

Mangazeya Mining Ltd.

Interim Condensed Consolidated Financial Statements

September 30, 2017

(Unaudited)

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MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements (“the **Financial Statements**”) of Mangazeya Mining Ltd. (the “**Company**”) are the responsibility of the Board of Directors.

The Financial Statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the Financial Statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the Financial Statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it with sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of 30 September 2017 and for the periods presented by the Financial Statements and (ii) the Financial Statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of 30 September 2017 and for the periods presented by the Financial Statements.

The Board of Directors is responsible for reviewing and approving the Financial Statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the Financial Statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the Financial Statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

November 29, 2017

(signed)
Sergey Yanchukov
Chief Executive Officer

(signed)
Ada Lanyak
Chief Financial Officer

NOTICE TO READER

The management of Mangazeya Mining Ltd. is responsible for the preparation of the accompanying Financial Statements. These Financial Statements have been prepared in accordance with International Financial Reporting Standards applicable to the preparation of interim financial statements, namely IAS 34, *Interim Financial Reporting* and are considered by management to present fairly the financial position, operation results and cash flows of the Company. These Financial Statements have not been audited, reviewed or otherwise verified for accuracy and completeness of information by the auditor of the Company.

Mangazeya Mining Ltd.
Unaudited Interim Condensed Consolidated Statements of Financial Position
(Amounts are presented in thousands of Canadian dollars)

	Notes	September 30, 2017	December 31, 2016
Assets			
Current Assets			
Cash and cash equivalents		1,558	225
Accounts receivable	4	26,758	23,623
Inventories	5	27,298	20,833
Total Current Assets		55,614	44,681
Non-current Assets			
Property, plant and equipment	6	39,272	18,300
Exploration and evaluation assets	7	30,514	29,256
Mine properties	8	3,340	3,817
Intangible assets		22	-
Deferred tax assets		3,853	3,074
Total Non-current assets		77,001	54,447
Total Assets		132,615	99,128
Liabilities and Shareholders' equity			
Current Liabilities			
Trade and other payables	9	11,857	5,761
Current tax payable		85	1,119
Provisions		2,722	2,727
Loans and borrowings	10	10,175	2,598
Total Current Liabilities		24,839	12,205
Non-current Liabilities			
Loans and borrowings	10	17,601	-
Site restoration provision		503	500
Deferred tax liabilities		3,483	1,374
Total Non-current Liabilities		21,587	1,874
Total Liabilities		46,426	14,079
Shareholders' Equity			
Share capital	11(b)	384,837	384,837
Additional paid-in capital		44,159	44,159
Foreign currency translation reserve		(3,190)	(868)
Accumulated losses		(339,617)	(343,079)
Total Equity		86,189	85,049
Total Equity and Liabilities		132,615	99,128

APPROVED ON BEHALF OF THE DIRECTORS

Signed "*Liudmila Arutiunian*"

Signed "*Gerald Rohan*"

Liudmila Arutiunian

Gerald Rohan

The accompanying notes form an integral part of these Interim Condensed Consolidated Financial Statements.

Mangazeya Mining Ltd.**Unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss)**

(Amounts are presented in thousands of Canadian dollars except share and per share amounts)

	Notes	For the three months ended 30		For the nine months ended 30	
		September		September	
		2017	2016	2017	2016
Revenue		18,978	21,509	29,517	32,308
Cost of sales		(8,488)	(8,465)	(16,175)	(14,022)
Gross profit		10,490	13,044	13,342	18,286
Administrative expenses	12	(1,662)	(601)	(5,468)	(1,899)
Mineral and other taxes		(1,172)	(1,315)	(1,897)	(2,018)
Other operating expenses		(1,159)	(227)	(1,616)	(211)
Profit from operating activities		6,497	10,901	4,361	14,158
Other items					
Finance income		371	709	1,104	801
Finance expense		(383)	(175)	(873)	(1,628)
Foreign exchange gain		504	38	227	216
Net profit before income tax		6,989	11,473	4,819	13,547
Income tax expense		(1,601)	(2,394)	(1,357)	(3,432)
Profit for the period		5,388	9,079	3,462	10,115
Other comprehensive (loss)/income					
Foreign currency translation differences		(1,338)	2,410	(2,322)	8,589
Comprehensive income for the period		4,050	11,489	1,140	18,704
Weighted average number of shares – basic and diluted		1,288,211,149	1,288,211,149	1,288,211,149	1,100,200,112
Net earnings per share – basic & diluted		\$0.0042	\$0.0071	\$0.0027	\$0.0092

The accompanying notes form an integral part of these Interim Condensed Consolidated Financial Statements

Mangazeya Mining Ltd.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
(Amounts are presented in thousands of Canadian dollars)

	For the nine months ended 30 September	
	2017	2016
Cash flows from operating activities		
Net profit for the period	3,462	10,115
Adjustments for:		
Depreciation, depletion and amortization	1,858	1,097
Finance expense	873	1,628
Finance income	(1,104)	(801)
Gain on disposal of property, plant and equipment	5	-
Foreign exchange loss	(227)	940
Income tax expense	1,357	3,432
Cash flows received from operating activities before changes in working capital	6,224	16,411
Inventories	(5,684)	(4,195)
Accounts receivable	(2,084)	725
Trade and other payables	6,431	264
Cash flows received from operating activities before income taxes	4,887	13,205
Income tax paid	(1,046)	-
Net cash received from operating activities	3,841	13,205
Cash flows used in investing activities		
Acquisition of property, plant and equipment, exploration and evaluation assets, and intangible assets	(27,263)	(15,536)
Loans repayment from related party	6,315	7,886
Loan issued to related party	(7,581)	(8,469)
Interest received	511	-
Proceeds from sale of property, plant and equipment	27	44
Net cash used in investing activities	(27,991)	(16,075)
Cash flows from financing activities		
Proceeds from borrowings from third party	26,195	14,091
Repayment of borrowings to third party	-	(1,388)
Share issue costs	-	(30)
Interest paid	(731)	(249)
Net cash received from financing activities	25,464	12,424
Net increase in cash	1,314	9,554
Cash and cash equivalents at the beginning of the period	225	272
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	19	-
Cash and cash equivalents at the end of the period	1,558	9,826
Non-cash items		
Debt to shares conversion	11(a)	-
		201,230

The accompanying notes form an integral part of these Interim Condensed Consolidated Financial Statements.

Mangazeya Mining Ltd.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2017
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

Mangazeya Mining Ltd.
Unaudited Interim Condensed Consolidated Statement of Changes in Equity
(Amounts are presented in thousands of Canadian dollars)

	Share capital	Warrants	Additional Paid-in capital	Foreign currency translation	Accumulated deficit	Total Equity Attributed to Shareholders of the Company	Total Equity
Balance at January 1, 2016 (restated*)	183,637	4,290	39,869	(15,628)	(353,870)	(141,702)	(141,702)
<i>Comprehensive loss for the period</i>							
Gain for the period	-	-	-	-	10,115	10,115	10,115
Foreign currency translation differences	-	-	-	8,589	-	8,589	8,589
Total comprehensive income for the period	-	-	-	8,589	10,115	18,704	18,704
<i>Transactions with owners</i>							
Share issued upon conversion of loans 11(b)	201,230	-	-	-	-	201,230	201,230
Share issue costs 11 (b)	(30)	-	-	-	-	(30)	(30)
Ceased warrants 11(c)	-	(4,290)	4,290	-	-	-	-
Balance at September 30, 2016	384,837	-	44,159	(7,039)	(343,755)	78,202	78,202
Balance at January 1, 2017	384,837	-	44,159	(868)	(343,079)	85,049	85,049
<i>Comprehensive loss for the period</i>							
Gain for the period	-	-	-	-	3,462	3,462	3,462
Foreign currency translation differences	-	-	-	(2,322)	-	(2,322)	(2,322)
Balance at September 30, 2017	384,837	-	44,159	(3,190)	(339,617)	86,189	86,189

- The amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made in connection with the correction of a prior period error.

The accompanying notes form an integral part of these Interim Condensed Consolidated Financial Statements.

Mangazeya Mining Ltd.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three and nine months ended September 30, 2017**(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

1. Nature of operations and going concern

Mangazeya Mining Ltd. (the “**Company**” or “**Mangazeya Mining**”), the parent company, was incorporated in the Province of Ontario and completed its continuance from the Province of Ontario to the British Virgin Islands under the BVI Business Companies Act, 2004, as amended, effective December 10, 2010. The registered office address is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

The Company is engaged in mineral exploration, development and production with a strategic focus on mineral properties in the Russian Federation with demonstrated potential for hosting economic mineral deposits consisting primarily of gold. Substantially all of the Company’s operations and assets that support those operations are located in the Russian Federation and all of the Company’s revenues are derived from operations in the Russian Federation.

Mangazeya Mining Ltd is listed on NEX of the Toronto Stock Exchange under the symbol MGZ.H.

As at 30 September 2017 the Parent Company’s major shareholder was Mangazeya Center with a 88.7% ownership interest (as at 31 December 2016: Mangazeya Center with 88.7%). The ultimate beneficiary of the Parent Company is Mr.Sergey Yanchukov, the Chief Executive Officer.

Mangazeya Mining, through its wholly-owned Cyprus subsidiary, Diascia Investments Limited (“**Diascia**”), owns interests in five wholly-owned subsidiaries, being Mangazeya Mining LLC, Dalsvetmet LLC, Koryakmining LLC, Vostokzvetmet LLC and White Tiger Gold Management LLC (together “**Group**”). These companies are Russian limited liability companies as defined in the Civil Code of the Russian Federation. The Group holds four licenses. All licenses are “exploration and mining licenses”.

The Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

These financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. The Group has incurred gain for the nine months ended September 30, 2017 of \$3,462 thousand, and had an accumulated deficit of \$339,617 thousand and a working capital surplus of \$30,775 thousand as at September 30, 2017.

Mangazeya Mining Ltd.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three and nine months ended September 30, 2017**(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

2. Basis of presentation**(a) Statement of compliance**

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and were approved by the Board on November 23, 2017.

(b) Consolidation

The Financial Statements set out the assets, liabilities, revenues, expenses, and cash flows of the Company and its controlled subsidiaries, namely:

Subsidiary	Country of incorporation	Type of core activity	Ownership interest at	
			September 30, 2017	December 31, 2016
Diascia Investments Limited	Cyprus	Investment and financing	100%	100%
Diascia Holdings (BVI) Ltd	British Virgin Islands	Dormant	100%	100%
Mangazeya Mining LLC	Russian Federation	Mining and production	100%	100%
Dalsvetmet LLC	Russian Federation	Exploration	100%	100%
Koryakmining LLC	Russian Federation	Exploration	100%	100%
Vostokzvetmet LLC	Russian Federation	Dormant	100%	100%
Kalarsvetmet LLC	Russian Federation	Dormant	100%	100%
White Tiger Gold Management LLC	Russian Federation	Dormant	100%	100%

Intercompany transactions and balances have been eliminated.

(c) Basis of measurement

The Financial Statements have been prepared on the historical cost basis unless otherwise explained in the following notes.

(d) Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the “**Functional Currency**”). The Functional Currency of Mangazeya Mining is the Canadian dollar (“**CAD**” or \$). The Functional Currency of Diascia Investment Ltd. is the United States dollar (“**US\$**”). For all subsidiaries domiciled in Russia, the Functional Currency is the Russian Ruble (“**RUB**”).

These Financial Statements are presented in CAD. The assets and liabilities of subsidiaries with functional currencies other than CAD are translated to CAD at the closing balance sheet rate. Foreign exchange gains or losses resulting from this translation are recognized in the consolidated statement of comprehensive loss and included in the foreign currency translation reserve in shareholders' equity.

Mangazeya Mining Ltd.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three and nine months ended September 30, 2017**

(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

The Group normally uses average RUB/CAD exchange rates to translate its results for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). The principal CAD exchange rates used in the preparation of these consolidated financial statements are as follows:

Currency	Closing rate as at September 30, 2017	Average rate for 9 months ended September 30, 2017	Closing rate as at December 31, 2016	Average rate for 9 months ended September 30, 2016
RUB / CAD	46.1467	44.6455	44.9843	51.6125

(e) Critical accounting judgments, estimates and assumptions

The preparation of the Financial Statements in conformity with IFRS requires management of the Group to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the Financial Statements, and the reported revenue and expenses during the periods presented therein. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Group has identified the following critical accounting judgments in which significant estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

(i) Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to evaluate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape, depth, metal content, density and recovery of metals in the ore body/bodies or field/fields to be determined by analyzing geological data such as drilling samples. This process might require complex and difficult geological judgments to interpret the data.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves might change from period to period. Changes in reported reserves could affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying amounts, including property, plant and equipment, exploration and evaluation assets and mine properties might be affected because of changes in estimated future cash flows.
- Depreciation, depletion and amortization charged in the statement of comprehensive loss might change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

Mangazeya Mining Ltd.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three and nine months ended September 30, 2017**(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

- Overburden removal costs recorded on the statement of financial position or charged to the statement of comprehensive loss may change because of changes in stripping ratios or the units of production basis of depreciation.
- Site restoration provisions might change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying amount of deferred tax assets might change because of changes in estimates of the likely recovery of the tax benefits.

In 2013 Mangazeya Mining completed an updated reserve estimate which resulted in a significant reduction in the amount of gold expected to be mined.

The reduction in reserves occurred partially because of a decline in long-term gold prices, changes of mining and process costs, process recovery, changes of the type of ore that is expected to be mined and the inclusion of only ore that is currently within the design of the pit shell. These changes are consistent with changes made to the Group's life of mine plan.

(ii) *Exploration and evaluation expenditure*

The Group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalized for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage that permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions might change as new information becomes available. If, after having capitalized the expenditure under the policy, a judgment is made that recovery of the expenditure is unlikely, the relevant capitalized amount will be written off and recognized in profit or loss.

(iii) *Property, plant and equipment, and mine properties – recoverable amount*

In accordance with the Group's accounting policy, each asset or cash generating unit is evaluated every reporting period to determine whether there are any indication of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use. The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves (see "Reserve estimates" above), operating costs and future capital expenditure.

These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in profit or loss.

(iv) *Provision for site restoration*

The Group's accounting policy for the recognition of site restoration provisions requires significant estimates and assumptions such as requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties might result in future actual expenditure differing from the amounts currently provided.

The provision recognized is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognized in the balance sheet by adjusting both the closure and rehabilitation asset and provision.

(v) *Taxation*

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet.

Deferred tax assets, including those arising from unused tax losses, capital losses and temporary differences, are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognized unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation, including legislation related to the issuance of flow-through shares and tax legislation in the Russian Federation is relatively new and subject to frequent changes. These judgments and assumptions are subject to risk and uncertainty hence there is a possibility that changes in circumstances will alter expectations, which might impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, part or all of the carrying amount of recognized deferred tax assets and liabilities might require adjustment, resulting in a corresponding credit or charge to profit or loss.

(vi) *Work in process inventory*

The quantity of recoverable gold in process on leach pads or in circuit is estimated on the base of the expected grade and recovery of gold from the ore placed on the leach pad or entering the milling process. The nature of the leaching and milling processes inherently limits the ability to monitor inventory levels precisely. However, the estimate of recoverable gold placed on the leach pad or entered into the milling process is reconciled to actual production, and the estimates are refined based on actual results over time.

Mangazeya Mining Ltd.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2017
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

(vii) **Other provisions**

The Group has recognized a provision for certain liabilities associated with its loss of control of its interest in Century Mining Corporation (“Century”) in 2012. These provisions are management’s best estimate of expected future liabilities associated with its interest in Century based on available information. The amount payable, if any, is dependent on the outcome of the disposition of the assets of Century by Group the receiver, confirmation by the counter parties to these liabilities and assessment by the Group’s insurer with respect to certain directors’ and officers’ insurance claims submitted by the Group.

(viii) **Impairment**

The Group tests mining operations and exploration and evaluation assets for impairment at least annually as well as when there are any indications that such assets may be impaired. The recoverable amount for the cash-generating unit is determined by discounting future cash flows generated by the cash-generating unit.

An impairment loss, recognized for the assets in prior years is reversed if there has been a change in the assumptions and estimates used to determine the recoverable amount. As at September 30, 2017, management did not find indications of impairment and there are no changes in estimates and assumptions that might lead to reversal of the impairment loss recognized in the prior years.

3. Significant accounting policies

The accounting policies applied in these unaudited interim condensed consolidated financial statement are the same as those applied in the audited consolidated financial statement as at and for the year ended December 31, 2016.

4. Accounts Receivable

Receivables as at September 30, 2017 and December 31, 2016 consisted of the following:

	September 30, 2017	December 31, 2016
Short-term loans issued to related party (Note 14)	19,799	19,063
Other receivables	2,407	1,596
Total financial assets within account receivable	22,206	20,659
Advances to suppliers	1,552	473
Value-added and other taxes	3,000	2,491
Total account receivable	26,758	23,623

As at September 30, 2017, a provision for uncollectible accounts receivable of \$60 thousands (December 31, 2016 – \$579 thousands) was recognized. Short-term loans issued to related party under common control denominated in Russian Rubles and US dollars are unsecured and payable on demand.

5. Inventories

Inventories as at September 30, 2017 and December 31, 2016 comprised the following:

	September 30, 2017	December 31, 2016
Raw materials and consumables	5,080	3,984
Finished goods	1,658	169
Work in process	20,560	16,680
Total inventories	27,298	20,833

Mangazeya Mining Ltd.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2017
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

As at September 30, 2017, a provision for slow-moving raw materials of \$103 thousand (December 31, 2016 – \$105 thousand) was recognized.

6. Property, plant and equipment

	Buildings	Plant and equipment	Other	Construction in progress	Equipment under Finance Lease	Total
<i>Cost</i>						
Balance at December 31, 2016	5,372	6,507	18,785	13,620	4,444	48,728
Additions	-	-	-	24,959	-	24,959
Disposals	(159)	(114)	(175)	(4)	(36)	(488)
Transfers	1,280	1,086	876	(3,242)	-	-
Foreign currency translation	(171)	(196)	(496)	(887)	(110)	(1,860)
Balance at September 30, 2017	6,322	7,283	18,990	34,446	4,298	71,339
<i>Accumulated depreciation and accumulated impairment losses</i>						
Balance at December 31, 2016	(4,762)	(5,195)	(9,561)	(6,466)	(4,444)	(30,428)
Depreciation	(229)	(632)	(1,911)	-	-	(2,772)
Disposals	132	111	175	-	36	454
Foreign currency translation	124	148	297	-	110	679
Balance at September 30, 2017	(4,735)	(5,568)	(11,000)	(6,466)	(4,298)	(32,067)
<i>Net book value</i>						
As at December 31, 2016	610	1,312	9,224	7,154	-	18,300
As at September 30, 2017	1,587	1,715	7,990	27,980	-	39,272

For the three and nine months ended September 30, 2017, depreciation of \$745 thousand and \$1,407 thousand respectively (\$642 thousand and \$1,025 thousand for the corresponding period of 2016) is included in cost of sales.

As at September 30, 2017, depreciation directly attributable to work in process of \$1,008 thousand (\$477 thousand for the corresponding period of 2016) is included in the cost of work in process inventory.

7. Exploration and evaluation assets

Balance at December 31, 2016	29,256
Additions	2,142
Transfer to mine property	(80)
Foreign currency translation	(804)
Balance at September 30, 2017	30,514

During the three and nine months ended September 30, 2017, depreciation of property, plant and equipment directly attributable to exploration and evaluation assets of \$160 thousand and \$349 thousand respectively (\$46 thousand and \$80 thousand for the corresponding period of 2016), was included in the cost of exploration and evaluation assets.

During the three and nine months ended September 30, 2017, and the corresponding period of 2016 no borrowing costs were capitalized in the cost of exploration and evaluation assets.

Mangazeya Mining Ltd.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2017
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

8. Mine properties

Balance at December 31, 2016	18,117
Change in site restoration provision	14
Additions	212
Foreign currency translation	(464)
Balance at September 30, 2017	17,879
Accumulated depreciation at December 31, 2016	(14,300)
Depreciation	(619)
Foreign currency translation	380
Accumulated depreciation at September 30, 2017	(14,539)
Net book value at December 31, 2016	3,817
Net book value at September 30, 2017	3,340

During the three and nine months ended September 30, 2017, depreciation of \$289 thousand and \$435 thousand respectively (\$16 thousand and \$31 thousand respectively for the corresponding periods of 2016) was charged to cost of sales.

As at September 30, 2017, depreciation directly attributable to work in progress of \$184 thousand (\$1 thousand for the corresponding period of 2016) was included in the cost of gold in progress inventory.

9. Trade and other payables

Trade and other payables as at September 30, 2017 and December 31, 2016 consisted of the following:

	September 30, 2017	December 31, 2016
Trade payables	6,150	4,336
Payables to employees	542	6
Other taxes payable	554	864
Other payments and accrued expenses	1,311	488
Other accounts payable to related party (Note 14)	3,300	67
Total trade and other payables	11,857	5,761

10. Loans and borrowings

	September 30, 2017	December 31, 2016
Current liabilities		
Secured bank loan	10,175	2,598
Total current liabilities	10,175	2,598
Non-current liabilities		
Secured bank loan	17,601	-
Total loan and borrowings	27,776	2,598

As at September 30, 2017 and December 31, 2016 the carrying value of the Group's loans approximate their fair value.

- (i) On December 16, 2016 the Group entered into the agreement with Sberbank PLC on non-revolving credit line for US\$8 million with maturity December 31, 2017.
- (ii) On February 3, 2017 the Group agreed with Sberbank PLC on another non-revolving

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credit line with the limit on US\$ 10 million. The maturity is December 31, 2018. Under the loan agreement the Group entered into hedging agreement with Sberbank PLC to hedge 17,685 of gold ounces.

On March 7, 2017 the Group entered in a pledge agreement with Sberbank PLC. The pledge subject is the share of Diascia Investments Limited in the capital of Mangazeya Mining LLC, Dalsvetmet LLC, Koryakmining LLC. The validity period of the agreement and the right of pledge are valid until December 31, 2021.

On April 2017 the Group entered into the agreement with Sberbank PLC on revolving credit lines for US\$ 4 million with maturity December 31, 2019.

As at September 30, 2017 management considers that the Group was compliant with all covenants terms. Under the term of the loan agreements the Group pledged its equipment and machinery at the total cost of \$12,404 thousand.

11. Equity

(a) Authorized Common Shares

Unlimited common shares without par value.

(b) Issued and outstanding

	September 30, 2017		December 31, 2016	
	Number of shares	Amount	Number of shares	Amount
<u>Common shares</u>				
Balance at the beginning of period	1,288,211,149	384,837	483,288,895	183,637
Conversion of the debt to shares (i)	-	-	804,922,254	201,230
Transaction costs on conversion of the debt to shares	-	-	-	(30)
Balance at the end of period	1,288,211,149	384,837	1,288,211,149	384,837

- (i) On March 4, 2016, the Group completed a shares-for-debt transaction with Mangazeya Center LLC (the “**Transaction**”). The Transaction received the NEX’s approval. Pursuant to the Transaction, the Group has settled \$201,231 thousand of debt by issuing 804,922,254 Common Shares to Mangazeya Center LLC at a deemed price of \$0.25 per Common Share (the “Share Price”). The Share Price represents a 733% premium to the Group’s closing share price of \$0.03 as at February 10, 2016. The Controlling Shareholder has agreed to purchase the Common Shares to be issued as part of the Transaction (the “Shares”) at a premium in order to maintain the Group’s free float of Common Shares above 10%.

Pursuant to the transaction the ultimate beneficial owner, Mr. Sergey Yanchukov, owns approximately 88.7% (1,143,222,462 shares). The other 11.3% of shares trade on NEX of Toronto Stock Exchange under symbol MGZ.H.

(c) Warrants

As at September 30, 2017, the Group has no share purchase warrants outstanding. On March 4, 2016 as part of the Transaction all outstanding warrants expired.

(d) Earnings per share

For the nine months ended September 30, 2017 and December 31, 2016, all of the above options and warrants were anti-dilutive as their exercise prices exceeded the average market price of the

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Company's common shares.

12. Administrative expenses

Administrative expenses for the three and nine months ended September 30, 2017 and September 30, 2016 comprise the following:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Wages and salaries	35	88	253	336
Social taxes	2	18	19	71
Depreciation	4	8	9	21
Audit, accounting, advisory and legal fees	1,556	350	4,968	1,161
Lease expenses	37	32	113	86
Materials	3	25	6	38
Travel	-	-	2	3
Services, investor relations, and other expenses	25	80	98	183
Total administrative expenses	1,662	601	5,468	1,899

13. Commitments and contingencies

- The Group does not have full coverage in the Russian Federation for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's activities. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's activities and financial position.
- From time to time, the Group is involved in various litigation matters arising in the ordinary course of business. The Group accrues for such items when a liability is both probable of being incurred and a reliable estimate can be made.
- As at September 30, 2017, the Group had commitments to purchase equipment totaling \$15,500 thousand.
- Operating lease commitments

The Group's commitments at September 30, 2017 and December 31, 2016 are presented below:

	September 30, 2017	December 31, 2016
Less than one year	300	163
Between one and five years	1,160	575
Over five years	2,636	1,074
	4,096	1,812

The Group leases office premise and other premises under operating leases. The leases typically run for an initial period of one to one and a half years, with an option to renew the lease after that date. Lease commitments over one year represent lease of land.

As at September 30, 2017 lease expense of \$113 thousand (\$86 thousand for the corresponding period of 2016), was recognized in respect of operating leases.

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14. Related party transactions**(a) Management remuneration**

The key management personnel is defined as the executive management. The members of the executive management individually support the General Director of the Group in the leadership, management, coordination and control of operations and performance. The key management personnel received the following remuneration during the period, which is included in personnel costs:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Salaries and bonuses	302	127	796	318
Social contributions	76	40	216	94
Total management remuneration	378	167	1,012	412

(b) Transactions with other related parties

	Transactions for the nine months ended		Balance outstanding	
	September 30, 2017	September 30, 2016	September 30, 2017	December 31, 2016
Interest expense				
Controlling shareholder or entities related to the controlling shareholder	-	1,306	-	-
Administrative services				
Company under common control	4,912	1,147	-	-
Other operating expenses (income)				
Company under common control	91	67	-	-
Interest income				
Company under common control	325	61	-	-
Controlling shareholder or entities related to the controlling shareholder	759	598	-	-
Trade and other payables				
Company under common control	-	-	3,300	915
Controlling shareholder or entities related to the controlling shareholder	-	-	-	-
Other receivables				
Company under common control	-	-	572	185
Controlling shareholder or entities related to the controlling shareholder	-	-	1,101	868
Short-term loans issued to related party				
Company under common control	-	-	9,302	2,798
Controlling shareholder or entities related to the controlling shareholder	-	-	10,497	16,265

15. Subsequent events

Mangazeya Mining Ltd. signed gold loan agreement with VTB Bank (PJSC) to enter into senior secured term loan facility of up to 800 000 grams of fine weight (Eight Hundred Thousand grams of gold) to fund the Company's production, development and exploration activities. The

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deal was approved by the Board of Directors of the Company on October 20, 2017. The funds are to be made available in three tranches – Tranche 1 size: max US\$22 million or max 600 000 grams of gold, Tranche 2 size: max US\$8 million or max 230 000 grams of gold, Tranche 3 size: max US\$5 million or max 80 000 grams of gold.

Subject Matter of the Agreement: The Bank shall transfer the metal to the ownership of the Borrower under the terms and conditions as set forth in the Agreement, and the Borrower shall undertake to return the equal volume of metal (and, in case of the Creditor's exercising its contractual rights, the RUB equivalent of such volume of metal), to pay interest on Loan and perform other contractual obligations. Final repayment: on the date falling One Thousand Ninety Five (1,095) calendar days after the date of the Agreement. The Loan repayment in metal shall be made by the Borrower in unallocated metal of the same kind as has been provided to the Borrower by the Bank.