

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2022
(Unaudited)

Mandalay Resources Corporation

March 31, 2022

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Mandalay Resources Corporation

Condensed consolidated interim statements of income and comprehensive income Three months ended March 31, 2022 and 2021

(Expressed in U.S. dollars)

	Three months ended	
	March 31,	
	2022	2021
	(\$'000)	(\$'000)
Revenue (Note 8)	54,154	52,573
Cost of operations		
Cost of sales, excluding depletion and depreciation	21,716	25,414
Depletion and depreciation	9,196	10,816
	30,912	36,230
Income from mining operations	23,242	16,343
Expenses		
Administration	1,133	1,097
Share-based compensation (Note 7(a))	471	260
Loss (gain) on disposal of property, plant and equipment	321	(444)
Care and maintenance expenses	-	383
	1,925	1,296
Income from operations	21,317	15,047
Other expense (income)		
Finance costs (Note 10)	3,126	2,354
Loss (gain) on financial instruments (Note 9)	3,402	(20,237)
Interest and other income	(73)	(53)
Foreign exchange loss (gain)	1,005	(1,403)
	7,460	(19,339)
Income before income taxes	13,857	34,386
Income tax expense (recovery)		
Current	4,097	3,211
Deferred	(725)	5,675
Income tax expense	3,372	8,886
Net income for the period	10,485	25,500
Other comprehensive income, net of tax Item that may subsequently be reclassified to net income		
Foreign currency translation	(1,716)	(7,695)
Comprehensive income for the period	8,769	17,805
Net income per share		
Basic	0.11	0.28
Diluted	0.11	0.27
Weighted average number of common shares outstanding (Note 11)		
Basic ('000)	91,816	91,238
Diluted ('000)	94,085	93,469

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at March 31, 2022 and 2021

(Expressed in U.S. dollars)

	March 31, 2022 (\$'000)	December 31, 2021 (\$'000)
Assets		
Current assets		
Cash and cash equivalents	50,403	30,738
Reclamation deposits (Note 6)	11,219	11,202
Trade receivables and other assets	25,302	43,046
Marketable securities	4,359	3,403
Inventories	27,182	23,363
Prepaid expenses	2,748	1,677
Assets held for sale (Note 14)	1,126	906
	122,339	114,335
Non-current assets		
Reclamation and other deposits (Note 6)	8,464	8,414
Trade receivables and other assets	1,817	1,363
Property, plant and equipment, net (Note 4)	191,980	193,731
	202,261	203,508
	324,600	317,843
Liabilities		
Current liabilities		
Trade and other payables	23,419	23,786
Borrowings (Note 5)	40,000	15,659
Lease liabilities	2,410	2,506
Reclamation and site closure costs provision (Note 6)	7,350	7,333
Other provisions	3,853	3,874
Income taxes payable	15,569	17,200
Financial instruments (Note 9)	12,666	7,569
Liabilities associated with assets held for sale (Note 14)	591	478
	105,858	78,405
Non-current liabilities		
Borrowings (Note 5)	282	28,019
Lease liabilities	3,000	3,603
Reclamation and site closure costs provision (Note 6)	15,619	15,807
Other provisions	369	281
Financial instruments (Note 9)	3,914	4,711
Deferred tax liability	9,734	10,330
	32,918	62,751
	138,776	141,156
Equity		
Share capital (Note 7)	230,706	230,405
Share option reserve (Note 7)	4,001	3,934
Foreign currency translation reserve	(42,591)	(40,875)
Accumulated deficit	(6,292)	(16,777)
	185,824	176,687
	324,600	317,843

Approved by the Board of Directors and authorized for issuance on May 11, 2022.

(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, 2022 and 2021

(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, 2021	91,764	230,405	3,934	(40,875)	(16,777)	176,687
Net income for the period	-	-	-	-	10,485	10,485
Other comprehensive loss for the period	-	-	-	(1,716)	-	(1,716)
Total comprehensive income	-	-	-	(1,716)	10,485	8,769
Stock options exercised (Note 7(b))	59	152	(55)	-	-	97
Share-based compensation (Note 7(a))	-	-	271	-	-	271
Redemption of RSUs, PSUs and DSUs (Notes 7(c), (d) and (e))	186	149	(149)	-	-	-
Balance, March 31, 2022	92,009	230,706	4,001	(42,591)	(6,292)	185,824

	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

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, 2022 and 2021

(Expressed in U.S. dollars)

	Three months ended	
	2022	March 31, 2021
	(\$'000)	(\$'000)
Operating activities		
Net income for the period	10,485	25,500
Adjustments to reconcile net income to net cash flows from operating activities		
Depletion and depreciation	9,196	10,816
Share-based compensation (Note 7(a))	471	260
Loss (gain) on disposal of property, plant and equipment	321	(444)
Finance costs (Note 10)	3,126	2,354
Loss (gain) on financial instruments (Note 9)	3,402	(20,237)
Interest and other income	(73)	(53)
Unrealized foreign exchange loss (gain)	718	(1,500)
Income tax expense	3,372	8,886
Reclamation expenditures (Note 6)	(2,737)	(226)
Changes in non-cash operating working capital items		
Trade receivables and other assets	16,961	(6,310)
Inventories	(3,808)	(806)
Prepaid expenses	(1,141)	(1,944)
Trade and other payables	(672)	(4,643)
Other provisions	(59)	(58)
Cash generated from operations	39,562	11,595
Interest and other income received	73	53
Interest and bank charges paid	(596)	(1,152)
Income tax paid	(3,542)	-
Net cash flows from operating activities	35,497	10,496
Investing activities		
Expenditure for property, plant and equipment	(9,472)	(11,999)
Proceeds from sale of non-core assets (Note 4)	-	444
Receipt from reclamation deposits (Note 6)	-	2,145
Net cash flows used in investing activities	(9,472)	(9,410)
Financing activities		
Proceeds from borrowings (Note 5)	323	762
Repayments of borrowings	(3,778)	(3,986)
Lease payments	(756)	(535)
Payment of gold derivative contracts	(1,944)	(1,486)
Shares issued for cash	97	12
Net cash flows used in financing activities	(6,058)	(5,233)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(302)	(167)
Net (decrease) increase in cash and cash equivalents	19,665	(4,314)
Cash and cash equivalents, beginning of the period	30,738	34,206
Cash and cash equivalents, end of the period	50,403	29,892
Cash and cash equivalents consist of		
Cash	50,403	29,892
	50,403	29,892

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, 2022 and December 31, 2021

(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, 2021.

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, 2021. 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, 2021.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2022 and December 31, 2021

(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, 2021	289,738	160,202	45,510	495,450
Additions	21,022	21,747	8,943	51,712
Disposals	-	(2,127)	(695)	(2,822)
Write-down of assets	-	(261)	(1,842)	(2,103)
Reclassification to assets held for sale	-	-	(230)	(230)
Reclassification to mining interest	4,392	-	(4,392)	-
Sale of subsidiary	(55,844)	(38,343)	-	(94,187)
Foreign exchange	(18,646)	(11,285)	(1,833)	(31,764)
As at December 31, 2021	240,662	129,933	45,461	416,056
Additions	3,188	3,027	2,722	8,937
Disposals	-	(367)	-	(367)
Reclassification to assets held for sale	-	-	(220)	(220)
Foreign exchange	(290)	(1,590)	(71)	(1,951)
As at March 31, 2022	243,560	131,003	47,892	422,455
Accumulated depreciation				
As at January 1, 2021	198,962	98,874	-	297,836
Expense	24,435	13,615	-	38,050
Disposals	-	(1,412)	-	(1,412)
Sale of subsidiary	(55,844)	(37,901)	-	(93,745)
Foreign exchange	(12,550)	(5,854)	-	(18,404)
As at December 31, 2021	155,003	67,322	-	222,325
Expense	5,258	3,246	-	8,504
Disposals	-	(46)	-	(46)
Foreign exchange	56	(364)	-	(308)
As at March 31, 2022	160,317	70,158	-	230,475
Net book value				
As at January 1, 2021	90,776	61,328	45,510	197,614
As at December 31, 2021	85,659	62,611	45,461	193,731
As at March 31, 2022	83,243	60,845	47,892	191,980

Carrying amount by segment

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
As at March 31, 2022				
Costerfield	36,984	15,365	11,396	63,745
Björkdal	46,259	45,399	25,797	117,455
La Quebrada	-	-	10,682	10,682
Other	-	81	17	98
	83,243	60,845	47,892	191,980

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
As at December 31, 2021				
Costerfield	37,894	14,642	9,362	61,898
Björkdal	47,765	47,889	25,440	121,094
La Quebrada	-	-	10,622	10,622
Other	-	80	37	117
	85,659	62,611	45,461	193,731

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2022 and December 31, 2021

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

4. Property, plant and equipment (continued)

For the three months ended March 31, 2022, there was \$89,000 of plant and equipment depreciation capitalized to mining interests (three months ended March 31, 2021 – \$90,000).

As at March 31, 2022, the Company had right-of-use assets of \$6,495,000 (as at December 31, 2021 – \$7,664,000) included in property, plant and equipment, of which \$1,569,000 is at Costerfield and \$4,926,000 is at Björkdal (as at December 31, 2021 – Costerfield: \$1,693,000 and Björkdal: \$5,971,000).

Details of exploration and evaluation assets – others

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 with a fair value 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 which is expected to occur in Q2 2022. As at March 31, 2022, the Company is holding this asset as held for sale (see Note 14).

5. Borrowings

	March 31, 2022	December 31, 2021
	(\$'000)	(\$'000)
Syndicated Facility	39,220	42,769
Equipment Facilities	1,062	909
	40,282	43,678
Less: current portion of total borrowings	40,000	15,659
Non-current portion of total borrowings	282	28,019

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.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2022 and December 31, 2021

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

(Unaudited)

5. 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 March 31, 2022, 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 6.89% and a nominal rate of 4.25% + LIBOR as at March 31, 2022.

On March 31, 2022, the Company paid \$3,778,000 against the loan, leaving the outstanding principal of the Syndicated Facility of \$40,111,000.

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 \$16,580,000 as at March 31, 2022, which specifically includes \$5,687,000 for the Australian dollar forward contract and \$10,893,000 for the US dollar collar contract (see Note 9). The amounts as at March 31, 2022 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, 2022, the Company paid \$1,944,000 as settlement of expired gold derivatives contracts (Three months ended March 31, 2021 – \$1,486,000).

Equipment Facilities

As at March 31, 2022, the Company's Björkdal mine in Sweden had a balance of \$1,062,000 (December 31, 2021 – \$908,000) 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 Stockholm Interbank Offered Rate ("STIBOR") plus 2.28% 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.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2022 and December 31, 2021

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

6. Reclamation and site closure costs

The Company's site closure reclamation obligations consist of costs for the mines at Costerfield, 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.

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

	(\$'000)
Balance at December 31, 2020	31,929
Expenditure for reclamations	(8,699)
Change in estimated cash outflows	7,262
Accretion	83
Sale of subsidiary	(11,314)
Liability payable to Equus Mining Ltd	5,710
Foreign exchange	(1,831)
Balance at December 31, 2021	23,140
Expenditure for reclamations	(205)
Accretion	14
Foreign exchange	20
Balance at March 31, 2022	22,969
Less: current portion	7,350
Total non-current portion	15,619

During the three months ended March 31, 2022, the Company spent \$205,000 (2021 – \$226,000) on reclamation work at the Lupin site in Canada.

7. Share capital

As at March 31, 2022, the Company had an unlimited number of authorized common shares without par value and 92,009,491 common shares outstanding (2021 – 91,763,548 common shares). All outstanding common shares are fully paid.

(a) Share-based compensation

	Three months ended	
	March 31,	
	2022	2021
	(\$'000)	(\$'000)
Share-based compensation on options	108	103
Change in fair value for cash election option	179	34
Share unit amortization	184	123
	471	260

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2022 and December 31, 2021

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

7. Share capital (continued)

(b) Stock options

Stock options – equity based

295,175 stock options were granted at an exercise price of C\$2.65 during the three months ended March 31, 2022 (three months ended March 31, 2021 – 328,173 at C\$2.14). The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$1.92 (three months ended March 31, 2021 – C\$1.68) 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	
	2022	March 31, 2021
Risk free interest rate	1.68%	0.75%
Expected dividend yield	0.00%	0.00%
Expected life of options in years	7.00	7.00
Expected stock price volatility	81.92%	92.46%
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.

	Number of options	Weighted average exercise price C\$
Balance, December 31, 2020	1,887,800	1.91
Granted	328,173	2.14
Expired	(126,300)	9.10
Exercised	(202,332)	0.80
Cancelled	(13,334)	1.10
Balance, December 31, 2021	1,874,007	1.58
Granted	295,175	2.65
Exercised	(59,000)	2.06
Balance, March 31, 2022	2,110,182	1.72

The following table summarizes information about the stock options outstanding and exercisable as at March 31, 2022:

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2022 and December 31, 2021

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

7. Share capital (continued)

(b) Stock options (continued)

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
140,000	2.25	6.00	140,000	6.00
229,500	3.25	2.00	229,500	2.00
346,667	4.25	1.10	346,667	1.10
794,667	5.25	0.61	529,778	0.61
304,173	6.25	2.14	101,391	2.14
295,175	7.25	2.65	-	-
2,110,182	5.09	1.72	1,347,336	1.65

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 seven 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, 2022, the liability was \$469,000 (2021 – \$263,000). For the three months ended March 31, 2022, the Company recognized a fair value measurement loss of \$179,000 (three months ended March 31, 2021 – loss of \$34,000), which is included in the share-based compensation expense.

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, 2022. The fair value is determined based on Level 1 and 2 inputs as follows:

	Three months ended	
	2022	March 31, 2021
Risk free interest rate	2.17%	0.23%
Expected dividend yield	0.00%	0.00%
Expected life of options in years	2.91	2.91
Expected stock price volatility	70.13%	80.62%
Expected forfeiture rate	0.00%	0.00%

As at March 31, 2022, 539,012 (2021 – 439,506) stock options with the cash election option were outstanding.

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(Unaudited)

7. Share capital (continued)

(c) RSUs

The Company has granted RSUs to certain directors and employees. Under the RSU Plan, those directors and officers granted RSUs will receive the Company's common shares at no cost or a cash payment equal to the market value of such shares at the time of vesting, which is based on graded vesting over three years. Each RSU is equivalent in value 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 outstanding as at March 31, 2022 is as follows:

	Number of RSU awards
Balance, December 31, 2020	673,192
Granted	168,025
Redeemed	(285,047)
Forfeited	(80,212)
Balance, December 31, 2021	475,958
Granted	118,337
Redeemed	(76,431)
Balance, March 31, 2022	517,864

For the three months ended March 31, 2022, the Company recorded \$62,000 (three months ended March 31, 2021 – \$68,000) as a share-based compensation expense relating to RSUs.

(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 or a cash payment equal to the market value of such shares upon the achievement of certain performance goals at the time of vesting, which is based on graded vesting over three years. Each PSU is equivalent in value 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 outstanding as at March 31, 2022 is as follows:

	Number of PSU awards
Balance, December 31, 2020	-
Granted	336,049
Redeemed	(40,000)
Balance, December 31, 2021	296,049
Granted	236,673
Redeemed	(43,574)
Balance, March 31, 2022	489,148

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(Unaudited)

7. Share capital (continued)

(d) PSUs (continued)

For the three months ended March 31, 2022, the Company recorded \$87,000 as a share-based compensation expense relating to PSUs. While 43,574 PSUs were redeemed, the payout in the Company's common shares was at 200% of award due to better performance of Mandalay shares relative to the VanEck Junior Gold Miners ETF (GDXJ).

(e) DSUs

Commencing in 2021, non-executive directors will be granted part of their compensation in the form of DSUs, rather than RSUs, pursuant to the Omnibus Plan. The DSUs vest immediately on grant date. Those directors granted DSUs will receive the Company's common shares at no cost or a cash payment equal to the market value of such shares following their departure from the board. Each DSU is equivalent in value 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.

The number of DSUs outstanding as at March 31, 2022 is as follows:

	Number of DSU awards
Balance, December 31, 2020	-
Granted	150,148
Balance, December 31, 2021	150,148
Granted	136,044
Redeemed	(23,364)
Balance, March 31, 2022	262,828

For the three ended March 31, 2022, the Company recorded \$34,000 as a share-based compensation expense relating to DSUs.

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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. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (see Note 12).

Three months ended March 31	Costerfield		Björkdal		Total	
	2022	2021	2022	2021	2022	2021
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Primary geographical markets						
Australia	30,092	31,444	-	-	30,092	31,444
Sweden	-	-	22,506	21,097	22,506	21,097
Revenue from contracts with customers	30,092	31,444	22,506	21,097	52,598	52,541
Provisional pricing adjustments	351	313	1,205	(281)	1,556	32
Total revenue from mining operations	30,443	31,757	23,711	20,816	54,154	52,573
Commodities						
Gold	22,848	22,582	22,506	21,097	45,354	43,679
Antimony	7,244	8,862	-	-	7,244	8,862
Revenue from contracts with customers	30,092	31,444	22,506	21,097	52,598	52,541
Provisional pricing adjustments	351	313	1,205	(281)	1,556	32
Total revenue from mining operations	30,443	31,757	23,711	20,816	54,154	52,573

9. Financial instruments

The Company has recognized a loss on financial instruments of \$3,402,000 for the three months ended March 31, 2022 (three months ended March 31, 2021 – gain of \$20,237,000). Details of these are given below:

(a) *Gold derivative contracts*

The Company has recognized a fair value loss of \$4,300,000 for the three months ended March 31, 2022 (three months ended March 31, 2021 – gain of \$20,237,000). The amounts as at March 31, 2022 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) *Marketable securities – assets*

On May 5, 2021, the Company received 2,054,794 shares of Aftermath with a fair value of C\$0.73 per share as part of the compensation under the Challacollo sale agreement. During the year ended months ended December 31, 2021, the Company sold 678,794 shares at an average of C\$0.57 per share. For the three months ended March 31, 2022, the Company had not sold any shares. The value of securities as at March 31, 2022 is \$397,000 (2021 – \$413,000).

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(Unaudited)

9. Financial instruments (continued)

(b) Marketable securities – assets (continued)

These securities are stated at fair value with any resulting gain or loss recognised in the consolidated statements of income and comprehensive income. The Company recorded an unrealized fair value loss of \$22,000 for the three months ended March 31, 2022, using Level 1 assumptions.

On December 18, 2021, the Company received 29,375,121 shares (after consolidation of 20 shares into 1 share) of Equus Mining Ltd with a fair value of A\$0.18 per share as part of the compensation under the Cerro Bayo sale agreement. The value of securities as at March 31, 2022 is \$3,962,000 (2021 – \$2,990,000). Both Aftermath and Equus securities are stated at fair value with any resulting gain or loss recognised in the consolidated statements of income and comprehensive income. The Company recorded an unrealized fair value gain of \$920,000 for the three months ended March 31, 2022, using Level 1 assumptions.

10. Finance costs

The finance costs for the three months ended March 31, 2022, and 2021 consist of the following:

	Three months ended	
	March 31,	
	2022	2021
	(\$'000)	(\$'000)
Syndicated Facility		
Interest on Syndicated Facility	724	1,047
Realised loss on gold derivative contracts	2,320	1,227
Other		
Interest on other borrowings and other charges	69	78
Accretion of reclamation and site closure costs	13	2
	3,126	2,354

11. Net income per share

For the three months ended March 31, 2022, the weighted average number of common shares of calculating diluted income per share is shown in the table below:

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11. Net income per share (continued)

	Three months ended	
	March 31,	
	2022	2021
	(\$'000)	(\$'000)
Net income for the period	10,485	25,500
Basic weighted average number of shares outstanding	91,816	91,238
Effect of dilutive securities:		
Stock options	999	914
RSU	518	841
PSU	489	336
DSU	263	140
Diluted weighted average number of shares outstanding	94,085	93,469

For the purposes of determining the diluted weighted average number of shares, for the three months ended March 31, 2022, 140,000 options (2021 – 140,000) were considered anti-dilutive and therefore excluded from the calculation.

	Three months ended	
	March 31,	
	2022	2021
	('000)	('000)
Anti-dilutive securities		
Stock options	140	140

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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 March 31, 2022				
	Australia	Sweden	Chile	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	30,443	23,711	-	-	54,154
Cost of sales, excluding depletion and depreciation	(7,443)	(14,273)	-	-	(21,716)
Depletion and depreciation	(3,957)	(5,239)	-	-	(9,196)
Income from mining operations	19,043	4,199	-	-	23,242
Other operating expenses	(1,179)	(654)	(64)	(28)	(1,925)
Other income (expenses), except for fair value adjustment	(2,877)	(3,068)	(189)	2,076	(4,058)
Loss (gain) on financial instruments	(1,818)	(2,481)	-	897	(3,402)
Income (loss) before income taxes	13,169	(2,004)	(253)	2,945	13,857
Current tax expense	(3,875)	(222)	-	-	(4,097)
Deferred tax recovery	63	662	-	-	725
Net income (loss) for the period	9,357	(1,564)	(253)	2,945	10,485
Net income per share					
Basic					\$0.11
Diluted					\$0.11
Cash expenditure for property, plant and equipment	4,244	4,948	280	-	9,472
Total non-current assets as at March 31, 2022	66,939	123,828	10,944	550	202,261
Total assets as at March 31, 2022	141,468	152,064	12,125	18,943	324,600
Total liabilities as at March 31, 2022	46,909	36,846	596	54,425	138,776

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(Unaudited)

12. Segmented information (continued)

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

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12. Segmented information (continued)

For the three months ended March 31, 2022, the Company had four customers from whom it earned more than 10% of its total revenue (2021 – four customers).

Revenue from these customers is summarized as follows:

	Three months ended	
	March 31,	
	2022	2021
	(\$'000)	(\$'000)
Costerfield (gold and antimony)		
Customer 1	13,757	16,128
Customer 2	16,363	12,696
	30,120	28,824
Björkdal (gold)		
Customer 3	18,088	14,420
Customer 4	5,623	6,396
	23,711	20,816
	53,831	49,640

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, 2022, 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 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. Assets and liabilities held for sale

On November 12, 2019, the Company entered into a definitive agreement with Aftermath pursuant to which Aftermath would acquire Minera Mandalay Challacollo Limitada, a wholly owned subsidiary of the Company that owns the Challacollo project (see Note 4). All assets related to Challacollo, amounting to \$1,126,000, are classified as held for sale, and liabilities of \$591,000 directly associated with Challacollo are classified as liabilities directly associated with assets held for sale.

The following table presents the assets and liabilities, classified as assets held for sale and liabilities directly associated with the assets held for sale in the consolidated balance sheet:

As at March 31, 2022	Challacollo
	(\$'000)
Assets	
Current assets	
Prepaid expenses	32
Non-current assets	
Property, plant and equipment, net	449
Other non-current receivables	645
Assets held for sale	1,126
Liabilities	
Current liabilities	
Trade and other payables	591
Liabilities associated with assets held for sale	591

The Company expects to complete the sale transaction of Challacollo to Aftermath during the second quarter of 2022. The Company will receive C\$1,500,000 in cash and the same amount in Aftermath shares which is as per the definitive agreement.

15. Commitments and contingencies

The Company is involved in legal proceedings from time to time arising in the ordinary course of business. The outcomes of proceedings are uncertain. However, based on information known it is not probable that the ultimate resolution will have a material effect on the Company's condensed consolidated interim financial position and financial performance.

16. Subsequent events

The sale of Challacollo to Aftermath was originally scheduled to be completed on April 30, 2022. Closing is now anticipated to occur during the second quarter of 2022 (See Note 14).