

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2021
(Unaudited)

Mandalay Resources Corporation

June 30, 2021

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Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income (loss) Three and six months ended June 30, 2021 and 2020

(Expressed in U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue (Note 8)	51,352	42,335	103,925	83,901
Cost of operations				
Cost of sales, excluding depletion and depreciation	27,135	19,734	52,549	38,566
Depletion and depreciation	8,955	8,811	19,771	17,406
	36,090	28,545	72,320	55,972
Income from mining operations	15,262	13,790	31,605	27,929
Expenses				
Administration	1,082	1,330	2,179	3,161
Care and maintenance expenses	-	488	383	1,093
Share-based compensation (Note 7(a))	177	255	437	367
(Gain) loss on disposal of property, plant and equipment	(127)	8	(571)	8
Revision of reclamation liability (Note 6)	-	(5,783)	-	(5,783)
	1,132	(3,702)	2,428	(1,154)
Income from operations	14,130	17,492	29,177	29,083
Other expense (income)				
Finance costs (Note 10)	1,816	2,989	4,170	8,608
Loss (gain) on financial instruments (Note 9)	6,685	14,249	(13,552)	19,478
Interest and other income	(125)	(139)	(178)	(350)
Foreign exchange (gain) loss	(1,159)	(915)	(2,562)	868
	7,217	16,184	(12,122)	28,604
Income before income taxes	6,913	1,308	41,299	479
Income tax expense (recovery)				
Current	4,423	1,797	7,634	2,263
Deferred	(2,300)	1,950	3,375	4,263
Income tax expense	2,123	3,747	11,009	6,526
Net income (loss) for the period	4,790	(2,439)	30,290	(6,047)
Other comprehensive income (loss), net of tax Item that may subsequently be reclassified to net income (loss)				
Foreign currency translation	123	9,870	(7,572)	(675)
Comprehensive income (loss) for the period	4,913	7,431	22,718	(6,722)
Net income (loss) per share				
Basic	0.05	(0.03)	0.33	(0.07)
Diluted	0.05	(0.03)	0.32	(0.07)
Weighted average number of common shares outstanding (Note 11)				
Basic ('000)	91,346	91,151	91,292	91,159
Diluted ('000)	93,506	91,151	93,348	91,159

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at June 30, 2021 and 2020

(Expressed in U.S. dollars)

	June 30, 2021	December 31, 2020
	(\$'000)	(\$'000)
Assets		
Current assets		
Cash and cash equivalents	39,113	34,206
Reclamation deposits (Note 6)	8,129	7,319
Trade receivables and other assets	23,733	17,320
Inventories	26,263	24,291
Prepaid expenses	2,644	2,473
Assets held for sale (Note 14)	692	-
	100,574	85,609
Non-current assets		
Reclamation and other deposits (Note 6)	12,050	14,993
Trade receivables and other assets	1,447	3,068
Property, plant and equipment, net (Note 4)	196,770	197,614
	210,267	215,675
	310,841	301,284
Liabilities		
Current liabilities		
Trade and other payables	25,727	25,969
Borrowings (Note 5)	15,946	15,991
Lease liabilities	2,037	1,991
Reclamation and site closure costs provision (Note 6)	8,129	7,319
Other provisions	3,821	3,942
Income taxes payable	16,504	10,716
Financial instruments (Note 9)	3,524	8,351
Liabilities associated with assets held for sale (Note 14)	247	-
	75,935	74,279
Non-current liabilities		
Borrowings (Note 5)	35,343	42,387
Lease liabilities	3,217	3,577
Reclamation and site closure costs provision (Note 6)	22,571	24,610
Other provisions	357	316
Financial instruments (Note 9)	4,031	13,124
Deferred tax liability	10,398	7,212
	75,917	91,226
	151,852	165,505
Equity		
Share capital (Note 7)	230,158	229,970
Share option reserve (Note 7)	3,609	3,328
Foreign currency translation reserve	(33,413)	(25,841)
Accumulated deficit	(41,365)	(71,678)
	158,989	135,779
	310,841	301,284

Approved by the Board of Directors and authorized for issuance on August 11, 2021.

(Signed) Dominic Duffy

Dominic Duffy, President and Chief Executive Officer

(Signed) Robert Doyle

Robert Doyle, Director

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity

Three and six months ended June 30, 2021 and 2020

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

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2020	91,236	229,970	3,328	(25,841)	(71,678)	135,779
Net income for the period	-	-	-	-	30,290	30,290
Other comprehensive loss for the period	-	-	-	(7,572)	-	(7,572)
Total comprehensive income	-	-	-	(7,572)	30,290	22,718
Stock options exercised (Note 7(b))	27	37	(13)	-	-	24
Share-based compensation (Note 7(a))	-	-	500	-	-	500
Reversal of forfeited RSUs (Note 7(c))	-	-	(32)	-	-	(32)
Reclassified for expired and cancelled options	-	-	(23)	-	23	-
Redemption of RSU (Note 13(c))	225	151	(151)	-	-	-
Balance, June 30, 2021	91,488	230,158	3,609	(33,413)	(41,365)	158,989

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2019	91,081	229,809	4,173	(40,094)	(82,136)	111,752
Net loss for the period	-	-	-	-	(6,047)	(6,047)
Other comprehensive loss for the period	-	-	-	(675)	-	(675)
Total comprehensive loss	-	-	-	(675)	(6,047)	(6,722)
Stock options exercised (Note 13(b))	20	17	-	-	-	17
Share-based compensation (Note 7(a))	-	-	227	-	-	227
Redemption of RSU (Note 7(c))	84	91	(91)	-	-	-
Balance, June 30, 2020	91,185	229,917	4,309	(40,769)	(88,183)	105,274

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows

Three and six months ended June 30, 2021 and 2020

(Expressed in U.S. dollars)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Operating activities				
Net income (loss) for the period	4,790	(2,439)	30,290	(6,047)
Adjustments to reconcile net income (loss) to net cash flows from operating activities				
Depletion and depreciation	8,955	8,811	19,771	17,406
Share-based compensation (Note 7(a))	177	255	437	367
(Gain) loss on disposal of property, plant and equipment	(127)	8	(571)	8
Finance cost (Note 10)	1,816	2,989	4,170	8,608
Loss (gain) on financial instruments (Note 9)	6,685	14,249	(13,552)	19,478
Interest and other income	(125)	(139)	(178)	(350)
Unrealized foreign exchange (gain) loss	(1,090)	(1,424)	(2,590)	902
Income tax expense	2,123	3,747	11,009	6,526
Reclamation expenditures (Note 6)	(849)	(5,061)	(1,075)	(5,299)
Reversal of reclamation liability (Note 6)	-	(5,783)	-	(5,783)
Changes in non-cash operating working capital items				
Trade receivables and other assets	178	(2,228)	(6,131)	(7,747)
Inventories	(1,341)	(2,008)	(2,147)	(3,426)
Prepaid expenses	1,639	293	(305)	604
Trade and other payables	3,377	(604)	(1,267)	(5,971)
Other provisions	89	353	31	316
Cash generated from operations	26,297	11,019	37,892	19,592
Interest and other income received	125	139	178	350
Interest and bank charges paid	(696)	(1,147)	(1,848)	(2,373)
Net cash flows from operating activities	25,726	10,011	36,222	17,569
Investing activities				
Expenditure for property, plant and equipment	(13,351)	(10,269)	(25,351)	(19,977)
Proceeds from sale of non-core assets	1,403	-	1,847	-
Receipt from reclamation deposits (Note 6)	-	4,561	2,145	5,846
Net cash flows used in investing activities	(11,948)	(5,708)	(21,359)	(14,131)
Financing activities				
Proceeds from borrowings	350	-	1,112	63,111
Repayments of borrowings	(3,969)	(10,195)	(7,955)	(68,546)
Lease payments	(501)	(368)	(1,035)	(700)
Payment of gold derivative contracts	(573)	-	(2,059)	-
Shares issued for cash	12	16	24	16
Amount transferred to escrow	-	5,043	-	-
Net cash flows used in financing activities	(4,681)	(5,504)	(9,913)	(6,119)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	125	662	(43)	(866)
Net increase (decrease) in cash and cash equivalents	9,222	(539)	4,907	(3,547)
Cash and cash equivalents, beginning of the period	29,891	21,454	34,206	24,462
Cash and cash equivalents, end of the period	39,113	20,915	39,113	20,915
Cash and cash equivalents consist of				
Cash	39,113	20,915	39,113	20,915
	39,113	20,915	39,113	20,915

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2021 and December 31, 2020

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

(Unaudited)

1. Description of business and nature of operations

Mandalay Resources Corporation (“Mandalay” or the “Company”), together with its wholly owned subsidiaries, is a gold and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay’s assets consist of the Costerfield gold and antimony mine in Australia, the Björkdal gold mine in Sweden, as well as other exploration and care and maintenance projects in Chile and Canada.

Mandalay is incorporated in the province of British Columbia, Canada. The Company’s shares are listed on the Toronto Stock Exchange (“TSX”). The head office and principal address of the Company is 76 Richmond Street East, Suite 330, Toronto, Canada, M5C 1P1. The Company’s registered office is located at 1900-355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The preparation of these unaudited condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Judgments made by management in the application of International Financial Reporting Standards (“IFRS”) that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in the Company’s audited annual consolidated financial statements as at and for the year ended December 31, 2020.

Risks and uncertainties

COVID-19

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

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

As of the date of the issuance of these unaudited condensed consolidated interim financial statements, there have been no other significant impacts, including impairments, to the Company’s operations and financial statements.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual consolidated financial statements as at and for the year ended December 31, 2020. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements as at and for the year ended December 31, 2020.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2021 and December 31, 2020

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

(Unaudited)

4. Property, plant and equipment

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost				
As at January 1, 2020	240,223	133,543	43,968	417,734
Additions	22,872	17,875	6,288	47,035
Disposals	-	(1,858)	(2,546)	(4,404)
Write-down of assets	-	(1,645)	-	(1,645)
Reclassification to mining interest	2,581	(124)	(2,457)	-
Reversal of reclamation liability	-	(1,360)	(785)	(2,145)
Foreign exchange	24,062	13,770	1,042	38,874
As at December 31, 2020	289,738	160,201	45,510	495,449
Additions	11,107	10,307	3,864	25,278
Disposals	-	-	(695)	(695)
Foreign exchange	(8,308)	(4,822)	(533)	(13,663)
As at June 30, 2021	292,537	165,686	48,146	506,369
Accumulated depreciation				
As at January 1, 2020	159,078	82,301	-	241,379
Expense	24,499	11,456	-	35,955
Disposals	-	(2,246)	-	(2,246)
Foreign exchange	15,385	7,362	-	22,747
As at December 31, 2020	198,962	98,873	-	297,835
Expense	12,932	6,928	-	19,860
Foreign exchange	(5,570)	(2,526)	-	(8,096)
As at June 30, 2021	206,324	103,275	-	309,599
Net book value				
As at January 1, 2020	81,145	51,242	43,968	176,355
As at December 31, 2020	90,776	61,328	45,510	197,614
As at June 30, 2021	86,213	62,411	48,146	196,770

Carrying amount by segment

	Mining interests	Plant and equipment	Exploration and evaluation	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
As at June 30, 2021				
Costerfield	36,004	15,252	10,845	62,101
Björkdal	50,209	46,798	24,799	121,806
La Quebrada	-	-	10,621	10,621
Other	-	361	1,881	2,242
	86,213	62,411	48,146	196,770

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

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2021 and December 31, 2020

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

(Unaudited)

4. Property, plant and equipment (continued)

For the three months ended June 30, 2021, there was \$193,000 of plant and equipment depreciation capitalized to mining interests (three months ended June 30, 2020 – \$170,000).

As at June 30, 2021, the Company had right-of-use assets of \$6,180,000 (as at December 31, 2020 – \$6,334,000) included in property, plant and equipment, of which \$1,103,000 is at Costerfield and \$5,077,000 is at Björkdal (as at December 31, 2020 – Costerfield: \$1,430,000 and Björkdal: \$4,904,000).

Details of non-operating exploration and evaluation assets – others

(i) Cerro Bayo

On October 8, 2019, the Company entered into a binding option agreement with Equus Mining for the potential sale of the Cerro Bayo mine in Chile. As at June 30, 2021, Equus had not exercised their option. On February 21, 2021, Cerro Bayo resumed production of gold and silver by processing waste ore.

(ii) Challacollo

On November 12, 2019, the Company entered into a definitive agreement with Aftermath Silver Ltd. (“Aftermath”) pursuant to which Aftermath would acquire Minera Mandalay Challacollo Limitada, a wholly owned subsidiary of the Company that owns the Challacollo project, in exchange for total consideration of up to C\$10,500,000. As required by the agreement with Aftermath, the Company has received a total of C\$2,000,000 as at December 31, 2020. As per the agreement, the Company has received additional C\$1,500,000 in cash on April 19, 2021 and 2,054,794 Aftermath shares with a fair value of C\$0.73 per share were received on May 5, 2021 as part of the compensation. Representing the final payment for Challacollo, Aftermath will compensate the Company C\$3,000,000, half in Aftermath shares and half in cash payable on or before April 30, 2022. As at June 30, 2021, the Company is holding this asset as held for sale (see Note 14).

(iii) La Quebrada

The Company considers this asset non-core, and is not exploring at the property as at June 30, 2021.

5. Borrowings

	June 30, 2021	December 31, 2020
	(\$'000)	(\$'000)
Syndicated Facility	49,769	56,758
Equipment Facilities	1,520	1,620
	51,289	58,378
Less: current portion of total borrowings	15,946	15,991
Non-current portion of total borrowings	35,343	42,387

Syndicated Facility

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

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

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2021 and December 31, 2020

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

(Unaudited)

5. Borrowings (continued)

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

The Syndicated Facility has the following financial covenants:

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

As at June 30, 2021, the Company was in compliance with all financial covenants under the Syndicated Facility.

The Syndicated Facility has a three-year term and the Term Credit Facility was reduced by \$3,000,000 on September 30, 2020 and by the same amount on December 31, 2020, and thereafter repaid in eight equal quarterly instalments of \$3,778,000 starting March 31, 2021, with the final payment of \$28,778,000 on the maturity date, March 16, 2023, which includes repayment of the Revolver Credit Facility in full. The Syndicated Facility allows for early repayments with no associated penalties and holds security over the majority of the Company's material assets. The Syndicated Facility has an effective interest rate of 6.79% and a nominal rate of 4.25% + LIBOR as at June 30, 2021.

On June 30, 2021, the Company paid \$3,778,000 against the loan, leaving the outstanding principal of the Syndicated Facility of \$51,444,000.

Syndicated Facility – Gold Derivative Contracts

In conjunction with the Syndicated Facility, Mandalay entered into two separate gold derivative programs with HSBC and Macquarie for a total of 150,000 ounces of saleable gold over the Syndicated Facility's three-year term commencing monthly in July 2020, or 50,000 ounces of saleable gold per year. These programs consist of a zero-cost collar contract for 75,000 ounces of saleable gold with a floor price of US\$1,550 per ounce and a ceiling of US\$1,617 per ounce; and an Australian dollar gold forward contract for the remaining 75,000 ounces of saleable gold at AU\$2,390 per ounce. The underlying contracts within these two programs have a fair value liability of \$7,555,000 as at June 30, 2021, which specifically includes receivable of \$977,600 for the Australian dollar forward contract and payable of \$8,532,600 for the US dollar collar contract (see Note 9). The amounts as at June 30, 2021 include a credit adjustment that considers market participant assumptions, taking into account the impact of the Company's credit risk.

During the three months and six months ended June 30, 2021, the Company paid \$573,000 and \$2,059,000 respectively as settlement of expired gold derivatives contracts.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2021 and December 31, 2020

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

(Unaudited)

5. Borrowings (continued)

Equipment Facilities

As at June 30, 2021, the Company's Björkdal mine in Sweden had a balance of \$1,522,000 (December 31, 2020 – \$1,620,000) for the equipment loan facilities (the "Equipment Facilities") with several Swedish banks to finance mining equipment. The Equipment Facilities bear variable interest at the three-month Stockholm Interbank Offered Rate ("STIBOR") plus 2.26% per annum and are repayable in monthly instalments plus interest and are due to be repaid by March 31, 2025. The Equipment Facilities are secured by the underlying equipment.

6. Reclamation and site closure costs

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

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

	(\$'000)
Balance at December 31, 2019	42,347
Expenditure for reclamations	(10,506)
Change in estimated cash outflows	(2,218)
Accretion	101
Foreign exchange	2,205
Balance at December 31, 2020	31,929
Expenditure for reclamations	(1,075)
Accretion	27
Foreign exchange	(181)
Balance at June 30, 2021	30,700
Less: current portion	8,129
Total non-current portion	22,571

During the three and six months ended June 30, 2021, the Company spent \$849,000 (2020 – \$5,061,000) and \$1,075,000 (2020 – \$5,299,000) respectively, on reclamation work at the Lupin site in Canada.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2021 and December 31, 2020

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

7. Share capital

As at June 30, 2021, the Company had an unlimited number of authorized common shares without par value and 91,487,374 common shares outstanding (2020 – 91,236,167 common shares). All outstanding common shares are fully paid.

(a) Share-based compensation

	Three months ended		Six months ended	
	2021	June 30, 2020	2021	June 30, 2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Share-based compensation on options	103	79	205	163
Change in fair value for cash election option	(42)	116	(6)	99
Share unit amortization	116	60	238	105
	177	255	437	367

(b) Stock options

Stock options – equity based

328,173 stock options were granted at an exercise price of C\$2.14 during the six months ended June 30, 2021 (six months ended June 30, 2020 – 917,000 at C\$0.61). The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$1.68 (six months ended June 30, 2020 – C\$0.46) was calculated using the following weighted average assumptions. Expected stock price volatility and option life are based on the Company's historical share price volatility and option life.

	Three months ended	
	2021	June 30, 2020
Risk free interest rate	0.75%	1.25%
Expected dividend yield	0.00%	0.00%
Expected life of options in years	7.00	7.00
Expected stock price volatility	92.46%	87.09%
Expected forfeiture rate	0.00%	0.00%

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

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

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2021 and December 31, 2020

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

(Unaudited)

7. Share capital (continued)

(b) Stock options (continued)

	Number of options	Weighted average exercise price C\$
Balance, December 31, 2019	1,808,800	4.42
Granted	917,000	0.61
Expired	(165,500)	9.10
Exercised	(20,000)	(1.10)
Cancelled	(652,500)	5.33
Balance, December 31, 2020	1,887,800	1.91
Granted	328,173	2.14
Expired	(126,300)	9.10
Exercised	(26,666)	1.10
Balance, June 30, 2021	2,063,007	1.51

The following table summarizes information about the stock options outstanding and exercisable as at June 30, 2021:

	Options outstanding		Options exercisable		
	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
	140,000	3.00	6.00	140,000	6.00
	264,500	4.00	2.00	264,500	2.00
	413,334	5.00	1.10	275,556	1.10
	917,000	6.00	0.61	305,667	0.61
	328,173	7.00	2.14	-	-
	2,063,007	5.50	1.51	985,723	1.89

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 June 30, 2021, the liability was \$318,000 (2020 – \$335,000). For the three and six months ended June 30, 2021, the Company recognized a fair value measurement gain of \$51,000 (2020 – \$116,000) and gain of \$7,600 (2020 – loss of \$99,000) respectively, which is included in the share-based compensation expense.

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7. Share capital (continued)

(b) Stock options (continued)

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumptions as at June 30, 2021. The fair value is determined based on Level 1 and 2 inputs as follows:

	Three months ended	
	June 30,	
	2021	2020
Risk free interest rate	0.44%	0.20%
Expected dividend yield	0.00%	0.00%
Expected life of options in years	2.66	2.21
Expected stock price volatility	82.32%	87.14%
Expected forfeiture rate	0.00%	0.00%

As at June 30, 2021, 439,506 (2020 – 1,084,500) stock options with the cash election option were outstanding.

(c) RSUs

The Company has an RSU Plan and has granted RSUs to certain directors and employees. Under the RSU Plan, those directors and officers granted RSUs will receive the Company's common shares at no cost at the end of the vesting period, which are based on graded vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The RSU value is determined based on the fair value of the Company's common shares at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve. Commencing in 2021, non-executive directors will be granted part of their compensation in the form of DSUs, rather than RSUs.

The number of RSUs outstanding as at June 30, 2021 is as follows:

	Number of RSU awards
Balance, December 31, 2019	316,883
Granted	491,802
Redeemed	(135,493)
Balance, December 31, 2020	673,192
Granted	168,025
Redeemed	(224,540)
Forfeited	(80,212)
Balance, June 30, 2021	536,465

For the three and six months ended June 30, 2021, the Company recorded \$40,800 (2020 – \$60,000) and \$110,000 (2020 – \$105,000) respectively as a share-based compensation expense relating to RSUs.

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7. Share capital (continued)

(d) PSUs

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

The number of PSUs outstanding as at June 30, 2021 is as follows:

	Number of PSU awards
Balance, December 31, 2020	-
Granted	336,049
Balance, June 30, 2021	336,049

For the three and six months ended June 30, 2021, the Company recorded \$55,000 (2020 – \$nil) and \$101,000 (2020 – \$nil) respectively as a share-based compensation expense relating to PSUs.

(e) DSUs

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

The number of DSUs outstanding as at June 30, 2021 is as follows:

	Number of DSU awards
Balance, December 31, 2020	-
Granted	140,187
Balance, June 30, 2021	140,187

For the three and six months ended June 30, 2021, the Company recorded \$20,000 (2020 – \$nil) and \$28,000 (2020 – \$nil) respectively as a share-based compensation expense relating to DSUs.

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(Unaudited)

8. Revenue

Disaggregation of revenue

In the following table, the Company's revenue is disaggregated by primary geographical market, major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (see Note 12).

Three months ended June 30	Costerfield		Björkdal		Cerro Bayo		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Primary geographical markets								
Australia	23,884	23,254	-	-	-	-	23,884	23,254
Sweden	-	-	23,798	20,532	-	-	23,798	20,532
Chile	-	-	-	-	5,489	-	5,489	-
Revenue from contracts with customers	23,884	23,254	23,798	20,532	5,489	-	53,171	43,786
Provisional pricing adjustments	(490)	(404)	(1,251)	(1,047)	(78)	-	(1,819)	(1,451)
Total revenue from mining operations	23,394	22,850	22,547	19,485	5,411	-	51,352	42,335
Commodities								
Gold	15,823	17,929	23,798	20,532	3,112	-	42,733	38,461
Antimony	8,061	5,325	-	-	-	-	8,061	5,325
Silver	-	-	-	-	2,377	-	2,377	-
Revenue from contracts with customers	23,884	23,254	23,798	20,532	5,489	-	53,171	43,786
Provisional pricing adjustments	(490)	(404)	(1,251)	(1,047)	(78)	-	(1,819)	(1,451)
Total revenue from mining operations	23,394	22,850	22,547	19,485	5,411	-	51,352	42,335
Six months ended June 30	Costerfield		Björkdal		Cerro Bayo		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Primary geographical markets								
Australia	55,328	43,293	-	-	-	-	55,328	43,293
Sweden	-	-	44,895	40,781	-	-	44,895	40,781
Chile	-	-	-	-	5,489	-	5,489	-
Revenue from contracts with customers	55,328	43,293	44,895	40,781	5,489	-	105,712	84,074
Provisional pricing adjustments	(177)	(58)	(1,532)	(115)	(78)	-	(1,787)	(173)
Total revenue from mining operations	55,151	43,235	43,363	40,666	5,411	-	103,925	83,901
Commodities								
Gold	38,405	32,623	44,895	40,781	3,112	-	86,412	73,404
Antimony	16,923	10,670	-	-	-	-	16,923	10,670
Silver	-	-	-	-	2,377	-	2,377	-
Revenue from contracts with customers	55,328	43,293	44,895	40,781	5,489	-	105,712	84,074
Provisional pricing adjustments	(177)	(58)	(1,532)	(115)	(78)	-	(1,787)	(173)
Total revenue from mining operations	55,151	43,235	43,363	40,666	5,411	-	103,925	83,901

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9. Financial instruments

The Company has recognized a loss on financial instruments of \$6,685,000 and gain of \$13,552,000 respectively, for the three and six months ended June 30, 2021 (2020 – loss of \$14,824,000 and \$20,977,000). Details of these are given below:

(a) Gold derivative contracts

The Company has recognized a fair value loss of \$6,317,000 and gain of \$13,920,000 for the three and six months ended June 30, 2021 (2020 – loss of \$15,941,000 and \$25,054,000). The amounts as at June 30, 2021 include a credit adjustment that considers market participant assumptions, taking into account the impact of the Company's credit risk.

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

(b) Marketable securities – assets

On April 30, 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 Challacollo sale agreement. The value of securities as at June 30, 2021 is \$845,000, recorded in trade receivables and other assets. These securities are stated at fair value with any resulting gain or loss recognised in income statement. The Company recorded a fair value measurement loss of \$368,000 (2020 – nil) for the three months ended June 30, 2021, using Level 1 assumptions.

(c) Five-year exchangeable loan

Company repaid this loan in 2020 and as a result of this, the derivative value of the conversion feature was nil at June 30, 2021 (2020 – nil). The Company recorded no fair value measurement for the three and six months ended June 30, 2021 (2020 – gain of \$1,117,000 and \$4,076,265, respectively).

10. Finance costs

The finance costs for the three and six months ended June 30, 2021, and 2020 consist of the following:

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Syndicated Facility				
Interest on Syndicated Facility	887	1,163	1,934	1,366
Realised loss on gold derivative contracts	835	-	2,062	-
Other				
Accretion of reclamation and site closure costs	25	89	27	230
Interest on other borrowings and other charges	69	103	147	507
Five year exchangeable loan				
Loss on repayment of loan	-	1,634	-	3,752
Accelerated finance cost for repayment of loan	-	-	-	1,506
Interest on five year exchangeable loan	-	-	-	587
Revolver Facility				
Interest on Revolver Facility	-	-	-	660
	1,816	2,989	4,170	8,608

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11. Net income (loss) per share

For the three and six months ended June 30, 2021, the weighted average number of common shares of calculating diluted income (loss) per share is shown in the table below.

For the three and six months ended June 30, 2020, the weighted average number of common shares for the purpose of calculating diluted income (loss) per share reconciles to the weighted average number of common shares used in the calculation of basic income (loss) per share as this period was in a net loss position:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
	(\$'000)	(\$'000)	('000)	('000)
Net income (loss) for the period	4,790	(2,439)	30,290	(6,047)
Basic weighted average number of shares outstanding	91,346	91,151	91,292	91,159
Effect of dilutive securities:				
Stock options	1,148	-	1,044	-
RSU	536	-	536	-
PSU	336	-	336	-
DSU	140	-	140	-
Diluted weighted average number of shares outstanding	93,506	91,151	93,348	91,151

For the purposes of determining the diluted weighted average number of shares, for the six months ended June 30, 2021, 140,000 options were considered anti-dilutive and therefore excluded from the calculation. As the comparative amount presented in the table below were in a loss position, all options were anti-dilutive and therefore excluded from the calculation.

	Six months ended	
	June 30,	
	2021	2020
	('000)	('000)
Anti-dilutive securities		
Stock options	140	1,973
RSU	-	724

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12. Segmented information

The Company manages its operations by geographical location. These reportable operating segments are summarized in the table below ("Canada" is the provision of corporate services and administrative support and also includes non-core assets held in Canada):

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

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(Unaudited)

12. Segmented information (continued)

	Three months ended June 30, 2020				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	22,850	-	19,485	-	42,335
Cost of sales, excluding depletion and depreciation	(7,427)	-	(12,307)	-	(19,734)
Depletion and depreciation	(4,663)	(142)	(3,972)	(34)	(8,811)
Income (loss) from mining operations	10,760	(142)	3,206	(34)	13,790
Other operating expenses	(649)	(72)	(557)	(315)	(1,593)
Care and maintenance expenses	-	(488)	-	-	(488)
Reversal of reclamation liability (Note 10)	-	5,783	-	-	5,783
Other income (expenses), except for fair value adjustment	(99)	(320)	1,570	(3,086)	(1,935)
Fair value adjustment gain (loss)	(2,067)	-	(13,299)	1,117	(14,249)
Income (loss) before income taxes	7,945	4,761	(9,080)	(2,318)	1,308
Current tax expense	(924)	(5)	(868)	-	(1,797)
Deferred tax expense	(1,853)	-	(97)	-	(1,950)
Net income (loss) for the period	5,168	4,756	(10,045)	(2,318)	(2,439)
Net loss per share					
Basic and diluted					(\$0.03)
Cash expenditure for property, plant and equipment	5,532	(25)	4,762	-	10,269
Total non-current assets as at June 30, 2020	56,381	17,051	111,394	13,205	198,031
Total assets as at June 30, 2020	76,510	19,044	138,731	26,013	260,298
Total liabilities as at June 30, 2020	25,862	12,002	42,862	74,298	155,024

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12. Segmented information (continued)

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

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12. Segmented information (continued)

	Six months ended June 30, 2020				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	43,235	-	40,666	-	83,901
Cost of sales, excluding depletion and depreciation	(13,832)	-	(24,734)	-	(38,566)
Depletion and depreciation	(9,608)	(311)	(7,415)	(72)	(17,406)
Income (loss) from mining operations	19,795	(311)	8,517	(72)	27,929
Other operating expenses	(1,340)	(189)	(1,217)	(790)	(3,536)
Care and maintenance expenses	-	(1,093)	-	-	(1,093)
Reversal of reclamation liability (Note 10)	-	5,783	-	-	5,783
Other income (expenses), except for fair value adjustment	(1,352)	(574)	1,415	(8,615)	(9,126)
Fair value adjustments gain (loss)	(9,962)	-	(13,593)	4,077	(19,478)
Income (loss) before income taxes	7,141	3,616	(4,878)	(5,400)	479
Current tax expense	(924)	(5)	(1,334)	-	(2,263)
Deferred tax expense	(4,088)	-	(175)	-	(4,263)
Net Income (loss) for the period	2,129	3,611	(6,387)	(5,400)	(6,047)
Net loss per share					
Basic and diluted					(\$0.07)
Cash expenditure for property, plant and equipment	10,241	120	9,616	-	19,977
Total non-current assets as at June 30, 2020	56,381	17,051	111,394	13,205	198,031
Total assets as at June 30, 2020	76,510	19,044	138,731	26,013	260,298
Total liabilities as at June 30, 2020	25,862	12,002	42,862	74,298	155,024

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12. Segmented information (continued)

For the three and six months ended June 30, 2021, the Company had five customers from whom it earned more than 10% of its total revenue (2020 – four customers).

Revenue from these customers is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Costerfield (gold and antimony)				
Customer 1	12,161	11,917	27,976	24,186
Customer 2	9,860	8,020	22,556	14,236
	22,021	19,937	50,532	38,422
Björkdal (gold)				
Customer 3	18,008	15,125	34,221	32,262
Customer 4	4,539	4,360	9,142	8,404
	22,547	19,485	43,363	40,666
Cerro Bayo (silver and gold)				
Customer 5	5,411	-	5,411	-
	5,411	-	5,411	-
Total	49,979	39,422	99,306	79,088

13. Fair value measurement

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

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

The Company has certain financial assets and liabilities that are measured at fair value or fair value is disclosed. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to the Level 3 inputs.

As at June 30, 2021, other receivables are based on Level 1 inputs. Provisional pricing feature included in trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, the five year-exchangeable loan and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances, which may cause transfers between the levels of the fair value hierarchy.

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14. Assets and liabilities held for sale

On November 12, 2019, the Company entered into a definitive agreement with Aftermath pursuant to which Aftermath would acquire Minera Mandalay Challacollo Limitada, a wholly owned subsidiary of the Company that owns the Challacollo project. The Company expects this sale to be completed by April 30, 2022. All assets related to Challacollo amounting to \$692,000 are classified as held for sale, and liabilities of \$247,000 directly associated with Challacollo are classified as liabilities directly associated with assets held for sale.

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

	June 30, 2021
	(\$'000)
Assets	
Other non-current receivables	628
Prepaid expenses	64
Assets held for sale	<u>692</u>
Liabilities	
Trade and other payables	247
Liabilities associated with assets held for sale	<u>247</u>

15. Related party transactions

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

16. 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 condensed consolidated interim financial position and financial performance.

The Company's Björkdal and Costerfield mines have entered into several equipment leases. The total lease liability as at June 30, 2021 was \$5,254,000 (December 31, 2020 – \$5,568,000).