Azarga Uranium Corp.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2018
(Unaudited – Expressed in U.S. Dollars)

Notice to Reader

These condensed consolidated interim financial statements of Azarga Uranium Corp. have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to the financial statements or the related quarterly Management Discussion and Analysis.

TABLE OF CONTENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AZARGA URANIUM CORP.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Expressed in U.S. Dollars)

			As at		
	Notes		March 31, 2018		December 31, 2017
ASSETS					
Current assets					
Cash		$	44,908	$	432,192
Other assets			38,382		123,160
Total current assets			83,290		555,352
Non-current assets					
Restricted cash			39,274		39,176
Exploration and evaluation assets	4		33,252,984		33,003,670
Property, plant and equipment			94,937		97,322
Total non-current assets			33,387,195		33,140,168
Total assets		$	33,470,485	$	33,695,520
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables		$	1,450,664	$	1,525,906
Loans payable	5		403,066		328,678
Total current liabilities			1,853,730		1,854,584
Non-current liabilities					
Loans payable	5		1,776,000		1,776,000
Deferred income tax liabilities			4,049,529		4,052,790
Decommissioning liability			146,314		142,918
Warrant liabilities			328,814		258,116
Total non-current liabilities			6,300,657		6,229,824
Total liabilities			8,154,387		8,084,408
Equity					
Common shares	6		41,560,254		41,286,853
Contributed surplus	6		763,942		768,652
Share option reserve	7		1,473,731		1,427,563
Foreign currency translation reserve			(811,865)		(827,984)
Accumulated deficit			(17,216,597)		(16,593,976)
Equity attributable to the equity holders of the Company			25,769,465		26,061,108
Non-controlling interest	14		(453,367)		(449,996)
Total equity			25,316,098		25,611,112
Total liabilities and equity		$	33,470,485	$	33,695,520

Approved by the Board:

"Joseph L. Havlin", Director

"Richard F. Clement, Jr.", Director

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

AZARGA URANIUM CORP.

Condensed Consolidated Interim Statements of Loss and Other Comprehensive Income

(Unaudited – Expressed in U.S. Dollars)

	Notes		Three months ended March 31, 2018		2017
Administrative expenses	8	$	(437,725)	$	(290,590)
Foreign exchange gain			(60,445)		(24,438)
Loss from operations			(498,170)		(315,028)
Finance costs	9		(74,388)		(46,603)
Unrealized gain (loss)	10		(56,695)		74,829
Realized gain			-		14,800
Loss before income tax			(629,253)		(272,002)
Deferred income tax recovery (expense)			3,261		(5,440)
Net loss			(625,992)		(277,442)
Other comprehensive income (loss)					
Item that may be reclassified subsequently as profit or loss					
Foreign currency translation adjustment			16,119		35,909
Total comprehensive loss		$	(609,873)	$	(241,533)
Net loss attributable to:					
Equity holders of the Company			(622,621)		(269,342)
Non-controlling interest	14		(3,371)		(8,100)
Net loss		$	(625,992)	$	(277,442)
Other comprehensive income (loss) attributable to:					
Equity holders of the Company			16,119		(39,890)
Non-controlling interest	14		-		75,799
Other comprehensive income		$	16,119	$	35,909
Basic and diluted loss per share		$	(0.01)	$	(0.00)
Weighted average number of common shares outstanding			84,570,311		74,956,036

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

AZARGA URANIUM CORP.

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited – Expressed in U.S. Dollars 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
Balances, December 31, 2017	83,619,850	$ 41,286,853	$ 768,652	$ 1,427,563	$ (827,984)	$ (16,593,976)	$ 26,061,108	$ (449,996)	$ 25,611,112
Issuance of shares for private placements	780,000	140,804	-	-	-	-	140,804	-	140,804
Issuance of shares to settle ESPP	350,937	60,901	(60,901)	-	-	-	-	-	-
Issuance of shares to settle DSA	93,011	16,141	(16,141)	-	-	-	-	-	-
Compensation to be settled by equity	-	-	72,332	-	-	-	72,332	-	72,332
Issuance of shares for royalty	104,166	19,390	-	-	-	-	19,390	-	19,390
Issuance of shares to settle trade and other payables	186,512	36,165	-	-	-	-	36,165	-	36,165
Share-based compensation	-	-	-	46,168	-	-	46,168	-	46,168
Net loss for the period	-	-	-	-	-	(622,621)	(622,621)	(3,371)	(625,992)
Other comprehensive income for the period	-	-	-	-	16,119	-	16,119	-	16,119
Balances, March 31, 2018	85,134,476	$ 41,560,254	$ 763,942	$ 1,473,731	$ (811,865)	$ (17,216,597)	$ 25,769,465	$ (453,367)	$ 25,316,098

	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
Balances, December 31, 2016	60,332,314	$ 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 to settle ESPP	258,001	56,614	(56,614)	-	-	-	-	-	-
Issuance of shares to settle DSA	70,827	15,435	(15,435)	-	-	-	-	-	-
Compensation to be settled by equity	-	-	72,332	-	-	-	72,332	-	72,332
Share-based compensation	-	-	-	30,409	-	-	30,409	-	30,409
Net loss for the period	-	-	-	-	-	(269,342)	(269,342)	(8,100)	(277,442)
Other comprehensive income (loss) for the period	-	-	-	-	(39,890)	-	(39,890)	75,799	35,909
Balances, March 31, 2017	60,661,142	$ 39,834,988	$ 793,908	$ 1,227,274	$ (881,896)	$ (13,284,637)	$ 27,689,637	$ 1,314,479	$ 29,004,116

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

AZARGA URANIUM CORP.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Expressed in U.S. Dollars)

	Three months ended March 31, 2018	2017
OPERATING ACTIVITIES		
Net loss	$ (625,992)	$ (277,442)
Adjustments for:		
Depreciation	1,041	925
Share-based compensation	40,322	25,669
Deferred income tax (recovery) expense	(3,261)	5,440
Equity compensation expense	72,332	72,332
Finance costs	74,388	46,603
Unrealized (gain) loss	56,695	(74,829)
Realized gain	-	(14,800)
Unrealized foreign exchange (gain) loss	(19,428)	9,757
Operating cash flows before changes in non-cash working capital items	(403,903)	(206,345)
Change in other assets	84,778	(1,223)
Change in trade and other payables	(39,077)	(35,786)
Net cash used in operating activities	(358,202)	(243,354)
INVESTING ACTIVITIES		
Expenditures on exploration and evaluation assets	(202,010)	(226,080)
Recoveries of expenditures on exploration and evaluation assets	15,660	-
Purchase of property, plant and equipment	-	(644)
Net cash used in investing activities	(186,350)	(226,724)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	157,366	-
Net cash generated by financing activities	157,366	-
Effect of foreign exchange rate changes on cash	(98)	(6)
Decrease in cash	(387,284)	(470,084)
Cash, beginning of period	432,192	941,370
Cash, end of period	$ 44,908	$ 471,286
Non-cash investing and financing activities		
Issuance of shares to settle ESPP	$ 60,901	56,614
Issuance of shares to settle DSA	16,141	15,435
Issuance of shares to settle trade and other payables	36,165	193,273
Issuance of shares for royalty	19,390	-
Fair value of warrants on private placement	16,562	-
Compensation to be settled by equity	72,322	72,322
Allocation of share-based compensation to exploration and evaluation assets	5,846	4,740
Decommissioning liability capitalized to exploration and evaluation assets	3,396	3,088
Amortization capitalized to exploration and evaluation assets	1,491	1,477
Supplemental cash flow information		
Cash paid for interest	-	-
Cash paid for income taxes	-	-

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

1. CORPORATE INFORMATION AND GOING CONCERN

Azarga Uranium Corp. ("Azarga Uranium") was incorporated on February 10, 1984 in British Columbia, Canada. Azarga Uranium's common shares are publicly traded on the Toronto Stock Exchange ("TSX") (Symbol: AZZ) and the Frankfurt Stock Exchange (Symbol: P8AA). 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 the Centennial Project in Colorado, the Aladdin Deposit in Wyoming, two uranium exploration properties in Wyoming and 70% of the Kyzyl Ompul 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.

On May 4, 2018, the Company and URZ Energy Corp. entered into a definitive arrangement agreement pursuant to which Azarga Uranium and URZ Energy will merge to form a new US-focused in-situ recovery uranium development company, see Note 15.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business as they fall due. To date, the Company has not generated revenues from operations and is currently in the exploration and development stage. As at March 31, 2018, the Company had a working capital deficit of $1,770,440 and an accumulated deficit of $17,216,597 and will continue incurring losses in the foreseeable future. In May 2018, the Company borrowed $465,000 from URZ Energy Corp., see Note 15. 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.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

These condensed consolidated interim financial statements for the three months ended March 31, 2018 were approved and authorized for issue by the Company's Board of Directors on May 10, 2018.

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2017 consolidated annual financial statements, except for those accounting policies which have changed as a result of the adoption of new and revised standards and interpretations as described in Note 2.3 below. These condensed consolidated interim financial statements do not include all of the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's consolidated annual financial statements for the year ended December 31, 2017.

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 12 of these condensed consolidated interim financial statements.

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

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

2. BASIS OF PREPARATION (Continued)

2.3 Adoption of new and revised standards and interpretations

The Company has adopted the new and revised standards and interpretations issued by the IASB or IFRIC listed below effective January 1, 2018. The adoption of these standards did not have a material impact on the Company's condensed consolidated interim financial statements.

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes a revised approach to hedge accounting.

Under IFRS 9, the Company has the option to designate equity securities as financial assets at fair value through other comprehensive income, where they will be recorded initially at fair value with changes in fair value recognized in other comprehensive income, which will not be subsequently transferred into profit or loss.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 supersedes: IAS 11 – Construction Contracts; IAS 18 – Revenue; IFRIC 13 – Customer Loyalty Programmes; IFRIC 15 – Agreements for the Construction of Real Estate; IFRIC 18 – Transfers of Assets from Customers; and SIC 31 – Revenue – Barter Transactions involving Advertising Services.

2. BASIS OF PREPARATION (Continued)

2.4 Standards issued but not yet effective

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

IFRS 16 – Leases (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 leases to explore for uranium resources, which are exempt from IFRS 16, or relate to office leases which are not material.

2.5 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.20 to the Company's December 31, 2017 consolidated annual financial statements. There were no material changes to the significant accounting judgments and estimates from December 31, 2017.

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

3. 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 in order to make decisions about resources to be allocated to each segment and to assess its performance.

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

	Kyrgyzstan Uranium Division	United States Uranium Division	Unallocated (i)	Consolidated Total
Segment assets				
As at March 31, 2018	$ 4,164,093	$ 29,253,132	$ 53,260	$ 33,470,485
As at December 31, 2017	$ 4,141,856	$ 29,288,567	$ 265,097	$ 33,695,520
Segment liabilities				
As at March 31, 2018	$ 1,041,338	$ 3,592,081	$ 3,520,968	$ 8,154,387
As at December 31, 2017	$ 1,036,156	$ 3,677,443	$ 3,370,809	$ 8,084,408
Exploration and evaluation assets (Note 4)				
As at March 31, 2018	$ 4,115,243	$ 29,137,741	$ -	$ 33,252,984
As at December 31, 2017	$ 4,069,145	$ 28,934,525	$ -	$ 33,003,670
Loss before income tax				
Three months ended March 31, 2018	$ (78,784)	$ (83,964)	$ (466,505)	$ (629,253)
Three months ended March 31, 2017	$ (49,835)	$ (7,244)	$ (214,923)	$ (272,002)

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

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

4. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation assets consist of the following amounts:

	South Dakota	Kyrgyzstan	Colorado	Wyoming	
	Dewey Burdock	**Kyzyl Ompul**	**Centennial**	**Other**	**Total**
Balance, December 31, 2017	$ 25,909,535	$ 4,069,145	$ 2,332,215	$ 692,775	$ 33,003,670
Salaries and consulting	123,000	8,893	7,000	7,000	145,893
License fees	35,810	16,583	-	3,724	56,117
Decommissioning liability	-	-	3,396	-	3,396
Share-based compensation	3,895	1,951	-	-	5,846
Depreciation	-	1,491	-	-	1,491
Purchase of royalties	19,390	-	-	-	19,390
Recoveries	-	(15,660)	-	-	(15,660)
Currency translation effect	-	32,841	-	-	32,841
Balance, March 31, 2018	$ 26,091,630	$ 4,115,244	$ 2,342,611	$ 703,499	$ 33,252,984

Details on the Company's exploration and evaluation assets are found in Note 6 of the December 31, 2017 consolidated financial statements and only material differences of those agreements or new agreements are noted below.

Dewey Burdock Project, South Dakota

On December 7, 2017, the Company entered into an agreement with Bayswater Uranium Corporation to buy-back royalties related to uranium production on certain areas of the Dewey Burdock project for C$25,000 which was paid and settled on March 23, 2018, by the issue of 104,166 common shares valued at $19,390.

Kyzyl Ompul Project, Kyrgyz Republic

On April 16, 2018, the Company's 70% controlled subsidiary, UrAsia in Kyrgyzstan Limited Liability Company ("UrAsia"), executed a replacement earn-in agreement (the "Replacement Agreement") with Central Asian Uranium Company Limited Liability Company ("Central") to replace the previous 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 UrAsia's Kyzyl Ompul Project. To maintain the option and earn the 100% interest, Central is required to pay UrAsia $5,850,000 in cash payments and fund $1,500,000 of exploration and development expenditures by December 1, 2020.

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

4. EXPLORATION AND EVALUATION ASSETS (Continued)

Under the terms of the Replacement Agreement, the cash payments are expected to be received as follows: $120,000 by April 23, 2018, of which $30,000 has been received to date, $60,000 per month commencing September 1, 2018, increasing to $229,000 per month commencing January 1, 2019, and a final payment of $223,000 on December 1, 2020. The Company expects to receive the remaining $90,000 that was due April 23, 2018 imminently. Cash payments received from Central over the course of the Replacement Agreement are not repayable 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.

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

5. LOANS PAYABLE

	As at			
		March 31, 2018		**December 31, 2017**
Loan payable to shareholders	$	2,131,199	$	2,057,805
Other loans payable		47,867		46,873
Loans payable	$	2,179,066	$	2,104,678
Current portion	$	403,066	$	328,678
Non-current portion	$	1,776,000	$	1,776,000

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

5. LOANS PAYABLE (Continued)

5.1 Loan payable to shareholders

On July 31, 2012, as amended, the Company entered into a convertible loan agreement with certain shareholders of the Company (the "Shareholders' Loan"). Pursuant to the agreement, the Shareholders' Loan accrues interest at 15% per annum payable on each anniversary of the agreement, is unsecured, is convertible into shares of the Company at the shareholders' option at C$1.23, and matures July 31, 2020. The annual interest that was due on July 31, 2017 was deferred until July 31, 2018. During the three months ended March 31, 2018 and 2017, the Company recorded interest expense of $73,394 and $44,060 respectively on the Shareholder' Loan.

Subsequent to March 31, 2018, the shareholders agreed to convert the Shareholders' Loan into common shares of the Company at C$0.25 per share, subject to completion of the Transaction, see Note 15.

	As at			
		March 31, 2018		**December 31, 2017**
Loan payable to shareholders - current	$	355,199	$	281,805
Loan payable to shareholders - non-current		1,776,000		1,776,000
Loan payable to shareholders	$	2,131,199	$	2,057,805

5.2 Other loans payable

The loans are payable $30,000 in May 2018 and $20,000 in September 2018. During the three months ended March 31, 2018 and 2017, the Company recorded interest expense of $994 and $1,182, respectively, on the loans, being the accretion for the period.

6. EQUITY

6.1 Authorized share capital

The Company has authorized the issuance of an unlimited number of common and preferred shares with no par value. As at March 31, 2018 and December 31, 2017, the Company had 85,134,476 and 83,619,850 common shares outstanding, respectively, and no preferred shares were outstanding.

6. EQUITY (Continued)

6.2 Issued share capital

During the three months ended March 31, 2018, the Company completed the following equity transactions:

- In January 2018, the Company issued 350,937 common shares to settle $60,901 owing pursuant to the Company's employee share purchase plan ("ESPP") and 93,011 common shares to settle $16,141 owing pursuant to the Company's director services agreements ("DSA").

- In January 2018, the Company closed the second and final tranche of its non-brokered private placement 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 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; and an expected dividend of zero.

- In March 2018, the Company issued 186,512 common shares to a shareholder in settlement of $36,165 (C$46,628) of trade and other payables.

- In March 2018, the Company issued 104,166 common shares valued at $19,390 (C$25,000) to buy back a royalty on the Dewey Burdock Project, see Note 4.

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

6. EQUITY (Continued)

6.3 Share purchase warrants

The continuity of share purchase warrants for the three months ended March 31, 2018, is as follows:

Expiry date	Exercise price	Balance, December 31, 2017	Issued	Exercised	Expired	Balance, March 31, 2018
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
December 22, 2020	$ 0.35	-	390,000	-	-	390,000
		7,133,133	390,000	-	-	7,523,133
Weighted average exercise price		$ 0.35	$ 0.35	$ -	$ -	$ 0.35

The weighted average remaining contractual life is 1.87 years.

An additional 1,000,000 share purchase warrants will be issued to an insider of the Company as part of the two private placements closed in 2017, subject to disinterested shareholder and TSX approval.

6.4 Equity settled compensation arrangements

ESPP

In 2015, the Company adopted an ESPP. The Company is authorized to issue up to 3,000,000 common shares pursuant to the terms and conditions of the ESPP. Employees, who elect to participate in the ESPP, can contribute up to 50% of their salary (the “Employee Contribution”). The Company will then match 66.67% of the Employee’s Contribution (the “Matching Contribution”). The purchase price of the common shares is calculated based on the five-day volume weighted average trading price of the common shares on the TSX immediately preceding the end of each calendar quarter. The Employee Contribution and the Matching Contribution are expensed in the period in which they are incurred with the offsetting amount being recorded in contributed surplus until the common shares are issued.

For the three months ended March 31, 2018 and 2017, Employee Contributions totaled $34,775 and $34,775, respectively, and Matching Contributions totaled $23,182 and $23,182, respectively. As at March 31, 2018 and to date, a total of 2,917,805 common shares had been issued pursuant to the ESPP.

6. EQUITY (Continued)

6.4 Equity settled compensation arrangements

DSA

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

For the three months ended March 31, 2018 and 2017, $14,375 and $14,375, respectively, were expensed under the DSA. As at March 31, 2018 and to date, a total of 1,022,115 common shares had been issued pursuant to DSA.

7. SHARE OPTION RESERVE

7.1 Stock option plan

On October 28, 2014, the Company adopted a stock option plan, which permits the Board of Directors of the Company to grant stock options to acquire common shares of the Company to eligible persons. The Company is authorized to issue stock options for a maximum of 7,271,816 common shares pursuant to the stock option plan. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, stock options granted under the plan cannot exceed a maximum exercise period of 5 years. The options are non-transferable.

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

7. SHARE OPTION RESERVE (Continued)

7.2 Stock option continuity

The continuity of stock options for the three months ended March 31, 2018 is as follows:

Expiry date	Exercise price	Balance, December 31, 2017	Issued	Exercised	Expired/ Forfeited	Balance, March 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	-	-	-	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
		5,903,762	-	-	-	5,903,762
Weighted average exercise price		$ 0.43	$ -	$ -	$ -	$ 0.43

As at March 31, 2018, 4,135,429 stock options were exercisable.

The weighted average remaining contractual life is 2.62 years.

7.3 Share-based compensation

During the three months ended March 31, 2018 and 2017, the Company recognized share-based compensation expense of $46,168 and $30,409, respectively, of which $40,322 and $25,669, respectively, has been allocated to administrative expenses and $5,846 and $4,740, respectively, has been allocated to exploration and evaluation assets.

8. ADMINISTRATIVE EXPENSES

	Three months ended March 31, 2018	Three months ended March 31, 2017
Salaries and benefits	$ 201,114	$ 227,675
Consulting and professional fees	93,962	22,071
Corporate administration	101,286	14,250
Depreciation	1,041	925
Share-based compensation	40,322	25,669
	$ 437,725	$ 290,590

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

9. FINANCE COSTS

		Three months ended March 31,			
	Note		2018		2017
Interest expense on Shareholders' Loan	5.1	$	73,394	$	44,060
Interest expense on other loans payable	5.2		994		1,852
Other interest expense			-		691
		$	74,388	$	46,603

10. UNREALIZED GAIN (LOSS)

	Three months ended March 31,			
		2018		2017
Gain on revaluation of investments	$	-	$	25,412
Gain (loss) on warrant liabilities		(56,695)		49,417
	$	(56,695)	$	74,829

11. RELATED PARTY TRANSACTIONS AND BALANCES

11.1 Related party transactions

During the three months ended March 31, 2018 and 2017, the Company had related party transactions with the Company's directors, management and shareholders including:

- Interest accruing to certain shareholders of the Company on the Shareholders' Loan, see Note 5.1; and
- The issuance of common shares to certain shareholders of the Company to settle trade and other payables, see Note 6.2.

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

11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

11.2 Key management personnel compensation

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

	Three months ended March 31, 2018		Three months ended March 31, 2017	
Salaries and benefits	$	199,164	$	181,707
Consulting and professional fees		29,948		-
Share-based compensation		36,059		15,085
	$	265,171	$	196,792

11.3 Related party liabilities

	As at March 31, 2018		As at December 31, 2017	
Loan payable to shareholders	$	2,131,199	$	2,057,805
Trade and other payables for key management personnel		757,238		716,838
	$	2,888,437	$	2,774,643

Included in trade and other payables as at March 31, 2018 is $757,238 (December 31, 2017 - $716,838) owing to related parties of the Company, of which $527,500 (December 31, 2017 - $512,500) was owed to a director of the Company, being $340,000 (December 31, 2017 - $325,000) related to a severance agreement and $187,500 (December 31, 2017 - $187,500) related to a deferred compensation agreement. On February 14, 2018, the Company entered into an amended severance agreement with this director to defer the remaining severance payments over 48 months, whereby the amount payable was increased to $370,000. The Company and this director have agreed to settle the deferred compensation of $187,500 by the issue of up to 578,822 common shares of the Company before June 30, 2018.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 Categories of financial instruments

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

	As at	
Financial assets	**March 31, 2018**	**December 31, 2017**
Amortized cost		
Cash	$ 44,908	$ 432,192
Restricted cash	39,274	39,176
	$ 84,182	$ 471,368

	As at	
Financial liabilities	**March 31, 2018**	**December 31, 2017**
Amortized cost		
Trade and other payables	$ 1,450,664	$ 1,525,906
Loan payable to shareholders	2,131,199	2,057,805
Other loans payable	47,867	46,873
Fair value through profit or loss		
Warrant liabilities	328,814	258,116
	$ 3,958,544	$ 3,888,700

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

12.2 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 are recorded at fair value using Level 2 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, restricted cash, trade and other payables and other loans payable approximate their fair values because of the short-term nature of these financial instruments. The carrying value of the Shareholders' Loan approximates its fair value as a market rate of interest has been applied to the loan and the credit risk has not changed. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost.

12.3 Financial risk management objectives and policies

The Company's risk management objectives and policies are consistent with those disclosed by the Company for the year ended December 31, 2017.

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

13. COMMITMENTS

As at March 31, 2018, the Company's commitments that have not been disclosed elsewhere in the condensed consolidated interim financial statements were as follows:

	Within 1 year	2-4 years	Over 4 years	Total
Operating lease	$ 34,500	$ 7,667	$ -	$ 42,167
Exploration and evaluation	522,974	4,069,292	3,431,828	8,024,094
	$ 557,474	$ 4,076,959	$ 3,431,828	$ 8,066,261

As at March 31, 2018, exploration and evaluation commitments include lease, mineral claim, exploration license and property purchase agreement payments. 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.

14. 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 three months ended March 31, 2018 and 2017 were as follows:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Balance, beginning of period	$ (449,996)	$ 1,246,780
Less: non-controlling interest from net loss	(3,371)	(8,100)
Plus: non-controlling interest from other comprehensive income	-	75,799
Balance, end of period	$ (453,367)	$ 1,314,479

15. SUBSEQUENT EVENTS

On May 4, 2018, the Company and URZ Energy Corp. ("URZ Energy") entered into a definitive arrangement agreement (the "Arrangement Agreement") pursuant to which Azarga Uranium and URZ Energy will merge to form a new US-focused in-situ recovery uranium development company (the "Transaction"). The combination will be effected by way of a plan of arrangement completed under the Business Corporations Act (British Columbia) (the "Plan of Arrangement") wherein Azarga Uranium will acquire all of the issued and outstanding shares of URZ Energy for consideration of 2.0 Azarga Uranium shares for each URZ Energy share held (the "Exchange Ratio").

All outstanding options and warrants of URZ Energy will be adjusted in accordance with their terms such that the number of Azarga Uranium shares received upon exercise and the exercise price will reflect the Exchange Ratio described above.

The combination will be carried out by way of a court-approved Plan of Arrangement and will be subject to the approval of at least 66 2/3% of the votes cast at a special meeting of URZ Energy shareholders. Azarga Uranium shareholder approval will also be required in accordance with the requirements of the TSX. Shareholder meetings of both companies are expected to be held in late June 2018. The Transaction is also subject to the conversion of certain liabilities of Azarga Uranium into shares prior to closing, including Azarga Uranium's Shareholders' Loan (Note 5.1) which the shareholders have agreed to convert at C$0.25 per share, subject to completion of the Transaction, as well as applicable regulatory approvals and the satisfaction of other closing conditions customary for transactions of this nature.

On May 9, 2018, URZ Energy advanced the Company $465,000 (the "URZ Loan"). The URZ Loan accrues interest at 5% per annum, matures three months after completion or termination of the Arrangement Agreement, and is secured by the common shares of Powertech (USA) Inc., the Company's wholly owned subsidiary which holds the Company's principal asset being the Dewey Burdock Project.

The Arrangement Agreement includes customary provisions, including reciprocal non-solicitation, right to match and fiduciary-out provisions, as well as standard representations, covenants and conditions for a transaction of this nature. Both parties have agreed to pay a termination fee of $825,000 upon the occurrence of certain terminating events.

The Transaction is expected to be completed in July 2018 or such other date as the parties may agree.