

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2022
(Unaudited)

Mandalay Resources Corporation

June 30, 2022

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Mandalay Resources Corporation

Condensed consolidated interim statements of income and comprehensive (loss) income Three and six months ended June 30, 2022 and 2021

(Expressed in U.S. dollars)

(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|--------------|------------------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Revenue (Note 8) | 50,116 | 51,352 | 104,270 | 103,925 |
| Cost of operations | | | | |
| Cost of sales, excluding depletion and depreciation | 28,526 | 27,135 | 50,242 | 52,549 |
| Depletion and depreciation | 7,696 | 8,955 | 16,892 | 19,771 |
| | 36,222 | 36,090 | 67,134 | 72,320 |
| Income from mining operations | 13,894 | 15,262 | 37,136 | 31,605 |
| Expenses | | | | |
| Administration | 1,261 | 1,082 | 2,394 | 2,179 |
| Share-based compensation (Note 7(a)) | 294 | 177 | 765 | 437 |
| (Gain) loss on disposal of property, plant and equipment | (3) | (127) | 318 | (571) |
| Revision of reclamation liability | 7,092 | - | 7,092 | - |
| Care and maintenance expenses | - | - | - | 383 |
| | 8,644 | 1,132 | 10,569 | 2,428 |
| Income from operations | 5,250 | 14,130 | 26,567 | 29,177 |
| Other expense (income) | | | | |
| Finance costs (Note 10) | 3,531 | 1,816 | 6,657 | 4,170 |
| (Gain) loss on financial instruments (Note 9) | (4,425) | 6,685 | (1,023) | (13,552) |
| Interest and other income | (137) | (125) | (210) | (178) |
| Foreign exchange gain | (2,624) | (1,159) | (1,619) | (2,562) |
| | (3,655) | 7,217 | 3,805 | (12,122) |
| Income before income taxes | 8,905 | 6,913 | 22,762 | 41,299 |
| Income tax expense (recovery) | | | | |
| Current | 5,343 | 4,423 | 9,440 | 7,634 |
| Deferred | 859 | (2,300) | 134 | 3,375 |
| Income tax expense | 6,202 | 2,123 | 9,574 | 11,009 |
| Net income for the period | 2,703 | 4,790 | 13,188 | 30,290 |
| Other comprehensive (loss) income, net of tax | | | | |
| Item that may subsequently be reclassified to net income | | | | |
| Foreign currency translation | (14,323) | 123 | (16,039) | (7,572) |
| Comprehensive (loss) income for the period | (11,620) | 4,913 | (2,851) | 22,718 |
| Net income per share | | | | |
| Basic | 0.03 | 0.05 | 0.14 | 0.33 |
| Diluted | 0.03 | 0.05 | 0.14 | 0.32 |
| Weighted average number of common shares outstanding (Note 11) | | | | |
| Basic ('000) | 92,188 | 91,346 | 92,003 | 91,292 |
| Diluted ('000) | 94,423 | 93,506 | 94,175 | 93,348 |

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at June 30, 2022 and 2021

(Expressed in U.S. dollars)

(Unaudited)

| | June 30, 2022 | December 31, 2021 |
|--|------------------|----------------------|
| | (\$'000) | (\$'000) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 47,948 | 30,738 |
| Reclamation deposits | 8,455 | 11,202 |
| Trade receivables and other assets | 27,153 | 43,046 |
| Marketable securities | 2,256 | 3,403 |
| Inventories | 23,335 | 23,363 |
| Prepaid expenses | 1,968 | 1,677 |
| Assets held for sale (Note 14) | 1,161 | 906 |
| | 112,276 | 114,335 |
| Non-current assets | | |
| Reclamation and other deposits | 10,228 | 8,414 |
| Trade receivables and other assets | 1,686 | 1,363 |
| Property, plant and equipment, net (Note 4) | 181,948 | 193,731 |
| | 193,862 | 203,508 |
| | 306,138 | 317,843 |
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables | 23,976 | 23,786 |
| Borrowings (Note 5) | 36,103 | 15,659 |
| Lease liabilities | 2,300 | 2,506 |
| Reclamation and site closure costs provision (Note 6) | 6,030 | 7,333 |
| Other provisions | 3,477 | 3,874 |
| Income taxes payable | 15,637 | 17,200 |
| Financial instruments (Note 9) | 9,632 | 7,569 |
| Liabilities associated with assets held for sale (Note 14) | 613 | 478 |
| | 97,768 | 78,405 |
| Non-current liabilities | | |
| Borrowings (Note 5) | 390 | 28,019 |
| Lease liabilities | 2,661 | 3,603 |
| Reclamation and site closure costs provision (Note 6) | 19,767 | 15,807 |
| Other provisions | 368 | 281 |
| Financial instruments (Note 9) | 532 | 4,711 |
| Deferred tax liability | 10,042 | 10,330 |
| | 33,760 | 62,751 |
| | 131,528 | 141,156 |
| Equity | | |
| Share capital (Note 7) | 230,925 | 230,405 |
| Share option reserve (Note 7) | 4,188 | 3,934 |
| Foreign currency translation reserve | (56,914) | (40,875) |
| Accumulated deficit | (3,589) | (16,777) |
| | 174,610 | 176,687 |
| | 306,138 | 317,843 |

Approved by the Board of Directors and authorized for issuance on August 10, 2022.

(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

Three and six months ended June 30, 2022 and 2021

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

(Unaudited)

| | 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 | - | - | - | - | 13,188 | 13,188 |
| Other comprehensive loss for the period | - | - | - | (16,039) | - | (16,039) |
| Total comprehensive loss | - | - | - | (16,039) | 13,188 | (2,851) |
| Stock options exercised (Note 7(b)) | 156 | 287 | (106) | - | - | 181 |
| Share-based compensation (Note 7(a)) | - | - | 593 | - | - | 593 |
| Redemption of RSUs, PSUs and DSUs (Notes 7(c), (d) and (e)) | 314 | 233 | (233) | - | - | - |
| Balance, June 30, 2022 | 92,234 | 230,925 | 4,188 | (56,914) | (3,589) | 174,610 |

| | 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 | - | - | - | - | 30,290 | 30,290 |
| Other comprehensive loss for the period | - | - | - | (7,572) | - | (7,572) |
| Total comprehensive income | - | - | - | (7,572) | 30,290 | 22,718 |
| Stock options exercised (Note 7(b)) | 27 | 37 | (13) | - | - | 24 |
| Share-based compensation (Note 7(a)) | - | - | 500 | - | - | 500 |
| Reversal of forfeited RSUs (Note 7(c)) | - | - | (32) | - | - | (32) |
| Reclassified for expired and cancelled options | - | - | (23) | - | 23 | - |
| Redemption of RSU (Note 13(c)) | 225 | 151 | (151) | - | - | - |
| Balance, June 30, 2021 | 91,488 | 230,158 | 3,609 | (33,413) | (41,365) | 158,989 |

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, 2022 and 2021

(Expressed in U.S. dollars)

(Unaudited)

| | Three months ended | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2022 | 2021 | 2022 | 2021 |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Operating activities | | | | |
| Net income for the period | 2,703 | 4,790 | 13,188 | 30,290 |
| Adjustments to reconcile net income to net cash flows from operating activities | | | | |
| Depletion and depreciation | 7,696 | 8,955 | 16,892 | 19,771 |
| Share-based compensation (Note 7(a)) | 294 | 177 | 765 | 437 |
| (Gain) loss on disposal of property, plant and equipment | (3) | (127) | 318 | (571) |
| Finance costs (Note 10) | 3,531 | 1,816 | 6,657 | 4,170 |
| (Gain) loss on financial instruments (Note 9) | (4,425) | 6,685 | (1,023) | (13,552) |
| Interest and other income | (137) | (125) | (210) | (178) |
| Unrealized foreign exchange loss (gain) | (2,184) | (1,090) | (1,465) | (2,590) |
| Income tax expense | 6,202 | 2,123 | 9,574 | 11,009 |
| Reclamation expenditures (Note 6) | (2,528) | (849) | (5,265) | (1,075) |
| Revision of reclamation liability | 7,092 | - | 7,092 | - |
| Changes in non-cash operating working capital items | | | | |
| Trade receivables and other assets | (3,542) | 178 | 13,418 | (6,131) |
| Inventories | 3,432 | (1,341) | (376) | (2,147) |
| Prepaid expenses | 572 | 1,639 | (568) | (305) |
| Trade and other payables | 1,964 | 3,377 | 1,292 | (1,267) |
| Other provisions | (52) | 89 | (111) | 31 |
| Cash generated from operations | 20,615 | 26,297 | 60,178 | 37,892 |
| Interest and other income received | 137 | 125 | 210 | 178 |
| Interest and bank charges paid | (653) | (696) | (1,249) | (1,848) |
| Income tax paid | (3,977) | - | (7,519) | - |
| Net cash flows from operating activities | 16,122 | 25,726 | 51,620 | 36,222 |
| Investing activities | | | | |
| Expenditure for property, plant and equipment | (10,451) | (13,351) | (19,923) | (25,351) |
| Proceeds from sale of non-core assets (Note 4) | - | 1,403 | - | 1,847 |
| Receipt from reclamation deposits (Note 6) | - | - | - | 2,145 |
| Net cash flows used in investing activities | (10,451) | (11,948) | (19,923) | (21,359) |
| Financing activities | | | | |
| Proceeds from borrowings (Note 5) | 44 | 350 | 367 | 1,112 |
| Repayments of borrowings | (3,778) | (3,969) | (7,556) | (7,955) |
| Lease payments | (685) | (501) | (1,441) | (1,035) |
| Payment of gold derivative contracts | (2,898) | (573) | (4,842) | (2,059) |
| Shares issued for cash | 84 | 12 | 181 | 24 |
| Net cash flows used in financing activities | (7,233) | (4,681) | (13,291) | (9,913) |
| Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies | (893) | 125 | (1,196) | (43) |
| Net (decrease) increase in cash and cash equivalents | (2,455) | 9,222 | 17,210 | 4,907 |
| Cash and cash equivalents, beginning of the period | 50,403 | 29,891 | 30,738 | 34,206 |
| Cash and cash equivalents, end of the period | 47,948 | 39,113 | 47,948 | 39,113 |
| Cash and cash equivalents consist of | | | | |
| Cash | 47,948 | 39,113 | 47,948 | 39,113 |
| | 47,948 | 39,113 | 47,948 | 39,113 |

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, 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 continues to be 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. The duration and full financial effect of the COVID-19 pandemic is unknown at this time, management will continue to monitor developments across all jurisdictions and will adjust its planning as necessary.

The ongoing conflict in Ukraine continued to disrupt supply chains and caused instability in the global economy. The conflict resulted in imposition of economic sanctions, which have had an adverse effect on economic markets, including global supply and pricing of energy, precious metals, raw materials and other commodities and components. The short and long-term implications of the conflict are difficult to predict at this time.

Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic and conflict in Ukraine may materially and adversely affect the Company’s operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgements, estimates and assumptions made by management during the preparation of the Company’s unaudited interim condensed consolidated financial statements related to potential impacts of the COVID-19 pandemic and conflict in Ukraine on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected in future periods.

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.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2022 and December 31, 2021

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

(Unaudited)

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 June 30, 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 | 6,118 | 8,189 | 5,559 | 19,866 |
| Disposals | - | (659) | - | (659) |
| Reclassification to assets held for sale | - | - | (252) | (252) |
| Reclassification to mining interest | 252 | - | (252) | - |
| Foreign exchange | (20,441) | (13,298) | (2,063) | (35,802) |
| As at June 30, 2022 | 226,591 | 124,165 | 48,453 | 399,209 |
| 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 | 9,000 | 7,184 | - | 16,184 |
| Disposals | - | (329) | - | (329) |
| Foreign exchange | (13,956) | (6,963) | - | (20,919) |
| As at June 30, 2022 | 150,047 | 67,214 | - | 217,261 |
| 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 June 30, 2022 | 76,544 | 56,951 | 48,453 | 181,948 |

Carrying amount by segment

| | Mining interests | Plant and equipment | Exploration and evaluation | Total |
|----------------------------|------------------|---------------------|----------------------------|----------------|
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| As at June 30, 2022 | | | | |
| Costerfield | 33,098 | 15,063 | 11,952 | 60,113 |
| Björkdal | 43,446 | 41,808 | 25,819 | 111,073 |
| La Quebrada | - | - | 10,682 | 10,682 |
| Other | - | 80 | - | 80 |
| | 76,544 | 56,951 | 48,453 | 181,948 |

| | 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 June 30, 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 June 30, 2022, there was \$58,000 of plant and equipment depreciation capitalized to mining interests (three months ended June 30, 2021 – \$193,000).

As at June 30, 2022, the Company had right-of-use assets of \$5,830,000 (as at December 31, 2021 – \$7,664,000) included in property, plant and equipment, of which \$1,616,000 is at Costerfield and \$4,214,000 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\$11,000,000. 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 Q3 2022. The Company is expected to receive a 3% net smelter returns royalty on production at Challacollo, capped at US\$3,000,000. As at June 30, 2022, the Company is holding this asset as held for sale (see Note 14).

5. Borrowings

| | June 30, 2022 | December 31, 2021 |
|---|------------------|----------------------|
| | (\$'000) | (\$'000) |
| Syndicated Facility | 35,627 | 42,769 |
| Equipment Facilities | 866 | 909 |
| | 36,493 | 43,678 |
| Less: current portion of total borrowings | 36,103 | 15,659 |
| Non-current portion of total borrowings | 390 | 28,019 |

Syndicated Facility

As at June 30, 2022, the Company was in compliance with all financial covenants under the Syndicated Facility.

The Syndicated Facility has an effective interest rate of 7.13% and a nominal rate of 4.25% + LIBOR as at June 30, 2022.

During the three and six months ended June 30, 2022, the Company paid \$3,778,000 and \$7,556,000 respectively against the loan, leaving the outstanding principal of the Syndicated Facility of \$36,333,000.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2022 and December 31, 2021

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

(Unaudited)

5. Borrowings (continued)

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 \$10,164,000 as at June 30, 2022, which specifically includes \$4,725,000 for the Australian dollar forward contract and \$5,439,000 for the US dollar collar contract (see Note 9). The amounts as at June 30, 2022 include a credit adjustment that considers market participant assumptions, taking into account the impact of the Company's credit risk.

During the three and six months ended June 30, 2022, the Company paid \$2,898,000 and \$4,842,000 respectively as settlement of expired gold derivatives contracts (Three and six months ended June 30, 2021 – \$573,000 and \$2,059,000 respectively).

Equipment Facilities

As at June 30, 2022, the Company's Björkdal mine in Sweden had a balance of \$866,000 (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 December 31, 2026. 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, 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 | (3,501) |
| Change in estimated cash outflows | 7,092 |
| Accretion | 65 |
| Foreign exchange | (999) |
| Balance at June 30, 2022 | 25,797 |
| Less: current portion | 6,030 |
| Total non-current portion | 19,767 |

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2022 and December 31, 2021

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

6. Reclamation and site closure costs (continued)

During the three and six months ended June 30, 2022, the Company spent \$3,297,000 (2021 – \$849,000) and \$3,501,000 (2021 – \$1,075,000) respectively, on reclamation work at the Lupin site in Canada.

As a result of a review of the remaining reclamation costs, the reclamation liability was revised by \$7,092,000 as at June 30, 2022. As at June 30, 2022, the Company has recognized \$6,030,000 as current for the bond deposit and liability for reclamation spend, which represents the value of expected work during the twelve months from June 30, 2022 with the remaining liability amount considered non-current.

7. Share capital

As at June 30, 2022, the Company had an unlimited number of authorized common shares without par value and 92,233,577 common shares outstanding (2021 – 91,763,548 common shares). All outstanding common shares are fully paid.

(a) Share-based compensation

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Share-based compensation on options | 107 | 103 | 215 | 205 |
| Change in fair value for cash election option | (49) | (42) | 129 | (6) |
| Share unit amortization | 236 | 116 | 421 | 238 |
| | 294 | 177 | 765 | 437 |

(b) Stock options

The number of options outstanding as at June 30, 2022 is as follows:

| | 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 | (155,667) | 1.47 |
| Balance, June 30, 2022 | 2,013,515 | 1.75 |

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

(Unaudited)

7. Share capital (continued)

(b) Stock options (continued)

The following table summarizes information about the stock options outstanding and exercisable as at June 30, 2022:

| 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 | 2.00 | 6.00 | 140,000 | 6.00 |
| 199,500 | 3.00 | 2.00 | 199,500 | 2.00 |
| 333,334 | 4.00 | 1.10 | 333,334 | 1.10 |
| 741,333 | 5.00 | 0.61 | 494,222 | 0.61 |
| 304,173 | 6.00 | 2.14 | 101,391 | 2.14 |
| 295,175 | 7.00 | 2.65 | - | - |
| 2,013,515 | 4.87 | 1.75 | 1,268,447 | 1.67 |

(c) RSUs

The number of RSUs outstanding as at June 30, 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 | (203,850) |
| Balance, June 30, 2022 | 390,445 |

For the three and six months ended June 30, 2022, the Company recorded \$61,000 (2021 – \$40,800) and \$124,000 (2021 – \$110,000) respectively as a share-based compensation expense relating to RSUs.

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7. Share capital (continued)

(d) PSUs

The number of PSUs outstanding as at June 30, 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, June 30, 2022 | 489,148 |

For the three and six months ended June 30, 2022, the Company recorded \$130,000 (2021 – \$55,000) and \$217,000 (2021 – \$101,000) respectively 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

The number of DSUs outstanding as at June 30, 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, June 30, 2022 | 262,828 |

For the three and six ended June 30, 2022, the Company recorded \$45,000 (2021 – \$20,000) and \$79,000 (2021 – \$28,000) respectively as a share-based compensation expense relating to DSUs.

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(Unaudited)

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 June 30 | Costerfield | | Björkdal | | Cerro Bayo | | Total | |
|--|---------------|---------------|---------------|---------------|------------|--------------|----------------|----------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Primary geographical markets | | | | | | | | |
| Australia | 32,851 | 23,884 | - | - | - | - | 32,851 | 23,884 |
| Sweden | - | - | 16,464 | 23,798 | - | - | 16,464 | 23,798 |
| Chile | - | - | - | - | - | 5,489 | - | 5,489 |
| Revenue from contracts with customers | 32,851 | 23,884 | 16,464 | 23,798 | - | 5,489 | 49,315 | 53,171 |
| Provisional pricing adjustments | (445) | (490) | 1,246 | (1,251) | - | (78) | 801 | (1,819) |
| Total revenue from mining operations | 32,406 | 23,394 | 17,710 | 22,547 | - | 5,411 | 50,116 | 51,352 |
| Commodities | | | | | | | | |
| Gold | 22,654 | 15,823 | 16,464 | 23,798 | - | 3,112 | 39,118 | 42,733 |
| Antimony | 10,197 | 8,061 | - | - | - | - | 10,197 | 8,061 |
| Silver | - | - | - | - | - | 2,377 | - | 2,377 |
| Revenue from contracts with customers | 32,851 | 23,884 | 16,464 | 23,798 | - | 5,489 | 49,315 | 53,171 |
| Provisional pricing adjustments | (445) | (490) | 1,246 | (1,251) | - | (78) | 801 | (1,819) |
| Total revenue from mining operations | 32,406 | 23,394 | 17,710 | 22,547 | - | 5,411 | 50,116 | 51,352 |
| Six months ended June 30 | | | | | | | | |
| | Costerfield | | Björkdal | | Cerro Bayo | | Total | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Primary geographical markets | | | | | | | | |
| Australia | 62,944 | 55,328 | - | - | - | - | 62,944 | 55,328 |
| Sweden | - | - | 38,971 | 44,895 | - | - | 38,971 | 44,895 |
| Chile | - | - | - | - | - | 5,489 | - | 5,489 |
| Revenue from contracts with customers | 62,944 | 55,328 | 38,971 | 44,895 | - | 5,489 | 101,915 | 105,712 |
| Provisional pricing adjustments | (96) | (177) | 2,451 | (1,532) | - | (78) | 2,355 | (1,787) |
| Total revenue from mining operations | 62,848 | 55,151 | 41,422 | 43,363 | - | 5,411 | 104,270 | 103,925 |
| Commodities | | | | | | | | |
| Gold | 45,503 | 38,405 | 38,971 | 44,895 | - | 3,112 | 84,474 | 86,412 |
| Antimony | 17,441 | 16,923 | - | - | - | - | 17,441 | 16,923 |
| Silver | - | - | - | - | - | 2,377 | - | 2,377 |
| Revenue from contracts with customers | 62,944 | 55,328 | 38,971 | 44,895 | - | 5,489 | 101,915 | 105,712 |
| Provisional pricing adjustments | (96) | (177) | 2,451 | (1,532) | - | (78) | 2,355 | (1,787) |
| Total revenue from mining operations | 62,848 | 55,151 | 41,422 | 43,363 | - | 5,411 | 104,270 | 103,925 |

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9. Financial instruments

The Company has recognized a gain on financial instruments of \$4,425,000 and \$1,023,000 respectively, for the three and six months ended June 30, 2022 (2021 – loss of \$6,685,000 and gain of \$13,552,000). Details of these are given below:

(a) Gold derivative contracts

The Company has recognized a fair value gain of \$6,416,000 and \$2,116,000 for the three and six months ended June 30, 2022 (2021 – loss of \$6,317,000 and gain of \$13,920,000). The amounts as at June 30, 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 six months ended June 30, 2022, the Company had not sold any shares. The value of securities as at June 30, 2022 is \$224,000 (2021 – \$413,000).

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 \$162,000 and \$184,000 respectively for the three and six months ended June 30, 2022, using Level 1 assumptions (for the six months ended June 30, 2021 – loss of \$368,000).

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 June 30, 2022 is \$2,031,000 (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 loss of \$1,829,000 and \$909,000 for the three and six months ended June 30, 2022, using Level 1 assumptions.

10. Finance costs

The finance costs for the three and six months ended June 30, 2022, and 2021 consist of the following:

| | Three months ended | | Six months ended | |
|---|--------------------|--------------|------------------|--------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Syndicated Facility | | | | |
| Interest on Syndicated Facility | 681 | 887 | 1,405 | 1,934 |
| Realised loss on gold derivative contracts | 2,704 | 835 | 5,024 | 2,062 |
| Other | | | | |
| Interest on other borrowings and other charges | 94 | 69 | 163 | 147 |
| Accretion of reclamation and site closure costs | 52 | 25 | 65 | 27 |
| | 3,531 | 1,816 | 6,657 | 4,170 |

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(Unaudited)

11. Net income per share

For the three and six months ended June 30, 2022, the weighted average number of common shares of calculating diluted income per share is shown in the table below:

| | Three months ended | | Six months ended | |
|--|--------------------|----------|------------------|--------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| | (\$'000) | (\$'000) | ('000) | ('000) |
| Net income for the period | 2,703 | 4,790 | 13,188 | 30,290 |
| Basic weighted average number of shares outstanding | 92,188 | 91,346 | 92,003 | 91,292 |
| Effect of dilutive securities: | | | | |
| Stock options | 1,093 | 1,148 | 1,030 | 1,044 |
| RSU | 390 | 536 | 390 | 536 |
| PSU | 489 | 336 | 489 | 336 |
| DSU | 263 | 140 | 263 | 140 |
| Diluted weighted average number of shares outstanding | 94,423 | 93,506 | 94,175 | 93,348 |

The table below shows number of anti-dilutive securities which are excluded from the calculation of diluted weighted average number of shares:

| | Six months ended | |
|---------------------------------|------------------|--------|
| | June 30, | |
| | 2022 | 2021 |
| | ('000) | ('000) |
| Anti-dilutive securities | | |
| Stock options | 140 | 140 |

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(Unaudited)

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 June 30, 2022 | | | | |
|---|---|-----------------|-----------------|-----------------|-----------------|
| | Australia | Sweden | Chile | Canada | Total |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Revenue | 32,406 | 17,710 | - | - | 50,116 |
| Cost of sales, excluding depletion and depreciation | (13,186) | (15,340) | - | - | (28,526) |
| Depletion and depreciation | (3,308) | (4,388) | - | - | (7,696) |
| Income (loss) from mining operations | 15,912 | (2,018) | - | - | 13,894 |
| Other operating expenses | (879) | (527) | (78) | (68) | (1,552) |
| Revision of reclamation liability | - | - | - | (7,092) | (7,092) |
| Other income (expenses), except for fair value adjustment | 5,809 | (5,902) | (151) | (526) | (770) |
| Gain (loss) on financial instruments | 962 | 5,453 | - | (1,990) | 4,425 |
| Income (loss) before income taxes | 21,804 | (2,994) | (229) | (9,676) | 8,905 |
| Current tax recovery (expense) | (5,553) | 210 | - | - | (5,343) |
| Deferred tax recovery (expense) | (1,296) | 437 | - | - | (859) |
| Net income (loss) for the period | 14,955 | (2,347) | (229) | (9,676) | 2,703 |
| Net income per share | | | | | |
| Basic | | | | | \$0.03 |
| Diluted | | | | | \$0.03 |
| Cash expenditure for property, plant and equipment | 4,595 | 5,824 | 32 | - | 10,451 |
| Total non-current assets as at June 30, 2022 | 63,074 | 116,827 | 10,942 | 3,019 | 193,862 |
| Total assets as at June 30, 2022 | 134,469 | 138,475 | 12,159 | 21,035 | 306,138 |
| Total liabilities as at June 30, 2022 | 45,026 | 29,474 | 613 | 56,415 | 131,528 |

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(Unaudited)

12. Segmented information (continued)

| | Three Months ended on June 30, 2021 | | | | |
|---|-------------------------------------|----------------|--------------|--------------|--------------|
| | Australia | Sweden | Chile | Canada | Total |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Revenue | 23,394 | 22,547 | 5,411 | - | 51,352 |
| Cost of sales, excluding depletion and depreciation | (7,513) | (16,046) | (3,576) | - | (27,135) |
| Depletion and depreciation | (4,179) | (4,776) | - | - | (8,955) |
| Income from mining operations | 11,702 | 1,725 | 1,836 | - | 15,262 |
| Other operating income (expenses) | (951) | (598) | (36) | 453 | (1,132) |
| Other income (expenses), except for fair value adjustment | 1,280 | (766) | (237) | (809) | (532) |
| Fair value adjustment loss | (4,714) | (1,603) | - | (368) | (6,685) |
| Income (loss) before income taxes | 7,317 | (1,242) | 1,563 | (724) | 6,913 |
| Current tax expense | (4,423) | - | - | - | (4,423) |
| Deferred tax recovery | 2,138 | 162 | - | - | 2,300 |
| Net income (loss) for the period | 5,032 | (1,080) | 1,563 | (724) | 4,790 |
| Net income per share | | | | | |
| Basic | | | | | \$0.05 |
| Diluted | | | | | \$0.05 |
| Cash expenditure for property, plant and equipment | 5,721 | 7,377 | 253 | - | 13,351 |
| Total non-current assets as at June 30, 2021 | 65,164 | 128,321 | 10,945 | 5,837 | 210,267 |
| Total assets as at June 30, 2021 | 113,921 | 154,234 | 19,525 | 23,161 | 310,841 |
| Total liabilities as at June 30, 2021 | 35,480 | 40,970 | 14,702 | 60,700 | 151,852 |

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12. Segmented information (continued)

| | Six months ended June 30, 2022 | | | | |
|---|--------------------------------|----------------|--------------|----------------|---------------|
| | Australia | Sweden | Chile | Canada | Total |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Revenue | 62,848 | 41,422 | - | - | 104,270 |
| Cost of sales, excluding depletion and depreciation | (20,629) | (29,613) | - | - | (50,242) |
| Depletion and depreciation | (7,265) | (9,627) | - | - | (16,892) |
| Income from mining operations | 34,954 | 2,182 | - | - | 37,136 |
| Other operating expenses | (2,056) | (1,182) | (142) | (97) | (3,477) |
| Revision of reclamation liability | - | - | - | (7,092) | (7,092) |
| Other income (expenses), except for fair value adjustment | 2,932 | (8,970) | (340) | 1,550 | (4,828) |
| Gain (loss) on financial instruments | (856) | 2,972 | - | (1,093) | 1,023 |
| Income (loss) before income taxes | 34,974 | (4,998) | (482) | (6,732) | 22,762 |
| Current tax recovery (expense) | (9,429) | (11) | - | - | (9,440) |
| Deferred tax recovery (expense) | (1,232) | 1,098 | - | - | (134) |
| Net income (loss) for the period | 24,313 | (3,911) | (482) | (6,732) | 13,188 |
| Net income per share | | | | | |
| Basic | | | | | \$0.14 |
| Diluted | | | | | \$0.14 |
| Cash expenditure for property, plant and equipment | 8,839 | 10,772 | 312 | - | 19,923 |
| Total non-current assets as at June 30, 2022 | 63,074 | 116,827 | 10,942 | 3,019 | 193,862 |
| Total assets as at June 30, 2022 | 134,469 | 138,475 | 12,159 | 21,035 | 306,138 |
| Total liabilities as at June 30, 2022 | 45,026 | 29,474 | 613 | 56,415 | 131,528 |

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12. Segmented information (continued)

| | Six months ended June 30, 2021 | | | | |
|---|--------------------------------|--------------|--------------|--------------|---------------|
| | Australia | Sweden | Chile | Canada | Total |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Revenue | 55,151 | 43,363 | 5,411 | - | 103,925 |
| Cost of sales, excluding depletion and depreciation | (17,757) | (31,097) | (3,695) | - | (52,549) |
| Depletion and depreciation | (10,009) | (9,762) | - | - | (19,771) |
| Income from mining operations | 27,385 | 2,504 | 1,716 | - | 31,605 |
| Other operating income (expenses) | (1,730) | (1,191) | 311 | 565 | (2,045) |
| Care and maintenance expenses | - | - | (383) | - | (383) |
| Other income (expenses), except for fair value adjustment | 1,798 | (4,593) | (251) | 1,616 | (1,430) |
| Fair value adjustment gain (loss) | 4,420 | 9,500 | - | (368) | 13,552 |
| Income before income taxes | 31,873 | 6,220 | 1,393 | 1,813 | 41,299 |
| Current tax expense | (7,634) | - | - | - | (7,634) |
| Deferred tax expense | (2,092) | (1,283) | - | - | (3,375) |
| Net income for the period | 22,147 | 4,937 | 1,393 | 1,813 | 30,290 |
| Net income per share | | | | | |
| Basic | | | | | \$0.33 |
| Diluted | | | | | \$0.32 |
| Cash expenditure for property, plant and equipment | 10,825 | 14,045 | 481 | - | 25,351 |
| Total non-current assets as at June 30, 2021 | 65,164 | 128,321 | 10,945 | 5,837 | 210,267 |
| Total assets as at June 30, 2021 | 113,921 | 154,234 | 19,525 | 23,161 | 310,841 |
| Total liabilities as at June 30, 2021 | 35,480 | 40,970 | 14,702 | 60,700 | 151,852 |

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12. Segmented information (continued)

For the three and six months ended June 30, 2022, the Company had five customers from whom it earned more than 10% of its total revenue (2021 – five customers).

Revenue from these customers is summarized as follows:

| | Three months ended | | Six months ended | |
|---------------------------------|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Costerfield (gold and antimony) | | | | |
| Customer 1 | 11,503 | 12,161 | 25,260 | 27,976 |
| Customer 2 | 13,770 | 9,860 | 30,133 | 22,556 |
| Customer 3 | 3,985 | - | 3,985 | - |
| | 29,258 | 22,021 | 59,378 | 50,532 |
| Björkdal (gold) | | | | |
| Customer 4 | 14,401 | 18,008 | 32,491 | 34,221 |
| Customer 5 | 3,309 | 4,539 | 8,931 | 9,142 |
| | 17,710 | 22,547 | 41,422 | 43,363 |
| Cerro Bayo (silver and gold) | | | | |
| Customer 6 | - | 5,411 | - | 5,411 |
| | - | 5,411 | - | 5,411 |
| | 46,968 | 49,979 | 100,800 | 99,306 |

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 June 30, 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 \$1,161,000, are classified as held for sale, and liabilities of \$613,000 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:

| <u>As at June 30, 2022</u> | <u>Challacollo</u> <u>(\$'000)</u> |
|---|---------------------------------------|
| Assets | |
| Current assets | |
| Prepaid expenses | 32 |
| Non-current assets | |
| Property, plant and equipment, net | 482 |
| Other non-current receivables | 647 |
| Assets held for sale | 1,161 |
| Liabilities | |
| Current liabilities | |
| Trade and other payables | 613 |
| Liabilities associated with assets held for sale | 613 |

The Company expects to complete the sale transaction of Challacollo to Aftermath during the third quarter of 2022. The Company will receive C\$1,500,000 in cash and the same amount in Aftermath shares upon completion of the transaction. The Company will also receive a 3% net smelter returns royalty on production at Challacollo, capped at US\$3,000,000

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 Company completed the sale of Challacollo to Aftermath on August 10, 2022.