

**Mangazeya Mining Ltd.**

**Interim Condensed Consolidated Financial Statements**

**March 31, 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 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 31 March 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 of 31 March 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.

May 30, 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	March 31, 2019	December 31, 2018
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		3,586	2,291
Trade and other receivables	4	15,051	15,806
Loans issued	5	692	-
Inventories	6	30,031	24,170
Derivative financial instruments	11(b)	81	156
<b>Total Current Assets</b>		<b>49,441</b>	<b>42,423</b>
<b>Non-current Assets</b>			
Property, plant and equipment	7	85,285	65,449
Exploration and evaluation assets	8	30,481	29,196
Mine properties	9	5,408	5,850
Loans issued	5	18,991	18,991
Derivative financial instruments	11(b)	9	14
Deferred tax assets		4,994	4,957
<b>Total Non-current Assets</b>		<b>145,168</b>	<b>124,457</b>
<b>Total Assets</b>		<b>194,609</b>	<b>166,880</b>
<b>Liabilities and Shareholders' equity</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	16,188	17,620
Current income tax liabilities		83	90
Provisions		2,500	2,500
Obligation under lease agreements	14(b)	690	440
Financial liabilities		628	-
Loans and borrowings	11(a)	30,182	20,832
<b>Total Current Liabilities</b>		<b>50,271</b>	<b>41,482</b>
<b>Non-current Liabilities</b>			
Loans and borrowings	11(a)	92,296	74,339
Site restoration provision		1,200	1,133
Obligation under lease agreements	14(b)	2,755	1,961
Financial liabilities		148	-
Deferred tax liability		1,717	1,536
<b>Total Non-current Liabilities</b>		<b>98,116</b>	<b>78,969</b>
<b>Total Liabilities</b>			<b>120,451</b>
<b>Shareholders' Equity</b>			
Share capital	12(b)	384,837	384,837
Additional paid-in capital		44,159	44,159
Foreign currency translation reserve		(7,590)	(9,827)
Accumulated losses		(375,184)	(372,740)
<b>Total Equity</b>		<b>46,222</b>	<b>46,429</b>
<b>Total Equity and Liabilities</b>		<b>194,609</b>	<b>166,880</b>

**APPROVED ON BEHALF OF THE DIRECTORS**

Signed “*Sergey Yanchukov*”

Signed “*Gerald Rohan*”

**Sergey Yanchukov**

**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 31 March	
		2019	2018
Revenue		3,113	1,718
Cost of sales		(1,101)	(1,731)
<b>Gross profit/(loss)</b>		<b>2,012</b>	<b>(13)</b>
Administrative expenses	13	(3,451)	(3,713)
Mineral and other taxes		(370)	(163)
Other operating expenses		(2,902)	(1,308)
<b>Loss from operating activities</b>		<b>(4,711)</b>	<b>(5,197)</b>
<b>Other items</b>			
Finance income		395	437
Finance expense		(1,519)	(878)
Foreign exchange gain/(loss)		3,679	(96)
<b>Net loss before income tax</b>		<b>(2,156)</b>	<b>(5,734)</b>
Income tax (expense)/benefit		(288)	448
<b>Net loss for the period</b>		<b>(2,444)</b>	<b>(5,286)</b>
<b>Other comprehensive (loss)/income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Foreign currency translation differences		2,237	2,671
<b>Comprehensive loss for the period</b>		<b>(207)</b>	<b>(2,615)</b>
<b>Weighted average number of shares – basic and diluted</b>		<b>1,288,211,149</b>	<b>1,288,211,149</b>
<b>Total net loss per share – basic &amp; diluted</b>		<b>\$(0.002)</b>	<b>\$(0.004)</b>

*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)

	<b>For the three months ended 31 March</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Net loss for the period	(2,444)	(5,286)
Adjustments for:		
Depreciation, depletion and amortization	92	297
Finance expense	1,519	878
Finance income	(395)	(437)
Loss on disposal of property, plant and equipment	-	(799)
Foreign exchange (gain)/ loss	(3,679)	96
Income tax expense	288	(448)
<b>Cash flows used in operating activities before changes in working capitals</b>	<b>(4,619)</b>	<b>(5,699)</b>
Change in inventories and other assets	(3,741)	(3,233)
Change in trade and other receivables	755	(4,610)
Change in trade and other payables	(1,433)	3,777
<b>Cash flows used in operating activities before income taxes</b>	<b>(9,038)</b>	<b>(9,765)</b>
Interest paid	(1,337)	-
Income tax paid	-	(780)
<b>Net cash used in operating activities</b>	<b>(10,375)</b>	<b>(10,545)</b>
<b>Cash flows used in investing activities</b>		
Acquisition of property, plant and equipment, exploration and evaluation assets, mining assets and intangible assets	(13,618)	(5,821)
Proceeds from sale of property, plant and equipment	-	1,481
<b>Net cash used in investing activities</b>	<b>(13,618)</b>	<b>(4,340)</b>
<b>Cash flows received from financing activities</b>		
Proceeds from borrowings from third parties	18,370	13,024
Repayment of borrowings to related parties	-	(10)
Proceeds from borrowings from related parties	7,467	-
Repayment of liability under lease agreements	(154)	-
<b>Net cash received from financing activities</b>	<b>25,683</b>	<b>13,014</b>
<b>Net increase/(decrease) in cash</b>	<b>1,690</b>	<b>(1,871)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2,291</b>	<b>3,850</b>
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies	(395)	(98)
<b>Cash and cash equivalents at the end of the period</b>	<b>3,586</b>	<b>1,881</b>

*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
<b>Balance at January 1, 2018</b>	<b>384,837</b>	<b>44,159</b>	<b>(2,706)</b>	<b>(346,596)</b>	<b>79,694</b>
<i>Comprehensive income for the period</i>					
Loss for the period	-	-	-	(5,286)	(5,286)
Foreign currency translation differences	-	-	2,671	-	2,671
<b>Balance at March 31, 2018</b>	<b>384,837</b>	<b>44,159</b>	<b>(35)</b>	<b>(351,882)</b>	<b>77,079</b>
<b>Balance at January 1, 2019</b>	<b>384,837</b>	<b>44,159</b>	<b>(9,827)</b>	<b>(372,740)</b>	<b>46,429</b>
<i>Comprehensive income for the period</i>					
Loss for the period	-	-	-	(2,444)	(2,444)
Foreign currency translation differences	-	-	2,237	-	2,237
<b>Balance at March 31, 2019</b>	<b>384,837</b>	<b>44,159</b>	<b>(7,590)</b>	<b>(375,184)</b>	<b>46,222</b>

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

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**Mangazeya Mining Ltd.****Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three months ended March 31, 2019**

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

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**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 March 31, 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 three months ended March 31, 2019 of \$2,444 thousand, and had accumulated losses of \$375,184 thousand and a working capital deficit of \$830 thousand as at March 31, 2019.

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**Mangazeya Mining Ltd.****Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three months ended March 31, 2019**(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

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**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 May 30, 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	
			March 31, 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	Exploration and mining	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 income (loss) and included in the foreign currency translation reserve in shareholders' equity.

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**Mangazeya Mining Ltd.****Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three months ended March 31, 2019**

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

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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 March 31, 2019	Average rate for 3 months ended March 31, 2019	Closing rate as at December 31, 2018	Average rate for 3 months ended March 31, 2018
RUB / CAD	48.9237	49.5859	51.0465	44.9907

**(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 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 income (loss) might change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.

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**Mangazeya Mining Ltd.****Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three months ended March 31, 2019**

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

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- Overburden removal costs recorded on the statement of financial position or charged to the statement of comprehensive income (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 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*

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.

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**Mangazeya Mining Ltd.****Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three months ended March 31, 2019**(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

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**(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.

**(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 expected data is based on geological testings. 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.

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**Mangazeya Mining Ltd.****Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the three months ended March 31, 2019**

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

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**(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 March 31, 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 for the accounting of lease agreements.

**4. Trade and other receivables**

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

	<b>March 31, 2019</b>	December 31, 2018
Receivables from related parties (Note 15(b))	6,157	5,343
Advances to suppliers	1,136	4,175
Value-added and sales tax recoverable	4,401	5,750
Other receivables	3,357	538
<b>Total account receivable</b>	<b>15,051</b>	<b>15,806</b>

As at March 31, 2019, a provision for uncollectible accounts receivable of \$654 thousands (December 31, 2018 – \$627 thousands) was recognized.

**5. Loans issued**

	<b>March 31, 2019</b>	December 31, 2018
Short-term loans issued to related parties (Note 15(b))	692	-
Long-term loans issued to related parties (Note 15(b))	18,991	18,991
	<b>19,683</b>	<b>18,991</b>

**6. Inventories**

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

	<b>March 31, 2019</b>	December 31, 2018
Raw materials and consumables	5,747	5,375
Finished goods	165	216
Work in process	24,119	18,579
<b>Total inventories</b>	<b>30,031</b>	<b>24,170</b>

As at March 31, 2019, a provision for slow-moving raw materials of \$89 thousand (December 31, 2018 – \$86 thousand) was recognized.

**Mangazeya Mining Ltd.**  
**Notes to Unaudited Interim Condensed Consolidated Financial Statements**  
**For the three months ended March 31, 2019**  
(Unless otherwise stated, amounts are presented in thousands of Canadian dollars)

**7. Property, plant and equipment**

	Buildings	Plant and equipment	Transport and other	Construction in progress	Lease agreements	Total
<b>Balance at December 31, 2018</b>	<b>13,708</b>	<b>12,448</b>	<b>15,458</b>	<b>57,819</b>	<b>3,088</b>	<b>102,521</b>
Additions	95	-	-	16,449	1,031	17,575
Disposals	-	(66)	(32)	(8)	-	(106)
Transfers	129	157	(22)	(264)	-	0
Foreign currency translation	599	509	703	2,448	148	4,407
<b>Balance at March 31, 2019</b>	<b>14,531</b>	<b>13,048</b>	<b>16,107</b>	<b>76,444</b>	<b>4,267</b>	<b>124,397</b>
<b>Balance at December 31, 2018</b>	<b>(5,155)</b>	<b>(10,658)</b>	<b>(14,433)</b>	<b>(6,466)</b>	<b>(360)</b>	<b>(37,072)</b>
Depreciation	(347)	(69)	(74)	-	(214)	(704)
Disposal	2	17	16	-	-	35
Foreign currency translation	(227)	(498)	(627)	-	(19)	(1,371)
<b>Balance at March 31, 2019</b>	<b>(5,727)</b>	<b>(11,208)</b>	<b>(15,118)</b>	<b>(6,466)</b>	<b>(593)</b>	<b>(39,112)</b>
<i>Net book value</i>						
As at December 31, 2018	<b>8,553</b>	<b>1,790</b>	<b>1,025</b>	<b>51,353</b>	<b>2,728</b>	<b>65,449</b>
As at March 31, 2019	<b>8,804</b>	<b>1,840</b>	<b>989</b>	<b>69,978</b>	<b>3,674</b>	<b>85,285</b>

For the three months ended March 31, 2019, depreciation of \$92 thousand (\$261 thousand for the corresponding period of 2018) is included in cost of sales.

As at March 31, 2019, depreciation directly attributable to work in process of \$343 thousand (\$1,184 thousand for the corresponding period of 2018) is included in the cost of work in process inventory.

As at March 31, 2019, depreciation directly attributable to construction in progress is \$268 thousand (\$356 thousand for the corresponding period of 2018).

**8. Exploration and evaluation assets**

<b>Balance at December 31, 2018</b>	<b>29,196</b>
Additions	18
Foreign currency translation	1,267
<b>Balance at March 31, 2019</b>	<b>30,481</b>

During the three months ended March 31, 2019, depreciation of property, plant and equipment directly attributable to exploration and evaluation assets wasn't included in the cost of exploration and evaluation assets.

**9. Mine properties**

<b>Balance at December 31, 2018</b>	<b>22,470</b>
Change in site restoration provision	(23)
Foreign currency translation	975
<b>Balance at March 31, 2019</b>	<b>23,422</b>

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<b>Accumulated depreciation at December 31, 2018</b>	<b>(16,620)</b>
Depreciation	(664)
Foreign currency translation	(730)
<b>Accumulated depreciation at March 31, 2019</b>	<b>(18,014)</b>
<b>Net book value at December 31, 2018</b>	<b>5,850</b>
<b>Net book value at March 31, 2019</b>	<b>5,408</b>

During the three months ended March 31, 2019, depreciation of \$nil thousand (\$32 thousand for the corresponding periods of 2018) was charged to cost of sales.

As at March 31, 2019, depreciation directly attributable to work in progress of \$664 thousand (\$94 thousand for the corresponding period of 2018) was included in the cost of work in progress inventory.

**10. Trade and other payables**

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

	<b>March 31, 2019</b>	December 31, 2018
Trade payables	9,119	11,509
Payables to employees	765	262
Taxes other than income tax payable	659	1,420
Other payments and accrued expenses	510	791
Other accounts payable to related party (Note 15(b))	5,135	3,638
<b>Total trade and other payables</b>	<b>16,188</b>	<b>17,620</b>

**11. Loans and borrowings, financial instruments**

**(a) Loans and borrowings**

	<b>March 31, 2019</b>	December 31, 2018
<b>Current liabilities</b>		
Unsecured loan from related parties (Note 15(b))	11,379	3,539
Secured bank loan	18,803	17,293
<b>Total current liabilities</b>	<b>30,182</b>	<b>20,832</b>
<b>Non-current liabilities</b>		
Secured bank loan	92,296	74,339
<b>Total loan and borrowings</b>	<b>92,296</b>	<b>95,171</b>

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

On October 23, 2017 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 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.

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

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volume of metal), to pay interest on Loan and perform other contractual obligations. Final repayment shall be 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.

As at December 31, 2017 the Company received under the gold loan agreement with VTB Bank (PJSC) 729 kg of gold of fine gold weight. On February 5, 2018 Mangazeya Mining LLC signed additional agreement to gold loan with VTB Bank (PJSC). The funds are to be made available in Tranche 4 size: max RUB 910 million or max 400,000 grams of gold. As at December 31, 2018 the Company received under the Tranche 4 RUB 910 million.

On July 20, 2018 Dalsvetmet LLC signed a senior secured term Facility Agreement 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 will 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 March 31, 2019 management considers that the Group was compliant with all covenants terms.

As at March 31, 2019, the Loans received from related parties were \$3,309 thousand from Mangazeya Zoloto LLC, and \$8,070 thousand from IzhVAZtehobsluzhivanie LLC.

**(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) start in 2018 year. This instrument economically hedges the risks of gold price fluctuations. The Group has no policy regarding hedge accounting. The fair value of the financial asset at 31 March 2019 was \$90 thousand (\$170 thousand for the corresponding period of 2018).

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 at 31 March 2019 was \$776 thousand.

**12. Equity****(a) Authorized Common Shares**

Unlimited common shares without par value.

**(b) Issued and outstanding**

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	<b>March 31, 2019</b>		<b>December 31, 2018</b>	
	<b>Number of shares</b>	<b>Amount</b>	<b>Number of shares</b>	<b>Amount</b>
<b>Balance at the beginning of period</b>	1,288,211,149	384,837	1,288,211,149	384,837
Conversion of the debt to shares	-	-	-	-
<b>Balance at the end of period</b>	1,288,211,149	384,837	1,288,211,149	384,837

**(c) Earnings per share**

For the three months ended March 31, 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.

**13. Administrative expenses**

Administrative expenses for the three months ended March 31, 2019 and March 31, 2018 comprise the following:

	<b>Three months ended</b>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Wages and salaries	3	35
Social taxes	1	2
Depreciation	-	1
Audit, accounting, advisory and legal fees	73	10
Operating lease expenses	-	37
Materials	-	2
Service, investor relations, and other expenses	49	10
Management services from related party (Note 15(b))	3,325	3,616
<b>Total administrative expenses</b>	<b>3,451</b>	<b>3,713</b>

**14. 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 March 31, 2019, the Group had commitments to purchase equipment totaling \$36,107 thousand.

**(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

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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:

<b>Balance at December 31, 2018</b>	
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
<b>Liability under IFRS 16 "Lease"</b>	<b>3,403</b>
Variance	2
Financial leasing	-2,401
Lease agreements ("exploration") under IFRS 16 is not applicable	2,399

## **15. Related party transactions**

### **(a) Management remuneration**

The key management personnel is defined as the executive management. The members of the executive management are responsible for management, coordination and control of operations and

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performance. The key management personnel received the following remuneration during the period, which is included in personnel costs:

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	Three months ended	
	March 31, 2019	March 31, 2018
Salaries and bonuses	270	389
Social contributions	84	114
<b>Total management remuneration</b>	<b>354</b>	<b>503</b>

**(b) Transactions with other related parties**

	Transactions for the three months ended		Balance outstanding	
	March 31, 2019	March 31, 2018	March 31, 2019	December 31, 2018
<b>Loans and borrowings (Note 11)</b>				
Company under common control	-	-	11,379	3,539
<b>Administrative services (Note 13)</b>				
Company under common control	3,325	3,616	-	-
<b>Other operating expenses (income)</b>				
Company under common control	397	28	-	-
<b>Trade and other payables (Note 10)</b>				
Company under common control	-	-	5,135	3,638
<b>Other receivables (Note 4)</b>				
Company under common control			2,447	3,362
Controlling shareholder or entities under common control of the controlling shareholder	-	-	3,710	1,981
<b>Loans issued to related party (Note 5)</b>				
Company under common control			9,873	9,589
Controlling shareholder or entities under common control of the controlling shareholder	-	-	9,810	9,402
<b>Interest income</b>				
Company under common control	195	204	-	-
Controlling shareholder or entities under common control of the controlling shareholder	197	218	-	-
<b>Interest expense</b>				
Company under common control	62	-	-	-

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

**16. Subsequent events**

In the second quarter of 2019 the Group received under the gold loan agreement with VTB Bank (PJSC) the additional tranche in the amount \$17,031 thousand in the second quarter of 2019 and \$1,218 thousand under the Loan agreement with IzhVAZtehobsluzhivanie LLC (at the exchange rate as at March 31, 2019).