Azarga Uranium Corp.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2017
(Expressed in U.S. Dollars)
(Unaudited)

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AZARGA URANIUM CORP.

Condensed Consolidated Interim Statements of Financial Position

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

	Notes	As at March 31, 2017	As at December 31, 2016
ASSETS			
Current assets			
Cash		$ 471,286	$ 941,370
Other assets		31,904	30,681
Investments held for sale	6	93,676	68,264
Total current assets		596,866	1,040,315
Non-current assets			
Restricted cash		42,861	42,687
Exploration and evaluation assets	5	38,551,863	38,284,484
Property, plant and equipment		104,335	105,819
Total non-current assets		38,699,059	38,432,990
Total assets		$ 39,295,925	$ 39,473,305
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	8	$ 1,327,373	$ 1,066,872
Loans payable	7	1,942,193	1,898,135
Total current liabilities		3,269,566	2,965,007
Non-current liabilities			
Trade and other payables	8	-	310,000
Deferred income tax liabilities		6,294,229	6,288,790
Loans payable	7	41,917	40,065
Decommissioning liability		133,023	129,933
Warrant liability	14.2	553,074	596,602
Total non-current liabilities		7,022,243	7,365,390
Total liabilities		10,291,809	10,330,397
Equity			
Common shares		39,834,988	39,762,939
Contributed surplus		793,908	793,625
Share option reserve	15.3	1,227,274	1,196,865
Accumulated deficit		(13,284,637)	(13,015,295)
Foreign currency translation reserve		(881,896)	(842,006)
Equity attributable to the equity holders of the Company		27,689,637	27,896,128
Non-controlling interest	4	1,314,479	1,246,780
Total equity		29,004,116	29,142,909
Total equity and liabilities		$ 39,295,925	$ 39,473,305

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

APPROVED BY THE BOARD:

"Joseph L. Havlin"	*"Richard F. Clement, Jr."*
Director	**Director**

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, 2017	Three months ended March 31, 2016
Administrative expenses	9	$ (290,590)	$ (266,414)
Foreign exchange gain (loss)		(24,438)	74,895
Loss from operations		(315,028)	(191,519)
Finance costs	10	(46,603)	(47,778)
Unrealized gain (loss)	11	74,829	(840,956)
Realized gain	12	14,800	13,438
Loss before income tax		(272,002)	(1,066,815)
Deferred income tax expense		(5,440)	(11,600)
Net loss		(277,442)	(1,078,415)
Other comprehensive income			
Item that may be reclassified subsequently as profit or loss			
Foreign currency translation adjustment		35,909	267,688
Total comprehensive loss		$ (241,533)	$ (810,727)
Net income (loss) attributable to:			
Equity holders of the Company		(269,342)	(1,110,595)
Non-controlling interest		(8,100)	32,180
Net loss		$ (277,442)	$ (1,078,415)
Other comprehensive income (loss) attributable to:			
Equity holders of the Company		(39,890)	203,079
Non-controlling interest		75,799	64,609
Other comprehensive income		$ 35,909	$ 267,688
Basic loss per share	13	$ (0.00)	$ (0.02)
Diluted loss per share	13	$ (0.00)	$ (0.02)

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								
	Notes	Number of shares	Common shares	Contributed surplus	Share option reserve	Accumulated deficit	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
Balances, January 1, 2016		60,332,314	$ 37,256,196	$ 766,630	$ 1,021,099	$ (9,897,079)	$ (1,050,001)	$ 28,096,845	$ 1,168,628	$ 29,265,473
Issuance of shares to settle trade and other payables	14.1	732,866	193,273	-	-	-	-	193,273	-	193,273
Share-based compensation	15.3	-	-	-	26,337	-	-	26,337	-	26,337
Compensation settled by equity	14.1	-	-	82,499	-	-	-	82,499	-	82,499
Net income (loss) for the period		-	-	-	-	(1,110,595)	-	(1,110,595)	32,180	(1,078,415)
Other comprehensive income for the period		-	-	-	-	-	203,079	203,079	64,609	267,688
Balances, March 31, 2016		61,065,180	$ 37,449,469	$ 849,129	$ 1,047,436	$ (11,007,674)	$ (846,922)	$ 27,491,438	$ 1,265,417	$ 28,756,855
Balances, January 1, 2017		74,766,046	$ 39,762,939	$ 793,625	$ 1,196,865	$ (13,015,295)	$ (842,006)	$ 27,896,128	$ 1,246,780	$ 29,142,908
Issuance of shares to settle ESPP	14.1	258,001	56,614	(56,614)	-	-	-	-	-	-
Issuance of shares to settle DSA	14.1	70,827	15,435	(15,435)	-	-	-	-	-	-
Share-based compensation	15.3	-	-	-	30,409	-	-	30,409	-	30,409
Compensation settled by equity	14.1	-	-	72,332	-	-	-	72,332	-	72,332
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		75,094,874	$ 39,834,988	$ 793,908	$ 1,227,274	$ (13,284,637)	$ (881,896)	$ 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)

	Notes	Three months ended March 31, 2017	2016
OPERATING ACTIVITIES			
Net loss		$ (277,442)	$ (1,078,415)
Adjustments for:			
Deferred income tax expense		5,440	11,600
Depreciation	9	925	1,513
Share-based compensation	9	25,669	21,990
Equity compensation expense	14.1	72,332	82,499
Finance costs	10	46,603	47,778
Unrealized (gain) loss	11	(74,829)	840,956
Realized gain	12	(14,800)	(13,438)
Unrealized foreign exchange (gain) loss		9,757	(33,907)
Operating cash flows before changes in non-cash working capital items		(206,345)	(119,424)
Change in other assets		(1,223)	13,303
Change in trade and other payables		(35,786)	(334,372)
Change in other liabilities		-	(927)
Net cash used in operating activities		(243,354)	(441,420)
INVESTING ACTIVITIES			
Sale of investments	6	-	300,423
Sale (purchase) of property, plant and equipment		(644)	11,130
Sale of exploration and evaluation assets	5	-	321,909
Net expenditures on exploration and evaluation assets		(226,080)	(259,013)
Net cash generated by (used in) investing activities		(226,724)	374,449
FINANCING ACTIVITIES			
Payment of other loans payable	7.2	-	(10,000)
Net cash used in financing activities		-	(10,000)
Effect of foreign exchange rate changes on cash		(6)	1,464
Decrease in cash		(470,084)	(75,507)
Cash, beginning of period		941,370	239,327
Cash, end of period		$ 471,286	$ 163,820

Supplemental cash flow information (Note 18)

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 is 5575 DTC Parkway Suite 140, Greenwood Village, CO, United States and its registered and records office is located at Suite 2600, Three Bentall Centre, P.O. Box 49314, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3.

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, 2017, the Company had a working capital deficit of $2,672,700 and an accumulated deficit of $13,284,637 and will continue incurring losses in the foreseeable future. Additional funding will be required by the Company to complete its strategic objectives and continue as a going concern. There is no certainty that additional financing, at terms that are acceptable to the Company, will be available. These material uncertainties cast significant doubt on the Company's ability to continue as a going concern. The Company has successfully raised financing in the past and will continue to assess available alternatives; however, there is no assurance that the Company will be able to raise additional funds in the future.

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").

2. BASIS OF PREPARATION (Continued)

These condensed consolidated interim financial statements for the three months ended March 31, 2017 were approved and authorized for issue by the Company's Board of Directors on May 12, 2017.

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, 2016 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, 2016.

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 16 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.

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, 2017. The adoption of these standards did not have a material impact on the Company's condensed consolidated interim financial statements.

International Accounting Standards ("IAS") 7 Statement of Cash Flows (Amendment)

Amendments to IAS 7 aim to improve disclosures about an entity's debt. Disclosures are required to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2. BASIS OF PREPARATION (Continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (Amendment)

The amendment to IAS 12 clarifies the accounting for deferred tax assets related to debt instruments measured at fair value but not deemed to be impaired.

Standards issued but not yet effective

The standards and interpretations that are issued up to the date of issuance of the Company's condensed consolidated interim financial statements, but were not effective for the three months ended March 31, 2017, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 – Financial Instruments

IFRS 9 will replace 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 will have 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. The Company does not expect IFRS 9 to have a significant impact on the Company's financial statements, as the Company's investments held for sale are not currently material.

The introduction of the new "expected credit loss" and reformed approach to hedge accounting is not expected to have a significant impact on the Company.

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 supercedes: 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.

The introduction of IFRS 15 is not expected to have a significant impact on the Company's financial statements, as the Company does not currently generate revenue.

2. BASIS OF PREPARATION (Continued)

IFRS 16 – Leases

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 the above amendments to IFRS 16 are 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 or use minerals, oil, natural gas and similar non-regenerative resources, which are exempt from IFRS 16, or relate to office leases which are not material.

2.4 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.23 to the Company's December 31, 2016 consolidated annual financial statements. There were no material changes to the significant accounting judgments and estimates from December 31, 2016.

3. SEGMENTED INFORMATION

The Company has two reportable business segments: the Kyrgyzstan Uranium Division and the United States 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 Company's non-current assets required to be disclosed for each reportable business segment are located in the Kyrgyzstan Uranium Division and the United States Uranium Division as at March 31, 2017 and December 31, 2016.

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

3. SEGMENTED INFORMATION (Continued)

The carrying amount of the Company's assets, liabilities and exploration and evaluation assets and the Company's income (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, 2017	$ 10,473,804	$ 28,278,014	$ 544,107	$ 39,295,925
As at December 31, 2016	$ 10,402,932	$ 28,120,831	$ 949,542	$ 39,473,305
Segment liabilities				
As at March 31, 2017	$ 2,108,037	$ 4,926,002	$ 3,257,770	$ 10,291,809
As at December 31, 2016	$ 2,093,651	$ 4,946,039	$ 3,290,707	$ 10,330,397
Exploration and evaluation assets (Note 5)				
As at March 31, 2017	$ 10,419,914	$ 28,131,949	$ -	$ 38,551,863
As at December 31, 2016	$ 10,363,942	$ 27,920,542	$ -	$ 38,284,484
Income (loss) before income tax				
Three months ended March 31, 2017	$ (49,835)	$ (7,244)	$ (214,923)	$ (272,002)
Three months ended March 31, 2016	$ 20,632	$ 57,472	$ (1,144,919)	$ (1,066,815)

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

4. NON-CONTROLLING INTEREST

The non-controlling interest in UrAsia as at March 31, 2017 and December 31, 2016 was $1,314,479 and $1,246,780, respectively.

Changes in the Company's non-controlling interest in UrAsia for the three months ended March 31, 2017 and 2016 were as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Balance, beginning of period	$ 1,246,780	$ 1,168,628
Plus (less): non-controlling interest from net income (loss)	(8,100)	32,180
Plus: non-controlling interest from other comprehensive income	75,799	64,609
Balance, end of period	$ 1,314,479	$ 1,265,417

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

5. EXPLORATION AND EVALUATION ASSETS

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

	As at March 31, 2017				
	Dewey Burdock	Kyzyl Ompul	Centennial	Other	Total
Opening balance, January 1, 2017	$ 25,073,304	$ 10,363,942	$ 2,288,492	$ 558,746	$ 38,284,484
Salaries and consulting	159,369	9,515	-	-	168,884
License fees	35,781	12,077	400	8,938	57,196
Decommissioning liability	-	-	3,088	-	3,088
Share-based compensation (Note 15.3)	3,831	909	-	-	4,740
Depreciation	-	1,477	-	-	1,477
Currency translation effect	-	31,994	-	-	31,994
Total exploration and evaluation assets	$ 25,272,285	$ 10,419,914	$ 2,291,980	$ 567,684	$ 38,551,863

	As at December 31, 2016				
	Dewey Burdock	Kyzyl Ompul	Centennial	Other	Total
Opening balance, January 1, 2016	$ 24,649,275	$ 9,908,668	$ 2,189,362	$ 426,870	$ 37,174,175
Salaries and consulting	188,625	109,670	55,246	-	353,541
License fees	213,576	43,146	32,049	131,876	420,647
Decommissioning liability	-	-	11,835	-	11,835
Share-based compensation	21,828	6,029	-	-	27,857
Depreciation	-	5,997	-	-	5,997
Currency translation effect	-	290,432	-	-	290,432
Total exploration and evaluation assets	$ 25,073,304	$ 10,363,942	$ 2,288,492	$ 558,746	$ 38,284,484

Exploration and evaluation assets held for sale

As at December 31, 2016, the Company no longer owned any exploration and evaluation assets held for sale. For the three months ended March 31, 2016, the Company sold redundant land at the Centennial Project for net proceeds of $321,909, resulting in a gain of $121,909.

6. INVESTMENTS HELD FOR SALE

6.1 Investment in Western Uranium Corporation

As at December 31, 2016, the Company no longer held an ownership interest in Western Uranium Corporation (“Western Uranium”). The Company accounted for its investment in Western Uranium as fair value through profit or loss (“FVTPL”) and fair value changes were recorded through profit or loss.

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

6. INVESTMENTS HELD FOR SALE (Continued)

For the three months ended March 31, 2016, the Company sold 87,100 Western Uranium shares for proceeds of $107,958 and recognized a realized loss of $53,443. For the three months ended March 31, 2016, the Company also recognized an unrealized loss of $298,311 on the revaluation of its investment.

6.2 Investment in Uranium Resources, Inc.

Uranium Resources, Inc. ("URI") is listed on the NASDAQ (NASDAQ: URRE). The Company accounts for its investment in URI as FVTPL and fair value changes are recorded through profit or loss. The Company continues to classify its investment in URI as held for sale.

For the three months ended March 31, 2016, the Company sold 53,546 URI shares (adjusted for URI's 12 for 1 share consolidation on March 8, 2016) for proceeds of $192,465 and recognized a realized loss of $66,158.

Changes in the Company's investment in URI for the three months ended March 31, 2017 and 2016 were as follows:

	Three months ended March 31,	
	2017	**2016**
Balance, beginning of period	$ 68,264	$ 1,132,695
Disposition of URI	-	(258,623)
Unrealized gain (loss) on revaluation of investment (Note 11)	25,412	(546,454)
Balance, end of period	$ 93,676	$ 327,618

7. LOANS PAYABLE

	As at	
	March 31, 2017	**December 31, 2016**
Loan payable to shareholders	$ 1,892,193	$ 1,848,135
Other loans payable	91,917	90,065
Loans payable	$ 1,984,110	$ 1,938,200
Current portion	1,942,193	1,898,135
Non-current portion	$ 41,917	$ 40,065

7. LOANS PAYABLE (Continued)

7.1 Loan payable to shareholders

On July 31, 2012, the Company entered into a $1,800,000 convertible loan agreement with certain shareholders ("Shareholders Loan Agreement"), as amended. The funds were used to fund the UrAsia 2012 exploration program and general working capital purposes. The key commercial terms of the loan include:

- Interest – 10% per annum payable on each anniversary date of the Shareholders Loan Agreement;
- Term – 5 years, commencing July 31, 2012;
- Conversion price – C$1.23;
- Shareholders' conversion right – to convert the outstanding balance of the loan plus accrued interest, in whole or in part, into ordinary shares of the Company at the conversion price;
- Extension of the term – the Company has the option, on maturity, to extend the term of the loan for an additional three years. Upon exercise of this option, the annual interest rate increases to 15% per annum;
- Early repayment option – the Company has the right, but not the obligation, to repay the whole balance of the loan plus accrued interest at any time out of the proceeds of a capital raising or if the loan is refinanced or replaced by a new loan on or before the maturity; and
- The Shareholders Loan Agreement is unsecured.

The terms of the Shareholders Loan Agreement were further amended to defer the July 31, 2014 and 2015 annual interest payments until July 31, 2016. In May 2016, the Company entered into shares for debt settlement agreements for up to $532,800 to settle the July 31, 2014, 2015 and 2016 annual interest payments. As a result, the Company issued 1,140,626 common shares to settle the outstanding interest of $532,800 as at July 31, 2016.

As at March 31, 2017 and December 31, 2016, the Company had drawn $1,776,000 under the Shareholders Loan Agreement. No additional amounts are available to be drawn under the Shareholders Loan Agreement. For the three months ended March 31, 2017 and 2016, the Company recorded interest expense on the convertible loan of $44,060 and $44,534, respectively.

The convertible loan is a hybrid instrument, containing a debt host component and three embedded derivatives – the investor's conversion option, the early repayment option, and the issuer's term extension right (the "embedded derivatives"). The fair values of the embedded derivatives were insignificant upon initial measurement and as at March 31, 2017 and December 31, 2016.

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

7. LOANS PAYABLE (Continued)

7.2 Other loans payable

	As at			
	March 31, 2017		December 31, 2016	
Other loans payable - current	$	50,000	$	50,000
Other loans payable - non-current		41,917		40,065
Other loans payable	$	91,917	$	90,065

For the three months ended March 31, 2017 and 2016, the imputed effective interest expense on other loans payable was $1,851 and $2,621, respectively, and for the three months ended March 31, 2016, the Company made payments totaling $10,000.

Centennial Purchase Agreement

In 2006, the Company entered into an agreement, as amended, to purchase uranium rights on certain areas of the Centennial Project for consideration of $1,895,000, excluding contingent payments. As at March 31, 2017 and December 31, 2016, $1,855,000 had been paid. The outstanding consideration is payable in two annual installments of $20,000 in September 2017 and 2018. An additional $3,165,000 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 amount as a commitment in Note 19. The Company has also agreed to purchase up to 1,280 surface acres at the Centennial Project upon receipt of regulatory permits and licenses allowing uranium production. The purchase price for the surface acres will be calculated using the then prevailing market rates; however, this amount cannot currently be reasonably quantified due to the uncertainty associated with the timing of receipt of the regulatory permits and licenses, the number of surface acres that will be purchased and the future prevailing market rates for the surface acres. If the Company does not obtain the regulatory permits and licenses allowing uranium production pertaining to the Centennial purchase agreement by September 27, 2019, the uranium rights will transfer back to the seller, at seller's option.

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

7. LOANS PAYABLE (Continued)

Dewey Burdock Purchase Agreements

In 2006 and 2008, the Company entered into agreements to purchase mineral rights on certain areas of the Dewey Burdock Project for consideration of $800,000, excluding contingent payments. As at March 31, 2017 and December 31, 2016, $740,000 had been paid. The outstanding consideration is payable in two annual installments of $30,000 in May 2017 and 2018. An additional $2,050,000 is payable, in four equal annual installments, commencing 12 months subsequent to the receipt of regulatory permits and licenses allowing uranium production on the area of the Dewey Burdock Project pertaining to these mineral interests. The Company has disclosed this amount as a commitment in Note 19.

The Centennial and Dewey Burdock purchase agreements are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

8. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to administrative expenditures and exploration and permitting activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables was as follows:

	As at			
	March 31, 2017		December 31, 2016	
Less than 1 month	$	701,827	$	384,268
1-3 months		33,668		170,552
3-6 months		107,264		86,024
More than 6 months		484,614		426,028
Total trade and other payables - current	$	1,327,373	$	1,066,872
Total trade and other payables - non-current		-		310,000
Total trade and other payables	$	1,327,373	$	1,376,872

Included in trade and other payables are amounts due to related parties, which are further disclosed in Note 17.

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

9. ADMINISTRATIVE EXPENSES

	Three months ended March 31,			
	2017		2016	
Salaries and benefits	$	227,675	$	215,475
Consulting and professional fees		22,071		21,018
Corporate administration		14,250		6,418
Depreciation		925		1,513
Share-based compensation		25,669		21,990
Total administrative expenses	$	290,590	$	266,414

10. FINANCE COSTS

	Three months ended March 31,			
	2017		2016	
Interest expense on loan payable to shareholders (Note 7.1)	$	44,060	$	44,534
Interest expense on other loans payable (Note 7.2)		1,851		2,621
Other interest expense		692		623
Total finance costs	$	46,603	$	47,778

11. UNREALIZED GAIN (LOSS)

	Three months ended March 31,			
	2017		2016	
Loss on revaluation of investment in Western Uranium (Note 6.1)	$	-	$	(298,311)
Gain (loss) on revaluation of investment in URI (Note 6.2)		25,412		(546,454)
Gain on warrant liability (Note 14.2)		49,417		3,809
Unrealized gain (loss), net	$	74,829	$	(840,956)

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

12. REALIZED GAIN

	Three months ended March 31,			
	2017		2016	
Loss on investment in Western Uranium (Note 6.1)	$	-	$	(53,443)
Loss on investment in URI (Note 6.2)		-		(66,158)
Gain on sale of exploration and evaluation assets held for sale (Note 5)		-		121,909
Other gains		14,800		11,130
Realized gain, net	$	14,800	$	13,438

13. LOSS PER SHARE

The weighted average shares outstanding used to calculate loss per share for the three months ended March 31, 2017 and 2016 were 74,956,036 and 60,565,866, respectively. The effect of outstanding options, warrants and convertible securities were excluded from the calculation of diluted loss per share for the three months ended March 31, 2017 and 2016 as the impact would have been anti-dilutive.

14. EQUITY

14.1 Share capital and contributed surplus

The Company has authorized the issuance of an unlimited number of common and preferred shares with no par value. As at March 31, 2017 and December 31, 2016, the Company had 75,094,874 and 74,766,046 common shares outstanding, respectively, and no preferred shares outstanding.

For the three months ended March 31, 2017, the Company issued 258,001 common shares to settle $56,614 owing pursuant to the Company's employee share purchase plan ("ESPP") and 70,827 common shares to settle $15,435 owing pursuant to the Company's director services agreements ("DSA"). As a result of these share issuances, $72,049 was reclassified from contributed surplus to share capital.

In March 2016, the Company issued 732,866 common shares to settle trade and other payables in the amount of $193,273. The fair value differential between the common shares issued and the carrying value of the trade and other payables settled was insignificant.

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

14. EQUITY (Continued)

For the three months ended March 31, 2017 and 2016, the Company recorded $72,332 and $82,499, respectively, to contributed surplus for equity settled transactions pursuant to the Company's ESPP (refer to Note 14.4 for additional details) and DSA (refer to Note 14.4 for additional details).

Subsequent to March 31, 2017, the Company issued 218,001 common shares to settle $57,957 owing pursuant to the ESPP and 54,068 common shares to settle $14,375 owing pursuant to the DSA.

14.2 Share purchase warrants

As at March 31, 2017, 4,621,665 share purchase warrants, each entitling the holder to purchase one common share at an exercise price of C$0.35 per share until September 23, 2019, were outstanding.

The fair value of the share purchase warrant liability as at March 31, 2017 and December 31, 2016 was $553,074 and $596,602, respectively.

Changes in the Company's share purchase warrant liability for the three months ended March 31, 2017 and 2016 were as follows:

	Three months ended March 31,	
	2017	2016
Balance, beginning of period	$ 596,602	$ 3,809
Gain on revaluation	(49,417)	(3,809)
Currency translation effect	5,889	-
Balance, end of period	$ 553,074	$ -

The assumptions used for the Black-Scholes Option Pricing model to value the warrant liability were as follows:

	As at	
	March 31, 2017	December 31, 2016
Risk free rate of return	0.75%	0.63%
Expected life	2.48 yrs	2.73 yrs
Expected volatility	76%	76% (i)
Expected dividend per share	Nil	Nil

(i) Annualized volatility has been calculated based on the historical volatility of the Company's stock price

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

14. EQUITY (Continued)

The 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 transactions for the three months ended March 31, 2017 and 2016 were as follows:

	Three months ended March 31,			
	2017		2016	
	Number of share purchase warrants	Weighted average exercise price (C$)	Number of share purchase warrants	Weighted average exercise price (C$)
Balance, beginning of period	4,621,665	$ 0.35	5,754,047	$ 1.26
Share purchase warrants expired	-	-	(1,584,980)	1.95
Balance, end of period	4,621,665	$ 0.35	4,169,067	$ 1.00

The share purchase warrants outstanding and exercisable as at March 31, 2017 were as follows:

	Share purchase warrants outstanding and exercisable		
Exercise price (C$)	Share purchase warrants outstanding and exercisable	Weighted average exercise price (C$)	Weighted average remaining contractual life (years)
$ 0.35	4,621,665	$ 0.35	2.48
	4,621,665	$ 0.35	2.48

14.3 Equity instrument issued to Powerlite Ventures Limited

On May 22, 2013, the Company issued an equity instrument ("Powerlite Facility") to Powerlite Ventures Limited ("Powerlite"). In accordance with the Powerlite Facility, as amended, the facility limit is $21,000,000. Any outstanding principal and accrued interest will be settled through the issuance of the Company's shares at C$1.54 per share. As a result, the financial instrument is classified as equity. Other key commercial terms of the financing include:

- Interest – 10% per annum, payable on conversion of each note (the Powerlite Facility can be drawn over multiple drawings, each a separate note);
- Maturity – May 22, 2023;
- Conversion price – C$1.54 per share;
- Powerlite's conversion right – to convert the outstanding notes plus accrued interest into the Company's shares after the date of issue;

14. EQUITY (Continued)

- Company's conversion right – to convert the outstanding notes plus accrued interest at the earlier of six months from the issuance date of each note or an event causing conversion of any Black Range Minerals Limited convertible loans held by the Company (this conversion event occurred in prior periods);
- Mandatory conversion – all outstanding notes plus accrued interest will automatically convert to shares within 10 business days of the maturity; and
- Other – the Powerlite Facility is unsecured.

As at March 31, 2017 and December 31, 2016, the Company had drawn a total of $18,000,000 under the Powerlite Facility. Although $3,000,000 remains available under the terms of the Powerlite Facility, the Company believes it is unlikely that Powerlite will be able to fund the remaining amount of the Powerlite Facility.

The $18,000,000 drawn under the Powerlite Facility plus accrued interest was converted into shares in 2014. Interest expense was not recognized for the three months ended March 31, 2017 and 2016 as no amounts were outstanding under the Powerlite Facility.

14.4 Equity settled compensation arrangements

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, 2017 and 2016, Employee Contributions totaled $34,775 and $29,375, respectively, and Matching Contributions totaled $23,182 and $19,582, respectively. As at March 31, 2017 and to date, a total of 1,723,951 and 1,941,952 common shares, respectively, had been issued pursuant to the ESPP.

14. EQUITY (Continued)

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, 2017 and 2016, $14,375 and $16,875, respectively, were expensed under the DSA. As at March 31, 2017 and to date, a total of 711,483 and 765,551 common shares, respectively, had been issued pursuant to DSA.

15. SHARE OPTION RESERVE

15.1 Stock option plan

On October 28, 2014, the Company adopted a new 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.

The Company did not grant stock options for the three months ended March 31, 2017 and 2016. For the three months ended March 31, 2017 and 2016, the Company recognized share-based compensation expense of $30,409 and $26,337, respectively, of which $25,669 and $21,990, respectively, has been allocated to administrative expenses and $4,740 and $4,347, respectively, has been allocated to exploration and evaluation assets.

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

15. SHARE OPTION RESERVE (Continued)

15.2 Outstanding stock options

The option transactions under the stock option plan were as follows:

	Three months ended March 31,			
	2017		2016	
	Number of options	Weighted average exercise price (C$)	Number of options	Weighted average exercise price (C$)
Balance, beginning of period	4,078,762	$ 0.58	5,521,993	$ 0.88
Options expired	-	-	(2,364,443)	1.18
Options forfeited	-	-	(134,000)	0.34
Balance, end of period	4,078,762	$ 0.58	3,023,550	$ 0.67

The stock options outstanding and exercisable as at March 31, 2017 were as follows:

	Options Outstanding			Options Exercisable		
Exercise price (C$)	Options outstanding	Weighted average exercise price (C$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (C$)	Weighted average remaining contractual life (years)
$0.34-$0.38	3,225,000	$ 0.35	2.95	2,077,450	$ 0.35	2.47
$1.20-$1.50	628,762	1.23	2.07	628,762	1.23	2.07
$2.00	225,000	2.00	0.12	225,000	2.00	0.12
	4,078,762	$ 0.58	2.66	2,931,212	$ 0.66	2.20

15.3 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan.

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

15. SHARE OPTION RESERVE (Continued)

Changes in the Company's share option reserve for the three months ended March 31, 2017 and 2016 were as follows:

	Three months ended March 31,			
	2017		**2016**	
Balance, beginning of period	$	1,196,865	$	1,021,099
Share-based compensation capitalized to exploration and evaluation assets		4,740		4,347
Share-based compensation charged to operations		25,669		21,990
Balance, end of period	$	1,227,274	$	1,047,436

16. FINANCIAL INSTRUMENTS

16.1 Categories of financial instruments

	As at			
	March 31, 2017		**December 31, 2016**	
Financial assets				
Loans and receivables				
Cash	$	471,286	$	941,370
Restricted cash		42,861		42,687
Fair value through profit or loss				
Investment in URI (Note 6)		93,676		68,264
Total financial assets	$	607,823	$	1,052,321

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

16. FINANCIAL INSTRUMENTS (Continued)

	As at			
	March 31, 2017		December 31, 2016	
Financial liabilities				
Other financial liabilities				
Trade and other payables (Note 8)	$	1,327,373	$	1,376,872
Loan payable to shareholders (Note 7)		1,892,193		1,848,135
Other loans payable (Note 7)		91,917		90,065
Decommissioning liability		133,023		129,933
Fair value through profit or loss				
Warrant liability (Note 14.2)		553,074		596,602
Total financial liabilities	$	3,997,580	$	4,041,607

16.2 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 fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are traded on an active liquid market are determined with reference to the quoted market prices. The fair value of the Company's investment in the shares of URI is determined using this methodology and the fair value of the Company's investment in the shares of Western Uranium was determined using this methodology.
- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived prices) observable.
  - The fair value of the warrant liability is determined using the Black-Scholes Option Pricing model.
- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are not directly (i.e. prices) or indirectly (i.e. derived from prices) observable.

The fair value of all other financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments. The Company's cash, restricted cash and other financial liabilities are carried at amortized cost.

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

16. FINANCIAL INSTRUMENTS (Continued)

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- 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.

As at March 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in URI	$ 93,676	$ -	$ -	$ 93,676
Total financial assets at fair value	$ 93,676	$ -	$ -	$ 93,676
Warrant liability	$ -	$ 553,074	$ -	$ 553,074
Total financial liabilities at fair value	$ -	$ 553,074	$ -	$ 553,074

As at December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in URI	$ 68,264	$ -	$ -	$ 68,264
Total financial assets at fair value	$ 68,264	$ -	$ -	$ 68,264
Warrant liability	$ -	$ 596,602	$ -	$ 596,602
Total financial liabilities at fair value	$ -	$ 596,602	$ -	$ 596,602

There were no transfers between Level 1, 2 and 3 for the three months ended March 31, 2017 and 2016.

17. RELATED PARTY TRANSACTIONS

These condensed consolidated interim financial statements include the financial statements of Azarga Uranium and its significant subsidiaries listed in the following table:

Name	**Country of incorporation**	**% equity interest As at March 31, 2017**	**% equity interest As at December 31, 2016**
Azarga Resources (Hong Kong) Limited	Hong Kong	100%	100%
Azarga Resources Limited	British Virgin Islands	100%	100%
Azarga Resources Canada Ltd.	Canada	100%	100%
Azarga Resources USA Company	United States of America	100%	100%
Powertech USA, Inc.	United States of America	100%	100%
UrAsia	Kyrgyz Republic	70%	70%

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

17. RELATED PARTY TRANSACTIONS (Continued)

For the three months ended March 31, 2017 and 2016, the Company had related party transactions with the Company's directors, management and shareholders including:

- Interest accruing to certain directors, management and shareholders of the Company on the Shareholders Loan Agreement (Note 7.1).

Related party liabilities

	As at				
	March 31, 2017		December 31, 2016		
Loan payable to shareholders	$	1,892,193	$	1,848,135	(i)
Trade and other payables for key management personnel - current		615,351		339,043	
Trade and other payables for key management personnel - non-current		-		310,000	
Total liabilities with related parties	$	2,507,544	$	2,497,178	

(i) As at March 31, 2017, of the $1,892,183 loan payable to shareholders, $767,105 was payable to a director. As at December 31, 2016, of the $1,848,135 loan payable to shareholders, $749,243 was payable to a director.

Related party expenses

	Three months ended March 31,			
	2017		2016	
Interest expense on loan payable to shareholders	$	44,060	$	44,534
Total related party expenses	$	44,060	$	44,534

Key management personnel compensation

The remuneration of the Company's directors and other members of key management, 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,			
	2017		2016	
Share-based compensation	$	15,085	$	14,721
Salaries, fees and other benefits		122,541		122,449
Share-based payments		59,166		65,832
Key management personnel compensation	$	196,792	$	203,002

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

18. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities

For the three months ended March 31, 2017 and 2016, the Company entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flows:

- For the three months ended March 31, 2017 and 2016, share-based compensation expense of $4,740 and $4,347, respectively, was capitalized as exploration and evaluation assets;
- For the three months ended March 31, 2017 and 2016, no cash interest or income taxes were paid;
- For the three months ended March 31, 2017, the Company issued 258,001 common shares to settle $56,614 owing pursuant to the Company's ESPP;
- For the three months ended March 31, 2017, the Company issued 70,827 common shares to settle $15,435 owing pursuant to the Company's DSA;
- For the three months ended March 31, 2017 and 2016, the Company recorded $72,332 and $82,499, respectively, to contributed surplus for equity settled transactions pursuant to the Company's ESPP and DSA; and
- For the three months ended March 31, 2016 the Company issued 732,866 common shares to settle trade and other payables in the amount of $193,273.

19. COMMITMENTS

As at March 31, 2017 and December 31, 2016, the Company's commitments that have not been disclosed elsewhere in the condensed consolidated interim financial statements were as follows:

	As at March 31, 2017			
	Within 1 year	2-4 years	Over 4 years	Total
Operating lease commitments	$ 45,847	$ 7,667	$ -	$ 53,514
Exploration and evaluation commitments	566,106	4,935,921	2,598,183	8,100,210
Total commitments	$ 611,953	$ 4,943,588	$ 2,598,183	$ 8,153,724

	As at December 31, 2016			
	Within 1 year	2-4 years	Over 4 years	Total
Operating lease commitments	$ 44,927	$ 53,513	$ -	$ 98,440
Exploration and evaluation commitments	607,941	5,085,029	2,866,562	8,559,532
Total commitments	$ 652,868	$ 5,138,542	$ 2,866,562	$ 8,657,972

19. COMMITMENTS (Continued)

As at March 31, 2017 and December 31, 2016, 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.