



Azarga Uranium Corp.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2021
(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 Audit Committee of the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to the financial statements or the related quarterly Management's Discussion and Analysis.

TABLE OF CONTENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

	<i>Page</i>
Condensed Consolidated Interim Statements of Financial Position	4
Condensed Consolidated Interim Statements of Loss and Other Comprehensive Loss	5
Condensed Consolidated Interim Statements of Changes in Equity	6
Condensed Consolidated Interim Statements of Cash Flows	7

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate information and going concern	8
2. Basis of presentation	9
3. Summary of significant accounting policies	10
4. Segmented information	10
5. Exploration and evaluation assets	11
6. Loan payable	11
7. Warrant liabilities	12
8. Equity	12
9. Share option reserve	15
10. Administrative expenses	16
11. Related party transactions and balances	17
12. Financial instruments and risk management	18
13. Commitments	20
14. Supplemental cash flow information	21
15. Subsequent events	21
16. Proposed transaction	22

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

		As at	
	Notes	September 30, 2021	December 31, 2020
ASSETS			
Current assets			
Cash		\$ 2,346,949	\$ 2,400,060
Other assets		89,516	59,499
Total current assets		2,436,465	2,459,559
Non-current assets			
Restricted cash		720,020	952,472
Exploration and evaluation assets	5	43,785,180	42,621,402
Property, plant and equipment		63,525	65,261
Right-of-use assets		52,619	74,145
Total non-current assets		44,621,344	43,713,280
Total assets		\$ 47,057,809	\$ 46,172,839
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		\$ 301,668	\$ 525,904
Loan payable	6	-	101,284
Lease obligations		15,661	15,661
Total current liabilities		317,329	642,849
Non-current liabilities			
Trade and other payables		10,000	55,000
Deferred income tax liabilities		3,277,193	3,277,193
Decommissioning liabilities		267,807	267,807
Lease obligations		41,614	63,548
Warrant liabilities	7	5,660,723	1,960,499
Total non-current liabilities		9,257,337	5,624,047
Total liabilities		9,574,666	6,266,896
Equity			
Common shares	8	70,291,969	64,899,866
Contributed surplus	8	854,209	1,127,178
Share option reserve	9	2,877,530	3,008,477
Accumulated deficit		(36,540,565)	(29,129,578)
Total equity		37,483,143	39,905,943
Total liabilities and equity		\$ 47,057,809	\$ 46,172,839
Corporate information and going concern	1		
Subsequent events	15		
Proposed transaction	16		

Approved by the Board of Directors of the Company:

“Joseph L. Havlin”, Director _____

“Matthew O’Kane”, Director _____

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

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

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2021	2020	2021	2020
Administrative expenses	10	\$ (476,094)	\$ (329,273)	\$ (1,443,435)	\$ (1,138,135)
Foreign exchange (loss) gain		136,500	(6,890)	103,434	7,373
Loss from operations		(339,594)	(336,163)	(1,340,001)	(1,130,762)
Finance costs		(1,117)	(28,315)	(3,991)	(44,191)
Gain on forgiveness of loan	6	-	-	101,532	-
Unrealized (loss) gain on warrant liabilities	7	(6,453,505)	(102,645)	(6,168,527)	40,174
Net loss and other comprehensive loss		\$ (6,794,216)	\$ (467,123)	\$ (7,410,987)	\$ (1,134,779)
Basic and diluted loss per share		\$ (0.03)	\$ (0.00)	\$ (0.03)	\$ (0.01)
Weighted average number of common shares outstanding		238,080,935	200,080,285	233,906,868	193,838,647

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)

	Number of shares	Common shares	Contributed surplus	Share option reserve	Accumulated deficit	Total equity
Balances, December 31, 2020	231,645,445	\$ 64,899,866	\$ 1,127,178	\$ 3,008,477	\$ (29,129,578)	\$ 39,905,943
Issuance of shares on exercise of warrants	8,002,468	4,077,187	-	-	-	4,077,187
Issuance of shares on exercise of options	2,937,166	772,983	-	(447,338)	-	325,645
Issuance of shares to settle employee remuneration	1,405,000	264,844	(264,844)	-	-	-
Issuance of shares to settle ESPP	1,238,413	253,131	(253,131)	-	-	-
Issuance of shares to settle DSA	120,065	23,958	(23,958)	-	-	-
Compensation to be settled by equity	-	-	268,964	-	-	268,964
Share-based compensation	-	-	-	316,391	-	316,391
Net loss and other comprehensive loss for the period	-	-	-	-	(7,410,987)	(7,410,987)
Balances, September 30, 2021	245,348,557	\$ 70,291,969	\$ 854,209	\$ 2,877,530	\$ (36,540,565)	\$ 37,483,143

	Number of shares	Common shares	Contributed surplus	Share option reserve	Accumulated deficit	Total equity
Balances, December 31, 2019	185,543,926	\$ 60,303,924	\$ 1,117,679	\$ 2,809,429	\$ (26,988,501)	\$ 37,242,531
Issuance of shares for private placement	10,933,333	816,383	-	-	-	816,383
Issuance of shares to settle employee remuneration	1,750,000	267,845	(267,845)	-	-	-
Issuance of shares to settle trade and other payables	200,000	25,843	-	-	-	25,843
Issuance of shares to settle ESPP	1,946,575	215,631	(215,631)	-	-	-
Issuance of shares to settle DSA	372,375	41,250	(41,250)	-	-	-
Compensation to be settled by equity	-	-	269,381	-	-	269,381
Share-based compensation	-	-	-	197,874	-	197,874
Net loss and other comprehensive loss for the period	-	-	-	-	(1,134,779)	(1,134,779)
Balances, September 30, 2020	200,746,209	\$ 61,670,876	\$ 862,334	\$ 3,007,303	\$ (28,123,280)	\$ 37,417,233

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)

		Nine months ended September 30,	
	Notes	2021	2020
OPERATING ACTIVITIES			
Net loss for the period		\$ (7,410,987)	\$ (1,134,779)
Adjustments for:			
Depreciation	10	23,262	31,773
Share-based compensation	9	316,391	197,874
Gain on forgiveness of loan	6	(101,532)	-
Unrealized loss (gain) on warrant liabilities	7	6,168,527	(40,174)
Equity compensation expense	8	268,964	269,381
Finance costs		3,991	44,191
Unrealized foreign exchange loss (gain)		(101,998)	14,227
Operating cash flows before changes in non-cash working capital items		(833,382)	(617,507)
Change in other assets		(30,017)	(32,094)
Change in trade and other payables		(294,913)	(188,987)
Net cash used in operating activities		(1,158,312)	(838,588)
INVESTING ACTIVITIES			
Expenditures on exploration and evaluation assets, net	5	(1,163,778)	(824,420)
Restricted cash		232,452	(929,733)
Net cash used in investing activities		(931,326)	(1,754,153)
FINANCING ACTIVITIES			
Private placement		-	1,165,998
Share issue costs		-	(24,380)
Exercise of warrants	8	1,713,867	-
Exercise of options	8	325,645	-
Loan proceeds		-	1,445,714
Net cash generated by financing activities		2,039,512	2,587,332
Effect of foreign exchange rate changes on cash		(2,985)	1,984
Decrease in cash for the period		(53,111)	(3,425)
Cash, beginning of period		2,400,060	184,447
Cash, end of period		\$ 2,346,949	\$ 181,022

Supplemental cash flow information, see Note 14

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

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

1. CORPORATE INFORMATION AND GOING CONCERN

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

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

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

In September 2021, the Company entered into a definitive agreement with enCore Energy Corp. (“enCore”) whereby enCore will acquire all of the issued and outstanding common shares of Azarga Uranium pursuant to a court-approved plan of arrangement (Note 16).

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business as they fall due. To date, the Company has not generated revenues from operations and is currently in the exploration and development stage. As at September 30, 2021, the Company had working capital of \$2,119,136 and an accumulated deficit of \$36,540,565 and will continue incurring losses for 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. 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 material uncertainties cast significant doubt on the Company’s ability to continue as a going concern.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has adversely affected workforces, economies, and financial markets globally. To date, this pandemic has had a limited impact on the Company’s operations as the Company has continued to advance its business objectives and raise capital. However, it is not possible for the Company to ultimately predict the duration or magnitude of the adverse impacts of the outbreak and its effects on the Company’s business or ability to raise funds.

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

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

2. BASIS OF PRESENTATION

2.1 Statement of compliance

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

These condensed consolidated interim financial statements for the nine months ended September 30, 2021 were approved and authorized for issue by the Company’s Audit Committee on November 10, 2021.

2.2 Basis of presentation

These condensed consolidated interim financial statements do not include all of the disclosures required for annual financial statements, and therefore should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020.

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

2.3 Presentation currency

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

The functional currency of each entity is determined by the currency of the primary economic environment in which the entity operates. The functional currency of each entity is the United States Dollar.

2.4 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company’s consolidated financial statements are included in Note 2.4 to the Company’s December 31, 2020 consolidated annual financial statements. There were no material changes to the significant accounting judgments and estimates from December 31, 2020.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Significant accounting policies

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company as at and for the year ended December 31, 2020.

3.2 New standards, interpretations and amendments not yet effective

There have been no recent IFRS accounting pronouncements with respect to new standards, interpretations and amendments during the nine months ended September 30, 2021, as compared to the recent accounting pronouncements described under Note 3.19 in the Company's annual audited consolidated financial statements for the year ended December 31, 2020, which are of potential significance to the Company.

4. SEGMENTED INFORMATION

The Company operates in one business and geographical segment being the exploration and development of uranium properties in the USA. Total assets attributable to the geographical location relate primarily to exploration and evaluation assets which are disclosed in Note 5.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

5. EXPLORATION AND EVALUATION ASSETS

	South Dakota	Wyoming			Colorado	Utah	Total
	Dewey Burdock	Gas Hills	Juniper Ridge	Other	JB	Ticaboo	
Balance, December 31, 2020	\$28,391,463	\$ 9,065,709	\$ 2,857,655	\$ 1,291,696	\$ 471,600	\$ 543,279	\$42,621,402
Salaries and consulting	433,481	147,296	19,295	67,949	10,833	19,025	697,879
License fees	204,712	104,580	23,718	118,035	11,006	5,848	467,899
Recoveries	-	-	-	-	-	(2,000)	(2,000)
Balance, September 30, 2021	\$29,029,656	\$ 9,317,585	\$ 2,900,668	\$ 1,477,680	\$ 493,439	\$ 566,152	\$43,785,180

Details on the Company's exploration and evaluation assets are found in Note 5 of the December 31, 2020 consolidated financial statements.

6. LOAN PAYABLE

In May 2020, the Company received a loan under the USA Payroll Protection Plan ("PPP") of \$100,625 that bore interest at 1% per annum and matured May 3, 2022. During the nine months ended September 30, 2021 and 2020, the Company recorded interest expense of \$248 and \$405, respectively.

In accordance with the terms of the PPP, the Company applied for forgiveness of the principal and interest in November 2020 and received confirmation that it had been forgiven in June 2021. Accordingly, during the nine months ended September 30, 2021, the Company recorded a gain on forgiveness of loan of \$101,532.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

7. WARRANT LIABILITIES

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Balance, beginning of period	\$ 1,703,168	\$ 453,160	\$ 1,960,499	\$ 265,029
Issuance of warrants	-	-	-	325,235
Exercise of warrants	(2,337,466)	-	(2,363,320)	-
Unrealized loss (gain) on revaluation	6,453,505	102,645	6,168,527	(40,174)
Currency translation effect	(158,484)	11,938	(104,983)	17,653
Balance, end of period	\$ 5,660,723	\$ 567,743	\$ 5,660,723	\$ 567,743

Warrant liabilities were revalued as at September 30, 2021 using the Black-Scholes option pricing model with the following assumptions: a risk free interest rate of 0.52; an expected volatility of 107.5%; an expected life of 1 year; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of \$1/C\$ 1.2741.

8. EQUITY

8.1 Authorized share capital

The Company has authorized the issuance of an unlimited number of common and preferred shares with no par value. As at September 30, 2021 and December 31, 2020, the Company had 245,348,557 and 231,645,445 common shares outstanding, respectively, and no preferred shares were outstanding.

8.2 Issued share capital

During the nine months ended September 30, 2021, the Company completed the following equity transactions:

- In July 2021, the Company issued 1,405,000 common shares to settle \$264,844 of outstanding employee remuneration.
- The Company issued 8,002,468 common shares on the exercise of share purchase warrants for gross proceeds of \$1,713,867. On exercise, the Company recorded an allocation of \$2,363,320 from warrant liability to common shares.
- The Company issued 2,937,166 common shares on the exercise of stock options for gross proceeds of \$325,645. On exercise, the Company recorded an allocation of \$447,338 from share option reserve to common shares.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

8. EQUITY (Continued)

8.2 Issued share capital (Continued)

- The Company issued 1,238,413 common shares to settle \$253,131 owing pursuant to the Company's employee share purchase plan ("ESPP") and 120,065 common shares to settle \$23,958 owing pursuant to the Company's director services agreements ("DSA").

8.3 Share purchase warrants

The continuity of share purchase warrants for the nine months ended September 30, 2021 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2020	Issued	Exercised	Expired	Balance, September 30, 2021			
March 20, 2022	\$ 0.31	6,553,022	-	(260,869)	-	6,292,153			
December 31, 2022	\$ 0.28	15,000,000	-	(6,809,600)	-	8,190,400			
April 17, 2023	\$ 0.20	5,438,665	-	(931,999)	-	4,506,666			
		26,991,687	-	(8,002,468)	-	18,989,219			
Weighted average exercise price (C\$)	\$	0.27	\$	-	\$	0.27			
				\$	0.27	\$	-	\$	0.27

As at September 30, 2021, all share purchase warrants were exercisable.

The weighted average remaining contractual life is 1.06 years.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

8. EQUITY (Continued)

8.4 Equity settled compensation arrangements

ESPP

In 2015, the Company adopted an ESPP, as amended. The Company is authorized to issue up to 12,000,000 common shares pursuant to the terms and conditions of the ESPP. Employees, who elect to participate in the ESPP, can contribute up to 50% of their salary (the “Employee Contribution”). The Company will then match 66.67% of the Employee’s Contribution (the “Matching Contribution”). The purchase price of the common shares is calculated based on the five-day volume weighted average trading price of the common shares on the TSX immediately preceding the end of each calendar quarter. The Employee Contribution and the Matching Contribution are expensed in the period in which they are incurred with the offsetting amount being recorded in contributed surplus until the common shares are issued.

For the three and nine months ended September 30, 2021, Employee Contributions totaled \$50,625 and \$151,875, respectively, and Matching Contributions totaled \$33,752 and \$101,256, respectively. For the three and nine months ended September 30, 2020, Employee Contributions totaled \$50,625 and \$136,875, respectively, and Matching Contributions totaled \$33,752 and \$91,256, respectively. As at September 30, 2021, a cumulative total of 8,824,857 common shares have been issued pursuant to the ESPP. Subsequent to September 30, 2021, the Company issued 172,008 common shares pursuant to the ESPP, see Note 15.

DSA

In 2015, the Company adopted the DSA, as amended. The Company is authorized to issue up to 3,500,000 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 payment of cash or by the issuance of common shares in accordance with the DSA. The purchase price of the common shares is calculated based on the five-day volume weighted average trading price of the common shares on the TSX immediately preceding the end of each calendar quarter. Amounts settled in accordance with the DSA are expensed in the period in which they are incurred with the offsetting amount being recorded in contributed surplus until the common shares are issued.

For the three and nine months ended September 30, 2021, \$5,625 and \$15,833, respectively, were expensed under the DSA. For the three and nine months ended September 30, 2020, \$13,750 and \$41,250, respectively, were expensed under the DSA. As at September 30, 2021, a cumulative total of 2,143,091 common shares had been issued pursuant to the DSA. Subsequent to September 30, 2021, the Company issued 11,467 common shares pursuant to the DSA, see Note 15.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

9. SHARE OPTION RESERVE

9.1 Stock option plan

The Company has a 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.

9.2 Stock option continuity

The continuity of stock options for the nine months ended September 30, 2021 is as follows:

Expiry date	Exercise price C\$	Balance, December 31, 2020	Issued	Exercised	Expired/ Forfeited	Balance, September 30, 2021				
May 19, 2021	\$ 0.36	1,110,000	-	-	(1,110,000)	-				
May 16, 2022	\$ 0.32	1,975,000	-	(395,000)	-	1,580,000				
August 22, 2023	\$ 0.24	3,662,500	-	(352,500)	-	3,310,000				
May 23, 2024	\$ 0.23	2,395,000	-	(190,000)	-	2,205,000				
May 19, 2025	\$ 0.175	2,787,000	-	(13,000)	-	2,774,000				
May 13, 2026	\$ 0.30	-	3,429,375	(6,666)	-	3,422,709				
March 14, 2027	\$ 0.075	4,280,000	-	(1,980,000)	-	2,300,000				
		16,209,500	3,429,375	(2,937,166)	(1,110,000)	15,591,709				
Weighted average exercise price (C\$)	\$	0.20	\$	0.30	\$	0.14	\$	0.36	\$	0.22

As at September 30, 2021, 12,376,458 stock options were exercisable.

The weighted average remaining contractual life is 3.30 years.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

9. SHARE OPTION RESERVE (Continued)

9.3 Share-based compensation

During the three and nine months ended September 30, 2021, the Company recognized share-based compensation expense of \$68,949 and \$316,391, respectively.

During the three and nine months ended September 30, 2020, the Company recognized share-based compensation expense of \$41,538 and \$197,874, respectively.

In May 2021, the Company granted 3,429,375 stock options to officers, employees, directors and other eligible persons at an exercise price of C\$0.30 with an expiry date of May 13, 2026. The weighted average fair value of the stock options granted was estimated at C\$0.17 per stock option at the grant date using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 0.76%; an expected volatility of 71.3%; an expected life of 5 years; a forfeiture rate of zero; an expected dividend of zero; and an exchange rate of \$/C\$ 1.2150.

10. ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Salaries and benefits	\$ 177,745	\$ 162,471	\$ 546,377	\$ 489,677
Consulting and professional fees	68,799	64,705	159,531	196,473
Corporate administration	152,846	51,589	397,874	222,338
Depreciation of property, plant and equipment	579	579	1,736	1,737
Depreciation of right-of-use assets	7,176	8,391	21,526	30,036
Share-based compensation	68,949	41,538	316,391	197,874
	\$ 476,094	\$ 329,273	\$ 1,443,435	\$ 1,138,135

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

11. RELATED PARTY TRANSACTIONS AND BALANCES

11.1 Key management personnel compensation

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Salaries and benefits *	\$ 179,168	\$ 169,181	\$ 524,171	\$ 507,500
Consulting and professional fees	33,744	32,938	102,662	98,526
Share-based compensation	55,440	30,615	253,187	177,249
	\$ 268,352	\$ 232,734	\$ 880,020	\$ 783,275

* Salaries and benefits are included in administrative expenses (Note 10) and exploration and evaluation assets (Note 5).

11.2 Related party liabilities

		As at	
		September 30, 2021	December 31, 2020
Chief Executive Officer	Expense reimbursement	\$ -	\$ 12,952
Chief Financial Officer	Expense reimbursement	1,199	1,647
Former Chief Executive Officer	Severance pay	70,000	115,000
		\$ 71,199	\$ 129,599

All amounts are included in trade and other payables

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

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 (“FVTOCI”); or, at amortized cost. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial assets	As at	
	September 30, 2021	December 31, 2020
Amortized cost		
Cash	\$ 2,346,949	\$ 2,400,060
Restricted cash	720,020	952,472
	\$ 3,066,969	\$ 3,352,532

Financial liabilities	As at	
	September 30, 2021	December 31, 2020
Amortized cost		
Trade and other payables	\$ 311,668	\$ 580,904
Loan payable	-	101,284
Decommissioning liabilities	267,807	267,807
Lease obligations	57,275	79,209
Fair value through profit or loss		
Warrant liabilities	5,660,723	1,960,499
	\$ 6,297,473	\$ 2,989,703

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

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

The carrying values of cash, trade and other payables and loan 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, decommissioning liabilities and lease obligations approximate their fair values as they are measured at amortized cost and discounted using appropriate rates.

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, 2020.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

13. COMMITMENTS

	Within 1 year	2-4 years	Over 4 years	Total
Annual license payments *	\$ 467,428	\$ 457,386	\$ 1,616,241	\$ 2,541,055
Centennial option agreement **	-	-	3,165,000	3,165,000
Dewey Burdock option agreements	31,250	457,500	1,342,500	1,831,250
	\$ 498,678	\$ 914,886	\$ 6,123,741	\$ 7,537,305

* annual license payments include lease and mineral claim payments.

** the contingent payments are payable upon receipt of regulatory permits and licenses allowing uranium production on the area of the Centennial Project pertaining to these uranium interests. Further, since the required licenses and permits were not received by September 27, 2019, the uranium rights, at the option of the seller, can be transferred back to the seller. The Company is attempting to renegotiate the Centennial Project option agreement.

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

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the nine months ended September 30, 2021, the Company completed the following non-cash investing and financing activities:

- Issued 1,238,413 common shares to settle \$253,131 owing pursuant to the Company's ESPP;
- Issued 120,065 common shares to settle \$23,958 owing pursuant to the Company's DSA;
- Issued 1,405,000 common shares to settle \$264,844 of outstanding employee remuneration; and
- No cash interest or income taxes were paid.

During the nine months ended September 30, 2020, the Company completed the following non-cash investing and financing activities:

- Issued 1,946,575 common shares to settle \$215,631 owing pursuant to the Company's ESPP;
- Issued 372,375 common shares to settle \$41,250 owing pursuant to the Company's DSA;
- Issued 1,750,000 common shares to settle \$267,845 of outstanding employee remuneration;
- Issued 200,000 common shares to settle \$25,843 of trade and other payables;
- Issued 5,466,665 share purchase warrants valued at \$325,235 as part of the April 2020 financing; and
- No cash interest or income taxes were paid.

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2021, the Company:

- issued 172,008 common shares to settle \$84,377 owing pursuant to the Company's ESPP and 11,467 common shares to settle \$5,625 owing pursuant to the Company's DSA;
- issued 210,000 common shares on the exercise of stock options for gross proceeds of C\$64,800; and
- issued 7,543,964 common shares on the exercise of share purchase warrants for gross proceeds of C\$2,157,156.

AZARGA URANIUM CORP.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2021

(Unaudited – Expressed in U.S. Dollars)

16. PROPOSED TRANSACTION

On September 7, 2021, the Company entered into a definitive agreement with enCore whereby enCore will acquire all of the issued and outstanding common shares of Azarga Uranium pursuant to a court-approved plan of arrangement (the “Transaction”).

Under the terms of the agreement, Azarga Uranium shareholders will receive 0.375 common shares of enCore for each Azarga Uranium common share held (the “Exchange Ratio”). The Exchange Ratio implied consideration of C\$0.71 per Azarga Uranium common share based on the closing price of the enCore common shares on the TSX Venture Exchange on September 3, 2021.

Additionally, the Exchange Ratio will be subject to an adjustment mechanism at the closing of the Transaction (the “Closing Exchange Ratio”). The Closing Exchange Ratio shall be equal to the greater of: (i) the Exchange Ratio; or (ii) an exchange ratio calculated as C\$0.54 divided by enCore’s 15-day volume weighted average price prior to the closing of the Transaction, subject to a maximum Closing Exchange Ratio of 0.49 common shares of enCore for each share of Azarga Uranium outstanding.

Pursuant to the terms of the agreement, all outstanding and unexercised warrants and stock options to purchase common shares of Azarga Uranium will be adjusted in accordance with their terms based on the Closing Exchange Ratio.

The agreement includes standard deal protection provisions, including non-solicitation, right-to-match, and fiduciary out provisions, as well as certain representations, covenants and conditions that are customary for a transaction of this nature, along with a termination fee of C\$4 million payable to enCore in certain circumstances.

The Azarga Uranium Special Meeting is to be held November 16, 2021.

Closing of the Transaction is subject to the receipt of applicable regulatory approvals and the satisfaction of certain other closing conditions customary in transactions of this nature, including, without limitation, court and stock exchange approval. Closing of the Transaction is anticipated to occur end of November 2021.