



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

**December 31, 2018**  
*(Expressed in U.S. Dollars)*



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## Independent Auditor's Report

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To the Shareholders of Azarga Uranium Corp.

### Opinion

We have audited the accompanying consolidated financial statements of Azarga Uranium Corp. ("the Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the related consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Azarga Uranium Corp. as at December 31, 2018 and 2017 and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has not generated revenues from operations, is currently in the exploration and development stage and has an accumulated deficit of \$18,973,266. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in Management's Discussion & Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Bryndon Kydd.

(signed) "BDO CANADA LLP"

Chartered Professional Accountants  
Vancouver, British Columbia  
March 29, 2019

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

		As at December 31,	
	Notes	2018	2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 352,001	\$ 432,192
Other assets		26,810	123,160
<b>Total current assets</b>		<b>378,811</b>	<b>555,352</b>
<b>Non-current assets</b>			
Restricted cash		39,963	39,176
Exploration and evaluation assets	7	46,696,473	33,003,670
Property, plant and equipment		90,106	97,322
Reclamation bonds	9	99,000	-
<b>Total non-current assets</b>		<b>46,925,542</b>	<b>33,140,168</b>
<b>Total assets</b>		<b>\$ 47,304,353</b>	<b>\$ 33,695,520</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables		\$ 1,302,085	\$ 1,525,906
Loans payable	8	-	328,678
<b>Total current liabilities</b>		<b>1,302,085</b>	<b>1,854,584</b>
<b>Non-current liabilities</b>			
Trade and other payables	17	150,000	-
Loans payable	8	-	1,776,000
Deferred income tax liabilities	23	4,233,790	4,052,790
Decommissioning liabilities	9	223,442	142,918
Warrant liabilities	10	247,654	258,116
<b>Total non-current liabilities</b>		<b>4,854,886</b>	<b>6,229,824</b>
<b>Total liabilities</b>		<b>6,156,971</b>	<b>8,084,408</b>
<b>Equity</b>			
Common shares	11	57,976,321	41,286,853
Contributed surplus	11	1,001,818	768,652
Share option reserve	12	2,500,078	1,427,563
Foreign currency translation reserve		(863,092)	(827,984)
Accumulated deficit		(18,973,266)	(16,593,976)
Equity attributable to the equity holders of the Company		41,641,859	26,061,108
Non-controlling interest	22	(494,477)	(449,996)
<b>Total equity</b>		<b>41,147,382</b>	<b>25,611,112</b>
<b>Total liabilities and equity</b>		<b>\$ 47,304,353</b>	<b>\$ 33,695,520</b>

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

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

“Glenn Catchpole”, Director \_\_\_\_\_

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

# AZARGA URANIUM CORP.

## Consolidated Statements of Loss and Other Comprehensive Loss

(Expressed in U.S. Dollars)

	Notes	Year ended December 31,	
		2018	2017
Administrative expenses	13	\$ (2,145,295)	\$ (1,659,228)
Foreign exchange gain (loss)		(13,791)	114,110
Impairment of exploration and evaluation assets	7	-	(6,346,899)
<b>Loss from operations</b>		<b>(2,159,086)</b>	<b>(7,892,017)</b>
Finance costs	14	(154,913)	(216,478)
Unrealized gain	15	51,789	595,801
Realized gain (loss)	16	34,485	(3,938)
<b>Loss before income tax</b>		<b>(2,227,725)</b>	<b>(7,516,632)</b>
Deferred income tax (expense) recovery	23	(181,000)	2,236,000
<b>Net loss</b>		<b>(2,408,725)</b>	<b>(5,280,632)</b>
<b>Other comprehensive income (loss)</b>			
<b>Item that may be reclassified subsequently as profit or loss</b>			
Foreign currency translation adjustment		(50,154)	19,197
<b>Total other comprehensive loss</b>		<b>\$ (2,458,879)</b>	<b>\$ (5,261,435)</b>
<b>Net loss attributable to:</b>			
Equity holders of the Company		(2,379,290)	(3,578,681)
Non-controlling interest	22	(29,435)	(1,701,951)
<b>Net loss</b>		<b>\$ (2,408,725)</b>	<b>\$ (5,280,632)</b>
<b>Other comprehensive income (loss) attributable to:</b>			
Equity holders of the Company		(35,108)	14,022
Non-controlling interest	22	(15,046)	5,175
<b>Other comprehensive income (loss):</b>		<b>\$ (50,154)</b>	<b>\$ 19,197</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.02)</b>	<b>\$ (0.07)</b>
<b>Weighted average number of common shares outstanding</b>		<b>125,183,747</b>	<b>77,506,606</b>

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

**AZARGA URANIUM CORP.**  
**Consolidated Statements of Changes in Equity**  
*(Expressed in U.S. Dollars and shares)*

	Attributable to equity holders of the Company								
	Number of shares	Common shares	Contributed surplus	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Total equity	Non-controlling interest	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
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	19,391	-	-	-	-	19,391	-	19,391
Issuance of shares to settle trade and other payables	2,033,334	391,014	-	-	-	-	391,014	-	391,014
Issuance of shares to settle ESPP	1,115,301	215,344	(215,344)	-	-	-	-	-	-
Issuance of shares to settle DSA	303,937	58,669	(58,669)	-	-	-	-	-	-
Issuance of shares to settle employee remuneration	550,000	93,500	(93,500)	-	-	-	-	-	-
Issuance of warrants	-	(51,493)	-	-	-	-	(51,493)	-	(51,493)
Compensation to be settled by equity	-	-	434,582	-	-	-	434,582	-	434,582
Share-based compensation	-	-	-	303,346	-	-	303,346	-	303,346
Net loss for the year	-	-	-	-	-	(2,379,290)	(2,379,290)	(29,435)	(2,408,725)
Other comprehensive loss for the year	-	-	-	-	(35,108)	-	(35,108)	(15,046)	(50,154)
<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

	Attributable to equity holders of the Company								
	Number of shares	Common shares	Contributed surplus	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Total equity	Non-controlling interest	Total equity
<b>Balances, December 31, 2016</b>	74,766,046	\$ 39,762,939	\$ 793,625	\$ 1,196,865	\$ (842,006)	\$ (13,015,295)	\$ 27,896,128	\$ 1,246,780	\$ 29,142,908
Issuance of shares for private placements	6,626,938	1,089,008	-	-	-	-	1,089,008	-	1,089,008
Issuance of shares to settle ESPP	1,100,918	234,652	(234,652)	-	-	-	-	-	-
Issuance of shares to settle DSA	288,448	61,060	(61,060)	-	-	-	-	-	-
Issuance of shares to settle employee remuneration	750,000	123,466	(123,466)	-	-	-	-	-	-
Issuance of shares for services	87,500	15,728	-	-	-	-	15,728	-	15,728
Compensation to be settled by equity	-	-	394,205	-	-	-	394,205	-	394,205
Share-based compensation	-	-	-	230,698	-	-	230,698	-	230,698
Net loss for the year	-	-	-	-	-	(3,578,681)	(3,578,681)	(1,701,951)	(5,280,632)
Other comprehensive income for the year	-	-	-	-	14,022	-	14,022	5,175	19,197
<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

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

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

		<b>Year ended December 31,</b>	
	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (2,408,725)	\$ (5,280,632)
Adjustments for:			
Depreciation		3,919	2,123
Share-based compensation	12	266,044	198,706
Deferred income tax expense (recovery)	23	181,000	(2,236,000)
Equity compensation expense	11	434,582	394,205
Finance costs	14	154,913	216,478
Unrealized gain	15	(51,789)	(595,801)
Realized (gain) loss	16	(34,485)	3,938
Impairment of exploration and evaluation assets	7	-	6,346,899
Unrealized foreign exchange gain		(59,819)	(33,500)
Operating cash flows before changes in non-cash working capital items		(1,514,360)	(983,584)
Change in other assets		145,542	(92,479)
Change in trade and other payables		(465,357)	257,894
<b>Net cash used in operating activities</b>		<b>(1,834,175)</b>	<b>(818,169)</b>
<b>INVESTING ACTIVITIES</b>			
Sale of investments	5	-	71,106
Cash received on acquisition of URZ Energy, net of transaction costs	6	423,924	-
Expenditures on exploration and evaluation assets	7	(1,420,294)	(1,163,207)
Recoveries of expenditures on exploration and evaluation assets	7	68,697	-
Option payments received for exploration and evaluation assets	7	290,000	150,000
Reclamation bonds		(2,000)	-
Purchase of property, plant and equipment		-	(1,350)
<b>Net cash used in investing activities</b>		<b>(639,673)</b>	<b>(943,451)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of common shares	11	1,984,444	1,353,937
Share issue costs	11	-	(55,006)
Loan proceeds received	8	515,000	-
Payment of other loans payable	8	(105,000)	(50,000)
<b>Net cash generated by financing activities</b>		<b>2,394,444</b>	<b>1,248,931</b>
Effect of foreign exchange rate changes on cash		(787)	3,511
<b>Decrease in cash</b>		<b>(80,191)</b>	<b>(509,178)</b>
Cash, beginning of year		432,192	941,370
<b>Cash, end of year</b>		<b>\$ 352,001</b>	<b>\$ 432,192</b>

**Supplemental cash flow information, see Note 21**

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

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

*(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. 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 70% of a project in the Kyrgyz Republic.

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

In July 2018, the Company completed the acquisition of URZ Energy Corp. (“URZ Energy”) pursuant to a court approved plan of arrangement, see Note 6.

These consolidated 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 December 31, 2018, the Company had a working capital deficit of \$923,274 and an accumulated deficit of \$18,973,266 and will continue incurring losses in the foreseeable future. In March 2019, the Company completed a non-brokered private placement for gross proceeds of C\$3,014,391, see Note 24. However, 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 consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

These consolidated financial statements for the year ended December 31, 2018 were approved and authorized for issue by the Company’s Board of Directors on March 28, 2019.

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

These consolidated 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 18.

#### **2.3 Presentation currency**

These consolidated 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.

#### **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 consolidated financial statements are as follows:

##### *Liquidity and going concern assumption*

In the determination of the Company’s ability to meet its ongoing obligations and future contractual commitments management relies on the Company’s planning, budgeting and forecasting process to help determine the funds required to support the Company’s normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, progress on permitting, results from the exploration and development of its properties and general industry conditions. Changes in these inputs may alter the Company’s ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern, see Note 1.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 2. BASIS OF PRESENTATION (Continued)

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#### 2.4 Significant accounting judgments and estimates (Continued)

##### *Indicators of impairment of exploration and evaluation assets*

In accordance with the Company's accounting policy for its exploration and evaluation assets, expenditures on its uranium properties are capitalized. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of uranium. The Company applies judgment to determine whether indicators of impairment exist for these capitalized costs.

Management uses several criteria in making this assessment, including the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of its properties are budgeted, and evaluation of the results of exploration and evaluation activities up to the reporting date.

##### *Carrying value of exploration and evaluation assets*

If any indicators of impairment are noted then management reviews the carrying value of the Company's exploration and evaluation assets to determine whether an impairment charge should be recorded on any of its projects. Management determines the recoverable amount of its individual exploration and evaluation assets using the higher of fair value less costs to sell or value-in-use. This determination and the individual assumptions require that management decide whether impairment should be recorded based on the best available information at each reporting period. Changes in these assumptions may alter the results of impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets.

During the year ended December 31, 2018, impairment indicators were noted on the Company's Centennial project; however, the Company did not record an impairment charge as the fair value was determined to be in excess of its carrying value, see Note 7.

During the year ended December 31, 2017, the Company recorded an impairment charge of \$6,346,899 on its Kyzul Ompul project in Kyrgyzstan, see Note 7.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 2. BASIS OF PRESENTATION (Continued)

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#### 2.4 Significant accounting judgments and estimates (Continued)

##### *Capitalization of exploration and evaluation costs*

Management has determined that exploration and evaluation costs incurred or acquired during the year will have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including, but not limited to, the geologic and metallurgic information, scoping studies, preliminary economic assessments, proximity of operating facilities, operating management expertise and existing permits.

##### *Determining if an acquisition is a business combination or an asset acquisition*

As required by IFRS 3 Business Combinations (“IFRS 3”), the Company is required to determine whether the acquisition of URZ Energy should be accounted for as a business combination or an asset acquisition, see Note 6. Under IFRS 3, the components of a business must include inputs, processes and outputs. Management has determined that URZ Energy did not include all the necessary components of a business. Accordingly, the acquisition of URZ Energy has been recorded as an acquisition of URZ’s net assets, consisting of URZ Energy’s exploration and evaluation assets and working capital.

##### *Identifying the acquirer in an acquisition*

As required by IFRS 3 and IFRS 10 Consolidated Financial Statements, the Company is required to determine whether it is the acquirer or acquiree in the URZ Energy acquisition. The acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which company is the acquirer, additional information must be considered, such as the combined entity’s relative voting rights, existence of a large minority voting interest, composition of the governing body and senior management, and the terms behind the exchange of equity interests. Management has determined that Azarga Uranium is the acquirer of URZ Energy.

##### *Determination of asset and liability fair values*

Business combinations and asset acquisitions require judgment and estimates to be made at the date of acquisition in relation to determining asset and liability fair values. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management make certain judgments and estimates about future events, including but not limited to estimates of mineral resources acquired, exploration potential, future operating costs and capital expenditures, future metal prices, and long-term foreign exchange rates.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of consolidation

The consolidated financial statements include the financial statements of Azarga Uranium and its controlled subsidiaries.

Name of subsidiary	Place of incorporation	Ownership interest at December 31, 2018	Principal activity
Powertech (USA) Inc.	USA	100%	Operating uranium exploration company
Ucolo Exploration Corp. *	USA	100%	Operating uranium exploration company
UrAsia in Kyrgyzstan LLC	Kyrgyz Republic	70%	Operating uranium exploration company
URZ Energy Corp. *	Canada	100%	Holding company
Azarga Resources Limited	BVI	100%	Holding company
Azarga Resources (Hong Kong) Limited	Hong Kong	100%	Holding company
Azarga Resources Canada Ltd.	Canada	100%	Holding company
Azarga Resources USA Company	USA	100%	Holding company

\* acquired in July 2018, see Note 6

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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#### 3.2 Foreign currency translation

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 LLC, whose functional currency is the Kyrgyz Som.

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the consolidated statements of profit or loss and other comprehensive income or loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income or loss in the consolidated statements of profit or loss and other comprehensive income or loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income or loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

##### *Parent and subsidiary companies*

The financial position and results of operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at the average exchange rates for the period.

Exchange differences are transferred directly to other comprehensive income or loss and are included in a separate component of shareholders' equity titled foreign currency translation reserve. These differences are recognized in profit or loss in the period in which the subsidiary is disposed of.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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#### 3.3 Restricted cash

In the USA, restricted cash consists of deposits held for collateral pursuant to bonds provided to state authorities in connection with exploration and evaluation property activities. In the Kyrgyz Republic, restricted cash consists of deposits made pursuant to the requirements of the Company's exploration license agreements. The Company makes such cash deposits for restoration provisions related to rehabilitation obligations.

#### 3.4 Property, plant and equipment

Property, plant and equipment ("PPE") includes the Company's machinery and equipment, office equipment, furniture and fixtures, vehicles and buildings. PPE is stated at cost less accumulated depreciation and accumulated impairment losses.

##### *Initial recognition*

The cost of an item of PPE consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, borrowing costs during construction, if applicable, and the estimated costs associated with dismantling and removing the assets.

##### *Depreciation*

Depreciation is recorded based on the cost of an item of PPE, less its estimated residual value, using the straight-line method over the following estimated useful lives:

- Machinery and equipment      5 to 10 years
- Vehicles                              3 years
- Office equipment                  3 to 5 years
- Furniture and fixtures            4 to 5 years
- Building                              10 to 40 years

When major components of an item of PPE have different useful lives, they are accounted for as separate items of PPE and depreciated as per each component's useful life.

The cost of replacing a component of PPE is recognized as part of the carrying value of the item if it is probable that the future economic benefit will flow to the Company and its cost can be measured. The carrying amount of the replaced component is derecognized.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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#### **3.4 Property, plant and equipment (Continued)**

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

#### **3.5 Exploration and evaluation assets**

Exploration and evaluation expenditures are recognized as assets in the period in which they are incurred once the legal right to explore a property has been acquired. This includes any acquisition costs associated with such property. These direct expenditures include such costs as drilling/engineering, salaries and consulting, rehabilitation costs and license fees, inclusive of land payments and claims maintenance. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur. Payments received by the Company from exploration and evaluation partners are credited to the capitalized cost of the exploration and evaluation asset. If the payments received exceed the capitalized cost of the exploration and evaluation asset, the excess is recognized as a gain.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Any such impairment charges are recognized in profit or loss.

Once the technical feasibility and commercial viability of extracting the resource has been determined and management plans to develop the property, the property will be considered a mine under development and will be classified as “mines under construction” in the consolidated statement of financial position. As part of the reclassification, “mines under construction” will be tested for impairment.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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#### **3.6 Rehabilitation provisions**

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of environmental disturbances caused by exploration and evaluation activities. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites. Initially, a provision for a decommissioning liability is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

#### **3.7 Taxation**

Income tax expense represents the sum of current and deferred income tax.

##### *Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute current income taxes for each jurisdiction in which the Company operates, are those that are substantively enacted at the end of each reporting period. The Company incurred no current income taxes for the years ended December 31, 2018 and 2017.

##### *Deferred income tax*

Deferred income tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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#### 3.7 Taxation (Continued)

##### *Deferred income tax (Continued)*

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been substantively enacted at the end of each reporting period.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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#### 3.7 Taxation (Continued)

##### *Deferred income tax (Continued)*

In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to the tax returns of each entity in the group.

Deferred income tax relating to items recognized directly in equity or other comprehensive income or loss are recognized in equity and not in profit or loss or other comprehensive income or loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### 3.8 Financial Instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model.

##### *Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.8 Financial Instruments (Continued)

##### *Classification (Continued)*

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	IAS 39	IFRS 9
<b>Financial assets</b>		
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Reclamation bonds	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Trade and other payables	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Decommissioning liabilities	Other financial liabilities	Amortized cost
Warrant liabilities	FVTPL	FVTPL

##### *Measurement*

##### Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

##### Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of profit or loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income or loss.

##### Financial assets at FVTOCI

Financial assets, such as investments in equity instruments, classified at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income or loss.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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#### 3.9 Derivative financial instruments

The Company may issue or hold compound financial instruments with embedded derivatives. An embedded derivative is separated from its host contract and accounted for as a derivative only when three criteria are satisfied:

- When the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The entire instrument is not measured at fair value with changes in fair value recognized in the consolidated statements of profit or loss and other comprehensive income or loss.

##### *Financial assets*

The Company designates financial assets with embedded derivatives as FVTPL on the initial recognition and accordingly does not bifurcate between the host contract and the embedded derivative. The embedded derivative is measured at each reporting period using an appropriate valuation model with changes in the fair value being recognized immediately in profit or loss.

##### *Financial liabilities*

The Company designates certain financial liabilities with embedded derivatives as FVTPL on the initial recognition and accordingly does not bifurcate between the host contract and the embedded derivative. However, other financial liabilities with embedded derivatives are bifurcated depending on the instrument. In the case of the latter, the debt host component is classified as other financial liabilities and is measured at amortized cost using the effective interest rate method. The embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is recorded as profit or loss over the expected life of the financial liabilities.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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#### 3.10 Impairment of financial assets

*Assets carried at amortized cost*

At the end of each reporting period, the Company assesses whether a financial asset is impaired.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and the amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

#### 3.11 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model, which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, but not above the original carrying amount.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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#### **3.12 Derecognition of financial assets and financial liabilities**

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the Company has transferred substantially all the risks and rewards of ownership. On derecognition, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the underlying contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss, unless the financial liability is settled with the Company's shares, in which case it is recognized in profit or loss or equity.

#### **3.13 Common shares**

Common shares are classified as equity. Costs directly attributable to the issuance of common shares are shown in equity as a reduction, net of tax, of the proceeds.

#### **3.14 Share purchase warrants**

Share purchase warrants are considered a derivative liability, as the currency denomination of the exercise price is different from the functional currency of the Company. As a result, the fair value of the share purchase warrants are calculated on the issuance date using the Black-Scholes option pricing model. Any foreign exchange or change in the fair value of the warrant subsequent to the initial recognition is recorded in profit or loss.

#### **3.15 Share-based compensation**

Where equity-settled share options are granted to employees, inclusive of directors of the Company, the fair value of the options granted is measured using the Black-Scholes option pricing model and is charged to the statement of profit or loss or capitalized to exploration and evaluation assets over the vesting period. An individual is classified as an employee when the individual is an employee for legal or tax purposes (a "direct employee") or provides services similar to those performed by a direct employee. Certain employees of the Company receive a portion of their remuneration in the form of share-based payments.

Where equity-settled share options are granted to non-employees, they are measured at the fair value of the goods or services received. However, if the value of goods or services received in exchange for the options cannot be reliably estimated, the options are measured using the Black-Scholes option pricing model.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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#### **3.15 Share-based compensation (Continued)**

All equity-settled share-based compensation is reflected in share option reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share option reserve is credited to common shares, together with any consideration received.

#### **3.16 Loss per share**

Basic loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted loss per share is calculated by adjusting the net loss attributable to equity holders of the Company and the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company's dilutive share equivalents include stock options, share purchase warrants and convertible securities.

In the Company's case, diluted loss per share is the same as basic loss per share, as the effect of outstanding share options on loss per share would be anti-dilutive.

#### **3.17 Related party transactions**

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### **3.18 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management that makes strategic decisions.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2018 and have not been applied in preparing these consolidated financial statements. Only those standards which are applicable to the Company are discussed below.

##### **IFRS 16 – Leases (“IFRS 16”) (Effective 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 asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting for the lessee, introducing a single, on-balance sheet accounting model that is similar to finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to the current accounting practice.

The introduction of IFRS 16 is not expected to have a significant impact on the Company’s financial statements, as the leases currently held by the Company are either immaterial or are leases to explore for uranium resources, which are exempt from IFRS 16.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

*(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 Uranium Division	United States Uranium Division	Unallocated <sup>(i)</sup>	Consolidated Total
<b>Segment assets</b>				
As at December 31, 2018	\$ 4,389,464	\$ 42,730,212	\$ 184,677	\$ 47,304,353
As at December 31, 2017	\$ 4,141,856	\$ 29,288,567	\$ 265,097	\$ 33,695,520
<b>Segment liabilities</b>				
As at December 31, 2018	\$ 1,633,878	\$ 3,589,458	\$ 933,635	\$ 6,156,971
As at December 31, 2017	\$ 1,036,156	\$ 3,677,443	\$ 3,370,809	\$ 8,084,408
<b>Exploration and evaluation assets (Note 7)</b>				
As at December 31, 2018	\$ 4,225,090	\$ 42,471,383	\$ -	\$ 46,696,473
As at December 31, 2017	\$ 4,069,145	\$ 28,934,525	\$ -	\$ 33,003,670
<b>Loss before income tax</b>				
Year ended December 31, 2018	\$ (117,560)	\$ (443,236)	\$ (1,666,929)	\$ (2,227,725)
Year ended December 31, 2017	\$ (6,416,438)	\$ (271,561)	\$ (828,633)	\$ (7,516,632)
<b>Impairment of exploration and evaluation assets (Note 7)</b>				
Year ended December 31, 2018	\$ -	\$ -	\$ -	\$ -
Year ended December 31, 2017	\$ (6,346,899)	\$ -	\$ -	\$ (6,346,899)

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

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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### 5. INVESTMENTS HELD FOR SALE

	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ -	\$ 68,264
Disposition of shares	-	(93,676)
Unrealized gain on revaluation of investment	-	25,412
Balance, end of year	\$ -	\$ -

During the year ended December 31, 2017, the Company sold its remaining investment in a uranium company for proceeds of \$71,106 and recognized a realized loss of \$22,570. In addition, the Company also recorded an unrealized gain on revaluation of investment of \$25,412.

### 6. ACQUISITION OF URZ ENERGY

On July 5, 2018, the Company completed the acquisition of URZ Energy through the issue of 57,920,716 common shares of the Company valued at \$11,237,756. Each URZ Energy shareholder received two Azarga Uranium shares for each URZ Energy share held (the "Exchange Ratio").

All outstanding share purchase warrants and stock options of URZ Energy were adjusted in accordance with their terms and the Exchange Ratio such that Azarga Uranium reserved for issue:

- 14,806,700 share purchase warrants with an exercise price of C\$0.20 expiring August 15, 2018. The share purchase warrants were valued at \$644,530 using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.90%; an expected volatility of 55.1%; an expected life of 0.11 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.3143;
- 2,304,184 share purchase warrants with an exercise price of C\$0.375 expiring June 19, 2019. The share purchase warrants were valued at \$41,784 using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.90%; an expected volatility of 55.1%; an expected life of 0.96 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.3143; and
- 4,480,000 stock options with an exercise price of C\$0.075 expiring March 14, 2027. The stock options were valued at \$769,169 using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 2.12%; an expected volatility of 76.5%; an expected life of 8.7 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.3143.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 6. ACQUISITION OF URZ ENERGY (Continued)

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The Company paid transaction costs of \$146,601 in cash and issued 186,393 common shares of the Company valued at \$36,164.

URZ Energy, a British Columbia Corporation, owns all the issued and outstanding shares of Ucolo Exploration Corp. ("Ucolo"), a Utah Corporation. As discussed further in Note 7, at acquisition, Ucolo held certain uranium projects located in Wyoming, Colorado and Utah.

<b>Consideration</b>	
Shares issued	\$ 11,237,756
Warrants issued	686,314
Options issued	769,169
Transaction costs - shares	36,164
Transaction costs - cash	146,601
Due from Azarga Uranium *	(468,567)
<b>Total</b>	<b>\$ 12,407,437</b>

<b>Net assets received</b>	
Cash	\$ 570,525
Other assets	49,192
Exploration and evaluation assets	12,167,005
Property, plant and equipment	2,894
Reclamation bonds	97,000
Trade and other payables	(417,035)
Decommissioning liabilities	(62,144)
<b>Total</b>	<b>\$ 12,407,437</b>

\* In May 2018, URZ Energy advanced \$465,000 to the Company, see Note 8.2. The loan accrued interest at 5% through completion of the acquisition. All principal and interest was settled on completion of the acquisition.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 7. EXPLORATION AND EVALUATION ASSETS

	South Dakota	Wyoming			Colorado		Utah	Kyrgyzstan	Total
	Dewey Burdock	Gas Hills	Juniper Ridge	Other	Centennial	JB	Ticaboo	Kyzyl Ompul	
Balance, December 31, 2017	\$25,909,535	\$ -	\$ -	\$ 692,775	\$ 2,332,215	\$ -	\$ -	\$ 4,069,145	\$33,003,670
Acquisition of URZ Energy	-	8,512,595	2,724,761	63,645	-	415,467	450,537	-	12,167,005
Acquisition costs	31,250	-	-	-	-	-	-	-	31,250
Salaries and consulting	652,800	21,097	1,580	25,427	28,000	1,400	3,500	46,409	780,213
License fees	276,072	97,525	20,509	127,653	2,530	10,307	5,317	468,918	1,008,831
Decommissioning liabilities	-	1,806	-	-	14,281	-	2,293	-	18,380
Share-based compensation	18,981	1,355	542	1,628	2,712	542	1,355	10,187	37,302
Depreciation	-	-	-	-	-	-	-	5,930	5,930
Repurchase of royalties	19,391	-	-	-	-	-	-	-	19,391
Option payments received	-	-	-	-	-	-	-	(290,000)	(290,000)
Recoveries	-	-	-	-	-	-	-	(68,697)	(68,697)
Currency translation effect	-	-	-	-	-	-	-	(16,802)	(16,802)
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

	South Dakota	Wyoming			Colorado		Utah	Kyrgyzstan	Total
	Dewey Burdock	Gas Hills	Juniper Ridge	Other	Centennial	JB	Ticaboo	Kyzyl Ompul	
Balance, December 31, 2016	\$25,073,304	\$ -	\$ -	\$ 558,746	\$ 2,288,492	\$ -	\$ -	\$10,363,942	\$38,284,484
Salaries and consulting	558,701	-	-	21,000	21,172	-	-	56,153	657,026
License fees	263,038	-	-	110,187	6,724	-	-	50,735	430,684
Decommissioning liabilities	-	-	-	-	12,985	-	-	-	12,985
Share-based compensation	14,492	-	-	2,842	2,842	-	-	11,816	31,992
Rehabilitation costs	-	-	-	-	-	-	-	2,269	2,269
Depreciation	-	-	-	-	-	-	-	7,901	7,901
Impairment	-	-	-	-	-	-	-	(6,346,899)	(6,346,899)
Option payments received	-	-	-	-	-	-	-	(150,000)	(150,000)
Currency translation effect	-	-	-	-	-	-	-	73,228	73,228
Balance, December 31, 2017	\$25,909,535	\$ -	\$ -	\$ 692,775	\$ 2,332,215	\$ -	\$ -	\$ 4,069,145	\$33,003,670

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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

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#### **7.1 Dewey Burdock Project, South Dakota**

The Dewey Burdock Uranium Project is an in-situ recovery uranium project located in the Edgemont uranium district in South Dakota. The Dewey Burdock Uranium Project is the Company's initial development priority.

In 2006, the Company entered into an option agreement to purchase mineral rights on certain areas of the Dewey Burdock Project for consideration of \$200,000 plus contingent payments of \$750,000 payable in four equal instalments of \$187,500 commencing 12 months subsequent to the receipt of all regulatory permits and licenses allowing uranium production on the area of the Dewey Burdock Project pertaining to these mineral interests. The Company has disclosed these contingent amounts as a commitment in Note 20.

In 2008, the Company entered into an option agreement to purchase mineral rights on certain areas of the Dewey Burdock Project for consideration of \$600,000 plus contingent payments of \$1,300,000. On October 31, 2018, the Company entered into an amending agreement whereby the \$1,300,000 contingent payments are payable as follows: \$31,250 on signing the amending agreement; nine payments of \$31,250 payable each May 31 and October 1; and ten payments of \$98,750 payable thereafter each May 31 and October 1 with the final payment of \$98,750 being made on May 31, 2028. If the Company receives all regulatory permits and licenses allowing uranium production on the area of the Dewey Burdock Project pertaining to these mineral interests before completion of the aforementioned payments, then the balance of payments owing shall be payable in four equal installments annually beginning one year from that date with a minimum payment of \$98,750 a year until paid in full. The Company has disclosed these contingent amounts as a commitment in Note 20.

On December 7, 2017, the Company entered into an agreement to repurchase royalties related to uranium production on certain areas of the Dewey Burdock project for C\$25,000 which was settled on March 23, 2018 by the issue of 104,166 common shares valued at \$19,391.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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

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#### **7.2 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. The \$3,165,000 contingent payment is payable upon receipt of regulatory permits and licenses allowing uranium production on the area of the Centennial Project pertaining to these uranium interests. The Company has disclosed this contingent amount as a commitment in Note 20. Unless otherwise agreed to, if the Company does not obtain such permits and licenses by September 27, 2019, the uranium rights will, at the option of the seller, transfer back to the seller.

The Company does not expect to receive the regulatory permits and licenses allowing uranium production on the areas of the Centennial Project pertaining to these uranium interests by September 27, 2019. Further, the Company does not expect to be in a position to make the \$3,165,000 contingent payment as of that date. Accordingly, the Company will use best efforts to renegotiate the Centennial Project option agreement before the contingent payment is due.

As at December 31, 2018, the Company determined that the uncertainty over the option agreement and the lack of planned or budgeted substantive expenditures planned for the project were indicators of impairment and, accordingly, tested the Centennial Project for impairment as at December 31, 2018. The Company used a fair value less cost to sell model that evaluated comparable trading multiples of uranium companies and the Company concluded that the Centennial Project is not impaired as at December 31, 2018. Comparable trading multiples ranging from \$0.33 to \$1.79 were applied to determine the estimated recoverable amount of the project. These trading multiples are subject to estimation uncertainty and should these estimates prove inappropriate, impairment of the project may result. The estimated recoverable amount assumes successful renegotiation of the option agreement and deferral of the \$3,165,000 payment, which if not successful, would result in impairment of the Centennial Project.

#### **7.3 URZ Energy uranium projects**

In July 2018, the Company acquired URZ Energy and its Gas Hills, Juniper Ridge and Shirley Basin uranium projects in Wyoming, the JB uranium project in Colorado and the Ticaboo uranium project in Utah.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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

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

The Kyzyl Ompul Project is 100% owned and operated by UrAsia in Kyrgyzstan LLC ("UrAsia"), in which the Company owns a 70% interest, and consists of one exploration license. The license is valid until December 31, 2020 and permits exploration for uranium.

From July 31, 2017, to its termination on April 16, 2018, UrAsia was party to an earn-in agreement (the "Earn-In Agreement") with Mining Investment Company Alliance ("Alliance"). The Earn-In Agreement provided Alliance with an earn-in option to acquire a 100% interest in the Kyzyl Ompul Project in exchange for \$6,000,000 of cash payments and a two percent net smelter royalty of up to \$5,000,000 as well as Alliance making \$1,600,000 of exploration and development expenditures over a three-year period. During the year ended December 31, 2017, UrAsia received \$150,000 in cash payments from Alliance.

On April 16, 2018, UrAsia executed a replacement earn-in agreement (the "Replacement Agreement") with Central Asian Uranium Company Limited Liability Company ("Central") to replace the Earn-in Agreement, which was terminated in accordance with the terms provided for therein. The Replacement Agreement provides Central with 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.

Under the terms of the Replacement Agreement, Central made cash payments to the Company of \$290,000 during the year ended December 31, 2018. In March 2019, the Company and Central amended the Replacement Agreement such that the remaining cash payments of \$5,560,000 are now payable as follows: \$130,000 on signing, of which \$70,000 has been received and \$60,000 is expected to be received imminently, \$95,104 on April 30, 2019, \$16,828 per month from April 1 to September 1, 2019, \$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 Replacement Agreement are not refundable if Central does not exercise its purchase option.

Aggregate exploration and development expenditures are expected 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. For the year ended December 31, 2018, Central has exceeded the minimum exploration and development expenditures required pursuant to the Replacement Agreement.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 7. EXPLORATION AND EVALUATION ASSETS (Continued)

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

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 Replacement Agreement, UrAsia will retain its 100% interest in the Kyzyl Ompul Project.

During the year ended December 31, 2017, the Company recognized an impairment charge of \$6,346,899 for the Kyzyl Ompul Project on execution of the Earn-In Agreement. The recoverable amount of the Kyzyl Ompul Project was based on a fair value less cost to sell model, which incorporated the net present value of expected cash flows in accordance with the Earn-In Agreement discounted at a rate of 22%. It was categorized as a non-recurring level 3 fair value measurement. The discount rate was determined based on a market participant's cost of capital, adjusted for political and development risks.

### 8. LOANS PAYABLE

	Year ended December 31,	
	2018	2017
Loan payable to shareholders	\$ -	\$ 2,057,805
Other loans payable	-	46,873
<b>Loans payable</b>	<b>\$ -</b>	<b>\$ 2,104,678</b>
Current portion	\$ -	\$ 328,678
Non-current portion	\$ -	\$ 1,776,000

#### 8.1 Loan payable to shareholders

	Year ended December 31,	
	2018	2017
Loan payable to shareholders - current	\$ -	\$ 281,805
Loan payable to shareholders - non-current	-	1,776,000
<b>Loan payable to shareholders</b>	<b>\$ -</b>	<b>\$ 2,057,805</b>

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 8. LOANS PAYABLE (Continued)

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#### 8.1 Loan payable to shareholders (Continued)

On July 31, 2012, the Company entered into a convertible loan agreement with certain shareholders of the Company for \$1,776,000 (the "Shareholders' Loan"). Pursuant to the agreement, as amended, the Shareholders' Loan accrued interest at 15% per annum payable on each anniversary of the agreement, was unsecured, was convertible into shares of the Company at the shareholders' option at C\$1.23, and matured July 31, 2020. The annual interest that was due on July 31, 2017 was deferred until July 31, 2018. During the years ended December 31, 2018 and 2017, the Company recorded interest expense of \$143,219 and \$209,670, respectively.

In July 2018, the Company issued 11,269,243 common shares of the Company valued at \$2,201,024 in full and final settlement of the Shareholders' Loan, including principal of \$1,776,000 and accrued interest to the date of settlement of \$425,024.

#### 8.2 URZ Energy Loan

In May 2018, URZ Energy advanced \$465,000 to the Company. The loan accrued interest at 5% through completion of the acquisition of URZ Energy. All principal and interest was thereafter settled on completion of the acquisition. During the year ended December 31, 2018, the Company recorded interest expense of \$3,567.

#### 8.3 Other loans payable

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	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ 46,873	\$ 90,065
Loan received	50,000	-
Interest expense	8,127	6,808
Loans repaid	(105,000)	(50,000)
Balance, end of year	\$ -	\$ 46,873

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# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 9. DECOMMISSIONING LIABILITIES

	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ 142,918	\$ 129,933
Assumed on acquisition of URZ Energy	62,144	-
Additions	1,281	-
Accretion	17,099	12,985
Balance, end of year	\$ 223,442	\$ 142,918

Decommissioning liabilities include the net present value of the estimated cost of reclaiming exploration ground on the Company's Centennial, Gas Hills and Ticaboo projects. The Company has no material restoration, rehabilitation and environmental obligations on its other uranium projects as environmental disturbance to date has been minimal or reclamation has been completed.

The Company assumed reclamation bonds on acquisition of URZ Energy of \$63,000 for Gas Hills and \$34,000 for Ticaboo. All reclamation bonds have been recorded on the consolidated statement of financial position as at December 31, 2018, unless surety bond financing was obtained.

### 10. WARRANT LIABILITIES

	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ 258,116	\$ 596,602
Issuance of warrants - private placements	68,055	209,923
Loss on revaluation	(51,789)	(570,389)
Currency translation effect	(26,728)	21,980
Balance, end of year	\$ 247,654	\$ 258,116

Share purchase warrants are considered a derivative liability, as the currency denomination of the exercise price is different from the functional currency of the Company.

The share purchase warrant liability was revalued as at December 31, 2018 and 2017 using the Black-Scholes option pricing model with the following assumptions: a risk free interest rate of 1.85% (2017 - 1.66%); an expected volatility of 58.4% (2017 - 58.8-67.2%); an expected life of 1-3 years (2017 - 1-3 years); a forfeiture rate of zero (2017 - zero); an expected dividend of zero (2017 - zero); and an exchange rate of 1.3642 (2017 - 1.2545).

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 11. EQUITY

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#### 11.1 Authorized share capital

The Company has authorized the issuance of an unlimited number of common and preferred shares with no par value. As at December 31, 2018 and 2017, the Company had 169,833,806 and 83,619,850 common shares outstanding, respectively, and no preferred shares were outstanding.

#### 11.2 Issued share capital

During the year ended December 31, 2018, the Company completed the following equity transactions:

- In January 2018, the Company closed the second and final tranche of its non-brokered private placement for gross proceeds of \$157,366 (C\$195,000) through the issuance of 780,000 units at a price of C\$0.25 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\$0.35 per share until December 22, 2020.

The warrants were valued on a relative fair value basis at \$16,562 using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.99%; an expected volatility of 61.1%; an expected life of 3 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.2321.

- In March 2018, the Company issued 186,512 common shares to a shareholder in settlement of \$36,169 (C\$46,628) of trade and other payables.
- In March 2018, the Company issued 104,166 common shares valued at \$19,391 (C\$25,000) to repurchase royalties on the Dewey Burdock Project, see Note 7.
- In June 2018, the Company issued 578,822 common shares to a director valued at \$108,828 to settle trade and other payables of \$187,500 and accordingly recorded a gain on settlement of \$78,672.
- In July 2018, the Company issued 550,000 common shares to settle \$93,500 of outstanding employee remuneration. As a result, \$93,500 was reclassified from contributed surplus to share capital.
- In July 2018, the Company issued 57,920,716 common shares valued at \$11,237,756 for the acquisition of URZ Energy, see Note 6. In addition, the Company issued 186,393 common shares valued at \$36,164 for transaction costs.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 11. EQUITY (Continued)

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#### 11.2 Issued share capital (Continued)

- In July 2018, the Company issued 1,268,000 common shares valued at \$246,017 to settle trade and other payables of \$201,830 and accordingly recorded a loss on settlement of \$44,187.
- In July 2018, the Company issued 11,269,243 common shares valued at \$2,201,024 in full and final settlement of the Shareholders' Loan, see Note 8.1.
- During the year ended December 31, 2018, the Company issued 11,950,866 common shares for gross proceeds of \$1,827,078 pursuant to the exercise of share purchase warrants.
- During the year ended December 31, 2018, the Company issued 1,115,301 common shares to settle \$215,344 owing pursuant to the Company's employee share purchase plan ("ESPP") and 303,937 common shares to settle \$58,669 owing pursuant to the Company's director services agreements ("DSA").

During the year ended December 31, 2017, the Company completed the following equity transactions:

- In July 2017, the Company closed a non-brokered private placement for gross proceeds of \$916,995 (C\$1,141,904) through the issuance of 4,391,938 units at a price of C\$0.26 per unit. Each unit consisted 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\$0.36 per share until July 27, 2020. The warrants were valued on a relative fair value basis at \$165,249. The Company paid cash finders' fees and other share issue costs of \$37,432.

In connection with this private placement, the Company issued 1,695,968 share purchase warrants and 500,000 share purchase warrants were issued to an insider of the Company upon receipt of disinterested shareholder and TSX approval, which was received in July 2018.

In addition, the Company issued 138,000 finder's warrants on the same terms as the warrants in this private placement. The finder's warrants were valued at \$13,446. The warrants and the finder's warrants were valued using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.79%; an expected volatility of 72.6%; an expected life of 3 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.2498.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 11. EQUITY (Continued)

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#### 11.2 Issued share capital (Continued)

- In October 2017, the Company issued 750,000 common shares to settle \$123,466 of outstanding employee remuneration. As a result, \$123,466 was reclassified from contributed surplus to share capital.
- In October 2017, the Company issued 87,500 common shares valued at \$15,728 for consulting services.
- In December 2017, the Company closed the first tranche of a non-brokered private placement for gross proceeds of \$436,942 (C\$558,750) through the issuance of 2,235,000 units at a price of C\$0.25 per unit. Each unit consisted 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\$0.35 per share until December 22, 2020. The warrants were valued on a relative fair value basis at \$28,462. The Company paid cash finders' fees and other share issue costs of \$17,574.

In connection with this private placement, the Company issued 617,500 share purchase warrants and 500,000 share purchase warrants were issued to an insider of the Company upon receipt of disinterested shareholder and TSX approval, which was received in July 2018.

The Company issued 60,000 finder's warrants on the same terms as the warrants in this private placement. The finder's warrants were valued at \$2,766. The warrants and the finder's warrants were valued using the Black-Scholes option pricing model with the following assumptions: a risk free interest rate of 1.64%; an expected volatility of 62.4%; an expected life of 3 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.2545.

- During the year ended December 31, 2017, the Company issued 1,100,918 common shares to settle \$234,652 owing pursuant to the Company's ESPP and 288,448 common shares to settle \$61,060 owing pursuant to the Company's DSA.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 11. EQUITY (Continued)

#### 11.3 Share purchase warrants

The continuity of share purchase warrants for the year ended December 31, 2018 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2017	Issued	Exercised	Expired	Balance, December 31, 2018				
September 23, 2019	\$ 0.35	4,621,665	-	-	-	4,621,665				
July 27, 2020	\$ 0.36	1,833,968	500,000	-	-	2,333,968				
December 22, 2020	\$ 0.35	677,500	890,000	-	-	1,567,500				
August 15, 2018	\$ 0.20	-	14,806,700	(11,950,866)	(2,855,834)	-				
June 19, 2019*	\$ 0.375	-	2,304,184	-	-	2,304,184				
		7,133,133	18,500,884	(11,950,866)	(2,855,834)	10,827,317				
Weighted average exercise price (C\$)	\$	0.35	\$	0.23	\$	0.20	\$	0.20	\$	0.36

\* If the closing price of Azarga Uranium common shares is C\$0.55 or greater per share for 10 consecutive trading days, the warrants will expire, at the sole discretion of the Company, 30 days after the date on which the Company provides notice of such fact to the holders thereof.

The weighted average remaining contractual life is 1.04 years.

In July 2018, the Company issued 1,000,000 share purchase warrants to an insider of the Company as part of two private placements completed in 2017. The Company issued 500,000 share purchase warrants with an exercise price of \$0.36 and an expiry date of July 27, 2020 and 500,000 share purchase warrants with an exercise price of C\$0.35 and an expiry date of December 22, 2020 upon receipt of disinterested shareholder and TSX approval.

The 1,000,000 warrants were valued at \$51,493. The warrants were valued using the Black-Scholes option pricing model with the following assumptions: a risk free interest rate of 1.99%; an expected volatility of 61.09%; an expected life of 2-3 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.3143.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 11. EQUITY (Continued)

#### 11.3 Share purchase warrants (Continued)

The continuity of share purchase warrants for the year ended December 31, 2017 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2016	Issued	Exercised	Expired	Balance, December 31, 2017				
September 23, 2019	\$ 0.35	4,621,665	-	-	-	4,621,665				
July 27, 2020	\$ 0.36	-	1,833,968	-	-	1,833,968				
December 22, 2020	\$ 0.35	-	677,500	-	-	677,500				
		4,621,665	2,511,468	-	-	7,133,133				
Weighted average exercise price (C\$)	\$	0.35	\$	0.36	\$	-	\$	-	\$	0.35

#### 11.4 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 years ended December 31, 2018 and 2017, Employee Contributions totaled \$124,941 and \$143,366, respectively, and Matching Contributions totaled \$83,296 and \$95,574, respectively. As at December 31, 2018, a total of 3,682,169 common shares have been issued pursuant to the ESPP. Subsequent to December 31, 2018, the Company issued 298,310 common shares pursuant to the ESPP, see Note 24.

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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### **11. EQUITY (Continued)**

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#### **11.4 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 years ended December 31, 2018 and 2017, \$56,277 and \$61,766 was expensed under the DSA, respectively. As at December 31, 2018, a total of 1,233,041 common shares had been issued pursuant to the DSA. Subsequent to December 31, 2018, the Company issued 76,247 common shares pursuant to the DSA, see Note 24.

### **12. SHARE OPTION RESERVE**

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#### **12.1 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 Consolidated Financial Statements

For the year ended December 31, 2018

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

### 12. SHARE OPTION RESERVE (Continued)

#### 12.2 Stock option continuity

The continuity of stock options for the year ended December 31, 2018 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2017	Issued	Exercised	Expired/ Forfeited	Balance, December 31, 2018				
April 30, 2018	\$ 1.20	165,163	-	-	(165,163)	-				
August 6, 2018	\$ 0.35	1,000,000	-	-	(1,000,000)	-				
November 3, 2018	\$ 1.20	15,513	-	-	(15,513)	-				
November 3, 2018	\$ 1.50	54,750	-	-	(54,750)	-				
October 27, 2019	\$ 1.20	393,336	-	-	-	393,336				
May 19, 2020	\$ 0.335	1,030,000	-	-	(15,000)	1,015,000				
May 19, 2021	\$ 0.36	1,185,000	-	-	(20,000)	1,165,000				
May 16, 2022	\$ 0.32	2,060,000	-	-	(20,000)	2,040,000				
March 14, 2027	\$ 0.075	-	4,480,000	-	-	4,480,000				
August 22, 2023	\$ 0.24	-	3,692,500	-	-	3,692,500				
		5,903,762	8,172,500	-	(1,290,426)	12,785,836				
Weighted average exercise price (C\$)	\$	0.43	\$	0.15	\$	-	\$	0.52	\$	0.24

As at December 31, 2018, 9,644,169 stock options were exercisable.

The weighted average remaining contractual life is 5.11 years.

The continuity of stock options for the year ended December 31, 2017 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2016	Issued	Exercised	Expired/ Forfeited	Balance, December 31, 2017				
May 14, 2017	\$ 2.00	225,000	-	-	(225,000)	-				
April 30, 2018	\$ 1.20	165,163	-	-	-	165,163				
August 6, 2018	\$ 0.35	1,000,000	-	-	-	1,000,000				
November 3, 2018	\$ 1.20	15,513	-	-	-	15,513				
November 3, 2018	\$ 1.50	54,750	-	-	-	54,750				
October 27, 2019	\$ 1.20	393,336	-	-	-	393,336				
May 19, 2020	\$ 0.335	1,040,000	-	-	(10,000)	1,030,000				
May 19, 2021	\$ 0.36	1,185,000	-	-	-	1,185,000				
May 16, 2022	\$ 0.32	-	2,060,000	-	-	2,060,000				
		4,078,762	2,060,000	-	(235,000)	5,903,762				
Weighted average exercise price (C\$)	\$	0.58	\$	0.32	\$	-	\$	1.93	\$	0.43

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 12. SHARE OPTION RESERVE (Continued)

#### 12.3 Share-based compensation

During the years ended December 31, 2018 and 2017, the Company recognized share-based compensation expense of \$303,346 and \$230,698, respectively, of which \$266,044 and \$198,706, respectively has been allocated to administrative expenses and \$37,302 and \$31,992, respectively has been allocated to exploration and evaluation assets.

In August 2018, the Company granted 3,692,500 stock options to officers, employees, directors and other eligible persons at an exercise price of C\$0.24 with an expiry date of August 22, 2023. The weighted average fair value of the options granted was estimated at C\$0.14 per option at the grant date using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.53%; an expected volatility of 68.5%; an expected life of 5 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.302.

In May 2017, the Company granted 2,060,000 stock options to officers, employees, directors and other eligible persons at an exercise price of C\$0.32 with an expiry date of May 16, 2022. The weighted average fair value of the options granted was estimated at C\$0.17 per option at the grant date using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 1.12%; an expected volatility of 78.8%; an expected life of 5 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of 1.3618.

### 13. ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2018	2017
Salaries and benefits	\$ 1,011,459	\$ 984,264
Consulting and professional fees	401,444	233,328
Corporate administration	462,429	240,807
Depreciation	3,919	2,123
Share-based compensation	266,044	198,706
	\$ 2,145,295	\$ 1,659,228

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 14. FINANCE COSTS

	Note	Year ended December 31,	
		2018	2017
Interest expense on Shareholders' Loan	8.1	\$ 143,219	\$ 209,670
Interest expense on URZ Energy Loan	8.2	3,567	-
Interest expense on other loans payable	8.3	8,127	6,808
		\$ 154,913	\$ 216,478

### 15. UNREALIZED GAIN

	Note	Year ended December 31,	
		2018	2017
Gain on revaluation of investment	5	\$ -	\$ 25,412
Gain on warrant liabilities	10	51,789	570,389
		\$ 51,789	\$ 595,801

### 16. REALIZED GAIN (LOSS)

	Note	Year ended December 31,	
		2018	2017
Gain on settlement of trade and other payables	11.2	\$ 34,485	\$ -
Loss on sale of investments	5	-	(22,570)
Other gains		-	18,632
		\$ 34,485	\$ (3,938)

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 17. RELATED PARTY TRANSACTIONS AND BALANCES

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#### 17.1 Related party transactions

During the years ended December 31, 2018 and 2017, the Company had related party transactions with directors, management and shareholders including:

- Interest accruing to certain shareholders of the Company on the Shareholders' Loan, see Note 8.1;
- The issuance of 11,269,243 common shares to settle the Shareholders' Loan, see Note 8.1;
- The issuance of 186,512 common shares to a shareholder of the Company to settle trade and other payables, see Note 11.2;
- The issuance of 578,822 common shares to a director of the Company to settle trade and other payables, see Note 11.2; and
- The issuance of 450,000 and 750,000 common shares, respectively, to executive management of the Company to settle employee remuneration, see Note 11.2.

#### 17.2 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:

	Year ended December 31,	
	2018	2017
Salaries and benefits	\$ 841,476	\$ 724,540
Consulting and professional fees	139,926	7,386
Share-based compensation	200,791	176,296
	<u>\$ 1,182,193</u>	<u>\$ 908,222</u>

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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

#### 17.3 Related party liabilities

	As at December 31,	
	2018	2017
Loan payable to shareholders	\$ -	\$ 2,057,805
Trade and other payables for key management personnel - current	176,422	716,838
Trade and other payables for key management personnel - non-current	150,000	-
	\$ 326,422	\$ 2,774,643

Included in trade and other payables as at December 31, 2018 and 2017 is \$326,422 and \$716,838, respectively, owing to related parties of the Company, of which \$230,000 and \$325,500, respectively, is owed to a former director of the Company. On February 14, 2018, the Company entered into an amended severance agreement with this director to pay the remaining severance payments over 49 months, whereby the amount payable was increased to \$370,000, of which \$140,000 was paid during the year ended December 31, 2018. The Company has classified \$80,000 as current and \$150,000 as non-current as at December 31, 2018. In June 2018, the Company settled other deferred compensation of \$187,500 with this same former director through the issuance of 578,822 common shares of the Company, see Note 11.2.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 18.1 Categories of financial instruments

Financial instruments are classified into one of the following categories: FVTPL; FVTOCI; or, at amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial assets	As at December 31,	
	2018	2017
<b>Amortized cost</b>		
Cash	\$ 352,001	\$ 432,192
Restricted cash	39,963	39,176
Reclamation bonds	99,000	-
	<b>\$ 490,964</b>	<b>\$ 471,368</b>

Financial liabilities	As at December 31,	
	2018	2017
<b>Amortized cost</b>		
Trade and other payables	\$ 1,452,085	\$ 1,525,906
Loans payable	-	2,104,678
Decommissioning liabilities	223,442	142,918
<b>Fair value through profit or loss</b>		
Warrant liabilities	247,654	258,116
	<b>\$ 1,923,181</b>	<b>\$ 4,031,618</b>

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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#### 18.2 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, trade and other payables, and loans payable 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, reclamation bonds and decommissioning liabilities approximate their fair values and are classified as financial assets and liabilities at amortized cost and are reported at amortized cost.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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#### 18.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are market risk, credit risk, and liquidity risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. During the year ended December 31, 2018, there were no significant changes in the Company's financial risk management objectives and policies. The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

##### *Market risk*

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate due to changes in market factors. Market risk comprises three types of risks: currency risk, price risk and interest rate risk:

##### Currency risk

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company is exposed to currency risk through financial assets and liabilities denominated in currencies other than the United States Dollar. Management believes the currency risk related to currency conversions is minimal and therefore, does not hedge its currency risk.

##### Price risk

Price risk is the risk that the fair value of future cash flows of the Company's financial instruments will fluctuate because of changes in market prices. The Company is exposed to the risk of fluctuations in prevailing market prices for its uranium products. However, as the Company is currently an exploration and development stage company, the risk is insignificant.

##### Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not significant.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

#### 18.3 Financial risk management objectives and policies (Continued)

##### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk associated with its cash. The Company's maximum exposure to credit risk is equal to the carrying amount of its cash.

The Company's credit risk on cash arises from default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintains sufficient reserves of cash, access to financing facilities or access to cash generating opportunities, the Company has sufficient cash, access to financing facilities or access to cash generating opportunities, such as the liquidation of non-core and redundant assets to meet expected expenditures, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, progress on permitting, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are presented below. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

As at December 31, 2018	3 months -			Total
	1-3 months	1 year	1-5 years	
Trade and other payables	\$ 1,257,085	\$ 45,000	\$ 150,000	\$ 1,452,085
	\$ 1,257,085	\$ 45,000	\$ 150,000	\$ 1,452,085

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 19. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern to support the Company's exploration and development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company depends on external financing to fund its activities and there can be no guarantee that external financing will be available at terms acceptable to the Company. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. To facilitate management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, progress on permitting, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors. During the year ended December 31, 2018, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. The Company is not subject to any externally imposed capital requirements.

As at December 31, 2018, the Company's capital structure consists of its equity, see Note 11.

### 20. COMMITMENTS

	Within 1 year	2-4 years	Over 4 years	Total
Annual license payments *	\$ 676,386	\$ 674,793	\$ 1,326,198	\$ 2,677,377
Centennial option agreement **	3,165,000	-	-	3,165,000
Dewey Burdock option agreements	62,500	187,500	1,768,750	2,018,750
Office leases	54,431	104,203	20,874	179,508
	\$ 3,958,317	\$ 966,496	\$ 3,115,822	\$ 8,040,635

\* 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

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.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

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### 21. SUPPLEMENTAL CASH FLOW INFORMATION

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During the year ended December 31, 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 the Shareholders' Loan of \$2,201,024;
- Issued 1,115,301 common shares to settle \$215,344 owing pursuant to the Company's ESPP;
- Issued 303,937 common shares to settle \$58,669 owing pursuant to the Company's DSA;
- Issued 104,166 common shares to repurchase royalties for \$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.

During the year ended December 31, 2017, the Company completed the following non-cash investing and financing activities:

- Issued 1,100,918 common shares to settle \$234,652 owing pursuant to the Company's ESPP;
- Issued 288,448 common shares to settle \$61,060 owing pursuant to the Company's DSA;
- Issued 750,000 common shares to settle \$123,466 of outstanding employee remuneration;
- Issued 87,500 common shares to settle \$15,728 of consulting services;
- Issued 2,511,468 share purchase warrants valued at \$209,923 as part of the July and December 2017 financings; and
- No cash interest or income taxes were paid.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 22. NON-CONTROLLING INTEREST

The Company's non-controlling interest relates to its 70% interest in UrAsia.

Changes in the Company's non-controlling interest for the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ (449,996)	\$ 1,246,780
Non-controlling interest from net loss	(40,927)	(1,701,951)
Non-controlling interest from other comprehensive income (loss)	(3,554)	5,175
Balance, end of year	\$ (494,477)	\$ (449,996)

Set out below is the summarized financial information for 100% of UrAsia's net assets, total comprehensive income (loss) and cash. The information is presented before considering inter-company consolidation and elimination adjustments.

	As at December 31,	
	2018	2017
<b>Current</b>		
Assets	\$ 129,395	\$ 103,431
Liabilities	(424,147)	(15,451)
Total current net assets (liabilities)	(294,752)	87,980
<b>Non-current</b>		
Assets	4,187,711	4,030,524
Liabilities	(975,342)	(1,020,705)
Total non-current net assets	3,212,369	3,009,819
Net assets	\$ 2,917,617	\$ 3,097,799

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 22. NON-CONTROLLING INTEREST (Continued)

	As at December 31,	
	2018	2017
Net loss before tax	\$ (117,560)	\$ (6,416,438)
Deferred income tax recovery	17,222	992,989
Net loss	(100,338)	(5,423,449)
Other comprehensive income (loss)	(35,108)	14,022
Total other comprehensive loss	\$ (135,446)	\$ (5,409,427)

  

	Year ended December 31,	
	2018	2017
Net cash used in operating activities	\$ (143,778)	\$ (20,440)
Net cash generated from (used in) investing activities	243,370	(1,051,759)
Net cash generated from financing activities	-	1,103,534
Net increase in cash	99,592	31,335
Cash, beginning of year	30,556	585
Effect of foreign exchange rate changes on cash	(753)	(1,364)
Cash, end of year	\$ 129,395	\$ 30,556

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 23. DEFERRED INCOME TAX

#### 23.1 Deferred income tax

Taxation on profits or losses has been calculated on the estimated assessable profits or losses for the year at the rates of taxation prevailing in the jurisdictions in which the Company operates.

#### 23.2 Deferred income tax expenses

	Year ended December 31,	
	2018	2017
Net loss before income tax	\$ 2,227,725	\$ 7,516,632
Statutory tax rate	27%	26%
Deferred income tax recovery based on statutory rate	\$ 601,000	\$ 1,954,000
Effect of different tax rates applicable in foreign jurisdictions	(46,000)	(982,000)
Effect of reduction in foreign statutory rate	-	1,286,000
Unrecognized deferred tax assets	(966,000)	(283,000)
Effect of non-deductible expenses and non-taxable revenue and other	230,000	261,000
Deferred income tax (expense) recovery	\$ (181,000)	\$ 2,236,000

#### 23.3 Deferred tax balances

The Company's deferred tax liabilities consist of the following amounts:

	As at December 31,	
	2018	2017
Exploration and evaluation assets	\$ 3,119,790	\$ 2,920,790
Inter-company loans eliminated on consolidation	1,114,000	1,132,000
Deferred tax liabilities	\$ 4,233,790	\$ 4,052,790

As at December 31, 2018 and 2017, the Company has not recognized any deferred tax assets.

# AZARGA URANIUM CORP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

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

### 23. DEFERRED INCOME TAX (Continued)

#### 23.3 Deferred tax balances (Continued)

Changes in the Company's deferred tax liabilities for the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
Opening balance	\$ 4,052,790	\$ 6,288,790
Deferred income tax (recovery) expense	181,000	(2,236,000)
Deferred tax liabilities	\$ 4,233,790	\$ 4,052,790

#### 23.4 Unrecognized deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following tax affected amounts:

	As at December 31,	
	2018	2017
Non-capital losses	\$ 3,565,000	\$ 2,509,000
Deductible temporary differences	21,000	110,000
Total unrecognized amounts	\$ 3,586,000	\$ 2,619,000

As at December 31, 2018 and 2017, the Company had unrecognized deferred tax assets attributable to deductible temporary differences of \$21,000 and \$110,000, respectively, which are primarily related to value added tax receivables and certain deferred payments not being recognized.

The deferred tax assets related to the temporary differences and non-capital losses were not recognized as their recoverability was not considered to be probable.

#### 23.5 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

	As at December 31, 2018	
<b>Non-capital losses</b>		
United States	\$ 6,759,000	2027 - 2038
Kyrgyz Republic	3,267,000	2019 - 2023
Canada	6,346,000	2027 - 2038
Hong Kong	641,000	Indefinite
	\$ 17,013,000	

# **AZARGA URANIUM CORP.**

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

For the year ended December 31, 2018

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

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### **24. SUBSEQUENT EVENTS**

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Subsequent to December 31, 2018, the Company completed the following transactions:

- In January 2019, the Company issued 298,310 common shares to settle \$53,793 owing pursuant to the Company's ESPP and 76,247 common shares to settle \$13,750 owing pursuant to the Company's DSA; and
- In March 2019, the Company closed a non-brokered private placement for gross proceeds of 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 Company paid cash finder's fees of C\$7,486.