

Mangazeya Mining Ltd.

Interim Condensed Consolidated Financial Statements

September 30, 2019

(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 at the date of 30 September 2019 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 at 30 September 2019 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, 2019

(signed)
Sergey Yanchukov
Chief Executive Officer

(signed)
Roman Kashuba
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, 2019	December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		7,445	2,291
Trade and other receivables	4	20,961	15,806
Loans issued	5	19,287	-
Inventories	6	44,691	31,775
Financial Instruments	11(b)	-	156
Total Current Assets		92,384	50,028
Non-current Assets			
Property, plant and equipment	7	134,699	65,449
Exploration and evaluation assets	8	31,424	29,196
Mine properties	9	2,376	5,850
Loans issued	5	348	18,991
Deferred tax assets		6,500	4,957
Derivative financial Instruments	11(b)	-	14
Total Non-current assets		175,707	124,457
Total Assets		268,091	174,485
Liabilities and Shareholders' equity			
Current Liabilities			
Trade and other payables	10	19,348	17,620
Current income tax liabilities		83	90
Provisions		2,500	2,500
Obligation under finance lease		714	440
Financial liabilities		3,059	-
Loans and borrowings	11(a)	12,782	20,832
Total Current Liabilities		38,486	41,482
Non-current Liabilities			
Loans and borrowings	11(a)	172,171	74,339
Site restoration provision		1,232	1,133
Obligation under finance lease		2,264	1,961
Deferred tax liabilities		4,836	1,536
Total Non-current Liabilities		180,503	78,969
Total Liabilities		218,989	120,451
Shareholders' Equity			
Share capital	12(b)	384,837	384,837
Additional paid-in capital		44,210	44,159
Foreign currency translation reserve		(7,656)	(9,827)
Accumulated losses		(372,289)	(365,135)
Total Equity		49,102	54,034
Total Equity and Liabilities		268,091	174,485

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 September		For the nine months ended 30 September	
		2019	2018	2019	2018
Revenue		32,191	13,906	42,782	20,215
Cost of sales		(14,956)	(8,382)	(22,815)	(13,525)
Gross profit		17,235	5,524	19,967	6,690
Administrative expenses	13	(3,479)	(2,722)	(10,544)	(8,856)
Mineral and other taxes		(1,450)	(913)	(1,966)	(1,444)
Other operating (expenses)/income		187	235	532	(2,043)
(Loss) /Profit from operating activities		12,493	2,124	7,989	(5,653)
Other items					
Finance income		536	889	1,376	2,247
Finance expense		(13,065)	(510)	(18,706)	(2,047)
Foreign exchange (loss)/gain		(1,326)	(808)	4,717	(730)
Net (loss)/ profit before income tax		(1,987)	1,695	(5,249)	(6,183)
Income tax recovery/ (expense)		(1,775)	(436)	(1,905)	(415)
(Loss)/ Profit for the period		(3,762)	1,259	(7,154)	(6,598)
Other comprehensive (loss)/income					
Foreign currency translation differences		(743)	(4,338)	2,171	(7,106)
Comprehensive (loss)/income for the period		(4,505)	(3,079)	(4,983)	(13,704)
Weighted average number of shares – basic and diluted		1,288,211,149	1,288,211,149	1,288,211,149	1,288,211,149
Total net loss per share – basic & diluted		(\$0.0000029)	\$0.00098	(\$0.0000056)	(\$0.00512)

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

	2019	2018
Cash flows from operating activities		
Net loss for the period	(7,154)	(6,598)
Adjustments for:		
Depreciation, depletion and amortization	2,405	2,253
Finance expense	5,434	2,047
Finance income	(1,376)	(2,247)
Non-cash payments on loan in gold	(44,088)	-
Loss due to difference in gold price on loan payment in gold	12,447	-
Gain on disposal of property, plant and equipment	17	(2,176)
Foreign exchange (gain)/ loss	(35,774)	296
Income tax recovery	1,904	415
Cash flows used in operating activities before changes in working capital	(66,185)	(6,010)
Inventories	(10,242)	(17,263)
Trade and other receivables	(5,155)	(6,597)
Trade and other payables	1,728	5,563
Cash flows used in operating activities before income taxes	(79,854)	(24,307)
Interest paid	(5,582)	(2,730)
Income tax paid	-	(734)
Net cash used in operating activities	(85,436)	(27,771)
Cash flows used in investing activities		
Acquisition of property, plant and equipment, exploration and evaluation assets, mining assets and intangible assets	(40,823)	(18,023)
Loan issued to related party	-	(526)
Proceeds from sale of property, plant and equipment	-	4,602
Net cash used in investing activities	(40,823)	(13,947)
Cash flows from/ (used in) financing activities		
Proceeds from borrowings from third party	123,112	49,685
Proceeds from borrowings from related parties	9,311	9,694
Repayment of lease	(267)	-
Repayment of borrowings to third party	-	(12,511)
Repayment of borrowings to related parties	-	(6,645)
Net cash received from financing activities	132,156	40,223
Net (decrease)/ increase in cash	5,897	(1,495)
Cash and cash equivalents at the beginning of the period	2,291	3,850
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	(743)	(832)
Cash and cash equivalents at the end of the period	7,445	1,523

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

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

	Share capital	Additional Paid-in capital	Foreign currency translation	Accumulated deficit	Total Equity
Balance at January 1, 2018	384,837	44,159	(2,706)	(346,596)	79,694
<i>Comprehensive loss for the period</i>					
Loss for the period	-	-	-	(6,598)	(6,598)
Foreign currency translation differences	-	-	(7,106)	-	(7,106)
Balance at September 30, 2018	384,837	44,159	(9,812)	(353,194)	65,990
Balance at January 1, 2019	384,837	44,159	(9,827)	(365,135)	54,034
Investments from related parties	-	51	-	-	51
<i>Comprehensive loss for the period</i>					
Loss for the period	-	-	-	(7,154)	(7,154)
Foreign currency translation differences	-	-	2,171	-	2,171
Balance at September 30, 2019	384,837	44,210	(7,656)	(372,289)	49,102

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, 2019**

(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. 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 September 30, 2019 the Parent Company’s major shareholder was Mangazeya Center LLC (“**Mangazeya Center**”) with a 88.7% ownership interest (as at December 31, 2018: 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 three wholly-owned subsidiaries, being Mangazeya Mining LLC, Dalsvetmet LLC, Koryakmining 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”. As at December 26, 2017, three of its wholly-owned subsidiaries, Vostokzvetmet LLC, White Tiger Gold Management LLC and Kalarzvetmet LLC were reorganized and merged to Mangazeya Mining LLC.

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. Management monitors the current financial results and strongly believes that the Company will achieve its ongoing business objectives. The Company has incurred losses for the nine months ended September 30, 2019 of \$7,154 thousand, and had accumulated losses of \$372,289 thousand and a working capital surplus of \$53,898 thousand as at September 30, 2019.

Mangazeya Mining Ltd.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three and nine months ended September 30, 2019**(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 29, 2019.

(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, 2019	December 31, 2018
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	Mining and production	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.

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, 2019	Average rate for 9 months ended September 30, 2019	Closing rate as at December 31, 2018	Average rate for 9 months ended September 30, 2018
RUB / CAD	49.0196	48.9239	51.0465	47.7822

(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.
- 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.

(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

Mangazeya Mining Ltd.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three and nine months ended September 30, 2019**

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

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 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, loan repayment, 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, 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.

Mangazeya Mining Ltd.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three and nine months ended September 30, 2019**

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

(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.

(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, 2019, 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 31 December 2018 except the accounting treatment of lease agreements (IFRS 16) and of expenses on intragroup Operational agreement (please see disclosure 12).

4. Trade and other receivables

Receivables as at September 30, 2019 and December 31, 2018 consisted of the following:

	September 30, 2019	December 31, 2018
Receivables from related parties (Note 15(b))	5,915	5,343
Advances to suppliers	1,719	4,175
Value-added and sales tax recoverable	11,935	5,750
Other receivables	1,392	538
Total account receivable	20,961	15,806

As at September 30, 2019, a provision for uncollectible accounts receivable of \$459 thousands (December 31, 2018 – \$627 thousands) was recognized.

Mangazeya Mining Ltd.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2019
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

5. Loans issued

	September 30, 2019	December 31, 2018
Short-term loans issued to related parties (Note 15(b))	19,287	-
Long-term loans issued to related parties (Note 15(b))	348	18,991
	19,635	18,991

6. Inventories

Inventories as at September 30, 2019 and December 31, 2018 comprised the following:

	September 30, 2019	December 31, 2018
Raw materials and consumables	6,665	5,374
Work in process	27,649	26,185
Finished goods	2,772	216
Total inventories	37,086	31,775

As at September 30, 2019, a provision for slow-moving raw materials of \$93 thousand (December 31, 2018 – \$86 thousand) was recognized.

7. Property, plant and equipment

<i>Cost</i>	Buildings	Plant and equipment	Other	Construction in progress	Lease agreements	Total
Balance at December 31, 2018	13,708	12,448	15,458	57,819	3,088	102,521
Additions	95	-	-	50,968	814	51,877
Disposals	(2,046)	(57)	1,408	(10,174)	-	(10,869)
Transfers	3,128	879	104	(4,111)	-	-
Foreign currency translation	368	86	651	29,524	125	30,751
Balance at September 30, 2019	15,250	13,356	17,621	124,026	4,027	174,280
<i>Accumulated depreciation</i>						
Balance at December 31, 2018	(5,155)	(10,658)	(14,433)	(6,466)	(360)	(37,072)
Depreciation	(1,059)	(253)	(245)	-	(592)	(2,149)
Disposals	911	116	(464)	-	-	563
Foreign currency translation	(174)	(149)	(586)	-	(14)	(923)
Balance at September 30, 2019	(5,477)	(10,944)	(15,728)	(6,466)	(966)	(39,581)
<i>Net book value</i>						
As at December 31, 2018	8,553	1,790	1,025	51,353	2,728	65,449
As at September 30, 2019	9,773	2,412	1,893	117,560	3,061	134,699

For the three and nine months ended September 30, 2019, depreciation of \$ 592 thousand and \$756 thousand respectively (\$1,192 thousand and \$1,970 thousand for the corresponding periods of 2018) is included in cost of sales.

As at September 30, 2019, depreciation directly attributable to work in process of \$43 thousand (\$2,584 thousand for the nine months of 2018) is included in the cost of work in process of inventory.

As at September 30, 2019, depreciation directly attributable to construction in progress is \$785 thousand (\$922 thousand for the corresponding period of 2018) is capitalized in property, plant and equipment.

Mangazeya Mining Ltd.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2019
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

8. Exploration and evaluation assets

Balance at December 31, 2018	29,196
Additions	1,022
Transfer to mine property	-
Foreign currency translation	1,206
Balance at September 30, 2019	31,424

During the three and nine months ended September 30, 2019, there was no depreciation of property, plant and equipment directly attributable to exploration and evaluation assets.

9. Mine properties

Balance at December 31, 2018	22,470
Change in site restoration provision	(20)
Foreign currency translation	930
Balance at September 30, 2019	23,380
Accumulated depreciation at December 31, 2018	(16,620)
Depreciation	(3,343)
Foreign currency translation	(681)
Accumulated depreciation at September 30, 2019	(20,644)
Net book value at December 31, 2018	5,850
Net book value at September 30, 2019	2,736

During the three and nine months ended September 30, 2019, depreciation of \$1,446 thousand and \$1,646 thousand respectively (\$130 thousand and \$266 thousand respectively for the corresponding periods of 2018) was charged to cost of sales.

As at September 30, 2019, depreciation directly attributable to work in progress of \$1,697 thousand (\$273 thousand for the corresponding period of 2018) was included in the cost of production in progress inventory.

10. Trade and other payables

Trade and other payables as at September 30, 2019 and December 31, 2018 consisted of the following:

	September 30, 2019	December 31, 2018
Trade payables	7,912	11,509
Payables to employees	712	262
Other accounts payable to related party (Note 15(b))	8,163	3,638
Taxes other than income tax payable	1,426	1,420
Other payments and accrued expenses	1,135	791
Total trade and other payables	19,348	17,620

Mangazeya Mining Ltd.
Notes to Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2019
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

11. Loans and borrowings

(a) Loans and borrowings

	September 30, 2019	December 31, 2018
Current liabilities		
Unsecured loan from related parties (Note 15(b))	12,716	3,539
Secured bank loan	66	17,293
Total current liabilities	12,782	20,832
Non-current liabilities		
Secured bank loan	172,033	74,339
Unsecured loan from related parties (Note 15(b))	138	-
Total loan and borrowings	172,171	95,171

As at September 30, 2019 and December 31, 2018 the carrying value of the Group's loans approximate their fair value.

On October 23, 2017 Mangazeya Mining LLC. 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 deal was approved by the Board of Directors of the Company on October 20, 2017. The funds were 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.

The Bank transferred the metal to the ownership of the Borrower under the terms and conditions as set forth in the Agreement, and the Borrower undertook 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 was planned to be made on the date falling One Thousand Ninety Five (1,095) calendar days after the date of the Agreement. The Loan repayment in metal was to be made by the Borrower in unallocated metal of the same kind as has been provided to the Borrower by the Bank.

On February 5, 2018 Mangazeya Mining LLC signed additional agreement to gold loan with VTB Bank (PJSC). The funds were made available in Tranche 4 size: max RUB 910 million or max 400,000 grams of gold.

In August 2019 the gold loan of VTB Bank (PJSC) was fully repaid by Mangazeya Mining LLC and a new agreement for the same amount of liability was signed between Koryakmining LLC and the bank with the planned repayment date in December, 2021.

On July 20, 2018 Dalsvetmet LLC signed a senior secured term loan facility of up to US\$ 118.5 million with VTB Bank (PJSC) to fund the remaining capital expenditures of the Nasedkino project. The loan has an effective tenor of 7 years, with the repayment starting in March 2020. The Borrower's obligations under Facility Agreement were to be secured by the pledge of shares in the Russian companies owned by Mangazeya Mining Ltd and guarantees of such companies.

Under the term of the loan agreements the Group pledged the 100% shares of Diascia Investments Limited, Mangazeya Mining LLC, Dalsvetmet LLC, and Koryakmining LLC. As at September 30, 2018 management considers that the Group was compliant with all covenants terms.

As at September 30, 2019, the Loans received from related parties were \$3,519 thousand from Mangazeya Zoloto LLC, and \$9,197 thousand from Mangazeya Development LLC as well as \$138 thousand from Mangazeya Centr LLC.

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(b) Derivative financial instruments

On 20 October 2017, the Group entered into an option and forward transaction with a barrier condition with VTB Bank (PJSC) in connection with raising a gold loan agreement with VTB Bank (PJSC).

Under the loan agreement the Group entered into two hedging agreements with VTB Bank (PJSC) to hedge 13,389 ounces of gold by forward agreement and 13,389 ounces of gold by put and call option agreement. The operations under the hedging agreements with VTB Bank (PJSC) started in 2018 year. This instrument economically hedges the risks of gold price fluctuations. The Group has no policy regarding hedge accounting. There was no financial asset recognized as of September 30, 2019 (the fair value of financial asset recognized as of December 31, 2018 was \$170 thousand).

Option and forward transaction are recognized as financial instruments carried at fair value and revalued at each reporting date with changes recognized as financial expenses within profit and loss in accordance with IFRS requirements. The DCF and Black-Scholes models are applied to determine the fair value using the market data such as forward rates for the respective periods sell and buy amounts, and implied volatility.

On 11 October 2018, the Group entered into a hedge agreement with VTB (PJSC) in connection with Facility agreement with VTB Bank. The fair value of the financial liability on this agreement as at 30 September 2019 was \$1,452 thousand.

12. Previous periods adjustment of expenses on intragroup Operational agreement

In 2nd quarter 2018 the Group launched services on Operational agreement between Mangazeya Mining LLC (Services provider) and Koryakmining LLC (Customer) according to which the Service provider renders mining and mining facilities construction services to the Customer. Mining services include ore preparation, ore mining, hydrometallurgic services and heap leaching. Previously expenses on these services were accounted for on the Group level as other operating expenses in the period in which they incurred while intragroup revenue was eliminated.

Since mining services rendered by Mangazeya Mining LLC relate to gold production they are now reclassified as cost of sales. The part of expenses that relates to the product that was not sold during the period is accounted for as work in progress or inventory.

The management of the Group believes that this change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position and financial performance.

The following tables summarise the effect of the adjustment on the financial statements of the Group.

(a) Consolidated Statements of Financial Position

31 December 2018	Impact of adjustment		
	As previously reported	Adjustment	As restated
Inventories	24,170	7,605	31,775
Total assets	24,170	7,605	31,775
Accumulated losses	(372,740)	7,605	(365,135)
Total equity	(372,740)	7,605	(365,135)

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(b) Consolidated Statements of Comprehensive Income (Loss)

For the three months ended 30 September 2018	Impact of adjustment		
	As previously reported	Adjustment	As restated
Cost of sales	(5,970)	(2,412)	(8,382)
Other operating expenses	(5,811)	6,046	235
Foreign exchange (loss)/gain	(462)	(346)	(808)
(Loss)/ Profit for the period	(2,029)	3,288	1,259
Comprehensive (loss)/income for the period	(6,367)	3,288	(3,079)
Weighted average number of shares – basic and diluted	1,288,211,149	1,288,211,149	1,288,211,149
Total net loss per share – basic & diluted	\$(0.00158)	\$0.00255	\$0.00098

For the nine months ended 30 September 2018	Impact of adjustment		
	As previously reported	Adjustment	As restated
Cost of sales	(11,113)	(2,412)	(13,525)
Other operating expenses	(12,190)	10,147	(2,043)
Foreign exchange (loss)/gain	(296)	(434)	(730)
(Loss)/ Profit for the period	(13,899)	7,301	(6,598)
Comprehensive (loss)/income for the period	(21,005)	7,301	(13,704)
Weighted average number of shares – basic and diluted	1,288,211,149	1,288,211,149	1,288,211,149
Total net loss per share – basic & diluted	\$(0.01079)	\$0.00567	\$(0.00512)

(c) Consolidated Statements of Cash Flows

For the nine months ended 30 September 2018	Impact of adjustment		
	As previously reported	Adjustment	As restated
Net loss for the period	(13,899)	7,301	(6,598)
Cash flows used in operating activities before changes in working capital	(13,311)	7,301	(6,010)
Inventories	(9,962)	(7,301)	(17,263)
Cash flows used in operating activities before income taxes	(24,307)	-	(24,307)

(d) Consolidated Statements of changes in equity

For the nine months ended 30 September 2018	Impact of adjustment		
	As previously reported	Adjustment	As restated
Net loss for the period	(13,899)	7,301	(6,598)
Net loss as of 30 September 2018	(360,495)	7,301	(353,194)
Total equity as of 30 September 2018	58,689	7,301	65,990

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13. Equity

(a) **Authorized Common Shares**

Unlimited common shares without par value.

(b) **Issued and outstanding**

	September 30, 2019		December 31, 2018	
	Number of shares	Amount	Number of shares	Amount
Balance at the beginning of period	1,288,211,149	384,837	1,288,211,149	384,837
Conversion of the debt to shares	-	-	-	-
Balance at the end of period	1,288,211,149	384,837	1,288,211,149	384,837

(c) **Earnings per share**

For the nine months ended September 30, 2019 and December 31, 2018, all of the above options and warrants were anti-dilutive as their exercise prices exceeded the average market price of the Company's common shares.

14. Administrative expenses

Administrative expenses for the three and nine months ended September 30, 2019 and September 30, 2018 comprise the following:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Management services from related party (Note 15(b))	3,347	2,205	10,087	8,118
Services, investor relations, and other expenses	102	430	312	475
Audit, accounting, advisory and legal fees	22	21	131	50
Wages and salaries	8	32	13	98
Social taxes	-	1	1	4
Depreciation	-	2	-	5
Expenses on lease	-	30	-	102
Materials	-	1	-	4
Total administrative expenses	3,479	2,722	10,544	8,856

15. 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. The Group is currently defending a claim by a contractor for breach of a repayment schedule related to services performed. At this time, the outcome of the litigation cannot be predicted with any certainty. In the opinion of management, other than this claim, there are no other matters which might have an adverse effect on the financial statements of the Group.

(a) **Capital commitments**

As at September 30, 2019, the Group had commitments to purchase equipment totaling \$9,611 thousand.

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(b) Obligation under lease agreements

IFRS 16, "Leases" (issued on January 13, 2016 and effective for annual periods beginning on or after January 1, 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carry forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group adopted IFRS 16 in its financial statements for the period beginning from January 1, 2019.

The standard regulates the recognition of assets and liabilities under all lease agreements in order to reflect the corresponding rights and obligations in the statement of financial position of the lessees. The standard provides new conditions for the definition and presentation of leases, disclosures in the consolidated financial statements, and for sale and leaseback transactions.

The Group decided to use a modified retrospective method for the transition. In accordance with this method, the Group did not recalculate comparative information for the previous reporting period. This approach is applied consistently to all lease agreements.

In the transition to IFRS 16, the Group applied the following practical simplifications:

- exemption from the requirement to revise the classification of lease agreements existing on January 1, 2019 for compliance with the criteria of the new standard;
- application of a single discount rate to a portfolio of lease agreements with similar characteristics;
- allowing the exclusion of initial direct costs from the valuation of an asset in the form of a right of use at the date of first use;
- applying past experience in determining lease terms when there is a right to extend or terminate lease agreements.

In accordance with current estimates, right-of-use assets are amortized over the following terms:

Forest and land	11 years
Equipment	4 years
Other	3 years

As of January 1, 2019, the Group's weighted average borrowing rate, applied for the purpose of discounting obligations under lease agreements, was 17.2%.

Below is a reconciliation between the operating lease obligations disclosed in accordance with IAS 17 as of December 31, 2018, discounted at weighted average rate and the lease obligations recognized in accordance with the requirements of IFRS 16:

Balance at December 31, 2018

Operating lease liability as of January 1, 2019, discounted at a rate of 11,6%	4,312
Operating lease liability discounted at a rate 17,2%	3,405
Liability under IFRS 16 "Lease"	3,403
Variance	2
Financial leasing	(2,401)
Lease agreements ("exploration") under IFRS 16 is not applicable	2,399

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16. 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, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Salaries and bonuses	290	450	858	1,254
Social contributions	35	81	192	291
Total management remuneration	325	531	1,050	1,545

(b) Transactions with other related parties

	Transactions for the nine months ended		Balance outstanding	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Loans received (Note 11)				
Company under common control	-	-	12,716	2,920
Controlling shareholder or entities under common control of the controlling shareholder	-	-	138	-
Administrative services (Note 14)				
Company under common control	10,087	8,118	-	-
Other operating expenses (income)				
Company under common control	53	101	-	-
Trade and other payables (Note 10)				
Company under common control	-	-	8,109	3,333
Controlling shareholder or entities under common control of the controlling shareholder	-	-	54	-
Other receivables (Note 4)				
Company under common control	-	-	3,270	4,924
Controlling shareholder or entities under common control of the controlling shareholder	-	-	2,645	1,793
Loans issued to related party (Note 5)				
Company under common control	-	-	19,635	9,552
Controlling shareholder or entities under common control of the controlling shareholder	-	-	-	9,470
Interest income				
Company under common control	704	603	-	-
Controlling shareholder or entities under common control of the controlling shareholder	606	621	-	-
Interest expense				
Company under common control	2,550	-	-	-

All transactions with related parties are carried out on an arm's length basis.

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17. Subsequent events

In the fourth quarter of 2019 the Group received under the gold loan agreement with VTB Bank (PJSC) an additional tranche in the amount \$7,395 thousand and \$37 thousand under the Loan agreement between Mangazeya Mining Ltd and Mangazeya Center LLC (at the exchange rate as at September 30, 2019).