

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2020
(Unaudited)

Mandalay Resources Corporation

June 30, 2020

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Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income (loss) Three and six months ended June 30, 2020 and 2019

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue (Note 13)	42,335	26,344	83,901	56,260
Cost of operations				
Cost of sales, excluding depletion and depreciation (Note 14)	19,734	20,751	38,566	44,145
Depletion and depreciation	8,811	6,068	17,406	13,320
	28,545	26,819	55,972	57,465
Income (loss) from mining operations	13,790	(475)	27,929	(1,205)
Expenses				
Administration	1,330	1,488	3,161	2,763
Care and maintenance and other operating expenses	488	839	1,093	1,715
Reversal of reclamation liability (Note 10)	(5,783)	-	(5,783)	-
Share-based compensation (Note 12(b))	255	128	367	309
Loss (gain) on disposal of property, plant and equipment	8	(34)	8	(1,855)
Write down of assets (Note 5)	-	4,985	-	4,985
	(3,702)	7,406	(1,154)	7,917
Income (loss) from operations	17,492	(7,881)	29,083	(9,122)
Other income (expenses)				
Finance costs (Note 15)	(2,989)	(1,521)	(8,608)	(3,193)
Loss on financial instruments (Note 16)	(14,824)	(980)	(20,977)	(856)
Interest and other income	139	105	350	322
Foreign exchange gain (loss)	915	(231)	(868)	296
	(16,759)	(2,627)	(30,103)	(3,431)
Income (loss) before income taxes	733	(10,508)	(1,020)	(12,553)
Income tax expense (recovery)				
Current	1,797	506	2,263	409
Deferred	1,950	(1,264)	4,263	(1,877)
Income tax expense (recovery)	3,747	(758)	6,526	(1,468)
Net loss for the period	(3,014)	(9,750)	(7,546)	(11,085)
Other comprehensive income (loss), net of tax Item that may subsequently be reclassified to net loss				
Foreign currency translation	9,870	(41)	(675)	(3,072)
Comprehensive income (loss) for the period	6,856	(9,791)	(8,221)	(14,157)
Net loss per share				
Basic and diluted	(0.03)	(0.11)	(0.08)	(0.16)
Weighted average number of common shares outstanding (Note 17)				
Basic and diluted ('000)	91,151	91,039	91,159	68,986

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at June 30, 2020 and December 31, 2019

(Expressed in U.S. dollars)

(Unaudited)

	June 30, 2020	December 31, 2019
	(\$'000)	(\$'000)
Assets		
Current assets		
Cash and cash equivalents	20,915	24,462
Reclamation deposits	5,197	10,909
Trade receivables and other assets (Note 4)	19,044	11,893
Inventories	15,665	12,266
Prepaid expenses	1,446	2,098
	62,267	61,628
Non-current assets		
Reclamation and other deposits	16,925	18,014
Trade receivables and other assets (Note 4)	2,885	1,941
Property, plant and equipment, net (Note 5)	178,221	176,355
Deferred tax asset	-	654
	198,031	196,964
	260,298	258,592
Liabilities		
Current liabilities		
Trade and other payables (Note 7)	17,658	21,927
Borrowings (Note 8)	14,168	40,286
Lease liabilities (Note 6)	1,821	1,970
Reclamation and site closure costs provision (Note 10)	10,669	10,909
Other provisions (Note 11)	1,766	1,488
Income taxes payable	1,948	783
Financial instruments (Note 16)	7,774	4,076
Five-year exchangeable loan (Note 9)	-	22,562
	55,804	104,001
Non-current liabilities		
Borrowings (Note 8)	49,829	418
Lease liabilities (Note 6)	3,181	3,542
Reclamation and site closure costs provision (Note 10)	19,143	31,438
Other provisions (Note 11)	1,555	1,560
Financial instruments (Note 16)	17,280	-
Deferred tax liability	9,731	5,881
	100,719	42,839
	156,523	146,840
Equity		
Share capital (Note 12)	229,917	229,809
Share option reserve (Note 12)	4,309	4,173
Foreign currency translation reserve	(40,769)	(40,094)
Retained deficit	(89,682)	(82,136)
	103,775	111,752
	260,298	258,592

Approved by the Board of Directors and authorized for issuance on August 12, 2020.

(Signed) Dominic Duffy

Dominic Duffy, President and Chief Executive Officer

(Signed) Robert Doyle

Robert Doyle, Director

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity

Six months ended June 30, 2020 and 2019

(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, 2019	91,081	229,809	4,173	(40,094)	(82,136)	111,752
Net loss	-	-	-	-	(7,546)	(7,546)
Other comprehensive loss for the period	-	-	-	(675)	-	(675)
Total comprehensive loss	-	-	-	(675)	(7,546)	(8,221)
Stock options exercised (Note 12(c))	20	17	-	-	-	17
Share-based compensation (Note 12(b))	-	-	227	-	-	227
Redemption of RSU (Note 12(d))	84	91	(91)	-	-	-
Balance, June 30, 2020	91,185	229,917	4,309	(40,769)	(89,682)	103,775

	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

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows

Three and six months ended June 30, 2020 and 2019

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Operating activities				
Net loss	(3,014)	(9,750)	(7,546)	(11,085)
Adjustments to reconcile net loss to net cash flows from operating activities				
Depletion and depreciation	8,811	6,068	17,406	13,320
Share-based compensation (Note 12(b))	255	128	367	309
Loss (gain) on disposal of property, plant and equipment	8	(34)	8	(1,855)
Finance cost (Note 15)	2,989	1,521	8,608	3,193
Loss on financial instruments (Note 16)	14,824	980	20,977	856
Reversal of reclamation liability (Note 10)	(5,783)	-	(5,783)	-
Write down of assets (Note 5)	-	4,985	-	4,985
Interest and other income	(139)	(105)	(350)	(322)
Foreign exchange loss (gain)	(1,424)	(662)	902	(1,056)
Income tax expense (recovery)	3,747	(758)	6,526	(1,468)
Reclamation expenditures (Note 10)	(5,061)	(217)	(5,299)	(878)
Changes in non-cash operating working capital items				
Trade receivables and other assets	(2,228)	(4,781)	(7,747)	(5,088)
Inventories	(2,008)	861	(3,426)	3,057
Prepaid expenses	293	120	604	115
Trade and other payables	(604)	(1,933)	(5,971)	(7,130)
Other provisions	353	144	316	(140)
Cash generated from operations	11,019	(3,433)	19,592	(3,187)
Interest and other income received	139	105	350	322
Interest and bank charges paid	(1,147)	(1,279)	(2,373)	(2,685)
Net cash flows from (used in) operating activities	10,011	(4,607)	17,569	(5,550)
Investing activities				
Expenditure for property, plant and equipment	(10,269)	(9,935)	(19,977)	(17,650)
Receipt from reclamation deposits	4,561	2,544	5,846	2,544
Payment to reclamation deposits	-	(14)	-	(4,706)
Proceeds from sale of non-core assets (Note 5)	-	58	-	2,148
Net cash flows used in investing activities	(5,708)	(7,347)	(14,131)	(17,664)
Financing activities				
Proceeds from borrowings (Note 8)	-	576	63,111	5,576
Repayments of borrowings	(10,195)	(51)	(68,546)	(3,443)
Amounts transferred from escrow	5,043	-	-	-
Lease payments (Note 6)	(368)	(176)	(700)	(77)
Proceeds from bridge loan	-	-	-	8,000
Shares issued for cash (Note 12(a))	16	-	16	32,273
Share issuance cost	-	(587)	-	(2,664)
Net cash flows from financing activities	(5,504)	(238)	(6,119)	39,665
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	662	872	(866)	856
Net increase (decrease) in cash and cash equivalents	(539)	(11,320)	(3,547)	17,307
Cash and cash equivalents, beginning of the period	21,454	37,022	24,462	8,395
Cash and cash equivalents, end of the period	20,915	25,702	20,915	25,702
Cash and cash equivalents consist of				
Cash	20,915	25,702	20,915	25,702
	20,915	25,702	20,915	25,702

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2020 and December 31, 2019

(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 34, *Interim Financial Reporting*.

The preparation of these unaudited condensed consolidated interim 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 annual consolidated financial statements as at and for the year ended December 31, 2019.

Risks and Uncertainties

COVID-19

The COVID-19 pandemic is present in all countries in which the Company operates, with cases being reported in Canada, Australia, Sweden and Chile. At this time, the Company has activated business continuity practices across all sites. Management will continue to monitor developments across all jurisdictions and will adjust its planning as necessary.

The Company is not able to estimate the duration of the pandemic and potential impact on its business if disruptions or delays in our operations occur or our ability to transfer our products to market. In addition, a severe prolonged economic downturn could result in a variety of risks to the business, including a decreased ability to raise additional capital when needed on acceptable terms, if at all. As the situation continues to evolve, the Company will continue to closely monitor operating conditions in the countries we operate and respond accordingly.

As of the date of the issuance of these unaudited Condensed Consolidated Financial Statements, there have been no other significant impacts, including impairments, to the Company’s operations and financial statements.

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 audited annual consolidated financial statements as at and for the year ended December 31, 2019. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements as at and for the year ended December 31, 2019.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2020 and December 31, 2019

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

(Unaudited)

4. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	June 30, 2020	December 31, 2019
	(\$'000)	(\$'000)
Trade receivables	18,131	7,787
VAT and other indirect tax receivables	1,729	2,255
Other receivables and assets	1,102	3,792
Restricted cash	967	-
	21,929	13,834
Less: non-current portion	2,885	1,941
Total current portion	19,044	11,893

There was no expected credit loss recognized as at June 30, 2020, or at December 31, 2019.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2020 and December 31, 2019

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

(Unaudited)

5. Property, plant and equipment

Particulars	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost				
As at January 1, 2019	217,488	126,400	49,104	392,992
Additions	21,693	13,895	5,444	41,032
Disposals	-	(3,939)	(2,069)	(6,008)
Write-off of assets	-	-	(4,985)	(4,985)
Reclassification to mining interest	5,485	(647)	(4,838)	-
Change in estimate of reclamation bond	-	-	1,508	1,508
Foreign exchange	(4,443)	(2,166)	(196)	(6,805)
As at December 31, 2019	240,223	133,543	43,968	417,734
Additions	10,814	6,577	3,145	20,536
Write-down of assets	-	-	(785)	(785)
Reclassification to mining interest	1,509	-	(1,509)	-
Foreign exchange	(1,991)	(919)	(285)	(3,195)
As at June 30, 2020	250,555	139,201	44,534	434,290
Accumulated depreciation				
As at January 1, 2019	149,404	75,208	-	224,612
Expense	14,075	10,908	-	24,983
Disposals	-	(2,845)	-	(2,845)
Foreign exchange	(4,401)	(970)	-	(5,371)
As at December 31, 2019	159,078	82,301	-	241,379
Expense	11,895	5,463	-	17,358
Disposals	-	(530)	-	(530)
Foreign exchange	(1,521)	(617)	-	(2,138)
As at June 30, 2020	169,452	86,617	-	256,069
Carrying value				
As at January 1, 2019	68,084	51,192	49,104	168,380
As at December 31, 2019	81,145	51,242	43,968	176,355
As at June 30, 2020	81,103	52,584	44,534	178,221

Carrying amount by segment

Particulars	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
As at June 30, 2020				
Costerfield	34,177	13,145	6,247	53,569
Björkdal	46,926	36,154	22,431	105,511
Cerro Bayo	-	1,602	-	1,602
La Quebrada	-	-	10,540	10,540
Challacollo	-	-	3,124	3,124
Other	-	1,683	2,192	3,875
	81,103	52,584	44,534	178,221

Particulars	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
As at December 31, 2019				
Costerfield	34,677	13,208	5,822	53,707
Björkdal	46,468	34,079	21,412	101,959
Cerro Bayo	-	1,913	785	2,698
La Quebrada	-	-	10,480	10,480
Challacollo	-	-	3,039	3,039
Other	-	2,042	2,430	4,472
	81,145	51,242	43,968	176,355

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2020 and December 31, 2019

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

(Unaudited)

5. Property, plant and equipment (continued)

For the three months ended June 30, 2020, there was \$170,000 of plant and equipment depreciation capitalized to mining interests (2019 – \$148,000).

As at June 30, 2020, the Company had right-of-use assets of \$5,970,000 (2019 – \$5,179,000) included in property, plant and equipment, of which \$308,000 is at Costerfield and \$5,662,000 is at Björkdal (2019 – Costerfield: \$1,128,000 and Björkdal: \$4,051,000).

Details of non-operating exploration and evaluation assets are shown below:

(i) Cerro Bayo

On October 8, 2019, the Company entered into a binding option agreement with Equus Mining for the potential sale of the Cerro Bayo mine in Chile. Cerro Bayo continues to be held under care and maintenance.

On June 23, 2020, the Chilean mining authority, Sernageomin, approved the modification of the reclamation plan at Cerro Bayo. This in turn reduced the reclamation and site closure provision liability at Cerro Bayo to \$12,216,000 as at June 30, 2020 (2019 - \$18,667,000). The reduction from the change in estimate of \$6,568,000 for the three months to June 30, 2020, was credited against the Cerro Bayo exploration and evaluation asset of \$785,000 and the remaining \$5,783,000 was recognized as reversal of reclamation liability in the interim statements of financial income (loss) (see Note 10).

(ii) Challacollo

On November 12, 2019, the Company announced that it had entered into a definitive agreement with Aftermath Silver Ltd. (“Aftermath”) pursuant to which Aftermath would acquire Minera Mandalay Challacollo Limitada, a wholly owned subsidiary of the Company which owns the Challacollo project, in exchange for total consideration of up to C\$10,500,000.

(iii) La Quebrada

La Quebrada is a non-core asset and the Company is currently not exploring on the property.

(iv) Lupin

The Company spent \$5,038,000 and \$5,278,000, respectively, on reclamation activities at the Lupin mine during the three and six months ended June 30, 2020 (2019 – \$117,000 and \$659,000).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2020 and December 31, 2019

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

6. Lease liabilities

	June 30, 2020		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Costerfield	250	58	308
Björkdal	1,571	3,123	4,694
Total lease liabilities	1,821	3,181	5,002

	December 31, 2019		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Costerfield	437	176	613
Björkdal	1,533	3,366	4,899
Total lease liabilities	1,970	3,542	5,512

For the three and six months ended June 30, 2020, the Company recognized \$747,000 and \$1,465,800, respectively, in operating expenses relating to variable lease payments (2019 – \$1,500,000 and \$3,160,000).

Björkdal equipment leases

Björkdal's equipment leases are 80% financed of their 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 repaid during the year ending December 31, 2025.

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 the year ending December 31, 2023.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2020 and December 31, 2019

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

7. Trade and other payables

	June 30, 2020	December 31, 2019
	(\$'000)	(\$'000)
Trade payables	8,276	13,651
Accrued liabilities	7,020	6,513
Payroll and other taxes payable	2,059	1,735
Cash election option (Note 12(b))	149	16
Provisional pricing adjustment	154	12
	17,658	21,927

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.

8. Borrowings

	June 30, 2020	December 31, 2019
	(\$'000)	(\$'000)
Syndicated Facility	62,754	-
Equipment Facilities	1,242	704
Revolver Facility	-	40,000
	63,996	40,704
Less: current portion of total borrowings	14,168	40,286
Non-current portion of total borrowings	49,829	418

Syndicated Facility

On March 17, 2020, the Company entered into a credit agreement with HSBC Bank Canada ("HSBC") and Macquarie Bank Limited ("Macquarie") providing for:

1. A senior secured Revolver Credit Facility in an aggregate amount of up to \$25,000,000; and
2. A senior secured Term Credit Facility in an aggregate amount of up to \$40,000,000 (together the "Syndicated Facility").

The Syndicated Facility amends and restates the Company's previous \$40,000,000 revolving credit facility with HSBC, which was scheduled to mature on July 24, 2020 (the "Revolver Facility"). The initial drawdown under the Syndicated Facility was used to repay the Revolver Facility in full and to fund the repurchase or redemption of the outstanding five-year exchangeable loan (see Note 9).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2020 and December 31, 2019

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

(Unaudited)

8. Borrowings (continued)

The Syndicated Facility has the following financial covenants:

- Debt Service Coverage Ratio of
 - I. not less than 1.25:1:00 for the rolling periods (two quarters) ending March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020; and
 - II. not less than 1.50:1:00 for the rolling periods (two quarters) ending March 31, 2021 and thereafter;
- Leverage Ratio of not more than 3.00:1.00 at all times;
- Adjusted Tangible Net Worth of not less than \$95,000,000 plus 50% of net income (cumulative) earned after the Closing Date, less any write-downs related to non-core assets and add/less any fair value loss/gain related to the gold derivative contracts; and
- The aggregate of the Company's unrestricted cash shall not be less than \$10,000,000 at any time.

As at June 30, 2020, the Company was in compliance with all financial covenants under the Syndicated Facility.

The Syndicated Facility has a three-year term and the Term Credit Facility shall be reduced by \$3,000,000 each quarter commencing September 30, 2020, until December 31, 2020, and thereafter repaid in eight equal quarterly installments of \$3,778,000 starting March 31, 2021, with the final payment of \$28,778,000 on the maturity date, March 16, 2023, which includes repayment of the Revolver Credit Facility in full. The Syndicated Facility allows for early repayments with no associated penalties and will hold security over the majority of the Company's material assets. The Syndicated Facility has an effective interest rate of 6.72%.

As at June 30, 2020, the Company was fully drawn down on the Syndicated Facility.

Syndicated Facility – Gold Derivative Contracts

In conjunction with the Syndicated Facility, Mandalay entered into two separate gold derivative programs with HSBC and Macquarie for a total of 150,000 ounces of saleable gold over the Syndicated Facility's three-year term commencing monthly in July 2020, or 50,000 ounces of saleable gold per year. These programs consist of a zero-cost collar contract for 75,000 ounces of saleable gold with a floor price of US\$1,550 per ounce and a ceiling of US\$1,617 per ounce; and an Australian dollar gold forward contract for the remaining 75,000 ounces of saleable gold at AU\$2,390 per ounce. The underlying contracts within these two programs have a fair value liability of \$25,054,000 as at June 30, 2020, specifically \$10,593,000 for the Australian dollar forward contract and \$14,461,000 for the US dollar collar contract (see Note 16).

Equipment Facilities

As at June 30, 2020, the Company's Björkdal mine in Sweden had a balance of \$1,245,000 (December 31, 2019 – \$703,000) for the equipment loan facilities (the "Equipment Facilities") with several Swedish banks to finance mining equipment. The Equipment Facilities bear variable interest at the three-month STIBOR plus 2.26% per annum and are repayable in monthly installments plus interest and are due to be repaid by June 30, 2024. The Equipment Facilities are secured by the underlying equipment.

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9. Five-year exchangeable loan

In May 2014, Mandalay issued debt securities 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 mirrored the principal terms of the Bonds. The Company had equivalent redemption rights with respect to the Loan.

Under the terms of the Loan, the Company had the right to repay the Loan (and require the Issuer to complete a concurrent redemption of the Bonds) at its option if \$9,000,000 or less in the principal amount of Bonds remained outstanding. As the outstanding principal amount of the Bonds was less than this amount after the repurchase on March 18, 2020, the Company caused the issuer to send a redemption notice to the remaining Bond holders (see Note 8). In response to the redemption notice, all remaining Bond holders exercised their exchange rights by April 22, 2020. As a result, none of the Bonds remain outstanding and the entire amount of the Loan had been repaid by that date.

10. Reclamation and site closure costs

Site closure and reclamation cost obligations arise from the acquisition, development, construction and normal operation from mining property, plant and equipment, due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The Company has future obligations to retire its mining assets including dismantling, remediation and ongoing treatment and monitoring of sites. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future are subject to change, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

The Company's site closure reclamation obligations consist of costs for the mines at Costerfield, Cerro Bayo, Björkdal and Lupin. Significant site closure and reclamation activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

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10. Reclamation and site closure costs (continued)

Changes to the site closure and reclamation cost balance are as follows:

	(\$'000)
Balance at December 31, 2018	40,674
Expenditure for reclamations	(1,864)
Change in estimated cash outflows	1,771
Accretion (Note 15)	572
Reduction of liability from sale of Ulu	(1,506)
Foreign exchange	2,700
Balance at December 31, 2019	42,347
Expenditure for reclamations	(5,299)
Change in estimated cash outflows	(6,568)
Accretion (Note 15)	205
Reduction of liability from sale of Ulu	-
Foreign exchange	(873)
Balance at June 30, 2020	29,812
Less: current portion	10,669
Total non-current portion	19,143

At each reporting period the Company reviews cost estimates and other assumptions used in the valuation of reclamation and closure costs to reflect events, changes in circumstances and new information available. Changes in these cost estimates and assumptions have a corresponding impact on the best estimate of the site closure and reclamation obligation costs.

The best estimate of the site closure and reclamation costs is measured by discounting the expected cash flows using a discount factor that reflects a pre-tax rate specific to the liability. The Company prepares estimates of the timing and amount of expected cash flows when site closure and reclamation costs are incurred. Expected cash flows are updated to reflect changes in facts and circumstances. The principal factors that can cause expected cash flows to change are: the construction of new processing facilities; changes in the quantities of material in reserves and a corresponding change in the life-of-mine plan; changing ore characteristics that impact required environmental protection measures and related costs changes in water quality that impact the extent of water treatment required; and changes in laws and regulations governing the protection of the environment. The best estimate of the site closure and reclamation costs is recorded when it is incurred.

On June 23, 2020, the Chilean mining authority, Sernageomin, approved the modification of the reclamation plan at Cerro Bayo. This in turn reduced the reclamation and site closure provision liability at Cerro Bayo to \$12,216,000 as at June 30, 2020 (2019 – \$18,667,000).

During the three and six months ended June 30, 2020, the Company spent \$5,057,000 (2019 – \$123,000) and \$5,282,000 (2019 – \$695,000) respectively on reclamation work at the Lupin site in Canada. After approval from the Canadian authorities, during the three months ended June 30, 2020, the Company received \$4,723,000 released from security to fund this work.

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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, 2018	3,305
Additions	2,372
Amounts paid	(2,613)
Foreign exchange	(16)
Balance, December 31, 2019	3,048
Additions	1,074
Amounts paid	(752)
Foreign exchange	(49)
Balance, June 30, 2020	3,321
Less: current portion	1,766
Total non-current portion	1,555

12. Share capital

As at June 30, 2020, the Company had an unlimited number of authorized common shares without par value and 91,185,239 common shares outstanding (2019 – 91,080,673 common shares). All outstanding common shares are fully paid.

(a) Shares issued – 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.

For the three and six months ended June 30, 2020, the Company issued common shares upon exercise of share options by their holders (Note 12 (c))

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12. Share capital (continued)

(b) Share-based compensation

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Share-based compensation on options	79	81	163	226
Change in fair value for cash election option	116	(1)	99	(6)
RSU amortization	60	48	105	89
	255	128	367	309

During the six months ended June 30, 2020, the Company granted 917,000 stock options (2019 – 570,000) at an exercise price of C\$0.61 (2019 – C\$1.10). The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$0.46 (2019 – C\$0.74) 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.

	2020	2019
Risk free interest rate	1.25%	1.50%
Expected dividend yield	0.00%	0.00%
Expected life of options in years	7.00	7.00
Expected stock price volatility	87.09%	71.45%
Expected forfeiture rate	0.00%	5.00%

In May 2020, the Company established an Omnibus Equity Incentive Plan (the "Omnibus Plan") which will be used going forward when granting share options in the future (Note 12 (e)).

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12. Share capital (continued)

(c) Stock options

	Number of options	average exercise price C\$
Balance, December 31, 2015	18,912,500	0.89
Granted	5,463,000	0.91
Exercised-equity issuance	(4,123,300)	0.63
Forfeited	(1,010,000)	0.93
Balance, December 31, 2018	1,947,790	6.77
Granted	570,000	1.10
Expired	(181,000)	9.80
Forfeited	(177,490)	4.98
Exercised	-	-
Cancelled	(350,500)	9.00
Balance, December 31, 2019	1,808,800	4.42
Granted	917,000	0.61
Expired	(165,500)	9.10
Forfeited	(567,500)	5.34
Exercised	(20,000)	(1.10)
Balance, June 30, 2020	1,972,800	2.05

20,000 stock options were exercised during the three months ended June 30, 2020 (2019 – nil) at an exercise price of C\$1.10.

The following table summarizes information about the stock options outstanding and exercisable as at June 30, 2020:

	Options outstanding		Options exercisable		
	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
	151,300	0.98	9.10	151,300	9.10
	165,000	4.25	6.00	165,000	6.00
	299,500	5.25	2.00	199,667	2.00
	440,000	6.25	1.10	146,667	1.10
	917,000	7.25	0.61	-	-
	1,972,800	5.99	2.03	662,634	4.42

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12. Share capital (continued)

(d) Restricted Share Units

The Company has a Restricted Share Unit (“RSUs”) Plan (the “RSU Plan”) and has granted 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.

In May 2020, the Company established the “Omnibus Plan” which will be used going forward when granting RSUs in the future (Note 12 (e)).

The number of RSUs as at June 30, 2020 is as follows:

	Number of RSU awards
Balance, December 31, 2018	193,480
Granted	209,596
Redeemed	(44,789)
Forfeited	(41,404)
Balance, December 31, 2019	316,883
Granted	491,802
Redeemed	(84,565)
Balance, June 30, 2020	724,120

For the three and six months ended June 30, 2020, the Company recorded \$60,000 and \$105,000 (2019 – \$48,000 and \$89,000) respectively as a share-based compensation expense relating to RSUs.

(e) Omnibus Equity Incentive Plan

On May 20, 2020, the shareholders of the Company approved a rolling Omnibus Equity Incentive Plan (the “Omnibus Plan”) which provides flexibility to the Company to grant equity-based incentive awards in the form of stock options, restricted share units, performance share units and deferred share units as described in the Company’s Management Information Circular dated April 3, 2020. The Omnibus Plan replaced the Company’s Option Plan and RSU Plan which remain in effect with respect to stock options and RSUs issued prior to the adoption of the Omnibus Plan, but no further stock options and restricted share units will be issued thereunder. The total number of common shares reserved for issuance pursuant to awards granted under the Omnibus Plan and all other security-based compensation outstanding under the Stock Option Plan and RSU Plan shall not exceed 10% of the issued and outstanding common shares from time to time.

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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	Costerfield		Björkdal		Total	
	2020	2019	2020	2019	2020	2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Primary geographical markets						
Australia	23,254	7,311	-	-	23,254	7,311
Sweden	-	-	20,532	18,942	20,532	18,942
Revenue from contracts with customers	23,254	7,311	20,532	18,942	43,786	26,253
Provisional pricing adjustments	(404)	(62)	(1,047)	153	(1,451)	91
Total revenue from mining operations	22,850	7,249	19,485	19,095	42,335	26,344
Commodities						
Gold	17,929	4,626	20,532	18,942	38,461	23,568
Antimony	5,325	2,685	-	-	5,325	2,685
Revenue from contracts with customers	23,254	7,311	20,532	18,942	43,786	26,253
Provisional pricing adjustments	(404)	(62)	(1,047)	153	(1,451)	91
Total revenue from mining operations	22,850	7,249	19,485	19,095	42,335	26,344
Six months ended June 30	Costerfield		Björkdal		Total	
	2020	2019	2020	2019	2020	2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Primary geographical markets						
Australia	43,293	16,442	-	-	43,293	16,442
Sweden	-	-	40,781	39,243	40,781	39,243
Revenue from contracts with customers	43,293	16,442	40,781	39,243	84,074	55,685
Provisional pricing adjustments	(58)	75	(115)	500	(173)	575
Total revenue from mining operations	43,235	16,517	40,666	39,743	83,901	56,260
Commodities						
Gold	32,623	9,944	40,781	39,243	73,404	49,187
Antimony	10,670	6,498	-	-	10,670	6,498
Revenue from contracts with customers	43,293	16,442	40,781	39,243	84,074	55,685
Provisional pricing adjustments	(58)	75	(115)	500	(173)	575
Total revenue from mining operations	43,235	16,517	40,666	39,743	83,901	56,260

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14. Cost of sales

The cost of sales for the three and six months ended June 30, 2020, and 2019, consists of:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Raw materials and consumables	6,524	5,647	11,542	11,381
Salary and employee benefits	9,336	9,359	18,098	17,952
Contractors	3,431	3,228	7,141	8,038
Change in inventories	(1,911)	907	(3,138)	2,663
Royalties	595	116	1,152	244
Other	1,759	1,494	3,771	3,867
	19,734	20,751	38,566	44,145

15. Finance costs

The finance costs for the three and six months ended June 30, 2020, and 2019 consist of the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Interest on Syndicated Facility	1,163	-	1,366	-
Loss on repayment of five year exchangeable loan	1,634	-	3,752	-
Interest on other borrowings and other charges	103	270	507	412
Accretion of reclamation and site closure costs	89	84	230	168
Interest on Revolver Facility	-	592	660	1,413
Interest on five year exchangeable loan	-	575	587	1,200
Accelerated finance cost for repayment of five year exchangeable loan	-	-	1,506	-
	2,989	1,521	8,608	3,193

16. Financial instruments

The Company has recognized a loss on financial instruments of \$14,824,000 and \$20,977,000, respectively, for the three months and six months ended June 30, 2020 (2019 – loss of \$980,000 and \$856,000). Details of this are given below:

(a) Gold derivative contracts

During the three months ending June 30, 2020, the Company has entered into two programs with HSBC and Macquarie, as part of the Syndicated Facility. The Company has not applied hedge accounting for the derivative contracts within these two programs. The Company has recognized a fair value loss of \$15,941,000 and \$25,054,000 for the three months and six months ending June 30, 2020 (2019 – \$nil).

The contracts are classified as Level 2, fair value through profit or loss financial instruments with fair value determined using the pricing models that utilize a variety of observable inputs that are a combination of quoted prices, applicable yield curves and credit spreads.

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(Unaudited)

16. Financial instruments (continued)

(b) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (see Note 9) using the Black-Scholes option pricing model. During the three months ended June 30, 2020, the Company had repaid its balance the Loan and as a result of this, the derivative value of the conversion feature was nil (2019 – \$3,603,000). The Company recorded a fair value measurement gain of \$1,117,000 and \$4,076,265 (2019 – loss of \$999,000 and \$912,000) for the three months and six months ended June 30, 2020.

(c) Marketable securities

On December 24, 2019, the Company sold 5,000,000 shares of Blue Star for \$150,000 as part of the sale of Ulu. There was no gain or loss during the three or six months ended June 30, 2020 (2019 – gain of \$19,000 and \$56,000).

17. Net loss per share

As at June 30, 2020, and 2019, the weighted average number of common shares for the purpose of calculating diluted income (loss) per share reconciles to the weighted average number of common shares used in the calculation of basic income (loss) per share as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	(\$'000)	(\$'000)	('000)	('000)
Net loss for the period	(3,014)	(9,750)	(\$7,546)	(\$11,085)
Basic and diluted weighted average number of shares outstanding	91,151	91,039	91,159	68,986

The following stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income (loss) per share calculation because the Company has reported a loss for the three and six months ended June 30, 2020 and 2019.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	('000)	('000)	('000)	('000)
Stock options	1,973	1,938	1,973	1,938
RSU	724	348	724	348

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(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, 2020				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	22,850	-	19,485	-	42,335
Cost of sales, excluding depletion and depreciation	(7,427)	-	(12,307)	-	(19,734)
Depletion and depreciation	(4,663)	(142)	(3,972)	(34)	(8,811)
Income (loss) from mining operations	10,760	(142)	3,206	(34)	13,790
Other operating expenses	(649)	(72)	(557)	(315)	(1,593)
Care and maintenance and other operating expenses	-	(488)	-	-	(488)
Reversal of reclamation liability (Note 10)	-	5,783	-	-	5,783
Other income (expenses), except for fair value adjustment	(99)	(320)	1,570	(3,086)	(1,935)
Fair value adjustment loss	-	-	-	(14,824)	(14,824)
Income (loss) before income taxes	10,012	4,761	4,219	(18,259)	733
Current tax expense	(924)	(5)	(868)	-	(1,797)
Deferred tax expense	(1,853)	-	(97)	-	(1,950)
Net income (loss)	7,235	4,756	3,254	(18,259)	(3,014)
Net loss per share					
Basic and diluted					(\$0.03)
Cash expenditure for property, plant and equipment	5,532	(25)	4,762	-	10,269
Total non-current assets as at June 30, 2020	56,381	17,051	111,394	13,205	198,031
Total assets as at June 30, 2020	76,510	19,044	138,731	26,013	260,298
Total liabilities as at June 30, 2020	15,900	12,002	29,269	99,352	156,523

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(Unaudited)

18. Segmented information (continued)

	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 mining 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 5)	-	-	-	(4,985)	(4,985)
Other income (expenses), 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	4,838	-	9,935
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

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(Unaudited)

18. Segmented information (continued)

	Six months ended on June 30, 2020				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	43,235	-	40,666	-	83,901
Cost of sales, excluding depletion and depreciation	(13,832)	-	(24,734)	-	(38,566)
Depletion and depreciation	(9,608)	(311)	(7,415)	(72)	(17,406)
Income (loss) from mine operations	19,795	(311)	8,517	(72)	27,929
Other operating expenses	(1,340)	(189)	(1,217)	(790)	(3,536)
Care and maintenance and other operating expenses	-	(1,093)	-	-	(1,093)
Reversal of reclamation liability (Note 10)	-	5,783	-	-	5,783
Other income (expenses), except for fair value adjustment	(1,352)	(574)	1,415	(8,615)	(9,126)
Fair value adjustment loss	-	-	-	(20,977)	(20,977)
Income (loss) before income taxes	17,103	3,616	8,715	(30,454)	(1,020)
Current tax expense	(924)	(5)	(1,334)	-	(2,263)
Deferred tax expense	(4,088)	-	(175)	-	(4,263)
Net income (loss)	12,091	3,611	7,206	(30,454)	(7,546)
Net loss per share					
Basic and diluted					(\$0.08)
Cash expenditure for property, plant and equipment	10,241	120	9,616	-	19,977
Total non-current assets as at June 30, 2020	56,381	17,051	111,394	13,205	198,031
Total assets as at June 30, 2020	76,510	19,044	138,731	26,013	260,298
Total liabilities as at June 30, 2020	15,900	12,002	29,269	99,352	156,523

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(Unaudited)

18. Segmented information (continued)

	Six months ended 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 income (expenses)	(654)	1,303	(1,103)	(763)	(1,217)
Care and maintenance and other operating expenses	-	(1,715)	-	-	(1,715)
Write-down of assets (Note 5)	-	-	-	(4,985)	(4,985)
Other income (expenses), except for fair value adjustment	267	(179)	(985)	(1,678)	(2,575)
Fair value adjustments 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, 2020 and December 31, 2019

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

(Unaudited)

18. Segmented information (continued)

For the three and six months ended June 30, 2020, the Company had four customers from whom it earned more than 10% of its total revenue (2019 – three customers).

Revenue from these customers is summarized as follows:

	Three months ended		Six months ended	
	June 30, 2020 (\$'000)	June 30, 2019 (\$'000)	June 30, 2020 (\$'000)	June 30, 2019 (\$'000)
Costerfield (gold and antimony)				
Customer 1	11,917	6,142	24,186	13,175
Customer 2	8,020	-	14,236	-
	19,937	6,142	38,422	13,175
Björkdal (gold)				
Customer 3	15,125	15,674	32,262	32,202
Customer 4	4,360	3,421	8,404	7,541
	19,485	19,095	40,666	39,743
Total	39,422	25,237	79,088	52,918

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 values 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, 2020, other receivables 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, the five year-exchangeable loan 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, 2020 and December 31, 2019

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

20. Related party transactions

Kingsdale Advisors (“Kingsdale”) is a shareholder services and strategic advisory firm which provided the Company with corporate advisory services in the amount of \$15,000 during the six months to June 30, 2020. Amy Freedman is Chief Executive Officer of Kingsdale and is on the Board of Directors of Mandalay.

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 6.