

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2019
(Unaudited)

Mandalay Resources Corporation

March 31, 2019

Table of contents

Condensed consolidated interim statements of income (loss) and comprehensive income (loss)	2
Condensed consolidated interim statements of financial position	3
Condensed consolidated interim statements of changes in equity	4
Condensed consolidated interim statements of cash flows	5
Notes to the condensed consolidated interim financial statements	7-24

Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income (loss)
three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended	
	2019	March 31, 2018
	(\$'000)	(\$'000)
Revenue (Note 13)	29,916	39,747
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note 14)	23,393	25,820
Depletion and depreciation	7,252	8,839
	30,645	34,659
Income (loss) from mining operations	(729)	5,088
Expenses		
Administration	1,276	1,793
Care and maintenance and other operating expenses	875	2,176
Share-based compensation (Note 12(b))	181	248
(Gain) loss on disposal of property, plant and equipment	(1,821)	7
	511	4,224
Income (loss) from operations	(1,240)	864
Other income (expenses)		
Finance costs (Note 15)	(1,673)	(1,368)
Gain (loss) on financial instruments (Note 16)	124	(243)
Interest and other income	217	485
Foreign exchange gain	528	242
	(804)	(884)
Loss before income taxes	(2,044)	(20)
Income tax (recovery) expense		
Current	(97)	783
Deferred	(613)	434
Income tax (recovery) expense	(710)	1,217
Net loss for the period	(1,334)	(1,237)
Other comprehensive loss, net of tax		
Item that may subsequently be reclassified to net loss		
Foreign currency translation	(3,031)	(974)
Comprehensive loss for the period	(4,365)	(2,211)
Net loss per share		
Basic and diluted	(0.00)	(0.00)
Weighted average number of common shares outstanding (Note 17)		
Basic and diluted ('000)	466,888	451,299

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at March 31, 2019 and December 31, 2018

(Expressed in U.S. dollars)

(Unaudited)

	March 31, 2019 (\$'000)	December 31, 2018 (\$'000)
Assets		
Current assets		
Cash and cash equivalents (Note 4)	37,022	8,395
Trade receivables and other assets (Note 5)	15,189	12,998
Inventories	11,567	13,829
Prepaid expenses	3,551	3,678
	67,329	38,900
Non-current assets		
Reclamation and other deposits	31,012	27,676
Trade receivables and other assets (Note 5)	2,726	2,747
Property, plant and equipment (Note 6)	165,166	168,380
	198,904	198,803
	266,233	237,703
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	21,130	26,204
Borrowings (Note 9)	212	30,225
Lease liabilities (Note 7)	1,673	1,839
Five-year exchangeable loan (Note 10)	22,084	25,235
Income taxes payable	200	120
Other provisions (Note 11)	1,451	1,778
Financial instruments (Note 16)	2,605	2,691
	49,355	88,092
Non-current liabilities		
Borrowings (Note 9)	35,116	323
Lease liabilities (Note 7)	3,417	3,498
Reclamation and site closure costs provision	40,415	40,674
Other provisions (Note 11)	1,589	1,527
Deferred tax liability	6,752	7,453
	87,288	53,475
	136,643	141,567
Equity		
Share capital (Note 12)	229,716	192,078
Share option reserve (Note 12)	10,585	10,404
Foreign currency translation reserve	(39,227)	(36,196)
Retained deficit	(71,484)	(70,150)
	129,590	96,136
	266,233	237,703

Approved by the Board of Directors and authorized for issuance on May 14, 2019.

(Signed) Dominic Duffy

Dominic Duffy, President and Chief Executive Officer

(Signed) Robert Doyle

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity

three months ended March 31, 2019 and 2018

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

(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained deficit	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2018	451,596	192,078	10,404	(36,196)	(70,150)	96,136
Net loss	-	-	-	-	(1,334)	(1,334)
Other comprehensive loss for the year	-	-	-	(3,031)	-	(3,031)
Total comprehensive loss	-	-	-	(3,031)	(1,334)	(4,365)
Share-based compensation (Note 12(b))	-	-	181	-	-	181
Shares issued for cash (Note 12(a))	359,400	31,715	-	-	-	31,715
Conversion of bridge loan into common shares (Note 12(a))	99,363	8,000	-	-	-	8,000
Share issuance cost (Note 12(a))	-	(2,078)	-	-	-	(2,078)
Balance, March 31, 2019	910,359	229,716	10,585	(39,227)	(71,484)	129,590

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings (deficit)	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, January 1, 2018	451,280	191,893	9,816	(28,654)	(6,432)	166,623
Net loss	-	-	-	-	(1,237)	(1,237)
Other comprehensive income for the period	-	-	-	(974)	-	(974)
Total comprehensive income (loss)	-	-	-	(974)	(1,237)	(2,211)
Share-based compensation (Note 12(b))	-	-	248	-	-	248
Redemption of RSU (Note 12(d))	34	16	(16)	-	-	-
Balance, March 31, 2018	451,314	191,909	10,048	(29,628)	(7,669)	164,660

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows three months ended March 31, 2019 and 2018

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended	
	2019	March 31, 2018
	(\$'000)	(\$'000)
Operating activities		
Net loss	(1,334)	(1,237)
Adjustments to reconcile net loss to net cash flows from operating activities		
Amortization of intangible asset	-	15
Depletion and depreciation	7,252	8,839
Share-based compensation (Note 12(b))	181	248
Loss (gain) on disposal of property, plant and equipment	(1,821)	7
Finance cost (Note 15)	1,673	1,368
Unrealized gain (loss) on financial instruments (Note 16)	(124)	243
Interest and other income	(217)	(485)
Foreign exchange gain	(394)	(267)
Income tax expense (recovery)	(710)	1,217
Reclamation expenditures	(662)	(252)
Changes in non-cash operating working capital items		
Trade receivables and other assets	(306)	9,179
Inventories	2,197	2,973
Prepaid expenses	(5)	(135)
Trade and other payables	(5,200)	(3,641)
Other provisions	(284)	(144)
Cash generated from operations	245	17,928
Interest and other income received	217	485
Interest and bank charges paid	(1,406)	(1,124)
Net cash flows from operating activities	(944)	17,289
Investing activities		
Payment to reclamation deposits	(4,691)	(183)
Receipt from reclamation deposits	-	10
Expenditure for property, plant and equipment	(7,412)	(11,310)
Proceeds from disposal of property, plant and equipment	2,090	19
Net cash flows used in investing activities	(10,013)	(11,464)
Financing activities		
Proceeds from borrowings	5,000	370
Proceeds from bridge loan (Note 12(a))	8,000	-
Lease payments (Note 7)	(204)	(377)
Repayments of borrowings	(3,392)	(118)
Shares issued for cash (Note 12(a))	32,273	-
Share issuance cost (Note 12(a))	(2,078)	-
Net cash flows from (used in) financing activities	39,599	(125)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(16)	772
Increase in cash and cash equivalents	28,627	6,472
Cash and cash equivalents, beginning of the period	8,395	16,935
Cash and cash equivalents, end of period	37,022	23,407
Cash and cash equivalents consist of		
Cash	37,022	23,407
	37,022	23,407

See accompanying notes to the condensed consolidated interim financial statements and going concern assumption (Note 3a)

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

(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 (“IAS”) 34 *Interim Financial Reporting*.

The preparation of 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 consolidated financial statements for the year ended December 31, 2018.

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 annual financial statements as at December 31, 2018. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018.

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 Company’s accounting policies.

a) *Going concern assumption*

These consolidated financial statements were prepared on a going concern basis that contemplated the realization of assets and the settlement of liabilities in the normal course of business as they become due, except for the revaluation to fair value of certain financial assets and financial liabilities in accordance with the Company’s accounting policies.

The Company is facing liquidity challenges as a result of operational underperformance and the requirement to fund recent exchanges of the Company’s five-year exchangeable loan. As at March 31, 2019 the Company is in breach of two covenants of its Revolver Facility, however it has received a waiver on all financial covenants under this facility for the current quarter.

The ability of the Company to continue as a going concern is dependent on receiving waivers for, or meeting, its financials covenants on the Revolver Facility in the coming quarters. There can be no assurance that the Company will meet its covenants or receive waivers for the financial covenants

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

3. Summary of significant accounting policies (continued)

a) *Going concern assumption (continued)*

associated with the Revolver Facility for future quarters. As a result, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

b) *Changes in accounting standards*

The accounting policies adopted in preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of amendments and interpretations effective January 1, 2019. These amendments and interpretations are outlined below.

IFRS 16, Leases

The Company had adopted IFRS 16 using the modified retrospective approach with effect from January 1, 2019.

The Company has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. The Company has accounted for its Right of Use assets in the property, plant and equipment line in its Statement of Financial Position. In an operating lease, the leased property was not capitalized and the lease payments were recognized as operating expenses on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases. The requirements of IFRS 16 was applied to these leases from 1 January 2019.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

3. Summary of significant accounting policies (continued)

b) Changes in accounting standards (continued)

The Company has applied a weighted average incremental borrowing rate of 8% to compute lease liabilities at the date of initial adoption.

During the three months ended March 31, 2019, the Company recognized \$1,767,000 in operating expenses relating to variable lease payments.

4. Cash and cash equivalents

As at March 31, 2019, the Company had a total cash balance of \$37,022,000 (December 31, 2018 - \$8,395,000). As part of the Bridge Loan agreement (see Note 12(a)), the Company is required to maintain a reserve of cash or cash equivalents equal to the lessor of (a) \$15,000,000 and (b) the outstanding principal amount of the five-year exchangeable loan. The Company will use this reserve exclusively for the purposes of satisfying its obligations in respect of the five-year exchangeable loan (see Note 10).

As part of the Public Offering (see Note 12(a)), the Company had agreed with HSBC that the aggregate of any undrawn portion of the Revolver Facility (which is \$5,000,000 as at March 31, 2019) plus the Company's cash and cash equivalents must at all times be not less than \$10,000,000.

5. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	March 31, 2019 (\$'000)	December 31, 2018 (\$'000)
Trade receivables	8,541	8,036
VAT and other indirect tax receivables	3,392	3,933
Other receivables and assets	5,870	3,703
Marketable securities (Note 16)	112	73
	17,915	15,745
Less: non-current portion	2,726	2,747
Total current portion	15,189	12,998

There was no allowance for doubtful accounts recognized as at March 31, 2019, or at December 31, 2018.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

6. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost												
As at January 1, 2018	72,664	64,314	78,598	35,557	44,532	31,533	2,798	8,821	1,106	16,341	51,137	407,401
Additions	10,242	-	10,891	6,961	-	15,566	1	5,242	-	1,785	2,652	53,340
Disposals	-	-	-	(1,017)	(2,196)	-	-	-	-	-	-	(3,213)
Write-off of assets	-	(8,470)	-	-	-	-	-	(36)	(321)	-	(25,818)	(34,645)
Reclassification to mining interest	4,534	-	-	-	-	-	-	(4,534)	-	-	-	-
Transferred from Asset held for sale	-	-	-	-	-	-	-	-	-	-	(6,051)	(6,051)
Foreign exchange	(7,027)	-	(8,258)	(3,907)	-	(3,366)	(62)	(729)	-	(48)	(443)	(23,840)
As at December 31, 2018	80,413	55,844	81,231	37,594	42,336	43,733	2,737	8,764	785	18,078	21,477	392,992
Additions	3,185	-	1,832	1,241	-	945	-	70	-	-	182	7,455
Disposals	-	-	-	(175)	(6,364)	-	-	-	-	-	-	(6,539)
Reclassification to mining interest	4,839	-	-	-	-	-	-	(4,839)	-	-	-	-
Foreign exchange	342	-	(4,907)	206	-	(2,521)	16	74	-	(83)	(483)	(7,356)
As at March 31, 2019	88,779	55,844	78,156	38,866	35,972	42,157	2,753	4,069	785	17,995	21,176	386,552
Accumulated depreciation												
As at January 1, 2018	55,450	55,844	30,104	19,311	40,026	11,594	508	-	-	-	-	212,837
Expense	9,657	-	9,961	5,697	1,651	3,550	-	-	-	-	-	30,516
Disposals	-	-	-	(875)	(2,064)	-	-	-	-	-	-	(2,939)
Foreign exchange	(5,288)	-	(6,324)	(2,268)	-	(1,912)	(10)	-	-	-	-	(15,802)
As at December 31, 2018	59,819	55,844	33,741	21,865	39,613	13,232	498	-	-	-	-	224,612
Expense	1,713	-	2,768	1,277	233	1,260	-	-	-	-	-	7,251
Disposals	-	-	-	(157)	(6,069)	-	-	-	-	-	-	(6,226)
Foreign exchange	281	-	(3,458)	120	-	(1,184)	(10)	-	-	-	-	(4,251)
As at March 31, 2019	61,813	55,844	33,051	23,105	33,777	13,308	488	-	-	-	-	221,386
Carrying value												
As at January 1, 2018	17,214	8,470	48,494	16,246	4,506	19,939	2,290	8,821	1,106	16,341	51,137	194,564
As at December 31, 2018	20,594	-	47,490	15,729	2,723	30,501	2,239	8,764	785	18,078	21,477	168,380
As at March 31, 2019	26,966	-	45,105	15,761	2,195	28,849	2,265	4,069	785	17,995	21,176	165,166

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2019 and December 31, 2018

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

6. Property, plant and equipment (continued)

For the three months ended March 31, 2019, there was no plant and equipment depreciation capitalized to mining interests at Cerro Bayo (2018 - \$nil), \$1,000 at Costerfield (2018 - \$nil) and none at Björkdal (2018 - \$394,000).

As at March 31, 2019, the Company has right-of-use assets of \$6,671,000, of which \$985,000 is at Costerfield and \$5,686,000 is at Björkdal, included in the property, plant and equipment balance.

7. Lease liabilities

Björkdal Equipment leases

The Björkdal mine has several equipment leases totalling \$4,070,000 (2018 - \$4,229,000). These leases financed 80% of the equipment purchase cost, bear interest at the one-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments. These leases are payable within 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 fully repaid during 2023.

As at March 31, 2019, the current portion of the above facilities is \$1,122,000 (2018 - \$1,313,000) and the non-current portion is \$2,948,000 (2018 - \$2,916,000).

Costerfield Equipment leases

As at March 31, 2019, the Company's Costerfield mine in Australia, had a balance of \$985,000 (December 31, 2018 - \$1,108,000) for equipment leases. These leases bear interest at 5.50% per annum and requires monthly lease payments. These leases are due to be repaid during 2023.

As at March 31, 2019, the current portion of the above lease liability is \$538,000 (December 31, 2018 - \$526,000) and the non-current portion is \$447,000 (December 31, 2018 - \$582,000).

	March 31, 2019		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Minimum future lease payment for equipment leases	1,660	3,395	5,055
Interest portion on lease payments for equipment leases	13	21	34
Total borrowings, including interest portion	1,673	3,417	5,090

	December 31, 2018		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Minimum future lease payment for equipment leases	1,839	3,498	5,337
Interest portion on lease payments for equipment leases	56	92	148
Total borrowings, including interest portion	1,895	3,590	5,485

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

8. Trade and other payables

	March 31, 2019	December 31, 2018
	(\$'000)	(\$'000)
Trade payables	12,006	17,146
Accrued liabilities	7,006	7,189
Payroll and other taxes payable	2,116	1,828
Cash election option (Note 12(c))	2	4
Provisional pricing adjustment	-	37
	21,130	26,204

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.

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.

As at March 31, 2019, there was a \$112,000 mark-to-market adjustment recorded in trade receivable and other assets (2018 – \$73,000).

9. Borrowings

	March 31, 2019	December 31, 2018
	(\$'000)	(\$'000)
Liability for the Revolver facility	35,000	30,000
Borrowings for Equipment loan facility	327	548
	35,327	30,548
Less: Current portion of total borrowings	212	30,225
Non-current portion of total borrowings	35,115	323

Revolver Facility

During the year ended December 31, 2017, the Company entered into a \$40,000,000 senior secured revolving credit facility (the "Revolver Facility") with HSBC Bank Canada ("HSBC"). The Revolver Facility matures on July 24, 2020, three years after the agreement date.

Amounts drawn on the Revolver Facility bears interest at LIBOR plus 3.5%-4.5% per annum or at HSBC's "base rate" plus 2.5%-3.5%, depending on the Company's leverage ratio. The undrawn portion of the Revolver Facility is subject to a standby fee of 1.0% per annum. The Revolver Facility is secured by a first ranking security interest over substantially all of the Company's assets, excluding the Company's Australian subsidiaries and its Costerfield mine and subject to permitted liens. As required by the terms, the Company has suspended dividends on its common shares.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

9. Borrowings (continued)

The facility has the below mentioned financial covenants:

- Interest Coverage Ratio of not less than 3.00:1.00 at all times (consolidated basis, calculated on rolling four-quarter basis);
- Leverage Ratio of not more than 3.00:1.00 at all times;
- Tangible Net Worth of not less than \$105,000,000 plus 50% of net income (cumulative) earned after Closing Date; and
- Current Ratio of not less than 1.20:1.00.

As at March 31, 2019 the Company was in breach of the Interest Coverage Ratio and the Leverage Ratio for this facility. On February 20, 2019, and associated with the Public Offering (see Note 12(a)), the Company has obtained the waiver before the statement of financial position date, therefore the outstanding amount under the Revolver Facility has been classified as a non-current liability as at March 31, 2019.

During the three months ended March 31, 2019, the Company had drawn down \$5,000,000 from this facility, and there is \$35,000,000 drawn as at March 31, 2019.

Björkdal Equipment loan

As at March 31, 2019, the Company's Björkdal mine in Sweden had a balance of \$463,000 (2018 – \$547,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the three-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 9 months from the year ended December 31, 2018. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

As at March 31, 2019, the current portion of the above facilities is \$212,000 (2018 – \$224,000) and the non-current portion is \$251,000 (2018 – \$323,000).

10. Five-year exchangeable loan

In May 2014, Mandalay issued \$60,000,000 of debt securities at an interest rate of 5.875% for proceeds of \$60,000,000 by way of a concurrent offering of senior exchangeable bonds (the "Bonds") issued by Gold Exchangeable Limited (the "Issuer"), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited, borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the "Loan") which together mirror the principal terms of the Bonds.

Each Bond holder had the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which net asset value ("NAV") of the SPDR Gold Trust or Gold Shares is calculated.

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares to the Bond holder.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

10. Five-year exchangeable loan (continued)

The Issuer may redeem the Bonds at its option:

- if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30-consecutive trading day period; or
- if \$9,000,000 or less in the principal amount of the Bonds remains outstanding.

The Company has equivalent redemption rights with respect to the Loan. If the Company exercises its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the condensed consolidated interim statements of financial position of the Company as at March 31, 2019, and December 31, 2018. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (see Note 16).

Repurchase and Amendment of Bonds

On May 26, 2017, the Issuer repurchased \$29,950,000 of the Bonds from the bond holders thereof at a premium of 105% of their principal amount resulting in a remaining principal amount of \$30,050,000.

In connection with the partial repayment of the Bonds, the following amendments have been made to the terms of the remaining Bonds:

- extending the maturity date of the Bonds to May 13, 2022;
- deleting a condition of the Bonds which required that beginning on May 14, 2017, as additional security for the Bonds, the Issuer was required to start depositing the aggregate number of Gold Shares issuable upon exchange of the Bonds into a custody account;
- adding a new covenant to the Bonds pursuant to which the Issuer will be required to offer to repurchase a proportion of the Bonds outstanding at the relevant time if and to the extent that the contained gold equivalent Mineral Reserves (in ounces) at Mandalay's Costerfield mine falls below (initially) 232,000 gold equivalent ounces;
- increasing the interest rate payable on the Bonds from 5.875% per annum to 6.875% per annum effective as of May 13, 2017; and
- reducing the exchange price of the Bonds from US\$149.99 to US\$135.00 (which equates to gold prices of US\$1,556 per ounce, and US\$1,400 per ounce, respectively).

Mandalay funded all amounts required by the Issuer to repurchase Bonds and all associated fees and expenses (including consent fees). The outstanding amount of the Loan has been reduced by an amount equal to the principal amount of the Bonds repurchased and the terms of the Loan have been amended to mirror, where applicable, the amendments to the terms of the Bonds.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

10. Five-year exchangeable loan (continued)

Bond Exchanges

On December 3, 2018 the Company was required to exchange a principal amount of \$2,300,000 of Bonds at a cost of \$1,978,000. As at December 31, 2018, there was a current liability of \$25,235,000 recognised on the statement of financial position relating to the Loan. The outstanding principal at year end was \$27,750,000.

On February 11, 2019, the Company exchanged \$3,650,000 principal amount of Bonds at a monetary cost \$3,350,000. The outstanding principal amount of the Loan has been reduced in an amount equal to the principal amount of the Bonds that were exchanged and, after exchanges noted above, the outstanding principal amount of the Loan was \$24,100,000. As at March 31, 2019, there was a current liability of \$22,084,000 recognised on the statement of financial position for the Loan.

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, 2017	3,673
Additions	2,614
Amounts paid	(2,631)
Foreign exchange	(351)
Balance, December 31, 2018	3,305
Additions	310
Amounts paid	(598)
Foreign exchange	23
Balance, March 31, 2019	3,040
Less: current portion	1,451
Total non-current portion	1,589

12. Share capital

As at March 31, 2019, the Company had an unlimited number of authorized common shares without par value and 910,358,840 common shares outstanding (December 31, 2018 – 451,595,877 common shares). All outstanding common shares are fully paid.

(a) *Shares issued*

- *Public offering*

During the three months ended March 31, 2019, the Company completed a public offering by issuing 358,400,000 common shares at a price of CAD\$ 0.12 per common share which equates to gross proceeds of CAD\$43,008,000 (the "Public Offering"). The Public Offering was over-subscribed by 1,000,000 common shares.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2019 and December 31, 2018

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

12. Share capital (continued)

(a) Shares issued (continued)

- *Convertible Bridge loan*

On February 20, 2019, the Company had entered into a one-year convertible bridge loan agreement for \$8,000,000 with CE Mining Fund III L.P. (the "Bridge Loan"), an investment fund advised by Plinian Capital Limited, which in turn is controlled by Brad Mills, the Chairman of the Company's Board of Directors. The Bridge Loan will bear interest at a rate of 10% and will be convertible at CE Mining's option into Common Shares at a price per share CAD\$0.108. The Bridge Loan will be unsecured and will be subordinated to the HSBC Facility.

On March 29, 2019, this Bridge Loan was converted into 99,362,963 common shares.

(b) Share-based compensation

	Three months ended	
	March 31,	
	2019	2018
	(\$'000)	(\$'000)
Stock based compensation on options	144	210
Fair value for cash election option	(5)	(6)
RSU amortization	42	44
	181	248

No stock options were granted during the three months ended March 31, 2019.

(c) Stock options

	Number of	Weighted
	options	average
		exercise
		price
		C\$
Balance, December 31, 2017	20,945,500	0.89
Expired	(3,395,000)	1.13
Forfeited	(3,922,500)	0.69
Granted	5,850,000	0.20
Exercised	(100)	0.60
Balance, December 31, 2018	19,477,900	0.68
Expired	(1,810,000)	0.98
Forfeited	(3,400,000)	0.90
Balance, March 31, 2019	14,267,900	0.59

No stock options were exercised during the three months ended March 31, 2019.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2019 and December 31, 2018

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

12. Share capital (continued)

(c) Stock option (continued)

The following table summarizes information about the stock options outstanding as at March 31, 2019:

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
2,235,000	0.98	0.91	2,235,000	0.91
3,578,000	1.98	0.91	3,578,000	-
3,449,900	5.25	0.60	2,299,933	0.20
5,005,000	6.25	0.20	-	-
14,267,900	5.04	0.59	8,112,933	0.25

(d) Restricted Share Units

The Company has a Restricted Share Unit Plan (the "RSU Plan") and has granted Restricted Share Units ("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 March 31, 2019, is as follows:

	Number of RSU awards
Balance, December 31, 2017	688,346
Granted	1,562,500
Redeemed	(316,046)
Outstanding at December 31, 2018	1,934,800
Forfeited	(414,036)
Outstanding at March 31, 2019	1,520,764

For the three months ended March 31, 2019, the Company recorded \$42,000 as a share based compensation expense relating to RSUs (2018 – \$44,000).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

13. 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 18).

Three months ended March 31, 2019	Costerfield		Cerro Bayo		Björkdal		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Primary geographical markets								
Australia	9,132	15,244	-	-	-	-	9,132	15,244
Sweden	-	-	-	-	20,300	23,534	20,300	23,534
Revenue from contracts with customers	9,132	15,244	-	-	20,300	23,534	29,432	38,778
Provisional pricing adjustments	136	356	-	81	348	532	484	969
Total revenue from mining operations	9,268	15,600	-	81	20,648	24,066	29,916	39,747
Commodities								
Gold	5,319	9,613	-	-	20,300	23,534	25,619	33,147
Antimony	3,813	5,631	-	-	-	-	3,813	5,631
Revenue from contracts with customers	9,132	15,244	-	-	20,300	23,534	29,432	38,778
Provisional pricing adjustments	136	356	-	81	348	532	484	969
Total revenue from mining operations	9,268	15,600	-	81	20,648	24,066	29,916	39,747

14. Cost of sales

The cost of sales for the three months ended March 31, 2019 and 2018, consists of:

	Three months ended	
	2019	2018
	(\$'000)	(\$'000)
Raw materials and consumables	5,734	6,896
Salary and employee benefits	8,593	8,082
Contractors	4,810	4,638
Change in inventories	1,756	2,767
Royalty	128	185
Other	2,372	3,252
	23,393	25,820

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

15. Finance costs

The finance expenses for the three months ended March 31, 2019 and 2018 consists of the following:

	Three months ended	
	March 31,	
	2019	2018
	(\$'000)	(\$'000)
Interest on five year exchangeable loan	358	684
Finance charges on Revolver Facility	820	414
Interest on other borrowings and bank charges	143	183
Accretion of reclamation and site closure costs	85	87
Loss on part repayment of five year exchangeable loan	267	-
	1,673	1,368

16. Financial instruments

(a) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (see Note 10) using the Black-Scholes option pricing. For the three months ended March 31, 2019, the derivative value of the conversion feature amounts to \$2,605,000 (2018 – \$2,691,000) and is recorded in current liabilities in the condensed consolidated interim statements of financial position. The Company recorded a fair value measurement gain of \$86,000 (2018 – loss of \$243,000) for the three months ended March 31, 2019. The value was estimated using the following Level 2 assumptions: risk free interest rate of 2.40% (2018 – 1.27%); volatility of 16% (2018 – 16%), gold forward curve adjustment of 0.70% (2018 – (-1.55%)).

(b) Marketable securities

The value of securities as at March 31, 2019, is \$112,000 (at December 31, 2018 – \$73,000), recorded in trade receivables and other assets. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain of \$38,000 for three months ended March 31, 2019 using Level 1 assumptions (2018 – \$mil).

17. Income per share

As at March 31, 2019 and 2018, 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:

	Three months ended	
	March 31,	
	2019	2018
	('000)	('000)
Net loss for the period	(1,334)	(1,237)
Basic weighted average number of shares outstanding	466,888	451,299
Diluted weighted average number of shares outstanding	466,888	451,299

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

17. Income per share (continued)

The following stock options and RSU's are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because company has reported loss for the three months ended March 31, 2019 and 2018.

Details for the options and RSUs are below:

	Three months ended	
	2019	March 31,
	2019	2018
	('000)	('000)
Stock options	14,268	17,478
RSU	1,521	654

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

18. Segmented information

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

	Three months ended March 31, 2019				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	9,268	-	20,648	-	29,916
Cost of sales, excluding depletion and depreciation	(7,758)	-	(15,635)	-	(23,393)
Depletion and depreciation	(2,989)	(233)	(4,028)	(2)	(7,252)
Income (loss) from mine operations	(1,479)	(233)	985	(2)	(729)
Other operating expenses	(314)	1,515	(581)	(256)	364
Care and maintenance and other operating expenses	-	(875)	-	-	(875)
Income (loss) from operations	(1,793)	407	404	(258)	(1,240)
Other expense (income), except for fair value adjustment	222	(36)	(444)	(670)	(928)
Fair value adjustment gain (loss)	-	-	-	124	124
Income (loss) before income taxes	(1,571)	371	(40)	(804)	(2,044)
Current tax recovery	-	-	97	-	97
Deferred tax recovery	477	-	136	-	613
Net Income (loss)	(1,094)	371	193	(804)	(1,334)
Net Loss per share					
Basic and diluted	(\$0.00)				
Cash expenditure for property, plant and equipment	4,452	182	2,778	-	7,412
Total non-current assets as at March 31, 2019	49,606	20,054	96,762	32,482	198,904
Total assets as at March 31, 2019	58,868	24,071	116,449	66,845	266,233
Total liabilities as at March 31, 2019	18,908	20,899	23,692	73,144	136,643

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2019 and December 31, 2018

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

18. Segmented information (continued)

	Three months ended March 31, 2018				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	15,600	81	24,066	-	39,747
Cost of sales, excluding depletion and depreciation	(9,156)	(79)	(16,585)	-	(25,820)
Depletion and depreciation	(4,602)	(506)	(3,726)	(6)	(8,839)
Income (loss) from mine operations	1,843	(504)	3,755	(6)	5,088
Other operating expenses	(727)	(469)	(727)	(126)	(2,048)
Care and maintenance and other operating expenses	-	(2,176)	-	-	(2,176)
Income (loss) from operations	1,117	(3,149)	3,029	(132)	864
Other expense (income), except for fair value adjustment	426	(118)	(150)	(799)	(641)
Fair value adjustment gain (loss)	-	-	-	(243)	(243)
Income (loss) before income taxes	1,543	(3,267)	2,879	(1,174)	(20)
Current tax expense	(212)	-	(571)	-	(783)
Deferred tax expense	(335)	-	(99)	-	(434)
Net income (loss)	996	(3,267)	2,209	(1,174)	(1,237)
Net Income per share					
Basic and diluted					\$0.00
Cash expenditure for property, plant and equipment	4,818	253	6,212	27	11,310
Total non-current assets as at March 31, 2018	45,001	56,118	90,270	42,255	233,644
Total assets as at March 31, 2018	66,277	67,352	118,998	46,451	299,078
Total liabilities as at March 31, 2018	13,707	21,281	27,873	71,557	134,418

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

18. Segmented information (continued)

For the three months ended March 31, 2019, the Company had four customers from whom it earned more than 10% of its total revenue (2018 – three customers).

Revenue from these customers is summarized as follows:

	Three months ended	
	March 31, 2019	March 31, 2018
	(\$'000)	(\$'000)
Costerfield (gold and antimony)		
Customer 1	7,033	11,779
Customer 2	2,235	-
	9,268	11,779
Björkdal (gold)		
Customer 3	16,527	19,748
Customer 4	4,121	4,318
	20,648	24,066
Total	29,915	35,845

19. 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.

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.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2019 and December 31, 2018

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

(Unaudited)

19. Fair value measurement (continued)

As at March 31, 2019, other receivables and marketable securities 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, five year-exchangeable bonds 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.

20. Related party transactions

Mr. Sanjay Swarup was the Chief Financial Officer of the Company until August 16, 2018. He was also the Director of SKS Business Services, which provides contractual accounting services to the Company, the amount of which is outlined in the table below:

	Three months ended	
	March 31,	
	2019	2018
	(\$'000)	(\$'000)
Administration expenses, salaries and consultancy services		
SKS Business Services	-	48

On February 20, 2019, the Company completed on the Public Offering and Bridge loan (the "Financing"). As part of the Financing, the Company's Bridge Loan was entered into with an affiliate of CE Mining Fund III L.P. ("CE Mining"), an investment fund advised by Plinian Capital Limited, which is controlled by Bradford A. Mills, Chairman of the Board. In addition, as part of the Public Offering, Ruffer LLP, GMT Capital Corp. and azValor Asset Management SGIIC, S.A.U. (each of which is a related party of the Company by virtue of owning more than 10% of the outstanding Common Shares), along with CE Mining, collectively subscribed for 305,075,000 Subscription Receipts. The loan agreement in respect of the Bridge Loan contains a number of customary positive and negative covenants, and also provides that for as long as CE Mining owns at least 10% of the outstanding Common Shares it will be entitled to nominate two members of the Company's board of directors, provided that one such nominee must be Bradford A. Mills. The purpose of the Financing was to secure additional funding to allow the Company to satisfy its working capital requirements and fund ongoing capital development and exploration programs.

21. Commitments and contingencies

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

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

22. Subsequent events

On December 21, 2018, the Nunavut Water Board reached a decision to recommend that the Letter of Credit that was posted by the Company as security for its reclamation obligations in respect of the Lupin mine be reduced by CAD\$3,200,000. On January 28, 2019, this recommendation had been approved by the Minister of Indigenous and Northern Affairs. On April 18, 2019, this cash was released to the Company.