprehensive income<br>(loss) | 9,074                               | (12,525)     | (5,079)                            | (12,525)     |
| Balance, end of period  | \$ (485,437)                        | \$ (483,466) | \$ (485,437)                       | \$ (483,466) |

### 14. SUBSEQUENT EVENTS

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

- In October 2019, the Company issued 493,198 common shares to settle \$71,877 owing pursuant to the Company's ESPP and 94,348 common shares to settle \$13,750 owing pursuant to the Company's DSA.
- In October 2019, 393,336 options expired unexercised (Note 7).