

## MANGAZEYA MINING LTD.

## INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS

For the three months ended March 31, 2018

Dated: May 30, 2018

*This quarterly highlights (“QH”) of the financial position and results of operations of Mangazeya Mining Ltd. (“Mangazeya Mining Ltd.” or the “Company”) should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018 as well as the annual audited consolidated financial statements for the year ended December 31, 2017 and the corresponding MD&A. Those audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Except as otherwise disclosed, all amounts in this QH are expressed in thousands of Canadian dollars (\$). Information on risks, technical and scientific information under National Instrument 43-101 concerning the Company’s mineral resources are contained in the Company’s most recent filed annual MD&A and Technical Reports.*

## FIRST QUARTER 2018 HIGHLIGHTS

	1Q 2018	1Q 2017	Change	%
<b>Operational highlights</b>				
Gold production, ounces	1,191	1,599	(408)	(26%)
Gold sales, ounces	0,952	1,354	(402)	(30%)
Ore mined, tonnes	124,683	272,804	(148,121)	(54%)
Stripping ratio, m <sup>3</sup> /t	9.04	4.93	4.11	83%
Ore stacked, tonnes	-	37,101	(37,101)	(100%)
Ore grade in ore stacked, g/t	-	1.06	(1.06)	(100%)
<b>Financial highlights</b>				
Revenue	1,718	2,383	(665)	(28%)
Adjusted EBITDA <sup>1</sup>	(4,900)	(2,313)	(2,587)	(112%)
Total cash cost per ounce (TCC), CAD <sup>1</sup>	1,507	1,032	475	46%
Average gold price, CAD <sup>2</sup>	1,676	1,636	40	2%
Cash balance	1,881	24	1,857	7,738%
Cash flow from operating activities before changes in working capital	(5,699)	(2,313)	(3,386)	(146%)
Cash flow from financing activities	13,014	21,075	(8,061)	(38%)
Cash flow from investing activities	(4,340)	(13,346)	9,006	67%

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<sup>1</sup> Throughout this QH we use additional measures of Company performance. These are non-IFRS measures. Please see page 4 for an explanation and discussion of these non-IFRS measures.

## Corporate Overview

Mangazeya Mining Ltd. 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, as approved by special resolution of the shareholders of Mangazeya Mining Ltd. at its annual and special meeting held on December 9, 2010. Mangazeya Mining Ltd., through its wholly-owned Cyprus subsidiary, Diascia Investments Limited ("**Diascia**"), owns interest in three wholly-owned subsidiaries Mangazeya Mining LLC ("**Mangazeya Mining LLC**"), Dalsvetmet LLC ("**Dalsvetmet**"), Koryakmining LLC ("**Koryakmining**"). Vostokzvetmet LLC, White Tiger Gold Management LLC and Kalarzvetmet LLC were reorganized and merged to Mangazeya Mining LLC on December 26, 2017.

Approximately 88.7% of the issued and outstanding common shares are owned by Mr. Sergey Yanchukov through Mangazeya Center LLC (1,143,222,462 shares). Other 11.3% of shares trade on NEX of the Toronto Stock Exchange under symbol MGZ.H.

With a strategic focus on the subsoil areas in the Russian Federation, the Company is engaged in exploration for precious metals on prospective areas, the development of ore and placer gold deposits, and the production of precious metals.

## Strategic Goals and Recent Developments

### *Trends, risks, demands*

The main strategy of the Company in 2017–2018 years is to prepare Nasedkino and Zolinsko-Arkiinskaya areas for production and to continue the exploration of areas at and near Savkinskoye, Nasedkino and Zolinsko-Arkiinskaya to find new resources in order to improve the Company's resource base.

### *Savkinskoye update*

During 2017 the operations of Savkinskoye were carried out in accordance with the development plan. The Company continued mining of Central and South-West parts of the deposit, and started mining of Khlebniy deposit (from February 2017). In the fourth quarter of 2017 the Company developed and sent to the state authority the project on exploration works for reserves of Savkinskoye' flanks (Filevskiy). The positive State Expertise approval was obtained with respect to the project in Q1 2018.

During Q1 2018 and Q1 2017 there were no exploration works.

### *Nasedkino update*

In August 2017, Wardell Armstrong International Ltd ("WAI") completed the Technical Report titled "NI 43-101 Compliant Mineral Resource and Ore Reserve Estimates for the Nasedkino Gold Project, Russian Federation" (the "NI 43-101 Technical Report") for Dalsvetmet. This NI 43-101 Technical Report was prepared as an integral part of the Company's evaluation of the Nasedkino development and additional exploration. This 43-101 Technical Report updates the "43-101 Technical Report for Nasedkino Project, Mogocho, Transbaikal Region, Russian Federation dated October 10, 2012 by SRK Consulting ("SRK"). The report's release with comments was filed and available on SEDAR at [www.sedar.com](http://www.sedar.com).

On October 20, 2017, the project documentation "Technical Project for Open Pit Mining at Nasedkino Deposit" was approved by the Central Committee for solid mineral deposits development.

During 2017 the Company continued preparation for the construction of a gold plant and start of mining works and has completed the water pond and stream channel. Construction of the road from Nasedkino to the nearby railway station Kislyi Klyuch is at the stage of completion. The Company has also started the construction of the field camp, completed the bridge crossing river Bolshoy Urym and finished reconstruction of the fuel storage facility and the dead end siding on the Kislyi Klyuch station. Construction of a backup power transmission line is underway.

In Q1 2018, the permit for the construction of gold recovery plant at Nasedkino gold deposit (gold recovery plant and utilities) was obtained.

During Q1 2017 and 1Q 2018 there were no exploration works.

### *Zolinsko-Arkiinskaya update*

*Ore deposit.* In the third quarter of 2017 the Company completed the feasibility report of the Kochkovskiy ore deposit. In the third quarter of 2017 the Company completed the project for assessment and exploration works on ore deposit within the license area, including the Kochkovskiy site. The Company sent to the state authority the feasibility report and the project for assessment and explorations works of the Kochkovskiy ore deposit. In the fourth quarter of 2017, the exploration work project was prepared for the Kochkovskiy ore deposit. The project received a positive opinion from the state geological expertise and included in the State Register.

In Q1 2018, the project for the pilot industrial development of oxide ores of Kochkovskoye deposit was approved by the Central Committee for solid mineral deposits development. Start of operation at Kochkovskoye deposit is scheduled for Q2 2018. In Q1 2018, the deposit was being prepared for development (construction of heap leaching site, field camp, and warehousing facilities was started). In Q1 2018, ground water exploration was conducted for the purposes of water supply for the field camp,

200 m of drilling was performed on 3 holes. Water pumping results showed that the quality and volume of the ground water were sufficient to be used as a potable and domestic water supply.

During 1Q2017 there were no exploration works.

The Savkino production team participates in the trial development of the Kochkovskoye deposit. At the first stage oxide ores will be extracted and processed. Heap leach operations are set to start in 2018 with annual processing capacity of 500 thousand tonnes. Gold-loaded carbon will be processed at Savkino. Final feasibility study based on exploration results is to be defended in 2019. Stage 2 of deposit development will include construction of Mining and Processing Plant for primary ore processing (floatation and autoclave).

*Alluvial deposit.* In the first quarter of 2017 the Company submitted a Report on exploration results on upstream of Urov river (left bank) and Urumkan river water gap (Tayna feeder), placer gold reserves estimation on Talovka and Kuvshikha locations as at April 1, 2017 to the state authority.

In Q1 2018, subcontractor agreement for the development of placer gold on Srednya river and the Mostovaya river feeder was concluded. The start of works is scheduled for Q2 2018. In Q1 2018, the Amendments to project "Development of Placer Gold on upstream of Srednya river and the Mostovaya river feeder" were started to be prepared.

During Q1 2017 and 1Q 2018 there were no exploration works.

### Overall Operating Performance Results

The following table shows production and cost information for the Savkinskoye Mine for the three months ended March 31, 2018 and March 31, 2017:

	Ore mined (t)	Ore grade in ore mined (g/t)	Ore stacked (t)	Ore grade in ore stacked (g/t)	Gold produced (oz)	Gold sold (oz)	Total cash cost per ounce of gold sold(\$/Au oz) <sup>2</sup>
Three months ended March 31, 2018	124,683	1.20	-	-	1,191	952	\$1,507
Three months ended March 31, 2017	272,804	1.21	37,101	1.06	1,599	1,354	\$1,032

#### Mining production

- In 1Q2018, total ore mined decreased from 273kt in 1Q2017 to 125kt or by 54.3%. The decrease in ore production was caused by the impossibility to produce ore at the bottom level of Yugo-Zapadny pit due to high water inflow and the high degree of water content, as well as the organization of the additional measures for water removal on mining horizons.
- The average grade in ore mined was 1.20 g/t, a decrease of 0.3% in 1Q2018 compared to 1Q2017.
- In 1Q 2018, the average stripping ratio was 9.04 m<sup>3</sup>/t as compared to 4.93 m<sup>3</sup>/t in 1Q2017, an increase 83.3% increase compared to 1Q2017. The stripping ratio growth has been caused by the increased volume of stripping works aimed at opening and development of ore fields in Q2-Q3, 2018.

#### Processing

- In Q1 2018 there was no ore stacked. In the winter period of 1Q2017, there was the experimental placing of ore without pelletizing.
- Gold production was 1.2 koz in 1Q 2018, a decrease of 26% compared to 1Q2017. The change has been caused by the decrease in the volume of leaching solutions resulting from the changes in the technological process during the period.

#### Total Cash cost of production (TCC)<sup>1</sup>

- TCC for Q1 2018 (\$1,507 per ounce) increased by 46% as compared to TCC for Q1 2017 (\$1,032 per ounce) as a result of a decrease in gold production and in gold sales as well as growth in expenses for fuels, wages and salaries, contractors' services, general expenses and other expenses included into COGS.

<sup>2</sup> The Company has included a non-IFRS performance measure, total cash cost per ounce of gold, in this MD&A. In the gold mining industry, this is a common performance measure but does not have any standardized meaning. The Company believes that, in addition to conventional measures, prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. A reconciliation of cash cost to the applicable IFRS measure is shown below.

**Financial results**

The following table presents the results from continuing operations for the three months ended March 31, 2018 and the corresponding period of 2017.

	Three months ended March 31,	
	2018	2017
Revenue	1,718	2,383
Cost of sales	(1,731)	(1,469)
Gross profit	(13)	914
Administrative expenses	(3,713)	(1,926)
Loss from operations	(5,286)	(1,313)
Adjusted EBITDA <sup>1</sup>	(4,900)	(2,313)
Loss per share from continuing operations	\$ (0.004)	\$ (0.001)

- For 1Q2018, revenue decreased by 28% compared to 1Q2017, the Company sold 952 ounces of gold and 5,763 ounces of silver (1Q2017: 1,354 ounces of gold and 7,504 ounces of silver).
- The average gold price increased from \$1,636 per ounce in 1Q2017 to \$1,676 in Q1 2018 or by 2% (from US\$1,236 to US\$1,325 per ounce or by 7%). Silver is a by-product and the Company sold silver occasionally.
- Gross profit decreased by 101% in 1Q 2018 due to decrease of revenue and increase in TCC. The gross profit margin decreased from 38% in 1Q 2017 to (1%) in Q1 2018.
- Administrative expenses during 1Q2018 increased by 93% compared to 1Q2017 due to active construction and exploration works in Nasedkino and Zolinsko-Arkiinskaya areas and resulting increase in management service fees.
- As a result the Company increased the negative adjusted EBITDA in Q1 2018 (\$4,900k) comparing with the negative adjusted EBITDA in Q1 2017 (\$2,313k).

**Cash Cost per Ounce Reconciliation for Savkinskoye Mine**

	Three months ended March 31,	
	2018	2017
Cost of Sales	1,731	1,469
Less: Depreciation and Amortization included in cost of sales	(296)	(72)
Cost of sales less Depreciation and Amortization	1,435	1,397
Gold sold (oz)	952	1,354
<b>Total Cash Cost per ounce of gold sold</b>	<b>\$1,507</b>	<b>\$1,032</b>

**Adjusted EBITDA**

EBITDA represents net loss from continuing operation before: (1) interest income (expense) net, (2) income tax provision, (3) depreciation and depletion, and (4) amortization. Adjusted EBITDA represents EBITDA as further adjusted for non-cash impairment and foreign exchange loss. The management believes that foreign exchange loss is primarily connected to loans received from related party and should be excluded from EBITDA calculation in the same way as interest expenses.

	Three months ended March 31,	
	2018	2017
Net loss (continuing operations)	(5,286)	(1,313)
Interest expense, net	441	(159)
Income tax recovery	(448)	(29)
Depreciation, depletion and amortization	297	76
Foreign exchange gain/(loss)	96	(888)
<b>Adjusted EBITDA</b>	<b>(4,900)</b>	<b>(2,313)</b>

**Summary of Quarterly Results (prepared in accordance with IFRS)**

The Company's quarterly results are affected by, among other things, the severe climatic variations in Eastern Russia. Higher revenues and operating profits are generally expected during the second half of the year than during the first half of the year

because of the seasonal nature of operations. This variation is reflected in the results shown in the table below for the quarters ending June 30, 2016 to March 31, 2018.

	2018	2017				2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Gold production (oz)</b>	1,191	5,474	10,486	6,758	1,599	6,138	13,135	6,260
<b>Gold sales (oz)</b>	952	6,511	11,405	4,841	1,354	8,139	12,780	5,475
<b>Revenue</b>	1,718	10,729	18,978	8,156	2,383	13,130	21,509	8,773
<b>Gross Profit</b>	(13)	(49)	10,490	1,938	914	1,774	13,044	4,346
<b>Net income (loss)</b>	(5,286)	(6,979)	5,388	(613)	(1,313)	676	9,079	1,938
<b>Earnings (loss) per share (Basic and Diluted)</b>	(0.0041)	0.0054	0.0042	(0.0005)	(0.001)	(0.001)	0.0071	0.0015
<b>Cash provided by (used in) continuing operating activities</b>	(10,545)	(3,262)	12,479	(580)	(8,058)	4,942	14,760	2,702

### Financial condition and liquidity

	Three months ended March 31,	
	2018	2017
Net cash (used in) provided by operating activities before working capital	(5,699)	(2,313)
Net cash (used in) provided by operating activities after working capital	(10,545)	(8,058)
Net cash (used in) provided by investing activities	(4,340)	(13,346)
Net cash (used in) provided by financing activities	13,014	21,075
Loans and borrowings		
- Short-term	13,514	10,654
- Long-term	38,933	13,316
Cash and cash equivalents	1,881	24
Working capital	16,481	35,316

#### (a) Cash flow and capital resources

##### Working capital

The working capital increased by 37% or \$4,473k as at March 31, 2018 compared to December 31, 2017 as a result of increase of total current assets by 22% in accounts receivables by 86% and inventories by 22%.

Main changes in cash flow are:

##### Operating activities

- The negative effect from loss in operations during 1Q2018 resulted in the cash outflow from operating activities before changes in working capital;

##### Investing activities

- The Company invested \$5,821k in 1Q2018 compared to \$11,639k in 1Q2017.

For Q1 2018 year the Company invested \$5,821k: PPE - \$2,115k (Savkinskoye - \$478 k mainly to advances for PPE and CIP; Nasedkino: mainly to CIP- \$112k; Zolinsko-Arkiinskaya area - \$1,525k mainly to CIP); MA - \$1,845k on Savkinskoye; EEA - \$1,861k (Nasedkino - \$363k and Zolinsko-Arkiinskaya area - \$1,498k).

For Q1 2017 year the Company invested \$11,639k: PPE - \$11,284k (Savkinskoye - \$320k mainly on production equipment, transport other capital expenditures; Nasedkino: mainly on capital investments -

\$4,436k, advances for PPE - \$6,313k and others \$215k), MA - \$112k on alluvial deposit of Zolinsko-Arkiinskaya area, EEA - \$238k (Nasedkino - \$76k and Zolinsko-Arkiinskaya area - \$162k) and IA - \$5k for different licenses.

- During Q1 2018 proceeds from sale of property, plant and equipment was \$1,481k resulted in cash inflow from investing activities, in Q1 2017 proceeds from sale of property, plant and equipment was \$57k ;

#### **Financing activities**

- During Q1 2018 the Company received \$13,024k loan under the loan agreement with VTB Bank (PJSC), the Company didn't pay interest in Q1 2018. During Q1 2017 the Company received \$21,222k loan under the loan agreement with Sberbank and paid interest of \$147.

#### **Going concern**

These Financial statements have been prepared on a going concern basis, which assumes that the Company 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 Company has incurred losses for the three months ended March 31, 2018 of \$5,286k, and had accumulated losses of \$351,882k and a working capital surplus of \$16,481k as at March 31, 2018.

#### **Commitments**

As at March 31, 2018, the Company had commitments to purchase equipment totaling \$8,554k.

#### **(b) Financial position**

As at March 31, 2018 Current assets increased by \$8,857k or 22% compared to December 31, 2017. The change of total current assets resulted in increase of accounts receivable by 86% or \$5,322k and inventories by 22% or \$5,324k. (Mainly due to increase in gold in circuitry 26% and finished goods by 509%).

As at March 31, 2018 Non-current assets increased by \$7,170k or 8% compared to December 31, 2017 mainly due to additions of PPE, MA and EEA described above.

As at March 31, 2018 Current liabilities increased by \$4,384k or 16% compared to December 31, 2017 as a result of significant changes in trade and other payables by \$3,777k or 31%. As at 31 March 2018 Non-current liabilities increased by \$14,258k or 54% compared to December 31, 2017 due to long-term debt under the loan agreement with VTB bank (PJSC).

#### **Related Party Transactions**

It is the policy of the Company to conduct all transactions and settle balances with related parties on market terms and conditions in the normal course of business. You can find all of the Company's related party transactions in Note 16 of the consolidated financial statements for the period ended March 31, 2018.

#### **Critical Accounting Estimates**

The preparation of the Financial Statements in conformity with IFRS requires management of the Company 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 might differ from these estimates under different assumptions and conditions.

A detailed summary of critical accounting estimated is included in Note 2(e) of the Company's interim condensed consolidated financial statement for the period ended March 31, 2018.

### **Significant Accounting Policies**

The accounting policies applied in these unaudited interim condensed consolidated financial statement are the same as those applied in the consolidated financial statement as at and for the year ended 31 December 2017.

### **Internal Controls**

No changes were made to the Company's internal control over financial reporting during the period beginning on January 1, 2018 and ending on March 31, 2018 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

### **Off Balance Sheet Arrangements**

The Company does not enter into off-balance sheet arrangements in the normal course of its business and there were none at the date of this MD&A.

### **Qualified person**

Mr. Alexander Lazarev, a member of the Australian Institute of Geoscientists who through education, training and experience is qualified to be the Company's independent "qualified person" ("QP") as defined in National Instrument 43-101 ("NI 43-101"), has reviewed, verified and approved the technical information included in this QH.

### **Cautionary Statement on Forward Looking Information**

The following MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws (collectively, "forward-looking statements") relating, but not limited to, Mangazeya Mining Ltd. expectations, intentions and beliefs (including, without limitation, statements regarding Mangazeya Mining Ltd.'s mines, projects and license areas, exploration and development plans (including the projected cost and timing thereof) and potential, anticipated ore and gold production, exploration results, future plans and objectives of Mangazeya Mining Ltd., the Loan transactions (as defined herein), including the proposed terms thereof and potential financing initiatives. Words such as "might", "will", "should", "anticipate", "plan", "expect", "believe", "estimate" and similar terminology are used to identify forward-looking statements. Such statements are based on assumptions, estimates, opinions and analysis made by management of Mangazeya Mining Ltd. in light of its experience, current conditions and its expectations of future developments as well as other factors which they believe to be reasonable and relevant. No assurance can be given as to whether these assumptions will prove to be correct. These assumptions should be considered carefully by investors. Investors are cautioned not to place undue reliance on the forward-looking information and statements or the assumptions on which the Company's forward-looking information and statements are based.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that might cause actual results to differ materially from those expressed or implied in the forward-looking statements. Risks and uncertainties that might cause actual results to vary include but are not limited to: changes in equity and debt markets; inflation; uncertainties relating to the availability and costs of financing needed to complete exploration, development and production activities; failure to establish estimated mineral resources or mineral reserves (Mangazeya Mining Ltd. mineral resource and mineral reserve figures are estimates and no assurances can be given that the indicated levels of gold will be produced); failure to complete potential financing initiatives; failure to obtain any regulatory and/or shareholder approvals required to complete any financing initiatives; the ability to demonstrate compliance with NEX listing requirements exploration costs varying significantly from estimates; delays in the exploration and development of, and/or commercial production from, the properties in which Mangazeya Mining Ltd. has an interest; unexpected geological or hydrological conditions; the speculative nature of mineral exploration and development, including the uncertainty of reserve and resource estimates; operational and technical difficulties, including the failure of major mining and/or milling equipment; the availability of suitable financing alternatives to Mangazeya Mining Ltd.; the ability of Mangazeya Mining Ltd. to service its existing debt facilities; fluctuations in gold and other commodity prices; the existence of undetected or unregistered interests or claims, whether in contract or in tort, over the property of Mangazeya Mining Ltd.; success of future exploration and development initiatives; competition; operating performance of facilities; environmental and safety risks, including increased regulatory burdens, seismic activity, weather and other natural phenomena; inability to, or delays in, obtaining necessary permits and approvals from government authorities; risks relating to labor; and other exploration, development and operating risks; changes to and compliance with applicable laws and regulations, including environmental laws; political, economic and other risks arising from Mangazeya Mining Ltd. activities in Russia; fluctuations in foreign exchange rates; as well as other risks. Should one or more of these risks and

uncertainties materialize, or should underlying assumptions prove incorrect, actual results might vary materially from those described in forward-looking statements.

Any forward-looking statement speaks only as at the date on which it is made and, except as might be required by applicable laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements because of the inherent uncertainty therein.