Consolidated financial statements of

Mandalay Resources Corporation

Year ended December 31, 2022 and 2021

Mandalay Resources Corporation
Year ended December 31, 2022 and 2021

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Independent auditor's report

To the Shareholders of
Mandalay Resources Corporation

Opinion

We have audited the consolidated financial statements of **Mandalay Resources Corporation** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Mineral Interests Indicators of Impairment	
As at December 31, 2022, the carrying value of mineral interests within property, plant and equipment was $76 million. The Group reviews and evaluates its long-lived assets [including mineral interests] for impairment at least at the end of each reporting period or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Group further discloses significant judgments and estimates in relation to reserves and resources impacting the impairment indicator assessment in note 2 to the consolidated financial statements. Auditing the Group's assessment of indicators of impairment for its long-lived assets [including mineral interests] was complex due to the subjective nature of various inputs and assumptions, including estimating reserves and resources used in the impairment indicator assessment for the Group's cash generating units ["CGUs"] that contain operating mines. In addition, management considers other internal and external factors such as production estimates, economic factors such as commodity prices, estimates of production costs and future capital expenditures. Further, the key assumptions and estimates used by management to estimate reserves and resources require judgement and the use of specialists and could materially change over time. Due to the above-mentioned factors, the assessment of impairment indicators for mineral interests is considered a key audit matter.	Our procedures included the following, among others: We obtained an understanding of the Group's methods to develop estimates of reserves and resources, including the Group's use of third-party specialists. In addition, we evaluated the competency and objectivity of management's specialists through consideration of their professional qualifications, experience and their use of accepted industry practices. We evaluated management's assessment of impairment indicators considering other internal and external factors, such as: market capitalization of the Group, long term commodity prices, actual production levels and costs as compared to the budget, mine development costs, and changes in strategic outlook, amongst others.

Other information

Management is responsible for the other information. The other information is comprised of Management's Discussion and Analysis for the year ended December 31, 2022.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ashraf Zineldin.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 23, 2023

Mandalay Resources Corporation

Consolidated statements of income and comprehensive income

Year ended December 31, 2022 and 2021

(Expressed in U.S. dollars)

	2022	2021
	($'000)	($'000)
Revenue (Note 14)	**191,699**	229,396
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note 15)	**94,904**	108,853
Depletion and depreciation (Note 6)	**33,874**	38,382
	128,778	147,235
Income from mining operations	**62,921**	82,161
Expenses		
Administration (Note 16)	**5,616**	5,583
Share-based compensation (Note 12(a))	**1,392**	852
Loss (gain) on disposal of property, plant and equipment	**334**	(558)
Revision of reclamation liability (Note 10)	**9,889**	6,733
Write-down of assets (Note 6)	**651**	2,103
Care and maintenance expenses	**-**	485
	17,882	15,198
Income from operations	**45,039**	66,963
Other expense (income)		
Finance costs (Note 17)	**11,878**	8,738
Gain on financial instruments (Note 18)	**(5,247)**	(7,892)
Gain on sale of subsidiary (Note 6)	**(1,828)**	(7,105)
Interest and other income	**(837)**	(148)
Foreign exchange loss (gain)	**791**	(3,354)
	4,757	(9,761)
Income before income taxes	**40,282**	76,724
Income tax expense (Note 13)		
Current	**15,358**	18,247
Deferred	**1,418**	3,598
Income tax expense	**16,776**	21,845
Net income for the year	**23,506**	54,879
Other comprehensive income, net of tax		
Item that may subsequently be reclassified to net income		
Foreign currency translation	**(17,487)**	(15,034)
Comprehensive income for the year	**6,019**	39,845
Net income per share		
Basic	**0.26**	0.60
Diluted	**0.25**	0.59
Weighted average number of common shares outstanding (Note 19)		
Basic ('000)	**92,132**	91,471
Diluted ('000)	**94,091**	93,307

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of financial position
As at December 31, 2022 and 2021
(Expressed in U.S. dollars)

	2022	2021
	($'000)	($'000)
Assets		
Current assets		
Cash and cash equivalents (Note 3)	**38,377**	30,738
Reclamation deposits (Note 10)	**2,035**	11,202
Trade receivables and other assets (Note 4)	**13,211**	43,046
Marketable securities (Note 18(b))	**2,749**	3,403
Inventories (Note 5)	**26,704**	23,363
Prepaid expenses	**1,209**	1,677
Assets held for sale (Note 6)	**-**	906
	84,285	114,335
Non-current assets		
Reclamation and other deposits (Note 10)	**13,672**	8,414
Trade receivables and other assets (Note 4)	**359**	1,363
Property, plant and equipment, net (Note 6)	**183,908**	193,731
	197,939	203,508
	282,224	317,843
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	**20,815**	23,786
Borrowings (Note 9)	**348**	15,659
Lease liabilities (Note 7)	**1,391**	2,506
Reclamation and site closure costs provision (Note 10)	**2,035**	7,333
Other provisions (Note 11)	**3,370**	3,874
Income taxes payable (Note 13)	**3,526**	17,200
Financial instruments (Note 9)	**5,740**	7,569
Liabilities associated with assets held for sale (Note 6)	**-**	478
	37,225	78,405
Non-current liabilities		
Borrowings (Note 9)	**19,776**	28,019
Lease liabilities (Note 7)	**2,504**	3,603
Reclamation and site closure costs provision (Note 10)	**27,108**	15,807
Other provisions (Note 11)	**256**	281
Deferred tax liability (Note 13)	**11,201**	10,330
Financial instruments (Note 9)	**-**	4,711
	60,845	62,751
	98,070	141,156
Equity		
Share capital (Note 12)	**231,166**	230,405
Share option reserve (Note 12)	**4,621**	3,934
Foreign currency translation reserve	**(58,362)**	(40,875)
Retained earnings (accumulated deficit)	**6,729**	(16,777)
	184,154	176,687
	282,224	317,843

Approved by the Board of Directors and authorized for issuance on February 23, 2023.

(Signed) Dominic Duffy
Dominic Duffy, Director, President and Chief Executive Officer

(Signed) Robert Doyle
Robert Doyle, Director

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of changes in equity
Year ended December 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	Retained earnings (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 year	-	-	-	-	54,879	**54,879**
Other comprehensive loss for the year	-	-	-	(15,034)	-	**(15,034)**
Total comprehensive income	-	-	-	(15,034)	54,879	**39,845**
Stock options exercised (Note 12(b))	202	216	(86)	-	-	**130**
Share-based compensation (Note 12(a))	-	-	965	-	-	**965**
Reversal of forfeited RSUs (Note 12(c))	-	-	(32)	-	-	**(32)**
Reclassified for expired and cancelled options	-	-	(22)	-	22	**-**
Redemption of RSUs and PSUs (Notes 12(c) & (d))	325	219	(219)	-	-	**-**
Balance, December 31, 2021	**91,763**	**230,405**	**3,934**	**(40,875)**	**(16,777)**	**176,687**
Net income for the year	-	-	-	-	23,506	**23,506**
Other comprehensive loss for the year	-	-	-	(17,487)	-	**(17,487)**
Total comprehensive income	-	-	-	(17,487)	23,506	**6,019**
Stock options exercised (Note 12(b))	233	397	(151)	-	-	**246**
Share-based compensation (Note 12(a))	-	-	1,202	-	-	**1,202**
Redemption of RSUs, PSUs and DSUs (Notes 12(c), (d) and (e))	461	364	(364)	-	-	**-**
Balance, December 31, 2022	**92,457**	**231,166**	**4,621**	**(58,362)**	**6,729**	**184,154**

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of cash flows
Year ended December 31, 2022 and 2021
(Expressed in U.S. dollars)

	2022	2021
	($'000)	($'000)
Operating activities		
Net income for the year	**23,506**	54,879
Adjustments to reconcile net income to net cash flows from operating activities		
Depletion and depreciation (Note 6)	**33,874**	38,382
Share-based compensation (Note 12(a))	**1,392**	852
Loss (gain) on disposal of property, plant and equipment	**334**	(558)
Finance costs (Note 17)	**11,878**	8,738
Gain on sale of subsidiary	**(1,828)**	(7,105)
Gain on financial instruments (Note 18)	**(5,247)**	(7,892)
Interest and other income	**(837)**	(148)
Unrealized foreign exchange loss (gain)	**1,286**	(3,660)
Income tax expense	**16,776**	21,845
Reclamation expenditures (Note 10)	**(7,435)**	(6,082)
Revision of reclamation liability (Note 10)	**9,889**	6,733
Write-down of assets (Note 6)	**651**	2,103
Changes in non-cash operating working capital items		
Trade receivables and other assets	**27,532**	(29,248)
Inventories	**(3,833)**	(1,812)
Prepaid expenses	**259**	473
Trade and other payables	**(1,314)**	(2,831)
Other provisions	**(268)**	296
Cash generated from operations	**106,615**	74,965
Interest and other income received	**837**	148
Interest and bank charges paid	**(2,305)**	(3,209)
Income tax paid	**(25,105)**	(9,871)
Net cash flows from operating activities	**80,042**	62,033
Investing activities		
Expenditures on property, plant and equipment	**(39,670)**	(48,109)
Proceeds from sale of non-core assets (Note 6)	**-**	1,847
Receipt from reclamation deposits (Note 10)	**2,376**	2,145
Proceeds from sale of marketable securities	**303**	272
Net cash flows used in investing activities	**(36,991)**	(43,845)
Financing activities		
Proceeds from borrowings (Note 9)	**34,690**	1,112
Repayments of borrowings	**(59,188)**	(16,193)
Lease payments (Note 7)	**(2,834)**	(1,837)
Payment of gold derivative contracts (Note 9)	**(7,610)**	(4,718)
Shares issued for cash	**246**	130
Net cash flows used in financing activities	**(34,696)**	(21,506)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(716)**	(150)
Net increase (decrease) in cash and cash equivalents	**7,639**	(3,468)
Cash and cash equivalents, beginning of the year	**30,738**	34,206
Cash and cash equivalents, end of the year	**38,377**	30,738
Cash and cash equivalents consist of		
Cash	**38,377**	30,738
	38,377	30,738

See accompanying notes to the consolidated financial statements

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. Summary of significant accounting policies

These consolidated financial statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board effective for the year ended December 31, 2022, using the significant accounting policies outlined below.

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

a) *Basis of consolidation*

The consolidated financial statements of the Company include the results of entities (including structured entities) controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of income and comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company have been eliminated in full on consolidation.

2. Summary of significant accounting policies (continued)

a) *Basis of consolidation (continued)*

The principal subsidiaries of the Company as at December 31, 2022 and 2021 are as follows:

Subsidiary	**Interest 2022**	Interest 2021
	%	**%**
Mandalay Resources Australia Pty Ltd.[1]	**100**	**100**
Björkdalsgruvan AB.[2]	**100**	**100**

1 Mandalay Resources Australia Pty Ltd. ("MRA") owns the Costerfield gold and antimony mine in Australia.

2 Bonito Capital Corp owns the Björkdal gold mine in Sweden through its subsidiary, Björkdalsgruvan AB ("Björkdal"), and exploration projects in Canada.

b) *Functional currency and foreign currency transactions*

The Company's functional currency is the Canadian dollar as this is the principal currency of the economic environment in which it operates. The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in the countries that it operates in, and sources of debt and equity financing.

MRA and Björkdal have functional currencies of the Australian dollar and Swedish krona, respectively.

Transactions in foreign currencies are initially recorded in the respective entity's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. The translation gain/loss is recognized in the consolidated statements of income and comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. On consolidation, each respective entity's financial statements are translated into the presentation currency as outlined below.

The consolidated financial statements are presented in U.S. dollars. For presentation purposes, the assets and liabilities of the Company and its subsidiaries, including fair value adjustments arising on acquisition, are translated into U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into U.S. dollars at the average exchange rate for the period in which the transaction arose. Exchange differences arising are recognized as a separate component of equity titled "foreign currency translation reserve." The consolidated financial statements have been presented in a currency other than the parent's functional currency as management has determined that the U.S. dollar is the common currency in which the Company's peers, being multi-jurisdictional mining companies, present their financial statements.

2. Summary of significant accounting policies (continued)

c) *Business combinations*

The consideration for each acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in income or loss as incurred (unless they related to issue of debt/equity instruments).

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant international financial reporting standards. Changes in the fair value of contingent consideration classified as equity are not recognized.

d) *Cash and cash equivalents*

The Company considers all the closing balances at bank and of highly liquid investments with remaining maturities of three months or less at the date of acquisition to be cash equivalents.

e) *Inventories*

Finished goods, work-in-process and stockpiled ore are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form and the costs necessary to make the sale.

In-process inventories represent materials that are currently in the process of being converted into finished goods. The average production cost of finished goods represents the average cost of in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

Supplies are valued at the lower of average cost and net realizable value.

f) *Property, plant and equipment*

(i) *Exploration and evaluation*

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized within property, plant and equipment.

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash paid, the value of share consideration and exploration costs incurred. The recoverable values are not always readily determinable and are dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

All costs related to the acquisition, exploration and evaluation of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are moved into development or production, sold or management has determined there to be an impairment of the value.

Management reviews the carrying value of capitalized exploration and evaluation costs for indicators of impairment at each reporting date. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output.

2. Summary of significant accounting policies (continued)

f) Property, plant and equipment (continued)

(i) <u>Exploration and evaluation (continued)</u>

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mining interests within property, plant and equipment.

(ii) <u>Mining interests</u>

Mining interests represent capitalized expenditures related to the development of mining properties, acquisition costs, capitalized borrowing costs (Note 2(i)), expenditures related to exploration and evaluation transferred in, and estimated site closure and reclamation costs.

Capitalized costs are depleted over the estimated economic life of the mine using the method as explained in depletion and depreciation (Note 2(f)(iv)) below.

(iii) <u>Plant and equipment</u>

Plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Any remaining book value associated with the component being replaced is derecognized upon its replacement. Directly attributable costs incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

(iv) <u>Depletion and depreciation</u>

Depletion

Mining interests are depleted to estimated residual value using the unit-of-production method based on the estimated total saleable metal ounces contained in a life of mine plan that includes Proven and Probable Reserves, as well as any Measured, Indicated and Inferred Resources that are not yet converted to Reserves but that Management believes are highly likely to be converted to Reserves and eventually mined.

Depreciation

Management reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Plant and equipment cost is depreciated, using the straight-line method over their estimated useful lives, if shorter than the mine life, otherwise they are depleted on the unit-of-production basis, as outlined above.

Plant and equipment include building, plant and equipment, vehicles, furniture and fixtures and computer equipment, and their estimated useful lives range from 2.5 years to 10 years.

Assets under construction are not depreciated until their construction is substantially complete and they are available for their intended use. In the case of projects involving the development of mineral properties, this is when the property has achieved commercial production.

2. Summary of significant accounting policies (continued)

g) Impairment of long-lived assets

The Company reviews and evaluates its property, plant and equipment for indicators of impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable or at least at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in income or loss.

An impairment loss is reversed if there is an indication that there has been a change in the original conditions that resulted in the impairment being recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

h) Leases

At inception of a contract, the Company determines whether a contract is or contains a lease. A contract is, or contains, a lease, if the contract gives the Company the right to control the use of an identified asset for the duration of the lease term in exchange for consideration. The Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the lessor makes the leased asset available for use by the Company. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimated decommissioning costs, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The measurement of lease liabilities includes the fixed (and in-substance fixed) payments, and variable lease payments that depend on an index or a rate, less any lease incentives receivable. If applicable, lease liabilities will also include a purchase option exercise price if the Company is reasonably certain to exercise that option, termination penalties if the lease term also reflects the termination option and amounts expected to be payable under a residual value guarantee. Variable lease payments are recognized as an expense as they are incurred. Subsequent to initial measurement, the Company measures lease liabilities at amortized cost using the effective interest method. Lease liabilities are remeasured when there is a change in the lease term, change in the future lease payments resulting from a change in an index or rate, or a change in the assessment of an option to purchase the underlying asset.

2. Summary of significant accounting policies (continued)

h) Leases (continued)

Lease terms applied are the contractual non-cancellable periods of the leases, plus periods covered by an option to renew the leases if the Company is reasonably certain to exercise that option and the periods covered by an option to terminate the leases if the Company is reasonably certain not to exercise that option.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

i) Borrowing costs

Borrowing costs related to the costs of developing mining properties and constructing new facilities are capitalized and included in the carrying amounts of the related assets until mining properties reach commercial production and facilities are ready for their intended use.

The amount of borrowing costs capitalized (before effects of income tax) during the year is determined by applying the interest rate applicable to appropriate borrowings outstanding during the year to the average amount of capitalized expenditures for the qualifying assets during the year. Where any borrowing costs are incurred specifically in relation to a qualifying asset, they are allocated directly to the asset to which they relate and are excluded from the aforementioned calculation.

All other borrowing costs are recognized as an expense in the period in which they are incurred.

j) Site closure and reclamation cost obligations

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time the environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for site closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows or the discount rate. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Changes in site closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost, if there are no assets at site then it will be charged to the income statement.

Costs of site closure and reclamation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of the mine.

k) Income taxes

The Company uses the liability method of accounting for income taxes. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income and on the carry forward of tax losses and tax credits. Deferred tax liabilities are generally recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that affects neither accounting nor taxable income at the time of the transaction. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

2. Summary of significant accounting policies (continued)

k) Income taxes (continued)

The Company recognizes a deferred tax asset for deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable income will be available against which the temporary difference can be utilized. The Company recognizes a deferred tax liability for taxable temporary differences associated with investments in subsidiaries, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized as an expense or recovery in income or loss, except when they relate to items that are recognized outside of income or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside income or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the consolidated statements of financial position. Deferred tax assets, including those arising from unutilized tax losses, require the Company to assess the likelihood that the group will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Judgment is also required about the application of existing tax laws in each jurisdiction.

Assumptions about the generation of future taxable income depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditures, dividends and other capital management transactions).

To the extent that future cash flows and taxable income differ significantly from these estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

l) Employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and it is capable of being measured reliably. Liabilities recognized in respect of employee benefits due to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits that are not due to be settled within one year are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

2. Summary of significant accounting policies (continued)

m) Revenue

The Company is principally engaged in the business of producing metal concentrate. Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue on these sales is initially recognized at the current market price. The receivables relating to provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark to market adjustment is recognized in revenue but is not considered to be revenue from contracts with customers.

n) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 12(b) to (e).

The fair value determined using a valuation technique (e.g., Black-Scholes option pricing model) at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in income or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes option pricing model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in share-based compensation.

o) Financial Instruments

Financial assets and liabilities

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15, *Revenue from Contracts with Customers* (see Note 2(m)).

2. Summary of significant accounting policies (continued)

o) Financial Instruments (continued)

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the solely payments of principal and interest ("SPPI") test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date (i.e., the date that the Company commits to purchase or sell the asset).

The Company classifies its financial assets into the following categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVTPL

Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Interest received is recognized as part of interest and other income. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include trade receivables (not subject to provisional pricing), other receivables. Refer below to *Financial assets at FVTPL* for a discussion of trade receivables that are subject to provisional pricing.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading (e.g., derivative instruments), financial assets designated upon initial recognition at FVTPL (e.g., debt or equity instruments), or financial assets mandatorily required to be measured at fair value (i.e., where they fail the SPPI test). Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that do not pass the SPPI test are required to be classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

2. Summary of significant accounting policies (continued)

o) Financial Instruments (continued)

Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized in profit or loss.

As IFRS 9, *Financial Instruments* ("IFRS 9") now has the SPPI test for financial assets, the requirements relating to the separation of embedded derivatives is no longer needed for financial assets. An embedded derivative will often make a financial asset fail the SPPI test, thereby requiring the instrument to be measured at FVTPL in its entirety. This is applicable to the Company's trade receivables (subject to provisional pricing). These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price at the relevant Qualified Person stipulated in the contract. This exposure to the commodity price causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at FVTPL from the date of recognition of the corresponding sale, with subsequent movements being recognized in revenue in the consolidated statements of income and comprehensive income.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

Impairment of financial assets

For trade receivables and contract assets, the Company applies a simplified approach in calculating expected credit losses ("ECLs") and recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include derivative gold hedge contracts, trade and other payables and borrowings.

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statements of income and comprehensive income.

Derivatives

The Company uses derivative financial instruments to manage exposure to fluctuations in gold prices and may use derivatives to manage exposure to interest rates, foreign currency exchange rates and input costs. The Company does not employ derivative financial instruments for trading purposes or for speculative purposes.

2. Summary of significant accounting policies (continued)

o) Financial Instruments (continued)

The Company initially recognises all derivative financial instruments at fair value and on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each period with the fair value remeasurements recorded in the profit or loss. Derivatives are classified as current or non-current based on contractual maturity.

Loans and borrowings and trade and other payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of income and comprehensive income when the liabilities are derecognized, as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statements of income and comprehensive income.

This category generally applies to interest-bearing loans and borrowings and trade and other payables.

Derecognition

A financial liability is derecognized when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

p) Income per share

Basic loss per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted income per share is computed similar to basic income per share except that the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options.

The number of additional shares is calculated by assuming that outstanding dilutive stock options were exercised and that the proceeds from such exercise (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting period.

q) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount receivable can be measured reliably.

2. Summary of significant accounting policies (continued)

r) Fair value measures

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the group determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

s) Critical judgments and accounting estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Following is the item involving significant judgments:

- Indicator of impairment (Note 2(g)).

Following are the items involving significant estimates:

- Fair value of financial instruments (Notes 2(o) and 23);
- Impairment of long-lived assets (Note 2(g));
- Mineralization estimates (see below);
- The anticipated cost of reclamation and closure cost obligations (Notes 2(j) and 10); and
- Unit-of-production depreciation (Notes 2(f)(iv) and 6).

Mineralization estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101, *Standards for Disclosure of Mineral Projects*. Reserves are used in the calculation of depreciation and depletion, impairment assessment, assessment of life-of-mine stripping ratios and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being updated.

2. Summary of significant accounting policies (continued)

s) Critical judgments and accounting estimates (continued)

Mineralization estimates (continued)

Estimated recoverable saleable metal ounces contained in the life-of-mine plan are used in determining the depreciation and/or amortization of mine-specific assets. This results in a depreciation charge proportional to the depletion of the anticipated remaining life-of-mine production. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

The calculation of the unit of production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on economically recoverable reserves, or if future capital expenditure estimates change. Changes to economically recoverable reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on economically recoverable reserves of differences between actual commodity prices and commodity price assumptions;
- Unforeseen operational issues;
- New exploration information; and
- Sustained rise or fall in operating costs.

Changes in estimates are accounted for prospectively.

t) New standards and interpretations not yet adopted:

In January 2020, IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1, Presentation of Financial Statements. The narrow-scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of “settlement” to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

In September 2022, the IASB issued Lease Liability in a Sale and Leaseback, which amends IFRS 16, Leases. The narrow scope amendments add to requirements explaining how to account for a sale and leaseback after the date of the transaction. These amendments will not change the accounting for leases other than those arising in a sale and leaseback transaction. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

In October 2022, the IASB issued amendments to IAS 1, Presentation of Financial Statements, that aim to improve the information companies provide about long-term debt with covenants. The amendments to IAS 1 specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

2. Summary of significant accounting policies (continued)

u) 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 audited consolidated financial statements, there have been no other significant impacts, including impairments, to the Company's operations and consolidated financial statements.

3. Cash and cash equivalents

As at December 31, 2022, the Company had a cash balance of $38,377,000 (December 31, 2021 – $30,738,000). The Company had no cash equivalents as at December 31, 2022 (December 31, 2021 – $nil).

The Company is in compliance with the covenants prescribed under the Bank of Nova Scotia revolving credit facility as at December 31, 2022.

4. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	2022	2021
	($'000)	($'000)
Trade receivables	**10,555**	40,767
Other receivables and assets	**532**	1,745
Restricted cash	**1,297**	996
VAT and other indirect tax receivables	**1,186**	759
Provisional pricing adjustment	**-**	142
	13,570	44,409
Less: non-current portion	**359**	1,363
Total current portion	**13,211**	43,046

There was no allowance for doubtful accounts recognized as at December 31, 2022 and 2021.

4. Trade receivables and other assets (continued)

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

5. Inventories

Inventories consist of the following:

	2022	2021
	($'000)	($'000)
Finished goods	**7,437**	6,013
Work-in-progress and stockpiled ore	**13,182**	11,520
Consumables	**6,085**	5,830
	26,704	23,363

The amount of inventories recognized in cost of operations for the year ended December 31, 2022 was $128,202,000 (2021 – $147,235,000).

During the year ended December 31, 2022, there was no write-down of consumables (2021 – $nil).

6. 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	13,906	17,720	11,280	**42,906**
Disposals	-	(3,808)	-	**(3,808)**
Write-down of assets	-	(651)	-	**(651)**
Reclassification to mining interest	2,946	(1,991)	(689)	**266**
Sale of subsidiary	-	(107)	(52)	**(159)**
Foreign exchange	(24,619)	(15,990)	(2,411)	**(43,020)**
As at December 31, 2022	**232,895**	**125,106**	**53,589**	**411,590**
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	18,056	15,496	-	**33,552**
Disposals	-	(2,969)	-	**(2,969)**
Sale of subsidiary	-	(107)	-	**(107)**
Foreign exchange	(16,770)	(8,349)	-	**(25,119)**
As at December 31, 2022	**156,289**	**71,393**	**-**	**227,682**
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 December 31, 2022	**76,606**	**53,713**	**53,589**	**183,908**

6. Property, plant and equipment (continued)

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	($'000)	($'000)	($'000)	($'000)
As at December 31, 2022				
Costerfield	32,332	14,604	15,240	**62,176**
Björkdal	44,274	39,109	27,678	**111,061**
La Quebrada	-	-	10,671	**10,671**
	76,606	**53,713**	**53,589**	**183,908**

	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**

For the year ended December 31, 2022, there was $321,000 of plant and equipment depreciation capitalized to mining interests (2021 – $779,000). As at December 31, 2022, the Company had right-of-use assets of $4,126,000 included in property, plant and equipment, of which $1,168,000 is at Costerfield and $2,958,000 is at Björkdal (2021 – Costerfield: $1,693,000 and Björkdal: $5,971,000).

The following table details the write down of assets for the Company for the year ended December 31, 2022 and 2021:

	2022	2021
	($'000)	($'000)
Björkdal	**651**	-
Lupin	**-**	2,103
Total write down of assets	**651**	2,103

For the year ended December 31, 2022, there was a write down of $651,000 of plant and equipment assets at Björkdal (2021 – $nil) relating to capitalized mill studies. On review of the impact that the 2021 reclamation work has had on the accessibility of resources at Lupin, the Company has assessed the recoverable amount lower than the carrying value for the mine. The Company has therefore recognized a write-down of $2,103,000 on this asset in the Company's 2021 consolidated statement of income and comprehensive income.

Details of non-operating exploration and evaluation assets – others

(i) *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.

6. Property, plant and equipment (continued)

On August 10, 2022, the Company completed the sale of Challacollo to Aftermath and received a payment of C$1,000,000 in cash and 6,122,448 Aftermath shares with a fair value of C$0.245 per share. On November 24, 2022, the Company received a final payment of C$500,000 plus interest of C$17,000 in cash. The Company also received a 3% net smelter returns royalty on production at Challacollo, capped at US$3,000,000. The Company recognised a gain of US$1,828,000 related to sale of Challacollo for the year ended December 31, 2022.

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 statements of financial position:

As at December 31, 2021	**Challacollo**
	($'000)
Assets	
Current assets	
Prepaid expenses	32
Non-current assets	
Property, plant and equipment, net	230
Other non-current receivables	644
Assets held for sale	**906**
Liabilities	
Current liabilities	
Trade and other payables	478
Liabilities associated with assets held for sale	**478**

(i) *La Quebrada*

The Company considered this asset non-core, and is not exploring at the property as at December 31, 2022.

(ii) *Cerro Bayo*

On October 8, 2019, the Company entered into a binding option agreement with Equus Mining for the potential sale of the Cerro Bayo mine in Chile. On October 12, 2021, Equus Mining Ltd ("Equus") exercised its option to purchase the Cerro Bayo mine. On December 1, 2021, the Company completed sale of the Cerro Bayo mine.

Pursuant to the transaction, Equus acquired the Cerro Bayo mine, including its mining properties, resources and mine infrastructure as well as a 1,500 tonnes per day processing plant, in exchange for 587,502,438 (before consolidation of shares) (see Note 18(b)) ordinary shares in the capital of Equus. This represented 19% of Equus on the sale date. Subsequent to that date, Equus raised capital and the Company did not participate in the raise; therefore, the Company's holding of Equus was 17.5% as at December 31, 2021.

Mandalay also retains a 2.25% net smelter royalty on production from the Cerro Bayo mining claims once the mine has produced at least 50,000 ounces of gold equivalent, subject to a repurchase option in favour of Equus, and remains responsible for 50% of approved site closure costs at Cerro Bayo. In addition, Equus appointed Ryan Austerberry, Mandalay's Chief Operating Officer, to the Board of Equus as a non-executive director representing Mandalay. If the Company's ownership of Equus falls below 10%, it will lose the right to have a representative on the Equus Board.

6. Property, plant and equipment (continued)

(a) Royalties

(i) Costerfield – payable

The Company is required to pay a 2.75% net smelter royalty ("NSR") to the government in Australia for its gold and antimony sales. During the year ended December 31, 2022, the Company accrued a NSR in the amount of $3,054,000 (2021 – $3,368,000), which is recorded as part of cost of sales.

(ii) Björkdal – payable

The Company is required to pay NSR of 0.2% of the average gold price of the production; one-fourth of that amount is to be paid to the Swedish government and the remainder to the owners of the land. During the year ended December 31, 2022, the Company accrued a NSR in the amount of $201,000 (2021 – $168,000), which is recorded as part of cost of sales.

(iii) Cerro Bayo – receivable

Mandalay retains a 2.25% NSR on production from the Cerro Bayo mining claims once the mine has produced at least 50,000 ounces of gold equivalent, subject to a repurchase option in favour of Equus.

7. Lease liabilities

			2022
	Less than 1 year	**Between 1- 4 years**	**Total**
	($'000)	**($'000)**	**($'000)**
Costerfield	220	1,012	**1,232**
Björkdal	1,171	1,492	**2,663**
Total lease liabilities	**1,391**	**2,504**	**3,895**

			2021
	Less than 1 year	**Between 1- 4 years**	**Total**
	($'000)	**($'000)**	**($'000)**
Costerfield	735	1,051	**1,786**
Björkdal	1,771	2,552	**4,323**
Total lease liabilities	**2,506**	**3,603**	**6,109**

7. Lease liabilities (continued)

The following are the amounts recognized in the consolidated statement of income and comprehensive income:

			2022
	Costerfield	**Björkdal**	**Total**
	($'000)	**($'000)**	**($'000)**
Depreciation expense for right-of-use assets	869	1,394	2,263
Interest expense on lease liabilities	74	79	153
Expenses relating to short-term leases	-	791	791
Variable lease payments	-	3,447	3,447
	943	**5,711**	**6,654**

			2021
	Costerfield	**Björkdal**	**Total**
	($'000)	**($'000)**	**($'000)**
Depreciation expense for right-of-use assets	1,483	1,768	3,251
Interest expense on lease liabilities	95	105	200
Expenses relating to short-term leases	-	698	698
Variable lease payments	-	3,461	3,461
	1,578	**6,032**	**7,610**

Björkdal's equipment leases are 80%-90% financed of its purchase cost, bear interest at 2.50%-4.50% per annum and require monthly lease payments. These leases are payable within three to five years of initial borrowing. Certain leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost. These leases are due to be repaid during the year ending December 31, 2026.

Costerfield equipment leases bear interest at 3.69% per annum and require monthly lease payments. These leases are due to be repaid during the year ending June 30, 2024.

8. Trade and other payables

	2022	2021
	($'000)	($'000)
Trade payables	**7,771**	10,422
Accrued liabilities	**10,884**	10,586
Payroll and other taxes payable	**1,733**	2,515
Cash election option (Note 12(b))	**427**	263
	20,815	23,786

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

9. Borrowings

	December 31, 2022	December 31, 2021
	($'000)	($'000)
Revolving Credit Facility	**19,562**	-
Syndicated Facility	**-**	42,769
Equipment Facilities	**562**	909
	20,124	43,678
Less: current portion of total borrowings	**348**	15,659
Non-current portion of total borrowings	**19,776**	28,019

Revolving Credit Facility

On December 1, 2022, the Company entered into a credit agreement with the Bank of Nova Scotia ("Scotia"), providing for a senior secured revolving credit facility in an aggregate amount up to $35,000,000 (the "Revolving Credit Facility").

The initial drawdown under the Revolving Credit Facility was used to repay the Company's existing Syndicated Facility with HSBC Bank Canada and Macquarie Bank Limited (the "Existing Facility"), which had $32,600,000 outstanding before repayment in full. The residual proceeds from the Revolving Credit Facility were used for general corporate and working capital purposes. The hedge arrangements entered into in connection with the Syndicated Facility will remain in place until their expiry in June 2023.

The Revolving Credit Facility has the following financial covenants:

- Interest Coverage Ratio of not less than 4.00:1.00 at all times;
- Total Net Leverage Ratio of not more than 3.50:1.00 at all times; and
- Adjusted Tangible Net Worth of not less than $135,739,000 plus 50% of net income (cumulative) earned after the Closing Date, less any write-downs related to non-core assets (including La Quebrada and Lupin) and add/less any fair value loss/gain related to the gold derivative contracts.

As at December 31, 2022, the Company was in compliance with all financial covenants under the Revolving Credit Facility.

The Revolving Credit Facility has a term of three years with no hedging requirements and has a maturity date of December 1, 2025. The Company may cancel any unused portion of the Revolving Credit Facility without penalty at any time and may also repay any portion of the loan without penalty, subject to certain exceptions. The Company can repay the outstanding principal amount on or before maturity date. In connection with the Revolving Credit Facility, Scotia Bank will hold security over the majority of the Company's material assets.

The Revolving Credit Facility has an effective interest rate of 8.23% plus a nominal interest rate of SOFR plus 2.85% as at December 31, 2022.

During the year ended December 31, 2022, the Company paid $15,000,000 against the Revolving Credit Facility, leaving $20,000,000 as the outstanding principal value at year end.

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:

9. Borrowings (continued)

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

The Syndicated Facility had a three-year term and it was due for the maturity date, March 16, 2023.

As at December 31, 2022, there was no outstanding balance of Syndicated Facility.

Syndicated Facility – Gold Derivative Contracts

In conjunction with the Syndicated Facility, Mandalay entered into two separate gold derivative programs with HSBC and Macquarie for a total of 150,000 ounces of saleable gold over the Syndicated Facility's three-year term commencing monthly in July 2020, or 50,000 ounces of saleable gold per year. These programs consist of a zero-cost collar contract for 75,000 ounces of saleable gold with a floor price of US$1,550 per ounce and a ceiling of US$1,617 per ounce; and an Australian dollar gold forward contract for the remaining 75,000 ounces of saleable gold at AU$2,390 per ounce. The underlying contracts within these two programs have a fair value liability of $5,740,000 (December 31, 2021 – $12,280,000) as at December 31, 2022, specifically $2,937,000 (December 31, 2021 – $3,868,000) for the Australian dollar forward contract and $2,803,000 (December 31, 2021 – $8,412,000) for the US dollar collar contract (see Note 18). The amounts as at December 31, 2022 include a credit adjustment, which considers market participant assumptions, taking into account the impact of the Company's credit risk.

During the year ended December 31, 2022, the Company paid $7,610,000 as settlement of expired gold derivatives contracts (2021 – $4,718,000).

Equipment Facilities

As at December 31, 2022, the Company's Björkdal mine in Sweden had a balance of $562,000 (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 90 days STIBOR plus 1.94% - 3.25% per annum and are repayable in monthly installments plus interest and are due to be repaid by May 31, 2025. The Equipment Facilities are secured by the underlying equipment.

10. 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.

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

	($'000)
Balance at December 31, 2020	31,929
Expenditure for reclamation	(8,699)
Change in estimated future 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 reclamation	(4,965)
Change in estimated future cash outflows	12,284
Accretion	403
Foreign exchange	(1,719)
Balance at December 31, 2022	**29,143**
Less: current portion	2,035
Total non-current portion	**27,108**

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

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

The total undiscounted amount of estimated cash flows required to settle the retirement obligations for the Company is $28,975,000 (2021 – $17,489,000). The deposits relating to these obligations amounted to $15,707,000 (2021 – $19,616,000) is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Costerfield mine at December 31, 2022, is $6,517,000 (2021 – $4,359,000), calculated using a discount rate of 3.25% (2021 – 1.26%). The obligations are expected to be settled by 2026. The regulatory body in Australia requires reclamation deposits from the Company.

10. Reclamation and site closure costs (continued)

During the year ended December 31, 2022, the Company increased the reclamation liability at Costerfield by $2,395,000. As at December 31, 2022, the deposit amounted to $2,906,000 (2021 – $3,105,000) and is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Björkdal mine as at December 31, 2022 is $4,238,000 (2021 – $4,891,000) derived through an independent consultant. As at December 31, 2022, the deposit amounted to $4,317,000 (2021 – $4,991,000) and is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Lupin mine as at December 31, 2022 is $12,732,000 (2021 – $8,180,000), calculated using a discount rate of 3.37% (2021 – 0.95%). Restricted cash at December 31, 2022 amounting to $8,483,000 (2021 – $11,519,000) stands as a deposit against reclamation cost obligations. As a result of a review of the reclamation costs, the reclamation liability was revised by $9,889,000 (2021 – $6,733,333) as at December 31, 2022. The Company spent $4,965,000 (2021 – $8,699,000) for reclamation work at the Lupin mine during the year ended December 31, 2022, using the funds in bonding. As at December 31, 2022, the Company has recognized $2,035,000 as current for the bond deposit and liability for reclamation spend, which represents the value of the expected work during the year ended December 31, 2023. The vast majority of the reclamation activities are expected to be completed by the end of 2024.

11. Other provisions

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

	Employee benefits
	($'000)
Balance, December 31, 2020	4,258
Additions	2,975
Amounts paid	(2,657)
Reversal of provision due to sale of Cerro Bayo	(163)
Foreign exchange	(258)
Balance, December 31, 2021	4,155
Additions	2,407
Amounts paid	(2,666)
Foreign exchange	(270)
Balance, December 31, 2022	**3,626**
Less: current portion	3,370
Total non-current portion	**256**

12. Share capital

As at December 31, 2022, the Company had an unlimited number of authorized common shares without par value and 92,456,701 common shares outstanding (December 31, 2021 – 91,763,548 common shares). All outstanding common shares are fully paid.

(a) Share-based compensation

	2022	2021
	($'000)	($'000)
Share-based compensation on options	**422**	403
Change in fair value for cash election option	**105**	(91)
Share unit amortization	**865**	540
	1,392	852

(b) Stock options

Stock options – equity based

295,175 stock options were granted at an exercise price of C$2.65 during the year ended December 31, 2022 (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 (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.

	2022	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.

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

12. Share capital (continued)

(b) Stock options (continued)

	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	(231,760)	1.36
Balance, December 31, 2022	**1,937,422**	**1.77**

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

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
140,000	1.50	6.00	140,000	6.00
199,500	2.50	2.00	199,500	2.00
280,000	3.50	1.10	280,000	1.10
728,000	4.50	0.61	485,333	0.61
294,747	5.50	2.14	98,249	2.14
295,175	6.50	2.65	-	-
1,937,422	**4.39**	**1.77**	**1,203,082**	**1.71**

Stock options – cash election based

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term, which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at December 31, 2022, the liability was $427,000 (2021 – $263,000). For the year ended December 31, 2022, the Company recognized a fair value measurement loss of $105,000 (2021 – gain of $91,000), which is included in the share-based compensation expense.

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

12. Share capital (continued)

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumptions as at December 31, 2022 and 2021. The fair value is determined based on Level 1 and 2 inputs as follows:

	2022	2021
Risk free interest rate	**4.07%**	0.94%
Expected dividend yield	**0.00%**	0.00%
Expected life of options in years	**2.16**	2.15
Expected stock price volatility	**71.14%**	68.56%
Expected forfeiture rate	**0.00%**	0.00%

As at December 31, 2022, 399,012 (2021 – 439,506) stock options with the cash election option were outstanding.

(c) Restricted stock units ("RSUs")

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

The number of RSUs as at December 31, 2022 and 2021, 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	(240,664)
Balance, December 31, 2022	**353,631**

For the year ended December 31, 2022, the Company recorded $236,000 (2021 – $237,000), respectively, as a share-based compensation expense relating to RSUs.

(d) Performance stock units ("PSUs")

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

The number of PSUs outstanding as at December 31, 2022 and 2021, is as follows:

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

12. Share capital (continued)

(d) Performance stock units ("PSUs") (continued)

	Number of PSU awards
Balance, December 31, 2020	-
Granted	336,049
Redeemed	(40,000)
Balance, December 31, 2021	**296,049**
Granted	236,673
Redeemed	(98,683)
Balance, December 31, 2022	**434,039**

For the year ended December 31, 2022, the Company recorded $467,000 (2021 – $235,000) as a share-based compensation expense relating to PSUs.

(e) Deferred stock units ("DSUs")

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

The number of DSUs outstanding as at December 31, 2022 and 2021, 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, December 31, 2022	**262,828**

For the year ended December 31, 2022, the Company recorded $162,000 (2020 – $68,000) as a share-based compensation expense relating to DSUs.

13. Income taxes

Income tax expense consists of the following:

	2022	2021
	($'000)	($'000)
Current tax		
Adjustment in respect of prior periods	**(101)**	(146)
Income tax	**15,459**	18,393
	15,358	18,247
Deferred tax		
Origination and reversal of temporary differences	**(1,897)**	(189)
Change in tax rates	**-**	104
Increase in unrecognized losses	**3,315**	3,683
	1,418	3,598
Total income tax expense	**16,776**	21,845

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to income before income taxes. These differences result from the following items:

	2022	2021
	($'000)	($'000)
Income before income taxes	**40,282**	76,724
Canadian federal and provincial income tax rates	**26.5%**	26.5%
Income tax expense based on above rates	**10,675**	20,332
Increase (decrease) due to:		
Non-deductible expenditures	**403**	1,293
Effect of different foreign tax rates on earnings of subsidiaries	**2,011**	(4,024)
Impact of higher tax rates on deferred income taxes	**-**	104
(Decrease) increase in unrecognized losses	**3,314**	4,014
Adjustment in respect of prior periods	**(101)**	(146)
Others	**474**	272
	16,776	**21,845**

The tax rates used for the reconciliations above are the corporate tax rates applicable to Mandalay in Canadian jurisdictions. The applicable tax rate charged was 26.5% in 2022 and 2021.

The components of deferred income taxes are as follows:

13. Income taxes (continued)

	2022	2021
	($'000)	($'000)
Deferred tax assets		
Tax losses carried forward	**728**	71
Deductible temporary differences and other:		
Unrealised losses on derivatives	**2,979**	6,148
Provisions and accruals	**3,613**	3,131
Deferred tax assets	**7,320**	9,350
Deferred tax liabilities		
Property, plant and equipment	**(14,738)**	(14,081)
Finance leases	**(72)**	(246)
Unrealised foreign exchange losses	**(1,195)**	(532)
Unrealised gain on derivatives	**(1,521)**	(3,254)
Foreign tax reserves	**-**	(1,024)
Other	**(995)**	(543)
Deferred tax liabilities	**(18,521)**	(19,680)
Deferred tax liability, net	**(11,201)**	(10,330)
Deferred tax liability	**(11,201)**	(10,330)
Deferred tax liability, net	**(11,201)**	(10,330)

Changes in the Company's net deferred income tax liabilities are as follows:

	2022	2021
	($'000)	($'000)
Opening net deferred tax liabilities	**(10,330)**	(7,212)
Income tax expense charged to earnings during the year	**(1,418)**	(3,598)
Foreign exchange	**547**	480
Ending net deferred tax liabilities	**(11,201)**	(10,330)

Deferred tax assets not recognized at the reporting date are summarized as follows:

	2022	2021
	($'000)	($'000)
Deferred tax assets		
Tax losses carried forward	**31,402**	31,445
Deductible temporary differences:		
Financing costs	**416**	746
Provisions and accruals	**-**	3,682
Property, plant and equipment	**-**	382
Other	**-**	870
Unrecognized deferred tax assets	**31,818**	37,125

As at December 31, 2022, the Company had unrecognized Canadian income tax losses of approximately $135,389,000 (2021 – $137,245,000). Of these losses, $100,522,000 (2021 – $98,916,000) will expire from 2026 through 2042.

14. Revenue

Disaggregation of revenue

In the following table, the Company's revenue is disaggregated by primary geographical market, major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (see Note 20).

Year ended December 31	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	**117,513**	130,993	**-**	-	**-**	-	**117,513**	130,993
Sweden	**-**	-	**71,869**	83,664	**-**	-	**71,869**	83,664
Chile	**-**	-	**-**	-	**-**	13,081	**-**	13,081
Revenue from contracts with customers	**117,513**	130,993	**71,869**	83,664	**-**	13,081	**189,382**	227,738
Provisional pricing adjustments	**(710)**	364	**3,027**	1,678	**-**	(384)	**2,317**	1,658
Total revenue from mining operations	**116,803**	131,357	**74,896**	85,342	**-**	12,697	**191,699**	229,396
Commodities								
Gold	**86,898**	88,834	**71,869**	83,664	**-**	7,731	**158,767**	180,229
Antimony	**30,615**	42,159	**-**	-	**-**	-	**30,615**	42,159
Silver	**-**	-	**-**	-	**-**	5,350	**-**	5,350
Revenue from contracts with customers	**117,513**	130,993	**71,869**	83,664	**-**	13,081	**189,382**	227,738
Provisional pricing adjustments	**(710)**	364	**3,027**	1,678	**-**	(384)	**2,317**	1,658
Total revenue from mining operations	**116,803**	131,357	**74,896**	85,342	**-**	12,697	**191,699**	229,396

15. Cost of sales

The cost of sales for the years ended December 31, 2022 and 2021, consists of:

	2022	2021
	($'000)	($'000)
Raw materials and consumables	**30,358**	35,016
Salary and employee benefits	**37,464**	42,957
Contractors	**15,546**	16,949
Change in inventories	**(3,086)**	(1,925)
Royalties	**3,255**	3,535
Other	**11,367**	12,321
	94,904	108,853

Cost of sales does not include cost related to Cerro Bayo for the year ended December 31, 2022 (2021 – $9,132,000).

16. Administration expenses

The administration expenses for the years ended December 31, 2022 and 2021 consist of the following:

	2022	2021
	($'000)	($'000)
Salaries and consultants	**2,787**	3,422
Legal and accounting	**1,343**	1,244
Administrative and office	**795**	470
Travel	**322**	50
Other	**369**	397
	5,616	5,583

17. Finance costs

The finance costs for the years ended December 31, 2022 and 2021 consist of the following:

	2022	2021
	($'000)	($'000)
Loan Facility		
Interest on Revolver Credit Facility	**232**	-
Interest on Syndicated Facility	**2,332**	3,630
Realised loss on gold derivative contracts	**7,948**	4,718
Accelerated finance cost for repayment of loan	**601**	-
Other		
Interest on other borrowings and other charges	**362**	306
Accretion of reclamation and site closure costs	**403**	84
	11,878	8,738

18. Gain (loss) on financial instruments

The Company has recognized an unrealized gain on financial instruments of $5,247,000 for the year ended December 31, 2022 (2021 – gain of $7,892,000). Details of this are given below:

(a) *Gold derivative contracts*

The Company has recorded an unrealized fair value gain of $6,541,000 for the year ended December 31, 2022 (2021 – gain of $9,194,000). The amounts as at December 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, FVTPL 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*

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.

18. Gain (loss) on financial instruments (continued)

(b) Marketable securities (continued)

On August 10, 2022, the Company further received 6,122,448 shares from Aftermath with a fair value of C$0.245 per share as part of the compensation, For the year ended December 31, 2022, the Company sold 1,376,000 shares at an average of C$0.31 per share (2021 – 678,794 shares at average price of C$0.57 per share). The value of securities as at December 31, 2022 is $1,173,000 (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 under loss (gain) on financial instruments. The Company recorded an unrealized fair value loss of $87,000 (2021 – loss of $392,000) and recorded a realized fair value gain of $60,000 (2021 – loss of $91,000) for the year ended December 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 December 31, 2022 is $1,576,000 (2021 – $2,990,000). Equus securities are stated at fair value with any resulting gain or loss recognised in the consolidated statements of income and comprehensive income under loss (gain) on financial instruments. The Company recorded an unrealized fair value loss of $1,267,000 (2021 – loss of $819,000) for the year ended December 31, 2022, using Level 1 assumptions.

19. Income per share

As at December 31, 2022 and 2021, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	2022	2021
	('000)	('000)
Net income for the year	**23,506**	54,879
Basic weighted average number of shares outstanding	**92,132**	91,471
Effect of dilutive securities:		
Stock options	**908**	914
RSU	**354**	476
PSU	**434**	296
DSU	**263**	150
Diluted weighted average number of shares outstanding	**94,091**	93,307

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

	2022	2021
	('000)	('000)
Anti-dilutive securities		
Stock options	**140**	140

20. 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):

					Year ended December 31, 2022
	Australia	**Sweden**	**Chile**	**Canada**	**Total**
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	116,803	74,896	-	-	191,699
Cost of sales, excluding depletion and depreciation	(41,153)	(53,751)	-	-	(94,904)
Depletion and depreciation	(14,446)	(19,426)	-	(2)	(33,874)
Income (loss) from mining operations	61,204	1,719	-	(2)	62,921
Other operating expenses	(3,616)	(2,177)	(319)	(1,230)	(7,342)
Write-off of assets (Note 10)	-	(651)	-	-	(651)
Revision of reclamation liability (Note 6)	-	-	-	(9,889)	(9,889)
Other income (expenses), except for fair value adjustment	3,350	(12,336)	(682)	(2,164)	(11,832)
Gain on sale of subsidiary	-	-	-	1,828	1,828
Gain (loss) on financial instruments	931	5,609	-	(1,293)	5,247
Income (loss) before income taxes	61,869	(7,836)	(1,001)	(12,750)	40,282
Current tax expense	(15,358)	-	-	-	(15,358)
Deferred tax recovery (expense)	(3,303)	1,885	-	-	(1,418)
Net income	**43,208**	**(5,951)**	**(1,001)**	**(12,750)**	**23,506**
Net income per share					
Basic					$0.26
Diluted					$0.25
Cash expenditure for property, plant and equipment	16,639	22,717	314	-	39,670
Total non-current assets as at December 31, 2022	65,088	115,443	10,943	6,465	197,939
Total assets as at December 31, 2022	116,110	136,704	10,993	18,417	282,224
Total liabilities as at December 31, 2022	32,167	25,588	(3)	40,318	98,070

20. Segmented information (continued)

	Year ended December 31, 2021				
	Australia	**Sweden**	**Chile**	**Canada**	**Total**
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	131,357	85,342	12,697	-	229,396
Cost of sales, excluding depletion and depreciation	(42,298)	(57,423)	(9,132)	-	(108,853)
Depletion and depreciation	(19,051)	(19,331)	-	-	(38,382)
Income from mining operations	70,008	8,588	3,565	-	82,161
Other operating income (expenses)	(3,765)	(2,253)	6	135	(5,877)
Care and maintenance expenses	-	-	(383)	(102)	(485)
Other income (expenses), except for fair value adjustment	2,646	(9,866)	1,065	919	(5,236)
Revision of reclamation liability (Note 6)	-	-	-	(6,733)	(6,733)
Write-off of assets (Note 10)	-	-	-	(2,103)	(2,103)
Gain on sale of subsidiary[1]	-	-	-	7,105	7,105
Gain (loss) on financial instruments	(426)	9,620	-	(1,302)	7,892
Income before income taxes	68,463	6,089	4,253	(2,081)	76,724
Current tax expense	(18,247)	-	-	-	(18,247)
Deferred tax expense	(2,452)	(1,146)	-	-	(3,598)
Net income	**47,764**	**4,943**	**4,253**	**(2,081)**	**54,879**
Net income per share					
Basic					$0.60
Diluted					$0.59
Cash expenditure for property, plant and equipment	20,668	26,293	1,148	-	48,109
Total non-current assets as at December 31, 2021	65,003	127,184	10,882	439	203,508
Total assets as at December 31, 2021	132,059	153,960	11,878	19,946	317,843
Total liabilities as at December 31, 2021	41,060	37,787	494	61,815	141,156

[1] Mandalay Resources Chile SPA ("SPA") and Mandalay Resources Corporate were the holding companies of the Cerro Bayo mine. The above table consolidates the gain from the sale of Cerro Bayo into the "Canada" heading.

20. Segmented information (continued)

For the year ended December 31, 2022, the Company had three customers from which it earned more than 10% of its total revenue (2021 – three customers).

Revenue from these customers is summarized as follows:

	2022	2021
	($'000)	($'000)
Costerfield (gold and antimony)		
Customer 1	42,754	60,642
Customer 2	58,556	49,799
	101,310	110,441
Björkdal (gold)		
Customer 3	58,632	67,711
	58,632	67,711
	159,942	178,152

21. Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. In the management of capital, the Company includes the components of equity, long-term debt, net of cash and cash equivalents.

Capital, as defined above, as at December 31, 2022 and 2021 is summarized in the following table:

	2022	2021
	($'000)	($'000)
Equity	184,154	176,687
Non-current borrowings	19,776	28,019
Non-current lease liabilities	2,504	3,603
Non-current financial instruments (Note 9)	-	4,711
	206,434	213,020
Cash and cash equivalents	(38,377)	(30,738)
	168,057	182,282

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or purchase existing shares under Normal Course Issuer Bid arrangements, issue new debt or pay down existing debt, or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budget and quarterly updated forecasts are approved by the Company's Board of Directors.

22. Financial risk management

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and commodity price risk. Where material, these risks are reviewed and monitored by the Company's Board of Directors.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a counter party to its financial instrument fails to meet its contractual obligations.

The Company's financial assets are primarily comprised of cash and cash equivalents, trade and other receivables, derivative financial instruments and reclamation and other deposits. Credit risk is primarily associated with trade receivables; however, it also arises on cash and cash equivalents.

To mitigate exposure to credit risk, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable creditworthiness, and to ensure liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company sells its antimony and gold exclusively to large international organizations with strong credit ratings.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold and antimony trade receivables as at December 31, 2022 is not considered to be high.

The Company's maximum exposure to credit risk as at December 31, 2022 and 2021, is as follows:

	2022	2021
	($'000)	($'000)
Cash and cash equivalents	**38,377**	30,738
Trade and other receivables	**13,570**	44,409
Reclamation and other deposits	**15,707**	19,616
	67,654	94,763

(b) Aging of past due but not impaired receivables

The Company receives 90%-95% of the estimated gold and antimony revenue after the date of the provisional invoice. The provisional invoice is issued close to the shipment delivery date. The final selling price is determined up to 180 days after the delivery when smelting and refining are complete. The remaining 5%-10% receivable balance is settled with an adjustment once the final selling price is determined. The Company has financial risk management policies in place to ensure that all receivables are received within the pre-agreed credit terms.

For the year ended December 31, 2022, substantially all of the Company's gold and antimony production was sold to three customers (2021 – three) and there was no significant change in the credit quality of these customers over that time. There are neither past due amounts nor impaired trade receivables as at December 31, 2022 and 2021. The Company's trade debtors as at December 31, 2022 includes a relatively higher than normal number of provisional invoices due to shipment availability at the end of the year ended December 31, 2022.

22. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

The following are the contractual maturities of commitments. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not necessarily equate to the carrying amounts on the Company's consolidated statements of financial position.

					2022	2021
	Less than 1 year	**1-3 years**	**4-5 years**	**After 5 years**	**Total**	Total
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**	($'000)
Trade and other payables	**20,815**	**-**	**-**	**-**	**20,815**	24,264
Borrowings	**348**	**19,776**	**-**	**-**	**20,124**	43,678
Lease liabilities	**1,391**	**2,504**	**-**	**-**	**3,895**	6,109
Income taxes payable	**3,526**	**-**	**-**	**-**	**3,526**	17,200
Financial instruments	**5,740**	**-**	-	**-**	**5,740**	12,280
	31,820	**22,280**	**-**	**-**	**54,100**	103,531

(d) Currency risk

The Company operates in Canada, Australia, Chile and Sweden. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars.

(i) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, trade and other receivables, reclamation and other deposits, trade and other payables and borrowings.

(ii) Translation exposure

The Company's presentation currency is U.S. dollars. The Company's foreign operations translate their operating results from their respective functional currency to U.S. dollars. Therefore, exchange rate movements in the Australian dollar, Canadian dollar, Chilean peso and Swedish krona can have a significant impact on the Company's consolidated financial position, as reported in U.S. dollars.

The following tables demonstrate the sensitivity to a reasonably possible change in AUD, SEK and CAD exchange rates, with all other variables held constant. The impact on the Company's profit is due to changes in the fair value of monetary assets and liabilities in place at the consolidated statements of financial position date. The Company's exposure to foreign currency changes for all other currencies is not material.

		Change in USD rate	**Effect on profit before tax**		**Effect on pre-tax equity**	
			2022	**2021**	**2022**	**2021**
5%	**Australia**	±5%	3,093	3,423	4,197	4,550
5%	**Sweden**	±5%	392	(304)	5,556	5,809
5%	**Canada**	±5%	638	104	1,095	2,093

22. Financial risk management (continued)

(e) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate changes is primarily related to the borrowings under the Revolving Credit Facility as at December 31, 2022. Interest to be paid on the Revolving Credit Facility is the SOFR rate plus the applicable margin, which is based on Company's leverage ratio. The variable interest rates are on the equipment facility of Björkdal bearing interest at 1.94%-3.25% per annum and equipment leases of Björkdal bearing interest calculated at 2.50%-4.50% per annum.

(f) Commodity price risk

The Company's income and cash flows are subject to price risk due to fluctuations in the market price of gold and antimony. World metal prices have historically fluctuated widely. World gold prices are affected by numerous factors beyond the Company's control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold by central banks and other holders;
- demand for jewellery containing gold;
- changes in industrial demand for antimony;
- changes in supply of gold and/or antimony due to new mines being commissioned and existing mines being exhausted; and
- investment activity, including speculation, in gold and antimony as commodities.

The Company is subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by the prices of materials it consumes or uses in its operations, such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control.

23. Fair value measurement

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

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

23. Fair value measurement (continued)

As at December 31, 2022 and 2021, the Company's financial assets and liabilities are categorized as follows:

				2022
	FVTPL	**Loans and receivables**	**Other financial liabilities**	**Total**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Financial assets				
Cash and cash equivalents	**-**	**38,377**	**-**	**38,377**
Trade receivables	**-**	**10,555**	**-**	**10,555**
Reclamation and other deposits	**-**	**15,707**	**-**	**15,707**
Other receivables	**-**	**3,015**	**-**	**3,015**
Marketable securities	**2,749**	**-**	**-**	**2,749**
Financial liabilities				
Trade and other payables	**427**	**-**	**20,388**	**20,815**
Borrowings	**-**	**-**	**20,006**	**20,006**
Lease liabilities	**-**	**-**	**3,895**	**3,895**
Derivative financial instruments	**5,740**	**-**	**-**	**5,740**

				2021
	FVTPL	Loans and receivables	Other financial liabilities	Total
	($'000)	($'000)	($'000)	($'000)
Financial assets				
Cash and cash equivalents	-	30,738	-	30,738
Trade receivables	-	40,909	-	40,909
Reclamation and other deposits	-	19,616	-	19,616
Other receivables	-	3,500	-	3,500
Marketable securities	3,403	-	-	3,403
Financial liabilities				
Trade and other payables	263	-	23,523	23,786
Borrowings	-	-	43,498	43,498
Lease liabilities	-	-	6,109	6,109
Derivative financial instruments	12,280	-	-	12,280

23. Fair value measurement (continued)

	2022		2021	
	Carrying value	**Fair value**	Carrying value	Fair value
	($'000)	**($'000)**	($'000)	($'000)
Financial assets				
Cash and cash equivalents	**38,377**	**38,377**	30,738	30,738
Reclamation and other deposits	**15,707**	**15,707**	19,616	19,616
Trade receivable	**10,555**	**10,555**	40,909	40,909
Other receivables	**3,015**	**3,015**	3,500	3,500
Marketable securities	**2,749**	**2,749**	3,403	3,403
Financial liabilities				
Borrowings	**20,006**	**43,889**	43,498	43,889
Trade and other payables	**20,815**	**20,815**	23,786	23,786
Lease liabilities	**3,895**	**3,895**	6,109	6,109
Derivative financial instruments	**5,740**	**5,740**	12,280	12,280

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 December 31, 2022, other receivables and marketable securities valued using 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 that may cause transfers between the levels of the fair value hierarchy.

24. Commitments and contingencies

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

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

25. Related party transactions

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and its executive officers.

During the year ended December 31, 2022 and 2021, the following compensation was incurred:

	2022	2021
	($'000)	($'000)
Directors and officer's compensation (current and former)	**1,605**	1,869
Share-based compensation (current and former)	**719**	406
	2,324	2,275

26. Subsequent events

On January 16, 2023, the Company announced that the TSX approved its notice of intention to make a normal course issuer bid ("NCIB") for a portion of its common shares. The NCIB will be made in accordance with the requirements of the TSX.