

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2021
(Unaudited)

Mandalay Resources Corporation

March 31, 2021

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Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income (loss) Three months ended March 31, 2021 and 2020

(Expressed in U.S. dollars)

	Three months ended March 31,	
	2021	2020
	(\$'000)	(\$'000)
Revenue (Note 8)	52,573	41,566
Cost of operations		
Cost of sales, excluding depletion and depreciation	25,414	18,832
Depletion and depreciation	10,816	8,595
	36,230	27,427
Income from mining operations	16,343	14,139
Expenses		
Administration	1,097	1,831
Care and maintenance and other operating expenses	383	605
Share-based compensation (Note 7(a))	260	112
Gain on disposal of property, plant and equipment (Note 4)	(444)	-
	1,296	2,548
Income from operations	15,047	11,591
Other expense (income)		
Finance costs (Note 10)	2,354	5,619
(Gain) loss on financial instruments (Note 9)	(20,237)	5,229
Interest and other income	(53)	(211)
Foreign exchange (gain) loss	(1,403)	1,783
	(19,339)	12,420
Income (loss) before income taxes	34,386	(829)
Income tax expense		
Current	3,211	466
Deferred	5,675	2,313
Income tax expense	8,886	2,779
Net income (loss) for the period	25,500	(3,608)
Other comprehensive income (loss), net of tax Item that may subsequently be reclassified to net income (loss)		
Foreign currency translation	(7,695)	(10,545)
Comprehensive income (loss) for the period	17,805	(14,153)
Net income (loss) per share		
Basic	0.28	(0.04)
Diluted	0.27	(0.04)
Weighted average number of common shares outstanding (Note 11)		
Basic ('000)	91,238	91,084
Diluted ('000)	93,469	91,084

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at March 31, 2021 and 2020

(Expressed in U.S. dollars)

	March 31, 2021	December 31, 2020
	(\$'000)	(\$'000)
Assets		
Current assets		
Cash and cash equivalents	29,891	34,206
Reclamation deposits (Note 6)	9,029	7,319
Trade receivables and other assets	22,760	17,320
Inventories	24,921	24,291
Prepaid expenses	4,230	2,473
	90,831	85,609
Non-current assets		
Reclamation and other deposits (Note 6)	11,072	14,993
Trade receivables and other assets	2,992	3,068
Property, plant and equipment, net (Note 4)	192,324	197,614
	206,388	215,675
	297,219	301,284
Liabilities		
Current liabilities		
Trade and other payables	21,229	25,969
Borrowings (Note 5)	15,821	15,991
Lease liabilities	2,088	1,991
Reclamation and site closure costs provision (Note 6)	9,029	7,319
Other provisions	3,835	3,942
Income taxes payable	12,611	10,716
Financial instruments (Note 9)	152	8,351
	64,765	74,279
Non-current liabilities		
Borrowings (Note 5)	38,787	42,387
Lease liabilities	3,393	3,577
Reclamation and site closure costs provision (Note 6)	22,355	24,610
Other provisions	317	316
Financial instruments (Note 9)	1,086	13,124
Deferred tax liability	12,731	7,212
	78,669	91,226
	143,434	165,505
Equity		
Share capital (Note 7)	229,988	229,970
Share option reserve (Note 7)	3,488	3,328
Foreign currency translation reserve	(33,536)	(25,841)
Accumulated deficit	(46,155)	(71,678)
	153,785	135,779
	297,219	301,284

Approved by the Board of Directors and authorized for issuance on May 12, 2021.

(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

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity

Three months ended March 31, 2021 and 2020

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

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2020	91,236	229,970	3,328	(25,841)	(71,678)	135,779
Net income for the period	-	-	-	-	25,500	25,500
Other comprehensive loss for the period	-	-	-	(7,695)	-	(7,695)
Total comprehensive income	-	-	-	(7,695)	25,500	17,805
Stock options exercised (Note 7(b))	13	18	(6)	-	-	12
Share-based compensation (Note 7(a))	-	-	189	-	-	189
Reclassified for expired and cancelled options	-	-	(23)	-	23	-
Balance, March 31, 2021	91,249	229,988	3,488	(33,536)	(46,155)	153,785

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Accumulated 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 for the period	-	-	-	-	(3,608)	(3,608)
Other comprehensive loss for the period	-	-	-	(10,545)	-	(10,545)
Total comprehensive loss	-	-	-	(10,545)	(3,608)	(14,153)
Share-based compensation (Note 7(a))	-	-	112	-	-	112
Redemption of RSU (Note 7(c))	10	12	(12)	-	-	-
Balance, March 31, 2020	91,091	229,821	4,273	(50,639)	(85,744)	97,711

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows

Three months ended March 31, 2021 and 2020

(Expressed in U.S. dollars)

	Three months ended	
	March 31,	
	2021	2020
	(\$'000)	(\$'000)
Operating activities		
Net income (loss) for the period	25,500	(3,608)
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depletion and depreciation	10,816	8,595
Share-based compensation (Note 7(a))	260	112
Gain on disposal of property, plant and equipment	(444)	-
Finance cost (Note 10)	2,354	5,619
(Gain) loss on financial instruments (Note 9)	(20,237)	5,229
Interest and other income	(53)	(211)
Unrealized foreign exchange (gain) loss	(1,500)	2,326
Income tax expense	8,886	2,779
Reclamation expenditures (Note 6)	(226)	(238)
Changes in non-cash operating working capital items		
Trade receivables and other assets	(6,310)	(5,519)
Inventories	(806)	(1,418)
Prepaid expenses	(1,944)	311
Trade and other payables	(4,644)	(5,367)
Other provisions	(58)	(37)
Cash generated from operations	11,594	8,573
Interest and other income received	53	211
Interest and bank charges paid	(1,152)	(1,226)
Net cash flows from operating activities	10,495	7,558
Investing activities		
Expenditure for property, plant and equipment	(11,999)	(9,662)
Receipt from reclamation deposits (Note 6)	2,145	1,285
Proceeds from sale of non-core assets (Note 4)	444	-
Net cash flows used in investing activities	(9,410)	(8,377)
Financing activities		
Proceeds from borrowings (Note 5)	762	63,111
Repayments of borrowings	(3,986)	(58,351)
Lease payments	(535)	(377)
Payment of gold derivative contracts	(1,486)	-
Shares issued for cash	12	-
Amount transferred to escrow	-	(5,043)
Net cash flows used in financing activities	(5,233)	(660)
Effects of exchange rate changes on the balance of cash and cash equivalents		
held in foreign currencies	(167)	(1,529)
Net decrease in cash and cash equivalents	(4,315)	(3,008)
Cash and cash equivalents, beginning of the period	34,206	24,462
Cash and cash equivalents, end of the period	29,891	21,454
Cash and cash equivalents consist of		
Cash	29,891	21,454
	29,891	21,454

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2021 and December 31, 2020

(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, 2020.

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 operations occur or its 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 Interim 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, 2020. 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, 2020.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2021 and December 31, 2020

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

(Unaudited)

4. Property, plant and equipment

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost				
As at January 1, 2020	240,223	133,543	43,968	417,734
Additions	22,872	17,875	6,288	47,035
Disposals	-	(1,858)	(2,546)	(4,404)
Write-down of assets	-	(1,645)	-	(1,645)
Reclassification to mining interest	2,581	(124)	(2,457)	-
Reversal of reclamation liability	-	(1,360)	(785)	(2,145)
Foreign exchange	24,062	13,770	1,042	38,874
As at December 31, 2020	289,738	160,201	45,510	495,449
Additions	5,267	4,805	1,755	11,827
Foreign exchange	(8,463)	(5,538)	(565)	(14,566)
As at March 31, 2021	286,542	159,468	46,700	492,710
Accumulated depreciation				
As at January 1, 2020	159,078	82,301	-	241,379
Expense	24,499	11,456	-	35,955
Disposals	-	(2,246)	-	(2,246)
Foreign exchange	15,385	7,362	-	22,747
As at December 31, 2020	198,962	98,873	-	297,835
Expense	7,334	3,437	-	10,771
Foreign exchange	(5,568)	(2,652)	-	(8,220)
As at March 31, 2021	200,728	99,658	-	300,386
Net book value				
As at January 1, 2020	81,145	51,242	43,968	176,355
As at December 31, 2020	90,776	61,328	45,510	197,614
As at March 31, 2021	85,814	59,810	46,700	192,324

Carrying amount by segment

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
As at March 31, 2021				
Costerfield	36,545	15,575	9,413	61,533
Björkdal	49,269	43,885	24,096	117,250
La Quebrada	-	-	10,620	10,620
Challacollo	-	-	695	695
Other	-	350	1,876	2,226
	85,814	59,810	46,700	192,324

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
As at December 31, 2020				
Costerfield	38,653	16,000	8,301	62,954
Björkdal	52,123	44,983	24,250	121,356
La Quebrada	-	-	10,546	10,546
Challacollo	-	-	540	540
Other	-	345	1,873	2,218
	90,776	61,328	45,510	197,614

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2021 and December 31, 2020

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

4. Property, plant and equipment (continued)

For the three months ended March 31, 2021, there was \$90,000 of plant and equipment depreciation capitalized to mining interests (three months ended March 31, 2020 – \$99,000).

As at March 31, 2021, the Company had right-of-use assets of \$6,381,000 (2020 – \$5,668,000) included in property, plant and equipment, of which \$1,222,000 is at Costerfield and \$5,159,000 is at Björkdal (2020 – Costerfield: \$391,000 and Björkdal: \$5,277,000).

Details of non-operating exploration and evaluation assets – others

(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. As at March 31, 2021, Equus had not exercised their option. On February 21, 2021, Cerro Bayo resumed production of gold and silver by processing waste ore.

(ii) Challacollo

On November 12, 2019, the Company 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 that owns the Challacollo project, in exchange for total consideration of up to C\$10,500,000. As required by the agreement with Aftermath, the Company has received a total of C\$2,000,000 as at December 31, 2020. As per the agreement, the Company has received additional C\$1,500,000 in cash on April 19, 2021 and 2,054,794 Aftermath shares at deemed price of C\$0.73 per share were received on May 5, 2021 as part of the compensation. Representing the final payment for Challacollo, Aftermath will compensate the Company C\$3,000,000, half in Aftermath shares and half in cash payable on or before April 30, 2022.

(iii) La Quebrada

The Company considers this asset non-core, and is not exploring at the property as at March 31, 2021.

5. Borrowings

	March 31, 2021 (\$'000)	December 31, 2020 (\$'000)
Syndicated Facility	53,319	56,758
Equipment Facilities	1,289	1,620
	54,608	58,378
Less: current portion of total borrowings	15,821	15,991
Non-current portion of total borrowings	38,787	42,387

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”).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2021 and December 31, 2020

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

5. Borrowings (continued)

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.

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 March 31, 2021, 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 was reduced by \$3,000,000 on September 30, 2020 and by the same amount on December 31, 2020, and thereafter repaid in eight equal quarterly instalments 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 holds security over the majority of the Company's material assets. The Syndicated Facility has an effective interest rate of 6.72% and a nominal rate of 4.25% + LIBOR as at March 31, 2021.

As at March 31, 2021, the Company paid \$3,778,000 against the loan, leaving the outstanding principal of the Syndicated Facility of \$55,222,000.

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 \$1,238,000 as at March 31, 2021, which specifically includes receivable of \$5,691,000 for the Australian dollar forward contract and payable of \$6,929,000 for the US dollar collar contract (see Note 9). The amounts as at March 31, 2021 include a credit adjustment that considers market participant assumptions, taking into account the impact of the Company's credit risk.

During the three months ended March 31, 2021, the Company paid \$1,486,000 as settlement of expired gold derivatives contracts.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2021 and December 31, 2020

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

(Unaudited)

5. Borrowings (continued)

Equipment Facilities

As at March 31, 2021, the Company's Björkdal mine in Sweden had a balance of \$1,289,000 (December 31, 2020 – \$1,620,000) 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 ("Stockholm Interbank Offered Rate") plus 2.26% per annum and are repayable in monthly instalments plus interest and are due to be repaid by June 30, 2024. The Equipment Facilities are secured by the underlying equipment.

6. Reclamation and site closure costs

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.

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

	(\$'000)
Balance at December 31, 2019	42,347
Expenditure for reclamations	(10,506)
Change in estimated cash outflows	(2,218)
Accretion	101
Foreign exchange	2,205
Balance at December 31, 2020	31,929
Expenditure for reclamations	(226)
Change in estimated cash outflows	2
Foreign exchange	(321)
Balance at March 31, 2021	31,384
Less: current portion	9,029
Total non-current portion	22,355

During the three months ended March 31, 2021, the Company spent \$226,000 (three months ended March 31, 2020 – \$549,000) on reclamation work at the Lupin site in Canada.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2021 and December 31, 2020

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

7. Share capital

As at March 31, 2021, the Company had an unlimited number of authorized common shares without par value and 91,249,500 common shares outstanding (2020 – 91,236,167 common shares). All outstanding common shares are fully paid.

(a) Share-based compensation

	Three months ended	
	2021	March 31, 2020
	(\$'000)	(\$'000)
Share-based compensation on options	103	85
Change in fair value for cash election option	34	(19)
Share unit amortization	123	46
	260	112

(b) Stock options

Stock options – equity based

328,173 stock options were granted at an exercise price of C\$2.14 during the three months ended March 31, 2021 (three months ended March 31, 2020 – 917,000 at C\$0.61). The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$1.68 (three months ended March 31, 2020 – C\$0.46) 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.

	Three months ended	
	2021	March 31, 2020
Risk free interest rate	0.75%	1.25%
Expected dividend yield	0.00%	0.00%
Expected life of options in years	7.00	7.00
Expected stock price volatility	92.46%	87.09%
Expected forfeiture rate	0.00%	0.00%

On May 20, 2020, the shareholders of the Company approved an 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 Stock 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 RSUs 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.

Options issued until December 31, 2016 had a maximum term of five years, and thereafter have a maximum term of up to seven years.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2021 and December 31, 2020

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

7. Share capital (continued)

(b) Stock options (continued)

	Number of options	Weighted average exercise price C\$
Balance, December 31, 2019	1,808,800	4.42
Granted	917,000	0.61
Expired	(165,500)	9.10
Exercised	(20,000)	(1.10)
Cancelled	(652,500)	5.33
Balance, December 31, 2020	1,887,800	1.91
Granted	328,173	2.14
Expired	(126,300)	9.10
Exercised	(13,333)	1.10
Balance, March 31, 2021	2,076,340	1.51

13,333 stock options were exercised during the three months ended March 31, 2021 (three months ended March 31, 2020 – nil).

The following table summarizes information about the stock options outstanding and exercisable as at March 31, 2021:

	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\$
	140,000	3.25	6.00	140,000	6.00
	264,500	4.25	2.00	176,333	2.00
	426,667	5.25	1.10	142,222	1.10
	917,000	6.25	0.61	-	-
	328,173	7.25	2.14	-	-
	2,076,340	5.75	1.51	458,555	2.94

Stock options – cash election based

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term, which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at March 31, 2021, the liability was \$411,000 (2020 – \$335,000). The Company recognized a fair value measurement loss of \$34,000 for the three months ended March 31, 2021 (three months ended March 31, 2020 – gain of \$23,000), which is included in the share-based compensation expense.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2021 and December 31, 2020

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

7. Share capital (continued)

(b) Stock options (continued)

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumptions as at March 31, 2021. The fair value is determined based on Level 1 and 2 inputs as follows:

	Three months ended March 31, 2021
Risk free interest rate	0.23%
Expected dividend yield	0.00%
Expected life of options in years	2.91
Expected stock price volatility	80.62%
Expected forfeiture rate	0.00%

As at March 31, 2021, 1,412,673 (2020 – 1,084,500) stock options with the cash election option were outstanding.

(c) RSUs

The Company has an 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 common shares at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve. Commencing in 2021, non-executive directors will be granted part of their compensation in the form of DSUs, rather than RSUs.

The number of RSUs as at March 31, 2021 is as follows:

	Number of RSU awards
Balance, December 31, 2019	316,883
Granted	491,802
Redeemed	(135,493)
Balance, December 31, 2020	673,192
Granted	168,025
Balance, March 31, 2021	841,217

For the three months ended March 31, 2020, the Company recorded \$68,000 (three months ended March 31, 2020 – \$45,600) as a share-based compensation expense relating to RSUs.

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7. Share capital (continued)

(d) PSUs

The Company has granted PSUs to certain employees. Under the Omnibus Plan, those employees granted PSUs will receive the Company's common shares at no cost upon the achievement of certain performance goals during the specified vesting period. Each PSU entitles the holder to one common share. The number of granted PSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The PSU value is determined based on the fair value of the Company's common shares at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve..

The number of PSUs as at March 31, 2021 is as follows:

	Number of PSU awards
Balance, December 31, 2020	-
Granted	336,049
Balance, March 31, 2021	336,049

(e) DSUs

Commencing in 2021, non-executive directors will be granted part of their compensation in the form of DSUs, rather than RSUs. Under the Omnibus Plan, those directors granted DSUs will receive the Company's common shares at no cost following their departure from the board. Each DSU entitles the holder to one common share. The number of granted DSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The DSU value is determined based on the fair value of the Company's common shares at the grant date, which is recorded in share-based compensation and share option reserve. Commencing in 2021, directors will be remunerated the equity portion of their compensation in the form of DSUs, rather than RSUs.

The number of DSUs as at March 31, 2021 is as follows:

	Number of DSU awards
Balance, December 31, 2020	-
Granted	140,187
Balance, March 31, 2021	140,187

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8. 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 12).

Three months ended March 31, 2021	Costerfield		Björkdal		Total	
	2021	2020	2021	2020	2021	2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Primary geographical markets						
Australia	31,444	20,138	-	-	31,444	20,138
Sweden	-	-	21,097	20,249	21,097	20,249
Revenue from contracts with customers	31,444	20,138	21,097	20,249	52,541	40,387
Provisional pricing adjustments	313	247	(281)	932	32	1,179
Total revenue from mining operations	31,757	20,385	20,816	21,181	52,573	41,566
Commodities						
Gold	22,582	14,693	21,097	20,249	43,679	34,942
Antimony	8,862	5,445	-	-	8,862	5,445
Revenue from contracts with customers	31,444	20,138	21,097	20,249	52,541	40,387
Provisional pricing adjustments	313	247	(281)	932	32	1,179
Total revenue from mining operations	31,757	20,385	20,816	21,181	52,573	41,566

9. Financial instruments

The Company has recognized a gain on financial instruments of \$20,237,000 for the three months ended March 31, 2021 (three months ended March 31, 2020 – loss of \$6,153,000). Details of this are given below:

(a) *Gold derivative contracts*

During the three months ended March 31, 2020, the Company 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 gain of \$20,237,000 for the three months ended March 31, 2021 (three months ended March 31, 2020 – loss of \$9,113,000). The amounts as at March 31, 2021 include a credit adjustment that considers market participant assumptions, taking into account the impact of the Company's credit risk.

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.

(b) *Five-year exchangeable loan*

The Company had repaid this loan in 2020 and as a result of this, the derivative value of the conversion feature was nil at March 31, 2021 (2020 – \$1,117,000). The Company recorded no fair value measurement for the three months ended March 31, 2021 (three months ended March 31, 2020 – gain of \$2,960,000).

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10. Finance costs

The finance costs for the three months ended March 31, 2021, and 2020 consist of the following:

	Three months ended	
	March 31,	
	2021	2020
	(\$'000)	(\$'000)
Syndicated Facility		
Interest on Syndicated Facility	1,047	-
Realised loss on gold derivative contracts	1,227	-
Other		
Accretion of reclamation and site closure costs	2	141
Interest on other borrowings and other charges	78	404
Five year exchangeable loan		
Loss on repayment of loan	-	2,118
Accelerated finance cost for repayment of loan	-	1,506
Interest on five year exchangeable loan	-	587
Revolver Facility		
Interest on Revolver Facility	-	863
	2,354	5,619

11. Net income (loss) per share

For the three months ended March 31, 2021, the weighted average number of common shares of calculating diluted income (loss) per share is shown in the table below.

For the three months ended March 31, 2020, 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 this period was in a net loss position:

	Three months ended	
	March 31,	
	2021	2020
	(\$'000)	(\$'000)
Net income (loss) for the period	25,500	(3,608)
Basic weighted average number of shares outstanding	91,238	91,084
Effect of dilutive securities:		
Stock options	914	-
RSU	841	-
PSU	336	-
DSU	140	-
Diluted weighted average number of shares outstanding	93,469	91,084

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(Expressed in U.S. dollars, except where otherwise noted)
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11. Net income (loss) per share (continued)

For the purposes of determining the diluted weighted average number of shares, for the three months ended March 31, 2021, 140,000 options were considered anti-dilutive and therefore excluded from the calculation. As the comparative amount presented in the table below were in a loss position, all options were anti-dilutive and therefore excluded from the calculation.

	Three months ended	
	March 31,	
	2021	2020
	('000)	('000)
Anti-dilutive securities		
Stock options	140	1,488
RSU	-	798

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12. 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 on March 31, 2021				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	31,757	-	20,816	-	52,573
Cost of sales, excluding depletion and depreciation	(10,244)	(118)	(15,052)	-	(25,414)
Depletion and depreciation	(5,829)	-	(4,987)	-	(10,816)
Income (loss) from mining operations	15,684	(118)	777	-	16,343
Other operating income (expenses)	(780)	347	(593)	113	(913)
Care and maintenance and other operating expenses	-	(383)	-	-	(383)
Other expenses, except for fair value adjustment	518	(14)	(3,827)	2,425	(898)
Fair value adjustment gain	9,134	-	11,103	-	20,237
Income (loss) before income taxes	24,556	(168)	7,460	2,538	34,386
Current tax expense	(3,211)	-	-	-	(3,211)
Deferred tax expense	(4,230)	-	(1,445)	-	(5,675)
Net income (loss) for the period	17,115	(168)	6,015	2,538	25,500
Net income per share					
Basic					\$0.28
Diluted					\$0.27
Cash expenditure for property, plant and equipment	5,104	228	6,667	-	11,999
Total non-current assets as at March 31, 2021	64,684	13,165	123,680	4,859	206,388
Total assets as at March 31, 2021	110,988	18,271	148,361	19,599	297,219
Total liabilities as at March 31, 2021	29,405	12,790	35,939	65,300	143,434

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

(Unaudited)

12. Segmented information (continued)

	Three Months ended March 31, 2020				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	20,385	-	21,181	-	41,566
Cost of sales, excluding depletion and depreciation	(6,404)	-	(12,428)	-	(18,832)
Depletion and depreciation	(4,948)	(169)	(3,442)	(36)	(8,595)
Income (loss) from mining operations	9,033	(169)	5,311	(36)	14,139
Other operating expenses	(690)	(117)	(660)	(476)	(1,943)
Care and maintenance and other operating expenses	-	(605)	-	-	(605)
Other expenses, except for fair value adjustment	(1,252)	(255)	(155)	(5,529)	(7,191)
Fair value adjustment gain (loss)	(7,895)	-	(294)	2,960	(5,229)
Income (loss) before income taxes	(804)	(1,146)	4,202	(3,081)	(829)
Current tax expense	-	-	(466)	-	(466)
Deferred tax recovery	(2,235)	-	(78)	-	(2,313)
Net income (loss) for the period	(3,039)	(1,146)	3,658	(3,081)	(3,608)
Net loss per share					
Basic and diluted					(\$0.04)
Cash expenditure for property, plant and equipment	4,710	144	4,808	-	9,662
Total non-current assets as at March 31, 2020	49,280	17,994	104,384	12,992	184,650
Total assets as at March 31, 2020	66,338	19,863	128,739	36,127	251,067
Total liabilities as at March 31, 2020	19,303	18,440	27,268	88,345	153,356

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12. Segmented information (continued)

For the three months ended March 31, 2021, the Company had four customers from whom it earned more than 10% of its total revenue (three months ended March 31, 2020 – four customers).

Revenue from these customers is summarized as follows:

	Three months ended	
	March 31,	
	2021	2020
	(\$'000)	(\$'000)
Costerfield (gold and antimony)		
Customer 1	16,128	12,268
Customer 2	12,696	6,216
	28,824	18,484
Björkdal (gold)		
Customer 3	14,420	17,135
Customer 4	6,396	4,045
	20,816	21,180
Total	49,640	39,664

13. 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 March 31, 2021, 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.

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14. 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 three months to March 31, 2020. Amy Freedman is Chief Executive Officer of Kingsdale and is on the Board of Directors of Mandalay.

15. 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. The total lease liability as at March 31, 2021 was \$5,481,000 (December 31, 2020 - \$5,568,000).

16. Subsequent events

As per the agreement with Aftermath for the sale of Challacollo, the Company received C\$1,500,000 in cash on April 19, 2021 and 2,054,794 Aftermath shares at deemed price of C\$0.73 per share were received on May 5, 2021 in satisfaction of an instalment of the purchase price.