

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2019
(Unaudited)

Mandalay Resources Corporation

June 30, 2019

Table of contents

Condensed consolidated interim statements of income (loss) and comprehensive income (loss)	2
Condensed consolidated interim statements of financial position	3
Condensed consolidated interim statements of changes in equity	4
Condensed consolidated interim statements of cash flows	5
Notes to the condensed consolidated interim financial statements	7-27

Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income (loss) three and six months ended June 30, 2019 and 2018

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue (Note 13)	26,344	27,944	56,260	67,692
Cost of operations				
Cost of sales, excluding depletion and depreciation (Note 14)	20,751	22,348	44,145	48,168
Depletion and depreciation	6,068	8,075	13,320	16,916
	26,819	30,423	57,465	65,084
Income (loss) from mining operations	(475)	(2,479)	(1,205)	2,608
Expenses				
Administration	1,488	1,945	2,763	3,738
Care and maintenance and other operating expenses	839	1,435	1,715	3,611
Write down of assets (Note 6)	4,985	18,533	4,985	18,533
Share-based compensation (Note 12(b))	128	157	309	404
(Gain) loss on disposal of property, plant and equipment	(34)	118	(1,855)	126
	7,406	22,188	7,917	26,412
Loss from operations	(7,881)	(24,667)	(9,122)	(23,804)
Other income (expenses)				
Finance costs (Note 15)	(1,521)	(1,362)	(3,193)	(2,730)
Gain (loss) on financial instruments (Note 16)	(980)	1,037	(856)	794
Interest and other income	105	220	322	705
Foreign exchange gain (loss)	(231)	(468)	296	(227)
	(2,627)	(573)	(3,431)	(1,458)
Loss before income taxes	(10,508)	(25,240)	(12,553)	(25,262)
Income tax (recovery) expense				
Current	506	(121)	409	662
Deferred	(1,264)	(1,408)	(1,877)	(974)
Income tax (recovery) expense	(758)	(1,529)	(1,468)	(312)
Net loss for the period	(9,750)	(23,711)	(11,085)	(24,950)
Other comprehensive loss, net of tax				
Item that may subsequently be reclassified to net loss				
Foreign currency translation	(41)	(5,951)	(3,072)	(6,925)
Comprehensive loss for the period	(9,791)	(29,662)	(14,157)	(31,875)
Net loss per share				
Basic and diluted	(0.11)	(0.53)	(0.16)	(0.55)
Weighted average number of common shares outstanding (Note 17)				
Basic and diluted ('000)	91,039	45,150	68,986	45,140

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars)

(Unaudited)

	June 30, 2019	December 31, 2018
	(\$'000)	(\$'000)
Assets		
Current assets		
Cash and cash equivalents (Note 4)	25,702	8,395
Trade receivables and other assets (Note 5)	20,160	12,998
Inventories	10,693	13,829
Prepaid expenses	3,448	3,678
	60,003	38,900
Non-current assets		
Reclamation and other deposits	28,901	27,676
Trade receivables and other assets (Note 5)	2,630	2,747
Property, plant and equipment (Note 6)	163,972	168,380
	195,503	198,803
	255,506	237,703
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	18,648	26,204
Borrowings (Note 9)	441	30,225
Lease liabilities (Note 7)	1,963	1,839
Five-year exchangeable loan (Note 10)	22,235	25,235
Income taxes payable	702	120
Other provisions (Note 11)	1,574	1,778
Financial instruments (Note 16)	3,603	2,691
	49,166	88,092
Non-current liabilities		
Borrowings (Note 9)	35,560	323
Lease liabilities (Note 7)	3,215	3,498
Reclamation and site closure costs provision	40,599	40,674
Other provisions (Note 11)	1,584	1,527
Deferred tax liability	5,485	7,453
	86,443	53,475
	135,609	141,567
Equity		
Share capital (Note 12)	229,762	192,078
Share option reserve (Note 12)	10,638	10,404
Foreign currency translation reserve	(39,268)	(36,196)
Retained deficit	(81,235)	(70,150)
	119,897	96,136
	255,506	237,703

Approved by the Board of Directors and authorized for issuance on August 7, 2019.

(Signed) Dominic Duffy

Dominic Duffy, President and Chief Executive Officer

(Signed) Robert Doyle

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity

Six months ended June 30, 2019 and 2018

(Expressed in U.S. dollars, except number of shares)

(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained deficit	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2018	45,160	192,078	10,404	(36,196)	(70,150)	96,136
Net loss	-	-	-	-	(11,085)	(11,085)
Other comprehensive loss for the period	-	-	-	(3,072)	-	(3,072)
Total comprehensive loss	-	-	-	(3,072)	(11,085)	(14,157)
Share-based compensation (Note 12(b))	-	-	309	-	-	309
Redemption of RSU (Note 12(d))	14	75	(75)	-	-	-
Shares issued for cash (Note 12(a))	35,940	32,273	-	-	-	32,273
Conversion of bridge loan into common shares (Note 12(a))	9,936	8,000	-	-	-	8,000
Share issuance cost (Note 12(a))	-	(2,664)	-	-	-	(2,664)
Balance, June 30, 2019	91,050	229,762	10,638	(39,268)	(81,235)	119,897

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings (deficit)	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, January 1, 2018	45,128	191,893	9,816	(28,654)	(6,432)	166,623
Net loss	-	-	-	-	(24,950)	(24,950)
Other comprehensive loss for the period	-	-	-	(6,925)	-	(6,925)
Total comprehensive loss	-	-	-	(6,925)	(24,950)	(31,875)
Share-based compensation (Note 12(b))	-	-	404	-	-	404
Redemption of RSU (Note 12(d))	32	185	(185)	-	-	-
Balance, June 30, 2018	45,160	192,078	10,035	(35,579)	(31,382)	135,152

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows

three and six months ended June 30, 2019 and 2018

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Operating activities				
Net loss	(9,750)	(23,711)	(11,085)	(24,950)
Adjustments to reconcile net loss to net cash flows from operating activities				
Amortization of intangible asset	-	15	-	29
Depletion and depreciation	6,068	8,075	13,320	16,916
Share-based compensation (Note 12(b))	128	157	309	404
Loss (gain) on disposal of property, plant and equipment	(34)	118	(1,855)	126
Write down of assets	4,985	18,533	4,985	18,533
Finance cost (Note 15)	1,521	1,362	3,193	2,730
Unrealized loss (gain) on financial instruments (Note 16)	980	(1,037)	856	(794)
Interest and other income	(105)	(220)	(322)	(705)
Foreign exchange gain (loss)	(662)	28	(1,056)	(239)
Income tax expense (recovery)	(758)	(1,529)	(1,468)	(312)
Proceeds from lease	303	-	-	-
Reclamation expenditures	(217)	(905)	(878)	(1,158)
Changes in non-cash operating working capital items				
Trade receivables and other assets	(4,781)	930	(5,088)	10,109
Inventories	861	648	3,057	3,620
Prepaid expenses	120	(185)	115	(319)
Trade and other payables	(1,933)	38	(7,130)	(3,604)
Other provisions	144	(52)	(140)	(196)
Cash generated from operations	(3,130)	2,265	(3,187)	20,190
Interest and other income received	105	220	322	705
Interest and bank charges paid	(1,279)	(1,096)	(2,685)	(2,219)
Income tax received	-	1,741	-	1,741
Net cash flows (used in) from operating activities	(4,304)	3,130	(5,550)	20,417
Investing activities				
Payment to reclamation deposits	(14)	(16)	(4,706)	(188)
Receipt from reclamation deposits	2,544	-	2,544	-
Expenditure for property, plant and equipment	(10,238)	(11,943)	(17,650)	(23,236)
Proceeds from disposal of property, plant and equipment	58	-	2,148	-
Net cash flows used in investing activities	(7,650)	(11,959)	(17,664)	(23,424)
Financing activities				
Proceeds from borrowings	576	1,199	5,576	1,569
Repayments of borrowings	(51)	(661)	(3,443)	(1,156)
Lease payments (Note 7)	(176)	-	(77)	-
Proceeds from bridge loan (Note 12(a))	-	-	8,000	-
Shares issued for cash (Note 12(a))	-	-	32,273	-
Share issuance cost (Note 12(a))	(587)	-	(2,664)	-
Proceeds from Ulu option agreement	-	310	-	310
Net cash flows from financing activities	(238)	848	39,665	723
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	872	54	856	829
Increase in cash and cash equivalents	(11,320)	(7,927)	17,307	(1,455)
Cash and cash equivalents, beginning of the period	37,022	23,407	8,395	16,935
Cash and cash equivalents, end of period	25,702	15,480	25,702	15,480
Cash and cash equivalents consist of				
Cash	25,702	15,480	25,702	15,480
	25,702	15,480	25,702	15,480

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)

(Unaudited)

1. Description of business and nature of operations

Mandalay Resources Corporation (“Mandalay” or the “Company”), together with its wholly owned subsidiaries, is a gold and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay’s assets consist of the Costerfield gold and antimony mine in Australia, the Björkdal gold mine in Sweden, as well as other exploration and care and maintenance projects in Chile and Canada.

Mandalay is incorporated in the Province of British Columbia, Canada. The Company’s shares are listed on the Toronto Stock Exchange (“TSX”). The head office and principal address of the Company is 76 Richmond Street East, Suite 330, Toronto, Canada, M5C 1P1. The Company’s registered office is located at 1900-355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Judgments made by management in the application of International Financial Reporting Standards (“IFRS”) that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in the Company’s audited consolidated financial statements for the year ended December 31, 2018.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the annual financial statements as at December 31, 2018. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair values as explained in the Company’s accounting policies.

a) *Going concern assumption*

These consolidated financial statements were prepared on a going concern basis that contemplated the realization of assets and the settlement of liabilities in the normal course of business as they become due, except for the revaluation to fair value of certain financial assets and financial liabilities in accordance with the Company’s accounting policies.

As at June 30, 2019 the Company was in breach of two covenants of its Revolver Facility, however it had received a waiver prior to June 30, 2019 in respect of these breaches.

The ability of the Company to continue as a going concern is dependent on receiving waivers for, meeting its financials covenants on the Revolver Facility in the coming quarters, or restructuring the current debt facilities. There can be no assurance that the Company will meet its covenants, receive

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)

(Unaudited)

3. Summary of significant accounting policies (continued)

a) *Going concern assumption (continued)*

waivers for the financial covenants associated with the Revolver Facility for future quarters or restructure the current debt facilities. As a result, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

b) *Changes in accounting standards*

The accounting policies adopted in preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of amendments and interpretations effective January 1, 2019. These amendments and interpretations are outlined below.

IFRS 16, Leases

The Company had adopted IFRS 16 using the modified retrospective approach with effect from January 1, 2019. There was no transition adjustment for IFRS 16.

The Company has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. The Company has classified its Right of Use assets in the property, plant and equipment line in its Statement of Financial Position. In an operating lease, the leased property was not capitalized and the lease payments were recognized as operating expenses on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)

(Unaudited)

3. Summary of significant accounting policies (continued)

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases. The requirements of IFRS 16 was applied to these leases from January 1, 2019.

b) Changes in accounting standards (continued)

The weighted average incremental borrowing rate to compute lease liabilities at the date of initial adoption was 8%.

During the three and six months ended June 30, 2019, the Company recognized \$1,767,000 and \$3,53,4000 respectively in operating expenses relating to variable lease payments.

4. Cash and cash equivalents

As at June 30, 2019, the Company had a total cash balance of \$25,702,000 (December 31, 2018 - \$8,395,000). As part of the Bridge Loan agreement (see Note 12(a)), the Company is required to maintain a reserve of cash or cash equivalents equal to the lessor of (a) \$15,000,000 and (b) the outstanding principal amount of the five-year exchangeable loan. The Company will use this reserve exclusively for the purposes of satisfying its obligations in respect of the five-year exchangeable loan (see Note 10).

As part of the Public Offering (see Note 12(a)), the Company had agreed with HSBC that the aggregate of any undrawn portion of the Revolver Facility (which was \$5,000,000 as at June 30, 2019) plus the Company's cash and cash equivalents must at all times be not less than \$10,000,000. This requirement overlaps the \$15,000,000 reserve amount under the Bridge Loan and is not in addition to it. The Company is in compliance with this term as at June 30, 2019.

5. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	June 30, 2019	December 31, 2018
	(\$'000)	(\$'000)
Trade receivables	12,540	8,036
VAT and other indirect tax receivables	3,534	3,933
Other receivables and assets	6,583	3,703
Marketable securities (Note 16)	133	73
	22,790	15,745
Less: non-current portion	2,630	2,747
Total current portion	20,160	12,998

There was no allowance for doubtful accounts recognized as at June 30, 2019, or at December 31, 2018.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)

(Unaudited)

6. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total	
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others		
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost													
As at January 1, 2018	72,664	64,314	78,598	35,557	44,532	31,533	2,798	8,821	1,106	16,341	51,137		407,401
Additions	10,242	-	10,891	6,961	-	15,566	1	5,242	-	1,785	2,652		53,340
Disposals	-	-	-	(1,017)	(2,196)	-	-	-	-	-	-		(3,213)
Write-off of assets	-	(8,470)	-	-	-	-	-	(36)	(321)	-	(25,818)		(34,645)
Reclassification to mining interest	4,534	-	-	-	-	-	-	(4,534)	-	-	-		-
Transferred from Asset held for sale	-	-	-	-	-	-	-	-	-	-	(6,051)		(6,051)
Foreign exchange	(7,027)	-	(8,258)	(3,907)	-	(3,366)	(62)	(729)	-	(48)	(443)		(23,840)
As at December 31, 2018	80,413	55,844	81,231	37,594	42,336	43,733	2,737	8,764	785	18,078	21,477		392,992
Additions	6,499	-	3,976	2,557	-	3,819	-	529	-	294	193		17,867
Disposals	-	-	-	(207)	(6,364)	-	-	-	-	-	-		(6,571)
Write-off of assets	-	-	-	-	-	-	-	-	-	-	(4,985)		(4,985)
Reclassification to mining interest	4,839	-	-	-	-	-	-	(4,839)	-	-	-		-
Foreign exchange	(355)	-	(4,970)	(149)	-	(2,691)	29	38	-	(75)	(574)		(8,747)
As at June 30, 2019	91,396	55,844	80,237	39,795	35,972	44,861	2,766	4,492	785	18,297	16,111		390,556
Accumulated depreciation													
As at January 1, 2018	55,450	55,844	30,104	19,311	40,026	11,594	508	-	-	-	-		212,837
Expense	9,657	-	9,961	5,697	1,651	3,550	-	-	-	-	-		30,516
Disposals	-	-	-	(875)	(2,064)	-	-	-	-	-	-		(2,939)
Foreign exchange	(5,288)	-	(6,324)	(2,268)	-	(1,912)	(10)	-	-	-	-		(15,802)
As at December 31, 2018	59,819	55,844	33,741	21,865	39,613	13,232	498	-	-	-	-		224,612
Expense	2,886	-	5,152	2,532	376	2,542	-	-	-	-	-		13,488
Disposals	-	-	-	(157)	(6,137)	-	-	-	-	-	-		(6,294)
Foreign exchange	(208)	-	(3,804)	(94)	-	(1,121)	5	-	-	-	-		(5,222)
As at June 30, 2019	62,497	55,844	35,089	24,146	33,851	14,653	503	-	-	-	-		226,584
Carrying value													
As at January 1, 2018	17,214	8,470	48,494	16,246	4,506	19,939	2,290	8,821	1,106	16,341	51,137		194,564
As at December 31, 2018	20,594	-	47,490	15,729	2,723	30,501	2,239	8,764	785	18,078	21,477		168,380
As at June 30, 2019	28,899	-	45,148	15,649	2,121	30,208	2,263	4,492	785	18,297	16,111		163,972

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

6. Property, plant and equipment (continued)

For the three months ended June 30, 2019, there was \$1,000 of plant and equipment depreciation capitalized to mining interests at Costerfield (2018 – \$nil) and \$147,000 at Björkdal (2018 – \$90,000).

As at June 30, 2019, the Company has right-of-use assets of \$5,179,000 included in the property, plant and equipment balance, of which \$1,128,000 is at Costerfield and \$4,051,000 is at Björkdal.

On June 26, 2019, the Company entered into a non-binding heads of agreement with Equus Mining (“Equus”) for the sale of Cerro Bayo mine in Chile. The signing of this agreement had no impact on the carrying value of the Cerro Bayo mine as at June 30, 2019.

The Company identified an indicator of impairment for the Ulu property in northern Canada, as a result of the signing of an amended option agreement for the property with a third party. The Company has valued the assets at fair value less costs to dispose. As a result of the signing of this amended agreement, a write down of \$1,013,000 was recognized in the Company’s statement of income (loss) for the three months ended June 30, 2019.

As a result of the exercise of the Ulu option agreement, the Company identified an indicator of impairment for the Lupin mine, which is located near the Ulu property. The Company has valued the assets at fair value less costs to dispose of the asset. As a result of this, a write down of \$3,972,000 was recognized in the Company’s statement of income (loss) for the three months ended June 30, 2019.

7. Lease liabilities

	June 30, 2019		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Costerfield	823	304	1,127
Björkdal	1,140	2,911	4,051
Total lease liabilities	1,963	3,215	5,178

	December 31, 2018		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Costerfield	526	582	1,108
Björkdal	1,313	2,916	4,229
Total borrowings, including interest portion	1,839	3,498	5,337

Björkdal Equipment leases

Björkdal leases are financed 80% of the equipment purchase cost, bear interest at the one-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments. These leases are payable within five years of initial borrowing. Certain leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost. These leases are due to be fully repaid during 2023.

Costerfield Equipment leases

Costerfield leases bear interest at 5.50% per annum and requires monthly lease payments. These leases are due to be repaid during 2023.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

8. Trade and other payables

	June 30, 2019	December 31, 2018
	(\$'000)	(\$'000)
Trade payables	7,132	17,146
Accrued liabilities	8,997	7,189
Payroll and other taxes payable	2,370	1,828
Cash election option	8	4
Provisional pricing adjustment	141	37
	18,648	26,204

Trade payables are non-interest bearing and are normally settled on one-month terms. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract.

As at June 30, 2019, there was a \$141,000 mark-to-market adjustment recorded in trade and other payables (2018 – \$37,000).

9. Borrowings

	June 30, 2019	December 31, 2018
	(\$'000)	(\$'000)
Liability for the Revolver facility	35,000	30,000
Borrowings for Equipment loan facility	1,001	548
	36,001	30,548
Less: Current portion of total borrowings	441	30,225
Non-current portion of total borrowings	35,560	323

Revolver Facility

During the year ended December 31, 2017, the Company entered into a \$40,000,000 senior secured revolving credit facility (the "Revolver Facility") with HSBC Bank Canada ("HSBC"). The Revolver Facility matures on July 24, 2020, three years after the agreement date.

Amounts drawn on the Revolver Facility bears interest at LIBOR plus 3.5%-4.5% per annum or at HSBC's "base rate" plus 2.5%-3.5%, depending on the Company's leverage ratio. The undrawn portion of the Revolver Facility is subject to a standby fee of 1.0% per annum. The Revolver Facility is secured by a first ranking security interest over substantially all of the Company's assets, excluding the Company's Australian subsidiaries and its Costerfield mine and subject to permitted liens. As required by the terms, the Company has suspended dividends on its common shares.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

9. Borrowings (continued)

The Revolver Facility has the following financial covenants:

- Interest Coverage Ratio of not less than 3.00:1.00 at all times (consolidated basis, calculated on rolling four-quarter basis);
- Leverage Ratio of not more than 3.00:1.00 at all times;
- Tangible Net Worth of not less than \$105,000,000 plus 50% of net income (cumulative) earned after Closing Date;
- Current Ratio of not less than 1.20:1.00; and
- the aggregate of the Company's unrestricted cash plus undrawn availability under the Facility shall be not less than \$10,000,000.

As at June 30, 2019 the Company was in breach of the Interest Coverage Ratio and the Leverage Ratio for this facility. On June 28, 2019, the Company obtained a waiver of these breaches. Since the waiver was received prior to the statement of financial position date, the outstanding amount under the Revolver Facility has been classified as a non-current liability as at June 30, 2019.

During the six months ended June 30, 2019, the Company had drawn \$5,000,000 from this facility, and there is \$35,000,000 drawn as at June 30, 2019. Subsequent to June 30, 2019, the Company has drawn the remaining \$5,000,000 on this facility (see Note 22).

Björkdal Equipment loan

As at June 30, 2019, the Company's Björkdal mine in Sweden had a balance of \$1,001,000 (2018 – \$548,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the three-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 9 months from the year ended December 31, 2018. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

As at June 30, 2019, the current portion of the above facilities is \$441,000 (2018 – \$30,225,000) and the non-current portion is \$35,560,000 (2018 – \$323,000).

10. Five-year exchangeable loan

In May 2014, Mandalay issued \$60,000,000 of debt securities at an interest rate of 5.875% for proceeds of \$60,000,000 by way of a concurrent offering of senior exchangeable bonds (the "Bonds") issued by Gold Exchangeable Limited (the "Issuer"), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited, borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the "Loan") which together mirror the principal terms of the Bonds.

Each Bond holder had the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which net asset value ("NAV") of the SPDR Gold Trust or Gold Shares is calculated.

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares to the Bond holder.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

10. Five-year exchangeable loan (continued)

The Issuer may redeem the Bonds at its option:

- if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30-consecutive trading day period; or
- if \$9,000,000 or less in the principal amount of the Bonds remains outstanding.

The Company has equivalent redemption rights with respect to the Loan. If the Company exercises its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount of the Loan as a current liability, determined using the effective interest rate method, in the condensed consolidated interim statements of financial position of the Company as at June 30, 2019, and December 31, 2018. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (see Note 16).

Repurchase and Amendment of Bonds

On May 26, 2017, the Issuer repurchased \$29,950,000 of the Bonds from the bond holders thereof at a premium of 105% of their principal amount resulting in a remaining principal amount of \$30,050,000.

In connection with the partial repayment of the Bonds, the following amendments have been made to the terms of the remaining Bonds:

- extending the maturity date of the Bonds to May 13, 2022;
- deleting a condition of the Bonds which required that beginning on May 14, 2017, as additional security for the Bonds, the Issuer was required to start depositing the aggregate number of Gold Shares issuable upon exchange of the Bonds into a custody account;
- adding a new covenant to the Bonds pursuant to which the Issuer will be required to offer to repurchase a proportion of the Bonds outstanding at the relevant time if and to the extent that the contained gold equivalent Mineral Reserves (in ounces) at Mandalay's Costerfield mine falls below (initially) 232,000 gold equivalent ounces;
- increasing the interest rate payable on the Bonds from 5.875% per annum to 6.875% per annum effective as of May 13, 2017; and
- reducing the exchange price of the Bonds from US\$149.99 to US\$135.00 (which equates to gold prices of US\$1,556 per ounce, and US\$1,400 per ounce, respectively).

Mandalay funded all amounts required by the Issuer to repurchase Bonds and all associated fees and expenses (including consent fees). The outstanding amount of the Loan has been reduced by an amount equal to the principal amount of the Bonds repurchased and the terms of the Loan have been amended to mirror, where applicable, the amendments to the terms of the Bonds.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

10. Five-year exchangeable loan (continued)

Bond Exchanges

On December 3, 2018 the Company was required to exchange a principal amount of \$2,300,000 of Bonds at a cost of \$1,978,000. As at December 31, 2018, there was a current liability of \$25,235,000 recognised on the statement of financial position relating to the Loan. The outstanding principal at year end was \$27,750,000.

On February 11, 2019, the Company exchanged \$3,650,000 principal amount of Bonds at a cost of \$3,350,000. The outstanding principal amount of the Loan has been reduced in an amount equal to the principal amount of the Bonds that were exchanged and, after exchanges noted above, the outstanding principal amount of the Loan was \$24,100,000. As at June 30, 2019, there was a current liability of \$22,235,000 recognised on the statement of financial position for the Loan.

11. Other provisions

The Company's Costerfield and Cerro Bayo mines provide for a vacation provision for their current employees, in accordance with local statutory requirements.

	Employee benefits
	(\$'000)
Balance, December 31, 2017	3,673
Additions	2,614
Amounts paid	(2,631)
Foreign exchange	(351)
Balance, December 31, 2018	3,305
Additions	137
Amounts paid	(278)
Foreign exchange	(6)
Balance, June 30, 2019	3,158
Less: current portion	1,574
Total non-current portion	1,584

12. Share capital

As at June 30, 2019, the Company had an unlimited number of authorized common shares without par value and 91,049,423 common shares outstanding (December 31, 2018 – 45,159,588 common shares). All outstanding common shares are fully paid.

(a) *Shares issued*

- *Public offering*

During the three months ended March 31, 2019, the Company completed a public offering by issuing 359,400,000 common shares at a price of CAD\$0.12 per common share (equivalent to 35,940,000 common shares at a price of CAD\$1.20 per common share after giving effect to the share consolidation completed on July 2, 2019), which equates to gross proceeds of \$32,273,000 (CAD\$43,128,000) (the "Public Offering").

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

12. Share capital (continued)

(a) Shares issued (continued)

- *Convertible Bridge loan*

On February 20, 2019, the Company entered into a one-year convertible bridge loan agreement for \$8,000,000 with CE Mining Fund III L.P. (the "Bridge Loan"), an investment fund advised by Plinian Capital Limited, which in turn is controlled by Brad Mills, the Chairman of the Company's Board of Directors. The Bridge Loan bore interest at a rate of 10% and was convertible at CE Mining's option into Common Shares at a price per share CAD\$1.08. The Bridge Loan was unsecured and was subordinated to the HSBC Facility.

On March 29, 2019, this Bridge Loan was converted into 99,362,963 common shares (equivalent to 9,963,296 common shares after giving effect to the share consolidation).

- *Share Consolidation*

On July 2, 2019, the Company completed a share consolidation on a basis of ten pre-consolidation shares for one post-consolidation share. Accordingly, as a result of share consolidation, the Company has restated its number of common shares and all per share amounts (including income (loss) per share) for all periods presented to reflect the effect of the share consolidation.

(b) Share-based compensation

	Three months ended		Six months ended	
	2019	June 30, 2018	2019	June 30, 2018
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Stock based compensation on options	81	152	226	361
Fair value for cash election option	(1)	(11)	(6)	(17)
RSU amortization	48	16	89	60
	128	157	309	404

570,000 stock options were granted at an exercise price of C\$1.10 during the three months ended June 30, 2019. The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$1.10 (2018 – C\$2.0) was calculated using the following weighted average assumptions. Expected stock price volatility and option life are based on the Company's historical share price volatility and option life.

	2019	2018
Risk free interest rate	1.50%	1.90%
Expected dividend yield	0.00%	0.00%
Expected life of options in years	7.00	7.00
Expected stock price volatility	71.45%	48.61%
Expected forfeiture rate	5.00%	5.00%

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over three years. Options issued until year ended December 31, 2016 had maximum term of five years, and from the year 2017, can have a maximum term of up to 7 years.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

12. Share capital (continued)

(c) Stock options

	Number of options	Weighted average exercise price
		C\$
Balance, December 31, 2017	2,094,550	8.90
Granted	(339,500)	11.30
Expired	(392,250)	6.95
Forfeited	585,000	2.00
Exercised	(10)	6.00
Balance, December 31, 2018	1,947,790	6.80
Granted	570,000	1.10
Expired	(181,000)	9.80
Forfeited	(398,490)	8.66
Balance, June 30, 2019	1,938,300	4.46

No stock options were exercised during the three and six months ended June 30, 2019.

The following table summarizes information about the stock options outstanding as at June 30, 2019:

	Options outstanding		Options exercisable		
	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
			C\$		C\$
	204,000	0.73	9.10	204,000	9.10
	339,800	1.73	9.10	339,800	9.10
	340,000	5.00	6.00	226,667	6.00
	494,500	6.00	2.00	-	-
	560,000	7.00	1.10	-	-
	1,938,300	4.81	4.43	770,467	8.19

(d) Restricted Share Units

The Company has a Restricted Share Unit Plan (the "RSU Plan") and has granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs will receive the Company's common shares at no cost at the end of the vesting period which are based on graded vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The RSU value is determined based on the fair value of the Company's share at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

12. Share capital (continued)

(d) Restricted Share Units (continued)

The number of RSUs as at June 30, 2019, is as follows:

	Number of RSU awards
Balance, December 31, 2017	68,835
Granted	156,250
Redeemed	(31,605)
Outstanding at December 31, 2018	193,480
Granted	209,596
Redeemed	(13,538)
Forfeited	(41,404)
Outstanding at June 30, 2019	348,134

For the three and six months ended June 30, 2019, the Company recorded \$48,000 and \$89,000 (2018 – \$16,000 and \$60,000) respectively as a share-based compensation expense relating to RSUs.

13. Revenue

Disaggregation of revenue

In the following table, the Company's revenue is disaggregated by primary geographical market, major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (see Note 18).

Three months ended June 30, 2019	Costerfield		Cerro Bayo		Björkdal		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Primary geographical markets								
Australia	7,311	12,039	-	-	-	-	7,311	12,039
Sweden	-	-	-	-	18,942	16,143	18,942	16,143
Revenue from contracts with customers	7,311	12,039	-	-	18,942	16,143	26,253	28,182
Provisional pricing adjustments	(62)	(203)	-	(1)	153	(34)	91	(238)
Total revenue from mining operations	7,249	11,836	-	(1)	19,095	16,109	26,344	27,944
Commodities								
Gold	4,626	7,612	-	-	18,942	16,143	23,568	23,755
Antimony	2,685	4,427	-	-	-	-	2,685	4,427
Revenue from contracts with customers	7,311	12,039	-	-	18,942	16,143	26,253	28,182
Provisional pricing adjustments	(62)	(203)	-	(1)	153	(34)	91	(238)
Total revenue from mining operations	7,249	11,836	-	(1)	19,095	16,109	26,344	27,944

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

13. Revenue (continued)

Six months ended June, 2019	Costerfield		Cerro Bayo		Björkdal		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Primary geographical markets								
Australia	16,442	27,283	-	-	-	-	16,442	27,283
Sweden	-	-	-	-	39,243	39,677	39,243	39,677
Revenue from contracts with customers	16,442	27,283	-	-	39,243	39,677	55,685	66,960
Provisional pricing adjustments	75	153	-	80	501	499	576	732
Total revenue from mining operations	16,517	27,436	-	80	39,743	40,176	56,260	67,692
Commodities								
Gold	9,944	17,225	-	-	39,243	39,677	49,187	56,902
Antimony	6,498	10,058	-	-	-	-	6,498	10,058
Revenue from contracts with customers	16,442	27,283	-	-	39,243	39,677	55,685	66,960
Provisional pricing adjustments	75	153	-	80	501	499	576	732
Total revenue from mining operations	16,517	27,436	-	80	39,743	40,176	56,260	67,692

14. Cost of sales

The cost of sales for the three and six months ended June 30, 2019 and 2018, consists of:

	Three months ended		Six months ended	
	2019	2018	2019	2018
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Raw materials and consumables	5,647	7,395	11,381	14,291
Salary and employee benefits	9,359	8,026	17,952	16,108
Contractors	3,228	3,816	8,038	8,454
Change in inventories	907	1,143	2,663	3,910
Royalties	116	132	244	317
Other	1,494	1,836	3,867	5,088
	20,751	22,348	44,145	48,168

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

15. Finance costs

The finance expenses for the three and six months ended June 30, 2019 and 2018 consist of the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Interest on five year exchangeable loan	575	709	1,200	1,393
Finance charges on Revolver Facility	592	398	1,413	812
Interest on other borrowings and other charges	270	170	412	353
Accretion of reclamation and site closure costs	84	85	168	172
	1,521	1,362	3,193	2,730

16. Financial instruments

(a) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (see Note 10) using the Black-Scholes option pricing. For the three months ended June 30, 2019, the derivative value of the conversion feature amounts to \$3,603,000 (2018 – \$2,691,000) and is recorded in current liabilities in the condensed consolidated interim statement of financial position. The Company recorded a fair value measurement loss of \$999,000 and \$912,000 (2018 – gain of \$1,095,000 and \$852,000) for the three and six months ended June 30, 2019. The value was estimated using the following Level 2 assumptions: risk free interest rate of 1.92% (2018 – 2.52%); volatility of 16% (2018 – 16%), gold forward curve adjustment of (0.22%) (2018 – (0.30%)).

(b) Marketable securities

The value of securities as at June 30, 2019, is \$13,000 (at December 31, 2018 – \$73,000), recorded in trade receivables and other assets. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain of \$19,000 and \$56,000 (2018 – loss of \$58,000 and 75,000) for three and six months ended June 30, 2019 using Level 1 fair value assumptions.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

17. Income per share

As at June 30, 2019 and 2018, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	('000)	('000)	('000)	('000)
Net loss for the period	(9,750)	(23,711)	(11,085)	(24,950)
Basic weighted average number of shares outstanding	91,039	45,150	68,986	45,140
Diluted weighted average number of shares outstanding	91,039	45,150	68,986	45,140

The following stock options and RSU's are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the Company has reported a loss for the three and six months ended June 30, 2019 and 2018.

Details for the options and RSUs are below:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	('000)	('000)	('000)	('000)
Stock options	1,938	2,072	1,938	2,072
RSU	348	37	348	37

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

18. Segmented information

The Company manages its operations by geographical location. These reportable operating segments are summarized in the table below ("Canada" is the provision of corporate services and administrative support and also includes non-core assets held in Canada):

	Three months ended June 30, 2019				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	7,249	-	19,095	-	26,344
Cost of sales, excluding depletion and depreciation	(9,127)	-	(11,624)	-	(20,751)
Depletion and depreciation	(2,427)	(143)	(3,496)	(2)	(6,068)
Income (loss) from mine operations	(4,305)	(143)	3,975	(2)	(475)
Other operating expenses	(335)	(218)	(522)	(507)	(1,582)
Care and maintenance and other operating expenses	-	(839)	-	-	(839)
Write-down of assets (Note 6)	-	-	-	(4,985)	(4,985)
Other expense (income), except for fair value adjustment	45	(123)	(533)	(1,036)	(1,647)
Fair value adjustment loss	-	-	-	(980)	(980)
Income (loss) before income taxes	(4,595)	(1,323)	2,920	(7,510)	(10,508)
Current tax expense	-	(5)	(501)	-	(506)
Deferred tax recovery (expense)	1,369	-	(105)	-	1,264
Net Income (loss)	(3,226)	(1,328)	2,314	(7,510)	(9,750)
Net Loss per share					
Basic and diluted					(\$0.11)
Cash expenditure for property, plant and equipment	5,086	11	5,141	-	10,238
Total non-current assets as at June 30, 2019	51,851	19,901	98,556	25,195	195,503
Total assets as at June 30, 2019	63,802	23,139	124,393	44,172	255,506
Total liabilities as at June 30, 2019	17,497	20,394	24,584	73,134	135,609

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)

(Unaudited)

18. Segmented information (continued)

	Three months ended June 30, 2018				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	11,836	(1)	16,109	-	27,944
Cost of sales, excluding depletion and depreciation	(10,494)	(110)	(11,745)	-	(22,348)
Depletion and depreciation	(3,728)	(432)	(3,911)	(4)	(8,075)
Income (loss) from mine operations	(2,386)	(543)	453	(4)	(2,479)
Other operating expenses	(629)	(346)	(599)	(646)	(2,220)
Care and maintenance and other operating expenses	-	(1,435)	-	-	(1,435)
Write-down of assets (Note 6)	-	(18,533)	-	-	(18,533)
Other expense (income), except for fair value adjustment	557	77	(183)	(2,061)	(1,610)
Fair value adjustment gain	-	-	-	1,037	1,037
Loss before income taxes	(2,458)	(20,780)	(329)	(1,674)	(25,240)
Current tax recovery (expense)	204	-	(83)	-	121
Deferred tax recovery	382	-	1,026	-	1,408
Net income (loss)	(1,872)	(20,780)	614	(1,674)	(23,711)
Net Income per share					
Basic and diluted					(\$0.53)
Cash expenditure for property, plant and equipment	6,771	59	5,112	1	11,943
Total non-current assets as at June 30, 2018	46,336	37,177	87,079	35,574	206,166
Total assets as at June 30, 2018	62,136	47,978	111,198	38,149	259,461
Total liabilities as at June 30, 2018	14,147	21,368	24,549	64,245	124,309

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)

(Unaudited)

18. Segmented information (continued)

	Six months ended on June 30, 2019				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	16,517	-	39,743	-	56,260
Cost of sales, excluding depletion and depreciation	(16,886)	-	(27,259)	-	(44,145)
Depletion and depreciation	(5,417)	(376)	(7,523)	(4)	(13,320)
Income (loss) from mine operations	(5,786)	(376)	4,961	(4)	(1,205)
Other operating expenses (income)	(654)	1,303	(1,103)	(763)	(1,217)
Care and maintenance and other operating expenses	-	(1,715)	-	-	(1,715)
Write-down of assets	-	-	-	(4,985)	(4,985)
Other expense (income), except for fair value adjustment	267	(179)	(985)	(1,678)	(2,575)
Fair value adjustment loss	-	-	-	(856)	(856)
Income (loss) before income taxes	(6,173)	(967)	2,873	(8,286)	(12,553)
Current tax expense	-	(5)	(404)	-	(409)
Deferred tax recovery	1,846	-	31	-	1,877
Net Income (loss)	(4,327)	(972)	2,500	(8,286)	(11,085)
Net Loss per share					
Basic and diluted					(\$0.16)
Cash expenditure for property, plant and equipment	9,538	193	7,919	-	17,650
Total non-current assets as at June 30, 2019	51,851	19,901	98,556	25,195	195,503
Total assets as at June 30, 2019	63,802	23,139	124,393	44,172	255,506
Total liabilities as at June 30, 2019	17,497	20,394	24,584	73,134	135,609

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

18. Segmented information (continued)

	Six months ended on June 30, 2018				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	27,436	80	40,176	-	67,692
Cost of sales, excluding depletion and depreciation	(19,649)	(189)	(28,330)	-	(48,168)
Depletion and depreciation	(8,330)	(938)	(7,637)	(11)	(16,916)
Income (loss) from mine operations	(543)	(1,047)	4,209	(11)	2,608
Other operating expenses	(1,356)	(816)	(1,326)	(770)	(4,268)
Care and maintenance and other operating expenses	-	(3,611)	-	-	(3,611)
Write-down of assets	-	(18,533)	-	-	(18,533)
Other expense (income), except for fair value adjustment	983	(41)	(332)	(2,862)	(2,252)
Fair value adjustments gain	-	-	-	794	794
Income (loss) before income taxes	(916)	(24,048)	2,551	(2,849)	(25,262)
Current tax expense	(8)	-	(654)	-	(662)
Deferred tax recovery	48	-	926	-	974
Net income (loss)	(876)	(24,048)	2,823	(2,849)	(24,950)
Net Loss per share					
Basic and diluted					(\$0.55)
Cash expenditure for property, plant and equipment	11,572	312	11,324	28	23,236
Total non-current assets as at June 30, 2018	46,336	37,177	87,079	35,574	206,166
Total assets as at June 30, 2018	62,136	47,978	111,198	38,149	259,461
Total liabilities as at June 30, 2018	14,147	21,368	24,549	64,245	124,309

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

18. Segmented information (continued)

For the three and six months ended June 30, 2019, the Company had three customers from whom it earned more than 10% of its total revenue (2018 – four customers).

Revenue from these customers is summarized as follows:

	Three months ended		Six months ended	
	June 30, 2019 (\$'000)	June 30, 2018 (\$'000)	June 30, 2019 (\$'000)	June 30, 2018 (\$'000)
Costerfield (gold and antimony)				
Customer 1	6,142	8,585	13,175	20,720
Customer 2	-	3,251	-	6,716
	6,142	11,836	13,175	27,436
Björkdal (gold)				
Customer 3	15,674	13,256	32,202	33,004
Customer 4	3,421	2,853	7,541	7,171
	19,095	16,109	39,743	40,175
Total	25,237	27,945	52,918	67,611

19. Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables (non-provisional pricing portion), reclamation and other deposits, and trade and other payables approximate their carrying value due to the nature of these items.

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

The Company has certain financial assets and liabilities that are measured at fair value or fair value is disclosed. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to the Level 3 inputs.

As at June 30, 2019, other receivables and marketable securities are based on Level 1 inputs. Provisional pricing feature included in trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2019 and December 31, 2018

(Expressed in U.S. dollars, except where otherwise noted)
(Unaudited)

20. Related party transactions

Mr. Sanjay Swarup was the Chief Financial Officer of the Company until August 16, 2018. He was also the Director of SKS Business Services, which provides contractual accounting services to the Company, the amount of which is outlined in the table below:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Administration expenses, salaries and consultancy services				
SKS Business Services	-	47	-	94

On February 20, 2019, the Company completed on the Public Offering and Bridge loan (the "Financing"). As part of the Financing, the Company's Bridge Loan was entered into with an affiliate of CE Mining Fund III L.P. ("CE Mining"), an investment fund advised by Plinian Capital Limited, which is controlled by Bradford A. Mills, Chairman of the Board. The loan agreement in respect of the Bridge Loan contains a number of customary positive and negative covenants, and also provides that for as long as CE Mining owns at least 10% of the outstanding Common Shares it will be entitled to nominate two members of the Company's board of directors, provided that one such nominee must be Bradford A. Mills. The purpose of the Financing was to secure additional funding to allow the Company to satisfy its working capital requirements and fund ongoing capital development and exploration programs.

21. Commitments and contingencies

The Company is involved in legal proceedings from time to time arising in the ordinary course of business. Typically, the amount of the ultimate liability with respect to these actions will not materially affect the Company's financial position and financial performance.

The Company's Björkdal and Costerfield mines have entered into several equipment leases and the detailed future minimum payments relating to these leases are outlined in Note 7.

22. Subsequent events

Share Consolidation

On July 2, 2019, the Company completed a share consolidation on a basis of ten pre-consolidation shares for one post-consolidation share. Accordingly, as a result of share consolidation, the Company has restated its number of common shares and all per share amounts (including income (loss) per share) for all periods presented to reflect the effect of the share consolidation.

Revolver Facility

On July 15, 2019, the Company drew down the remaining \$5,000,000 on its Revolver Facility with HSBC.