



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

**September 30, 2016**  
(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	
		September 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,597,959	\$ 239,327
Other assets		39,441	7,554
Exploration and evaluation assets held for sale	6	200,000	450,000
Investments held for sale	7	63,780	2,328,655
<b>Total current assets</b>		<b>1,901,180</b>	<b>3,025,536</b>
<b>Non-current assets</b>			
Restricted cash		43,027	40,882
Exploration and evaluation assets	6	38,412,014	37,174,175
Property, plant and equipment		109,267	114,298
<b>Total non-current assets</b>		<b>38,564,308</b>	<b>37,329,355</b>
<b>Total assets</b>		<b>\$ 40,465,488</b>	<b>\$ 40,354,891</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	\$ 1,779,349	\$ 2,224,087
Loans payable	9	1,854,156	486,445
Other liabilities		7,660	8,137
<b>Total current liabilities</b>		<b>3,641,165</b>	<b>2,718,669</b>
<b>Non-current liabilities</b>			
Trade and other payables	10	325,000	370,000
Deferred income tax liabilities		6,045,123	6,022,790
Loans payable	9	38,241	1,856,053
Decommissioning liability		126,851	118,097
Warrant liability	16.2	346,969	3,809
<b>Total non-current liabilities</b>		<b>6,882,184</b>	<b>8,370,749</b>
<b>Total liabilities</b>		<b>10,523,349</b>	<b>11,089,418</b>
<b>Equity</b>			
Common shares		39,614,078	37,256,196
Contributed surplus		729,413	766,630
Share option reserve	17.3	1,165,716	1,021,099
Accumulated deficit	16.3	(12,105,935)	(9,897,079)
Foreign currency translation reserve		(750,591)	(1,050,001)
Equity attributable to the equity holders of the Company		28,652,681	28,096,845
Non-controlling interest	5	1,289,458	1,168,628
<b>Total equity</b>		<b>29,942,139</b>	<b>29,265,473</b>
<b>Total equity and liabilities</b>		<b>\$ 40,465,488</b>	<b>\$ 40,354,891</b>

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

APPROVED BY THE BOARD:

"Joseph L. Havlin"  
 Director

"Richard F. Clement, Jr."  
 Director

# AZARGA URANIUM CORP.

## Condensed Consolidated Interim Statements of Profit or Loss and Other Comprehensive Income or Loss

(Unaudited)

(Expressed in U.S. Dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
Administrative expenses	11	\$ (415,819)	\$ (425,650)	\$ (1,122,788)	\$ (2,224,869)
Foreign exchange gain (loss)		(3,604)	(11,725)	69,073	100,501
<b>Loss from operations</b>		<b>(419,423)</b>	<b>(437,375)</b>	<b>(1,053,715)</b>	<b>(2,124,368)</b>
Finance costs	12	(47,844)	(135,844)	(144,590)	(447,234)
Unrealized gain (loss)	13	(15,945)	756,455	(944,216)	1,101,435
Realized gain (loss)	14	42,857	85,928	(19,448)	964,069
Share of equity income (loss) from associate	7.1	-	4,769	-	(602,375)
Impairment of investment in associate	7.1	-	-	-	(520,866)
<b>Income (loss) before income tax</b>		<b>(440,355)</b>	<b>273,933</b>	<b>(2,161,969)</b>	<b>(1,629,339)</b>
Deferred income tax recovery (expense)		57,864	1,579	(20,764)	(18,229)
<b>Net income (loss)</b>		<b>(382,491)</b>	<b>275,512</b>	<b>(2,182,733)</b>	<b>(1,647,568)</b>
<b>Other comprehensive income (loss)</b>					
<b>Item that may be reclassified subsequently as profit or loss</b>					
Foreign currency translation adjustment		(9,944)	(378,082)	394,117	(572,606)
<b>Total comprehensive loss</b>		<b>\$ (392,435)</b>	<b>\$ (102,570)</b>	<b>\$ (1,788,616)</b>	<b>\$ (2,220,174)</b>
<b>Net income (loss) attributable to:</b>					
Equity holders of the Company		(393,186)	301,374	(2,208,856)	(1,569,443)
Non-controlling interest		10,695	(25,862)	26,123	(78,125)
<b>Net income (loss)</b>		<b>\$ (382,491)</b>	<b>\$ 275,512</b>	<b>\$ (2,182,733)</b>	<b>\$ (1,647,568)</b>
<b>Other comprehensive income (loss) attributable to:</b>					
Equity holders of the Company		(4,539)	(316,913)	299,410	(476,083)
Non-controlling interest		(5,405)	(61,169)	94,707	(96,523)
<b>Other comprehensive income (loss)</b>		<b>\$ (9,944)</b>	<b>\$ (378,082)</b>	<b>\$ 394,117</b>	<b>\$ (572,606)</b>
<b>Basic income (loss) per share</b>	15	\$ (0.01)	\$ 0.00	\$ (0.04)	\$ (0.03)
<b>Diluted income (loss) per share</b>	15	\$ (0.01)	\$ 0.00	\$ (0.04)	\$ (0.03)

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)*

	Notes	Attributable to equity holders of the Company							Total equity	Non-controlling interest	Total equity
		Number of shares	Common shares	Contributed surplus (deficit)	Share option reserve	Accumulated deficit	Foreign currency translation reserve	Total equity			
<b>Balances, January 1, 2015</b>		59,403,733	\$ 36,938,764	\$ (1,594,389)	\$ 717,539	\$ (6,272,029)	\$ (713,214)	\$ 29,076,671	\$ 705,357	\$ 29,782,028	
Issuance of shares	16.1	928,581	317,432	-	-	-	-	317,432	-	317,432	
Share-based compensation	17.3	-	-	-	280,157	-	-	280,157	-	280,157	
Net loss for the period		-	-	-	-	(1,569,443)	-	(1,569,443)	(78,125)	(1,647,568)	
Other comprehensive loss for the period		-	-	-	-	-	(476,083)	(476,083)	(96,523)	(572,606)	
<b>Balances, September 30, 2015</b>		60,332,314	\$ 37,256,196	\$ (1,594,389)	\$ 997,696	\$ (7,841,472)	\$ (1,189,297)	\$ 27,628,734	\$ 530,709	\$ 28,159,443	
<b>Balances, January 1, 2016</b>		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	16.1	13,675,436	2,357,882	(533,506)	-	-	-	1,824,376	-	1,824,376	
Share-based compensation	17.3	-	-	-	144,617	-	-	144,617	-	144,617	
Share-based payments settled by equity	16.1	-	-	214,163	-	-	-	214,163	-	214,163	
Adjustment on issuance of shares to settle interest	16.1	-	-	282,126	-	-	-	282,126	-	282,126	
Net income (loss) for the period		-	-	-	-	(2,208,856)	-	(2,208,856)	26,123	(2,182,733)	
Other comprehensive income for the period		-	-	-	-	-	299,410	299,410	94,707	394,117	
<b>Balances, September 30, 2016</b>		74,007,750	\$ 39,614,078	\$ 729,413	\$ 1,165,716	\$ (12,105,935)	\$ (750,591)	\$ 28,652,681	\$ 1,289,458	\$ 29,942,139	

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	Nine months ended September 30,	
		2016	2015
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (2,182,733)	\$ (1,647,568)
Adjustments for:			
Deferred income tax expense		20,764	18,229
Depreciation	11	4,897	12,286
Share-based compensation	11	121,606	145,437
Finance costs	12	144,590	447,234
Share of equity loss from associate	7.1	-	602,375
Impairment of investment in associate	7.1	-	520,866
Unrealized (gain) loss	13	944,216	(1,101,435)
Realized (gain) loss	14	19,448	(964,069)
Unrealized foreign exchange (gain) loss		(14,400)	8,286
Operating cash flows before changes in non-cash working capital items		(941,612)	(1,958,359)
Change in other assets		(31,887)	(25,809)
Change in trade and other payables		2,202	(89,879)
Change in other liabilities		430	(1,021)
<b>Net cash used in operating activities</b>		<b>(970,867)</b>	<b>(2,075,068)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investments	7.3	-	(77,290)
Sale of investments	7	1,096,659	343,172
Restricted cash		-	168,805
Sale of property, plant and equipment		11,130	32,007
Sale of exploration and evaluation assets	6	389,223	-
Net expenditures on exploration and evaluation assets		(806,596)	(1,011,225)
<b>Net cash generated by (used in) investing activities</b>		<b>690,416</b>	<b>(544,531)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of common shares	16.1	1,701,930	-
Payment of other loans payable	9.2	(60,000)	(60,000)
<b>Net cash generated by (used in) financing activities</b>		<b>1,641,930</b>	<b>(60,000)</b>
Effect of foreign exchange rate changes on cash		(2,847)	755
<b>Increase (decrease) in cash</b>		<b>1,358,632</b>	<b>(2,678,844)</b>
Cash, beginning of period		239,327	3,214,529
<b>Cash, end of period</b>		<b>\$ 1,597,959</b>	<b>\$ 535,685</b>

**Supplemental cash flow information (Note 20)**

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 three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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### 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 September 30, 2016, the Company had a working capital deficit of \$1,739,985 and an accumulated deficit of \$12,105,935 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.

# **AZARGA URANIUM CORP.**

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

For the three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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### **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 and nine months ended September 30, 2016 were approved and authorized for issue by the Company’s Board of Directors on November 14, 2016.

#### **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, 2015 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, 2015.

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 18 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.



# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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## 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, 2016. The adoption of these standards did not have a material impact on the Company's condensed consolidated interim financial statements.

#### IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Amendment)

The amendment clarifies that the reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa, is considered to be a continuation of the original plan of disposal.

#### IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment clarifies 1) circumstances in which an entity has continuing involvement from the servicing of a transferred asset and 2) that the application of the amendment *Offsetting Financial Assets and Financial Liabilities* issued in December 2011 is not explicitly required for all interim periods.

#### IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

The amendments require an entity to apply all of the principles of IFRS 3 Business Combinations ("IFRS 3") when it acquires an interest in a joint operation that constitutes a business as defined by IFRS 3.

#### IAS 1 Presentation of Financial Statements (Amendment)

Amendments include changes to the following sections of IAS 1: materiality with respect to aggregation or disaggregation, line items in primary financial statements, notes to the financial statements, accounting policies and equity accounted investments.

#### IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment)

The amendments clarify that the use of revenue-based depreciation methods for items of property, plant and equipment is prohibited and that the use of revenue-based amortization methods for intangible assets is only appropriate in certain circumstances.

# **AZARGA URANIUM CORP.**

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

For the three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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### **2. BASIS OF PREPARATION (Continued)**

IAS 34 Interim Financial Reporting (Amendment)

The amendments provide additional guidance to International Accounting Standard 34 paragraph 16A requiring additional disclosures to be presented either in the notes to the interim financial statements or elsewhere in the interim financial report and clarifies that a cross-reference is required, if the disclosures are presented elsewhere in the interim financial report.

The effective date of the amendments to IFRS 10 and International Accounting Standard 28, expected to become effective on January 1, 2016, have now been postponed indefinitely.

#### **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 3.22 to the Company's December 31, 2015 consolidated annual financial statements. There were no material changes to the significant accounting judgments and estimates from December 31, 2015.

### **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 September 30, 2016 and December 31, 2015.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

(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 and impairment of an investment in associate analyzed by operating segment are as follows:

	Kyrgyzstan Uranium Division	United States Uranium Division	Unallocated <sup>(i)</sup>	Consolidated Total
<b>Segment assets</b>				
As at September 30, 2016	\$ 10,486,641	\$ 28,333,142	\$ 1,645,705	\$ 40,465,488
As at December 31, 2015	\$ 9,957,889	\$ 27,914,344	\$ 2,482,658	\$ 40,354,891
<b>Segment liabilities</b>				
As at September 30, 2016	\$ 2,103,208	\$ 5,030,692	\$ 3,389,449	\$ 10,523,349
As at December 31, 2015	\$ 2,107,872	\$ 5,276,749	\$ 3,704,797	\$ 11,089,418
<b>Exploration and evaluation assets (Note 6)</b>				
As at September 30, 2016	\$ 10,425,551	\$ 27,986,463	\$ -	\$ 38,412,014
As at December 31, 2015	\$ 9,908,668	\$ 27,265,507	\$ -	\$ 37,174,175
<b>Income (loss) before income tax</b>				
Three months ended September 30, 2016	\$ (57,945)	\$ (98,949)	\$ (283,461)	\$ (440,355)
Three months ended September 30, 2015	\$ (68,025)	\$ 230,862	\$ 111,096	\$ 273,933
Nine months ended September 30, 2016	\$ (142,040)	\$ (160,048)	\$ (1,859,881)	\$ (2,161,969)
Nine months ended September 30, 2015	\$ (301,141)	\$ (487,598)	\$ (840,600)	\$ (1,629,339)
<b>Impairment of investment in associate (Note 7.1)</b>				
Nine months ended September 30, 2015	\$ -	\$ -	\$ (520,866)	\$ (520,866)

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

### 4. BUSINESS ACQUISITION

#### UrAsia in Kyrgyzstan Limited Liability Company

On July 27, 2012, the Company acquired 80% of the charter capital of UrAsia through the Share Transfer Agreement and the Agreement of Participants (the "Purchase Agreements") for an upfront cash payment of \$200,000 and a deferred payment of \$5,800,000. Under the terms of the Purchase Agreements, as amended, the original sellers of UrAsia also had the right to sell the remaining 20% of UrAsia's charter capital to the Company for 1) \$2,000,000 in cash; or 2) \$2,000,000 of the Company's shares. In October 2015, the Company sold 10% of the charter capital of UrAsia back to the original sellers of UrAsia for consideration that included: i) forgiving the outstanding \$1,700,000 of deferred payments related to the Purchase Agreements and ii) extinguishment of the put option on the non-controlling interest of UrAsia.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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

### 5. NON-CONTROLLING INTEREST

The non-controlling interest in UrAsia as at September 30, 2016 and December 31, 2015 was \$1,289,458 and \$1,168,628, respectively.

Set out below is the movement schedule of the non-controlling interest arising from the UrAsia acquisition:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 1,284,168	\$ 617,740	\$ 1,168,628	\$ 705,357
Plus (less): non-controlling interest from net income (loss)	10,695	(25,862)	26,123	(78,125)
Plus (less): non-controlling interest from other comprehensive income (loss)	(5,405)	(61,169)	94,707	(96,523)
Balance, end of period	\$ 1,289,458	\$ 530,709	\$ 1,289,458	\$ 530,709

### 6. EXPLORATION AND EVALUATION ASSETS

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

	As at September 30, 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	196,356	83,314	55,246	-	334,916
License fees	303,445	29,922	30,243	108,070	471,680
Decommissioning liability	-	-	8,752	-	8,752
Share-based compensation (Note 17.3)	18,844	4,167	-	-	23,011
Depreciation	-	4,265	-	-	4,265
Currency translation effect	-	395,215	-	-	395,215
Total exploration and evaluation assets	\$ 25,167,920	\$ 10,425,551	\$ 2,283,603	\$ 534,940	\$ 38,412,014

	As at December 31, 2015				
	Dewey Burdock	Kyzyl Ompul	Centennial	Other	Total
Opening balance, January 1, 2015	\$ 23,819,121	\$ 10,536,951	\$ 2,776,427	\$ 301,370	\$ 37,433,869
Sale of exploration and evaluation asset	-	-	(100,162)	-	(100,162)
Drilling/engineering	15,670	19,264	-	-	34,934
Salaries and consulting	578,205	13,236	-	21,000	612,441
License fees	203,124	238,245	-	128,454	569,823
Decommissioning liability	-	-	118,097	-	118,097
Share-based compensation	33,155	4,549	-	-	37,704
Depreciation	-	7,191	-	-	7,191
Other	-	1,813	-	(23,954)	(22,141)
Currency translation effect	-	(912,581)	-	-	(912,581)
Reclassification of land as held for sale	-	-	(605,000)	-	(605,000)
Total exploration and evaluation assets	\$ 24,649,275	\$ 9,908,668	\$ 2,189,362	\$ 426,870	\$ 37,174,175

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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

#### Exploration and evaluation assets held for sale

In the fourth quarter of 2015, the Company determined that redundant land at the Centennial Project should be classified as held for sale. As at September 30, 2016 and December 31, 2015, \$200,000 and \$450,000, respectively, of redundant land at the Centennial Project was classified as held for sale.

As at September 30, 2016, the Company had sold six of eight redundant land parcels at the Centennial Project. The Company does not expect the sale of redundant land at the Centennial Project to impact the project's future development. For the three and nine months ended September 30, 2016, the Company sold redundant land at the Centennial Project for net proceeds of \$67,314 and \$389,223, respectively, resulting in a gain of \$17,313 and \$139,222, respectively. For the three and nine months ended September 30, 2015, the Company sold redundant land at the Centennial Project for net proceeds of \$135,066, resulting in a gain of \$35,066.

### 7. INVESTMENTS

	As at	
	September 30, 2016	December 31, 2015
Investment in Western Uranium	\$ -	\$ 1,195,960
Investment in URI	63,780	1,132,695
Total investments	\$ 63,780	\$ 2,328,655

#### 7.1 Investment in Black Range Minerals Limited

Black Range Minerals Limited ("Black Range") merged with Western Uranium Corporation ("Western Uranium") on September 16, 2015 (the "Black Range Merger"). Black Range shareholders received one (1) new Western Uranium share for each 750 Black Range shares held. On close of the Black Range Merger, Black Range was no longer an associate of the Company.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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### 7. INVESTMENTS (Continued)

In July 2015, the Company and Empire Equity Ltd. (“Empire Equity”) agreed to terminate its share sale agreement and economic exposure sharing deed pertaining to the sale of Black Range shares (the “Termination Deed”). In accordance with the terms of the Termination Deed, Empire Equity transferred 120,000,000 Black Range shares to the Company, the Company was not obligated to repay Australian Dollars (“A\$”) 280,000 received from Empire Equity and the Company granted Empire Equity 1,000,000 stock options to acquire the Company’s shares at Canadian Dollars (“C\$”) 0.35 per share. The stock options expire on August 6, 2018.

As a result of the Termination Deed, the liability related to the Empire Equity instrument in the amount of \$251,713 was extinguished. The difference between the carrying value of the liability and the fair value of the consideration transferred to Empire Equity, in accordance with the terms of the Termination Deed, resulted in a realized gain of \$92,853 for the three and nine months ended September 30, 2015. The consideration transferred to Empire Equity consisted of 1,000,000 stock options (refer to Note 17 for additional details) and 20,000,000 Black Range shares, valued using the Black Range closing share price of A\$0.002 on the date of the Termination Deed.

In March 2015, the Third Black Range Convertible Loan (refer to Note 8 for additional details), totaling \$410,397, was converted into 73,284,314 shares of Black Range in accordance with the terms of the loan agreement. The fair value of the 73,284,314 Black Range shares issued to the Company was equal to \$228,069, calculated using the Black Range closing share price on the date of conversion. As a result, the Company recognized a loss on conversion of \$182,327 for the nine months ended September 30, 2015.

For the three and nine months ended September 30, 2015, the Company sold 212,007,381 shares of Black Range for proceeds of \$322,892.

The Company recorded an impairment charge of \$520,866 for the nine months ended September 30, 2015 on its investment in Black Range due to the significant decline in the market capitalization of Black Range.

# AZARGA URANIUM CORP.

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### 7. INVESTMENTS (Continued)

The movement of the Company's investment in Black Range prior to the Black Range Merger is as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2015</u>		<u>September 30, 2015</u>	
Balance, beginning of period	\$	1,120,541	\$	1,890,623
Equity income (loss) pick-up		4,769		(602,375)
Conversion of Third Black Range Convertible Loan		-		228,069
Dilution gain		8,634		138,493
Carrying value of Black Range shares sold		(370,530)		(370,530) (i)
Impairment charge		-		(520,866)
<b>Balance as at September 16, 2015</b>	<b>\$</b>	<b>763,414</b>	<b>\$</b>	<b>763,414</b> (ii)

(i) Includes \$29,602 related to the 20,000,000 Black Range shares that formed part of the consideration transferred to Empire Equity in accordance with the terms of the Termination Deed.

(ii) Balance as at the date of the Black Range Merger.

Black Range prepared its annual financial statements as at June 30, 2015; therefore, the annual reporting period of Black Range was different from that of the Company.

### 7.2 Investment in Western Uranium Corporation

Western Uranium is listed on the Canadian Securities Exchange (CSE: WUC). As at September 30, 2016, the Company no longer held an ownership interest in 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.

For the nine months ended September 30, 2016, the Company sold 645,399 Western Uranium shares for proceeds of \$749,508 and recognized a realized loss of \$148,141.

The movement of the Company's investment in Western Uranium is as follows:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Balance, beginning of period	\$ -	\$ 763,414	\$ 1,195,960	\$ 763,414
Unrealized gain on revaluation of investment on close of Black Range Merger (Note 13)	-	1,498,639	-	1,498,639
Disposition of Western Uranium shares	-	-	(897,649)	-
Unrealized loss on revaluation of investment (Note 13)	-	(150,524)	(298,311)	(150,524)
<b>Balance, end of period</b>	<b>\$ -</b>	<b>\$ 2,111,529</b>	<b>\$ -</b>	<b>\$ 2,111,529</b>

# AZARGA URANIUM CORP.

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### 7. INVESTMENTS (Continued)

#### 7.3 Investment in Uranium Resources, Inc.

Uranium Resources, Inc. ("URI") is listed on the NASDAQ (NASDAQ: URRE). URI merged with Anatolia Energy Limited ("Anatolia") on November 9, 2015 (the "Anatolia Merger"). Anatolia shareholders received one (1) new URI share for each 15 Anatolia shares held. 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.

In August 2014, Anatolia and the Company entered into an agreement that provided the Company with the ability to acquire up to 8,333,334 Anatolia shares at a price of A\$0.08 per share (the "Call Option Agreement"). The Call Option Agreement was not exercised by the Company and expired on March 31, 2015. For the nine months ended September 30, 2015, the Company recognized a realized loss of \$36,878 on maturity of the Call Option Agreement.

For the three and nine months ended September 30, 2015, the Company sold 397,857 Anatolia shares for proceeds of \$20,280. For the nine months ended September 30, 2015, the Company purchased 1,350,000 Anatolia shares for total consideration of \$77,290. For the three and nine months ended September 30, 2016, the Company sold 41,126 and 131,694 URI shares (adjusted for URI's 12 for 1 share consolidation on March 8, 2016), respectively, for proceeds of \$75,319 and \$347,151, respectively, and recognized a realized gain of \$9,517 and a realized loss of \$72,050, respectively.

The movement of the Company's investment in URI is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 145,527	\$ 2,148,790	\$ 1,132,695	\$ 2,061,257
Investment in (disposition of) URI/Anatolia	(65,802)	(20,280)	(419,201)	57,010
Unrealized loss on revaluation of investment (Note 13)	(15,945)	(619,401)	(649,714)	(609,158)
Balance, end of period	\$ 63,780	\$ 1,509,109	\$ 63,780	\$ 1,509,109

### 8. CONVERTIBLE LOAN RECEIVABLES

On February 25, 2014, Black Range and the Company agreed to enter into a A\$2,000,000 loan facility (the "Third Black Range Convertible Loan"), which was repayable in cash or shares at the higher of a) the three month volume weighted average price of Black Range shares traded on the Australian Stock Exchange from the date of the first draw down or b) A\$0.007.



# AZARGA URANIUM CORP.

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### 8. CONVERTIBLE LOAN RECEIVABLES (Continued)

In March 2015, the Third Black Range Convertible Loan was converted into 73,284,314 Black Range shares at a conversion price of A\$0.008 per share and the facility was extinguished (refer to Note 7.1 for additional details). The carrying value of the Third Black Range Convertible Loan on conversion was \$410,397. Prior to the conversion, for the nine months ended September 30, 2015, the change in fair value recorded in profit or loss for the Third Black Range Convertible Loan was a loss of \$16,742.

The movement of the Third Black Range Convertible Loan is as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>
	<u>September 30, 2015</u>		<u>September 30, 2015</u>
Balance, beginning of period	\$ -	\$	427,139
Decrease in fair value of the convertible loan	-		(16,742)
Conversion of the convertible loan	-		(410,397)
Balance, end of period	\$ -	\$	-

The Third Black Range Convertible Loan was a hybrid instrument, containing a loan asset component and three embedded derivatives - the mandatory conversion option, the issuer's early repayment option and the Company's conversion right. The financial instrument was classified as FVTPL and all changes in fair value were recorded in profit or loss. The Company applied a 12% discount rate to the Third Black Range Convertible Loan when determining the fair value of the loan asset component.

### 9. LOANS PAYABLE

	<u>As at</u>	
	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Loan payable to shareholders	\$ 1,804,156	\$ 2,202,445
Other loans payable	88,241	140,053
Loans payable	\$ 1,892,397	\$ 2,342,498
Current portion	1,854,156	486,445
Non-current portion	\$ 38,241	\$ 1,856,053

# AZARGA URANIUM CORP.

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### 9. LOANS PAYABLE (Continued)

#### 9.1 Loan payable to shareholders

	As at	
	September 30, 2016	December 31, 2015
Loan payable to shareholders - current	\$ 1,804,156	\$ 426,445
Loan payable to shareholders - non-current	-	1,776,000
Loan payable to shareholders	\$ 1,804,156	\$ 2,202,445

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 September 30, 2016 and December 31, 2015, the Company had drawn \$1,776,000 under the Shareholders Loan Agreement. No additional amounts can be drawn under the Shareholders Loan Agreement. For the three and nine months ended September 30, 2016, the Company recorded interest expense of \$44,369 and \$134,511, respectively. For the three and nine months ended September 30, 2015, the Company recorded interest expense of \$44,347 and \$133,966, respectively.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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

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### 9. LOANS PAYABLE (Continued)

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 debt host component is classified as other financial liabilities and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture. The fair values of the embedded derivatives were insignificant upon initial measurement, as at September 30, 2016 and as at December 31, 2015.

#### 9.2 Other loans payable

	As at	
	September 30, 2016	December 31, 2015
Other loans payable - current	\$ 50,000	\$ 60,000
Other loans payable - non-current	38,241	80,053
Other loans payable	\$ 88,241	\$ 140,053

For the three and nine months ended September 30, 2016, the imputed effective interest expense on other loans payable was \$2,850 and \$8,188, respectively, and the Company made payments totaling \$20,000 and \$60,000, respectively. For the three and nine months ended September 30, 2015, the imputed effective interest expense was \$3,551 and \$36,253, respectively. For the nine months ended September 30, 2015, the Company made payments totaling \$60,000.

#### 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 September 30, 2016 and December 31, 2015, \$1,855,000 and \$1,835,000, respectively, 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 also agreed to purchase up to 1,280 surface acres at the Centennial Project upon receipt of regulatory permits and licenses allowing uranium production calculated using the then prevailing market rates; however, this amount cannot be reasonably quantified due to the uncertainty pertaining to the number of surface acres and the prevailing market rates. If the Company does not obtain the regulatory permits and licenses allowing uranium production by September 27, 2019, the uranium rights will transfer back to the seller, at seller’s option.

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### 9. LOANS PAYABLE (Continued)

In April 2015, the Company amended the payment terms of the Centennial purchase agreement and recognized a gain on extinguishment of \$1,084,846 for the nine months ended September 30, 2015.

#### 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 September 30, 2016 and December 31, 2015, \$740,000 and \$700,000, respectively, 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 Centennial and Dewey Burdock purchase agreements are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of each agreement.

### 10. 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 is as follows:

	As at	
	September 30, 2016	December 31, 2015
Less than 1 month	\$ 708,304	\$ 553,595
1-3 months	86,823	236,618
3-6 months	100,450	92,613
More than 6 months	883,772	1,341,261
Total trade and other payables - current	\$ 1,779,349	\$ 2,224,087
Total trade and other payables - non-current	325,000	370,000
Total trade and other payables	\$ 2,104,349	\$ 2,594,087

Included in trade and other payables are amounts due to related parties, which are further disclosed in Note 19.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 11. ADMINISTRATIVE EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Salaries and benefits	\$ 255,697	\$ 239,345	\$ 709,515	\$ 1,540,001
Consulting and professional fees	45,070	73,593	129,917	189,462
Corporate administration	85,961	80,428	156,853	337,683
Depreciation	1,794	1,824	4,897	12,286
Share-based compensation	27,297	30,460	121,606	145,437
Administrative expenses	\$ 415,819	\$ 425,650	\$ 1,122,788	\$ 2,224,869

### 12. FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest expense on put option on non-controlling interest of UrAsia	\$ -	\$ 43,622	\$ -	\$ 125,889
Interest expense on deferred consideration	-	39,885	-	118,188
Interest expense on loan payable to shareholders (Note 9.1)	44,369	44,347	134,511	133,966
Interest expense on other loans payable (Note 9.2)	2,850	3,551	8,188	36,253
Other interest expense	625	4,439	1,891	32,938
Finance costs	\$ 47,844	\$ 135,844	\$ 144,590	\$ 447,234

### 13. UNREALIZED GAIN (LOSS)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Dilution gain on investment in associate (Note 7.1)	\$ -	\$ 8,634	\$ -	\$ 138,493
Gain (loss) on revaluation of investment in Western Uranium (Note 7.2)	-	1,348,115	(298,311)	1,348,115
Loss on revaluation of investment in URI/Anatolia (Note 7.3)	(15,945)	(619,401)	(649,714)	(609,158)
Loss on Third Black Range Convertible Loan (Note 8)	-	-	-	(16,742)
Gain on warrant liability (Note 16.2)	-	19,107	3,809	240,727
Unrealized gain (loss), net	\$ (15,945)	\$ 756,455	\$ (944,216)	\$ 1,101,435

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### 14. REALIZED GAIN (LOSS)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Loss on investment in Black Range	\$ -	\$ (18,036)	\$ -	\$ (200,363)
Gain on termination of Empire Equity facility (Note 7.1)	-	92,853	-	92,853
Loss on investment in Western Uranium (Note 7.2)	-	-	(148,141)	-
Gain (loss) on investment in URI (Note 7.3)	9,517	-	(72,050)	-
Loss on maturity of call option on Anatolia shares (Note 7.3)	-	-	-	(36,878)
Gain on extinguishment of other loans payable (Note 9.2)	-	-	-	1,084,846
Gain on sale of exploration and evaluation assets (Note 6)	17,313	35,066	139,222	35,066
Other gains (losses)	16,027	(23,955)	61,521	(11,455)
Realized gain (loss), net	\$ 42,857	\$ 85,928	\$ (19,448)	\$ 964,069

### 15. INCOME (LOSS) PER SHARE

The weighted average shares outstanding used to calculate income (loss) per share for the three and nine months ended September 30, 2016 were 64,570,209 and 62,373,596, respectively, compared to 59,888,211 and 59,567,001 for the three and nine months ended September 30, 2015, respectively. The effect of outstanding options, warrants and convertible securities were excluded from the calculation of diluted loss per share for the three and nine months ended September 30, 2016 and for the nine months ended September 30, 2015 as the impact would have been anti-dilutive. The effect of outstanding options, warrants and convertible securities were insignificant when calculating the diluted income per share for the three months ended September 30, 2015.

### 16. EQUITY

#### 16.1 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 September 30, 2016 and December 31, 2015, the Company had 74,007,750 and 60,332,314 common shares outstanding, respectively, and no preferred shares outstanding. Of the Company's outstanding common shares, 31,433,387 were in escrow until October 28, 2016 as a condition of the reverse take-over that occurred on October 28, 2014.

# AZARGA URANIUM CORP.

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### 16. EQUITY (Continued)

For the nine months ended September 30, 2016, the Company issued 1,060,261 common shares to settle trade and other payables in the amount of \$320,541. The fair value differential between the common shares issued and the carrying value of the trade and other payables settled resulted in a gain of \$50,392.

In May 2016, the Company issued 944,527 common shares to settle \$238,859 owing pursuant to the Company's employee share purchase plan ("ESPP") and 474,186 common shares to settle \$124,714 owing pursuant to the Company's director services agreements ("DSA"). In August 2016, the Company issued 812,500 common shares to settle \$169,933 of outstanding employee remuneration. As a result of these share issuances, \$533,506 was reclassified from contributed surplus to share capital.

In May 2016, the Company entered into shares for debt settlement agreements to settle up to \$532,800 of outstanding interest payments pertaining to the Shareholders Loan Agreement. As a result, in August 2016, the Company issued 1,140,626 common shares. The fair value differential between the common shares issued and the carrying value of the interest settled resulted in an adjustment of \$282,126 to contributed surplus, due to the shareholders' existing ownership interest in the Company.

In September 2016, the Company closed a non-brokered private placement for gross proceeds of C\$2,218,401 (\$1,701,930) through the issuance of 9,243,336 units (each, a "Unit") at a price of C\$0.24 per Unit (the "Financing"). Each Unit consists of one common share of the Company and one-half of one share purchase warrant (each whole warrant, a "Warrant"). One Warrant entitles the holder thereof to purchase one common share of the Company at a price of C\$0.35 per share for a period of three years from the closing of the Financing. In connection with the Financing, the Company will pay cash finder's fees and other fees of \$51,408. The common shares issued in connection with the Financing are subject to a four-month hold period. The Company intends to use the proceeds of the Financing for continuation of the permitting process at the Dewey Burdock Project, mineral and surface right payments for the Company's projects and general working capital purposes.

In August 2015, the Company issued 928,581 common shares to settle trade and other payables of \$317,432. The fair value differential between the common shares issued and the carrying value of the trade and other payables settled was insignificant.

For the nine months ended September 30, 2016, the Company recorded \$214,163 to contributed surplus for equity settled transactions pursuant to the Company's ESPP and DSA (refer to Note 16.5 for additional details).



# AZARGA URANIUM CORP.

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### 16. EQUITY (Continued)

#### 16.2 Share purchase warrants

As at September 30, 2016, 8,790,732 share purchase warrants were outstanding. Of the share purchase warrants outstanding, 4,169,067 expired on October 28, 2016. The remaining 4,621,665 share purchase warrants, which were issued as part of the Financing on September 23, 2016, entitle the holder to purchase one common share at an exercise price of C\$0.35 until September 23, 2019.

The fair value of the share purchase warrant liability as at September 30, 2016 and December 31, 2015 was \$346,969 and \$3,809, respectively.

The movement of the Company's share purchase warrant liability is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ -	\$ 80,393	\$ 3,809	\$ 328,213
Issuance of warrants	346,969	-	346,969	-
Gain on revaluation	-	(19,107)	(3,809)	(240,727)
Currency translation effect	-	(6,318)	-	(32,518)
Balance, end of period	\$ 346,969	\$ 54,968	\$ 346,969	\$ 54,968

The fair value differential from inception, for the share purchase warrants issued on September 23, 2016, to September 30, 2016, inclusive of any currency translation adjustment was insignificant. The weighted average fair value of the share purchase warrants granted for the nine months ended September 30, 2016 was estimated at C\$0.10 per share purchase warrant at the issuance date using the Black-Scholes Option Pricing Model.

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

	As at	
	September 30, 2016	December 31, 2015
Risk free rate of return	0.54-0.64%	0.48%
Expected life	0.08-2.98 yrs	0.17-0.83 yrs
Expected volatility	80-126%	21-61% (i)
Expected dividend per share	Nil	Nil

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



# AZARGA URANIUM CORP.

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### 16. 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 nine months ended September 30, 2016 and 2015 are as follows:

	Nine months ended September 30,			
	2016		2015	
	Number of share purchase warrants	Weighted average exercise price (C\$)	Number of share purchase warrants	Weighted average exercise price (C\$)
Balance, beginning of period	5,754,047	\$ 1.26	5,754,047	\$ 1.26
Share purchase warrants granted	4,621,665	0.35	-	-
Share purchase warrants expired	(1,584,980)	1.95	-	-
Balance, end of period	8,790,732	\$ 0.66	5,754,047	\$ 1.26

The share purchase warrants outstanding and exercisable as at September 30, 2016 are as follows:

Exercise price (C\$)	Share purchase warrants outstanding and exercisable		
	Share purchase warrants outstanding and exercisable	Weighted average exercise price (C\$)	Weighted average remaining contractual life (years)
\$ 0.35	4,621,665	\$ 0.35	2.98
\$ 1.00	4,169,067	1.00	0.08
	8,790,732	\$ 0.66	1.60

### 16.3 Accumulated deficit and dividends

As at September 30, 2016 and December 31, 2015, the Company had an accumulated deficit of \$12,105,935 and \$9,897,079, respectively. No dividends have been paid or declared by the Company since inception.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 16. EQUITY (Continued)

#### 16.4 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;
- 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 convertible loans (Note 8) held by the Company;
- 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 September 30, 2016 and December 31, 2015, the Company had drawn a total of \$18,000,000 under the Powerlite Facility. Although \$3,000,000 remains available under the Powerlite Facility, in accordance with the terms noted above, the Company does not expect Powerlite 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 and nine months ended September 30, 2016 and 2015 as no amounts were outstanding under the Powerlite Facility.

# **AZARGA URANIUM CORP.**

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

For the three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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### **16. EQUITY (Continued)**

#### **16.5 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 and nine months ended September 30, 2016, Employee Contributions of \$29,375 and \$88,125, respectively, and Matching Contributions of \$19,582 and \$58,746, respectively, were expensed under the ESPP.

In 2015, the Company adopted the DSA. The Company is authorized to issue up to 2,000,000 common shares pursuant to the terms and conditions of the DSA. Directors who elect to participate in the DSA contribute 50% of their director fee/salary to the ESPP and the remaining 50% of their director fee/salary is settled through the issuance of common shares in accordance with the DSA. The purchase price of the common shares is calculated based on the five-day volume weighted average trading price of the common shares on the TSX immediately preceding the end of each calendar quarter. Amounts settled in accordance with the DSA are expensed in the period in which they are incurred with the offsetting amount being recorded in contributed surplus until the common shares are issued. For the three and nine months ended September 30, 2016, \$16,875 and \$50,625, respectively, were expensed under the DSA.

### **17. SHARE OPTION RESERVE**

#### **17.1 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.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

*(Unaudited)*

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

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### 17. SHARE OPTION RESERVE (Continued)

For the nine months ended September 30, 2016, the Company granted a total of 1,235,000 stock options to officers, employees, directors and other eligible persons at an exercise price of C\$0.36 with an expiry date of May 19, 2021. The weighted average fair value of the options granted for the nine months ended September 30, 2016 was estimated at C\$0.21 per option at the grant date using the Black-Scholes Option Pricing model.

For the three and nine months ended September 30, 2015, the Company granted a total of 1,000,000 and 2,315,000 stock options, respectively, to officers, employees, directors and other eligible persons at exercise prices ranging from of C\$0.34 to C\$0.38 with expiry dates ranging from August 6, 2018 to June 3, 2020. The weighted average fair value of the options granted for the three and nine months ended September 30, 2015 was estimated at C\$0.17 and C\$0.20, respectively, per option at the grant date using the Black-Scholes Option Pricing model.

The weighted average assumptions used for the Black-Scholes Option Pricing model were as follows:

	Nine months ended September 30,	
	2016	2015
Risk free rate of return	0.69%	1.09%
Expected life	5 yrs	4.14 yrs
Expected volatility	79%	83% (i)
Expected dividend per share	Nil	Nil

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

For the three and nine months ended September 30, 2016, the Company recognized share-based compensation expense of \$32,144 and \$144,617, respectively, of which \$27,297 and \$121,606, respectively, has been allocated to administrative expenses and \$4,847 and \$23,011, respectively, has been allocated to exploration and evaluation assets.

For the three and nine months ended September 30, 2015, the Company recognized share-based compensation expense of \$160,284 and \$280,157, respectively, of which \$30,460 and \$145,437, respectively, has been allocated to administrative expenses, \$564 and \$5,460, respectively, has been allocated to exploration and evaluation assets and \$129,260 has been recorded as consideration in accordance with the terms of the Termination Deed between the Company and Empire Equity (see Note 7.1 for additional details).

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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### 17. SHARE OPTION RESERVE (Continued)

#### 17.2 Outstanding stock options

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

	Nine months ended September 30,			
	2016		2015	
	Number of options	Weighted average exercise price (C\$)	Number of options	Weighted average exercise price (C\$)
Balance, beginning of period	5,521,993	\$ 0.88	3,345,506	\$ 1.27
Options granted	1,235,000	0.36	2,315,000	0.34
Options expired	(2,494,231)	1.16	-	-
Options forfeited	(134,000)	0.34	(35,000)	2.00
Balance, end of period	4,128,762	\$ 0.57	5,625,506	\$ 0.88

The stock options outstanding and exercisable as at September 30, 2016 are as follows:

Exercise price (C\$)	Options Outstanding			Options Exercisable		
	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	3,275,000	\$ 0.35	3.47	2,093,950	\$ 0.35	2.98
\$1.20-\$1.50	628,762	1.23	2.57	628,762	1.23	2.57
\$2.00	225,000	2.00	0.62	225,000	2.00	0.62
	4,128,762	\$ 0.57	3.18	2,947,712	\$ 0.66	2.71

#### 17.3 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.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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

### 17. SHARE OPTION RESERVE (Continued)

The movement of the Company's share option reserve is as follows:

	Nine months ended September 30,	
	2016	2015
Balance, beginning of period	\$ 1,021,099	\$ 717,539
Share-based compensation capitalized to exploration and evaluation assets	23,011	5,460
Share-based compensation charged to operations	121,606	145,437
Share-based compensation issued to settle other non-current liabilities	-	129,260
Balance, end of period	\$ 1,165,716	\$ 997,696

### 18. FINANCIAL INSTRUMENTS

#### 18.1 Categories of financial instruments

	As at	
	September 30, 2016	December 31, 2015
<b>Financial assets</b>		
Loans and receivables		
Cash	\$ 1,597,959	\$ 239,327
Restricted cash	43,027	40,882
Fair value through profit or loss		
Investment in Western Uranium (Note 7)	-	1,195,960
Investment in URI (Note 7)	63,780	1,132,695
Total financial assets	\$ 1,704,766	\$ 2,608,864

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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

### 18. FINANCIAL INSTRUMENTS (Continued)

	As at	
	September 30, 2016	December 31, 2015
<b>Financial liabilities</b>		
Other financial liabilities		
Trade and other payables (Note 10)	\$ 2,104,349	\$ 2,594,087
Loan payable to shareholders (Note 9.1)	1,804,156	2,202,445
Other loans payable (Note 9.2)	88,241	140,053
Decommissioning liability	126,851	118,097
Fair value through profit or loss		
Warrant liability (Note 16.2)	346,969	3,809
<b>Total financial liabilities</b>	<b>\$ 4,470,566</b>	<b>\$ 5,058,491</b>

#### 18.2 Fair value

The fair value of financial assets and financial liabilities measured at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value.

The 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 call option previously held by the Company for Anatolia shares was determined using the Black-Scholes Option Pricing Model.
  - The fair value of the warrant liability is determined using the Black-Scholes Option Pricing Model.

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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

### 18. FINANCIAL INSTRUMENTS (Continued)

- 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 loan asset component for the Third Black Range Convertible Loan was valued based on the present value of expected future cash flows at the discount rate that would have applied to the financial asset without conversion or other embedded derivative features. None of the fair value change in the Third Black Range Convertible Loan for the three months ended March 31, 2015 was related to a change in the credit risk of the convertible loan. All of the change in fair value was associated with changes in market conditions.

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.

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 September 30, 2016	Level 1	Level 2	Level 3	Total
Investment in URI	\$ 63,780	\$ -	\$ -	\$ 63,780
Total financial assets at fair value	\$ 63,780	\$ -	\$ -	\$ 63,780
Warrant liability	\$ -	\$ 346,969	\$ -	\$ 346,969
Total financial liabilities at fair value	\$ -	\$ 346,969	\$ -	\$ 346,969

  

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Investment in URI	\$ 1,132,695	\$ -	\$ -	\$ 1,132,695
Investment in Western Uranium	1,195,960	-	-	1,195,960
Total financial assets at fair value	\$ 2,328,655	\$ -	\$ -	\$ 2,328,655
Warrant liability	\$ -	\$ 3,809	\$ -	\$ 3,809
Total financial liabilities at fair value	\$ -	\$ 3,809	\$ -	\$ 3,809



# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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### 18. FINANCIAL INSTRUMENTS (Continued)

There were no transfers between Level 1, 2 and 3 for the three and nine months ended September 30, 2016 and 2015.

### 19. 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	
		September 30, 2016	December 31, 2015
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%

The Company held a significant influence investment in Black Range until the close of the Black Range Merger, at which point Black Range was no longer an associate of the Company.

For the three and nine months ended September 30, 2016 and 2015, the Company had related party transactions with the Company's directors, shareholders, management and significant influence investees including:

- Interest accruing to certain directors/shareholders of the Company on the Shareholders Loan Agreement;
- The conversion of the Third Black Range Convertible Loan (Note 8);
- The disposal of Black Range shares (Note 7.1);
- An impairment charge on the Company's investment in Black Range (Note 7.1); and
- The issuance of common shares to key management personnel of the Company to settle trade and other payables, employee remuneration (Note 16) and interest on the Shareholders Loan Agreement (Note 9.1).

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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

### 19. RELATED PARTY TRANSACTIONS (Continued)

#### Related party liabilities

	As at	
	September 30, 2016	December 31, 2015
Loan payable to shareholders	\$ 1,804,156	\$ 2,202,445 (i)
Trade and other payables for key management personnel - current	468,241	435,518
Trade and other payables for key management personnel - non-current	325,000	370,000
<b>Total liabilities with related parties</b>	<b>\$ 2,597,397</b>	<b>\$ 3,007,963</b>

(i) As at September 30, 2016, of the \$1,804,156 loan payable to shareholders, \$731,414 was payable to a director. As at December 31, 2015, of the \$2,202,445 loan payable to shareholders, \$892,883 was payable to a director.

#### Related party expenses

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest expense on loan payable to shareholders	\$ 44,369	\$ 44,347	\$ 134,511	\$ 133,966
Equity loss pick-up from associate	-	-	-	602,375
Realized loss on investment in Black Range	-	18,036	-	200,363
Impairment of investment in Black Range	-	-	-	520,866
Unrealized loss on Third Black Range Convertible Loan	-	-	-	16,742
<b>Total related party expenses</b>	<b>\$ 44,369</b>	<b>\$ 62,383</b>	<b>\$ 134,511</b>	<b>\$ 1,474,312</b>

#### Related party income

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Equity income pick-up from associate	\$ -	\$ 4,769	\$ -	\$ -
Dilution gain on investment in associate	-	8,634	-	138,493
<b>Total related party income</b>	<b>\$ -</b>	<b>\$ 13,403</b>	<b>\$ -</b>	<b>\$ 138,493</b>

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

(Unaudited)

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### 19. RELATED PARTY TRANSACTIONS (Continued)

#### 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Share-based compensation	\$ 9,265	\$ 21,659	\$ 48,813	\$ 110,451
Salaries, fees and other benefits	121,964	117,280	366,797	439,995
Share-based payments	65,833	39,598	197,497	148,132
Severance benefits	-	-	-	480,000
Key management personnel compensation	\$ 197,062	\$ 178,537	\$ 613,107	\$ 1,178,578

### 20. SUPPLEMENTAL CASH FLOW INFORMATION

#### Non-cash financing and investing activities

For the nine months ended September 30, 2016 and 2015, 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 nine months ended September 30, 2016 and 2015, share-based compensation expense of \$23,011 and \$5,460, respectively, was capitalized as exploration and evaluation assets;
- For the nine months ended September 30, 2016 and 2015, no cash interest or income taxes were paid;
- For the nine months ended September 30, 2015, the Third Black Range Convertible Loan was converted into 73,284,314 Black Range shares. The fair value of the Black Range shares issued to the Company was \$228,069;
- For the nine months ended September 30, 2016 and 2015, the Company issued 1,060,261 and 928,581 common shares, respectively, to settle trade and other payables in the amount of \$320,541 and \$317,432, respectively;
- For the nine months ended September 30, 2016, the Company issued 944,527 common shares to settle \$238,859 owing pursuant to the Company's ESPP;
- For the nine months ended September 30, 2016, the Company issued 474,186 common shares to settle \$124,714 owing pursuant to the Company's DSA;
- For the nine months ended September 30, 2016, the Company issued 1,140,626 common shares to settle \$532,800 of outstanding interest pertaining to the Shareholders Loan Agreement;

# AZARGA URANIUM CORP.

## Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

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### 20. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

- For the nine months ended September 30, 2016, the Company issued 812,500 common shares to settle \$169,933 of outstanding employee remuneration;
- For the nine months ended September 30, 2016, the Company recorded \$214,163 to contributed surplus for equity settled transactions pursuant to the Company's ESPP and DSA; and
- For the nine months ended September 30, 2016, the Company issued 4,621,665 share purchase warrants as part of the Financing.

### 21. COMMITMENTS

As at September 30, 2016 and December 31, 2015, the Company's commitments that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	As at September 30, 2016			
	Within 1 year	2-4 years	Over 4 years	Total
Operating lease commitments	\$ 44,697	\$ 64,783	\$ -	\$ 109,480
Exploration and evaluation commitments	608,991	4,962,365	2,985,682	8,557,038
Total commitments	\$ 653,688	\$ 5,027,148	\$ 2,985,682	\$ 8,666,518

	As at December 31, 2015			
	Within 1 year	2-4 years	Over 4 years	Total
Operating lease commitments	\$ 44,160	\$ 91,080	\$ -	\$ 135,240
Exploration and evaluation commitments	521,887	5,854,735	1,918,161	8,294,783
Total commitments	\$ 566,047	\$ 5,945,815	\$ 1,918,161	\$ 8,430,023

As at September 30, 2016 and December 31, 2015, exploration and evaluation commitments include lease, mineral claim, exploration license and property purchase agreement payments (the "Leases") required to maintain the surface and/or mineral rights for the Company's mineral properties until the earlier of the Lease expiration or the date of the Lease's expected release.