MANDALAY RESOURCES

Management's Discussion and Analysis

For the Quarter ended March 31, 2018

As of May 9, 2018

CONTENTS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated interim financial statements and notes to the condensed consolidated interim financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended March 31, 2018, and the Company's annual information form dated March 29, 2018 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States ("U.S.") dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

This MD&A contains forward-looking statements. Please refer to "Cautionary Statement Regarding Forward Looking Statements" at the end of this MD&A for a discussion of some of the risks and uncertainties associated with forward-looking statements.

This MD&A contains reference to non-IFRS measures. Please refer to Section 1.16 "Non-IFRS Measures" at the end of this MD&A for the list of these measures and their definitions.

1.0 FIRST QUARTER 2018 FINANCIAL AND OPERATING SUMMARY

Financial Summary

- Revenue in the quarter was $39.7 million (including $0.1 million in adverse revenue adjustments related to open sales contracts from prior quarters) compared to $45.4 million in the prior year quarter (including no revenue adjustments related to open sales contracts from prior quarters). The decline in quarterly revenue this year compared to same quarter in the prior year was primarily due to fact that no production occurred at the Cerro Bayo mine in the current quarter. The absence of Cerro Bayo revenue was partially offset by comparably higher revenue from the Björkdal mine.

- Adjusted EBITDA[1] in the first quarter of 2018 was $12.1 million versus $11.4 million in the first quarter of 2017. Higher adjusted EBITDA in the 2018 period was due to lower cost of sales and overheads than in the corresponding 2017 period.

[1] Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

- Income from mine operations before depreciation and depletion in the first quarter of 2018 was $13.9 million versus $13.4 million in the year-ago quarter, and consolidated pre-tax loss was $0.02 million compared to loss of $2.6 million in the year-ago quarter.

- Consolidated after tax net loss in the first quarter of 2018 was $1.2 million ($0.00 loss per share) compared to consolidated net loss of $2.3 million ($0.01 per share) in the first quarter of 2017.

- Free cash flow[2] for the first quarter of 2018 was $6.2 million as the funds were received from the record fourth quarter production from the Björkdal mine in 2017, compared to a free cash outflow of $6.0 million in the year-ago quarter.

- At March 31, 2018, the Company had $23.4 million of cash and cash equivalents compared to $16.9 million as at December 31, 2017.

1. Operational Summary

Consolidated Production and Sales

- In the first quarter of 2018, Mandalay produced a total of 23,172 ounces of gold equivalent, including 19,303 ounces of gold and 605 tonnes of antimony. This compares to 32,481 ounces of gold equivalent produced in the first quarter of 2017, consisting of 21,370 ounces of gold, 435,076 ounces of silver and 741 tonnes of antimony.

- Björkdal production in the first quarter was higher than in the previous year quarter, but lower than the previous quarter. The fourth quarter of 2017 was distinguished by positive grade reconciliations to the reserve model, which did not recur in 2018. See "Results of Operations – Björkdal".

- At Costerfield, gold and antimony production in the current quarter were lower than the corresponding 2017 quarter. It remains consistent with the previous three quarters and also with the current grade profile of the mine. See "Results of Operations – Costerfield" below.

- There was no production in the current quarter at Cerro Bayo due to the ongoing suspension of operations following the June 9, 2017, flooding in the Delia NW mine. See "Results of Operations – Cerro Bayo" below. The Company currently expects ongoing care and maintenance costs at Cerro Bayo to be maintained at a rate of approximately $1.5 million per quarter going forward.

- Mandalay's consolidated average cash cost[3] of production in the first quarter of 2018 was $1,060 per ounce of gold equivalent versus $987 per ounce of gold equivalent in the first quarter of 2017. Consolidated all-in cost[3] in the current quarter was $1,463 per ounce of gold equivalent versus $1,326

[2] Free cashflow is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

[3] Cash cost and all-in costs are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

per ounce of gold equivalent in the prior-year quarter. These figures exclude Cerro Bayo care and maintenance costs of $2.2 million.

- Operational exchange rates slightly impacted U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 1.2724/US$ in the first quarter of 2018 vs 1.3187/US$ in the prior year period. The Chilean Peso averaged 602 peso/US$ vs 656 peso/US$ in the prior year period. The Swedish Krona averaged 8.1146 krona/US$ in the period vs 8.9219 krona/US$ in the prior year period. Petroleum prices were approximately 28% higher than in the prior period.

- Quantities of metal sold during the quarter were 24,808 ounces of gold and 679 tonnes of antimony compared to 23,668 ounces of gold, 451,777 ounces of silver and 708 tonnes of antimony in the first quarter of 2017. These sales totaled 29,151 ounces of gold equivalent versus 34,801 ounces of gold equivalent in the corresponding quarter of 2017.

- Prices realized during the quarter were $1,363 per ounce for gold and $8,694 per tonne for antimony versus $1,279 per ounce for gold, $19.96 per ounce for silver and $8,581 per tonne for antimony in the same period in 2017 (6.6% higher price for gold and 1.3% higher for antimony).

Mandalay Saleable Production

Metal	**Source**	**Three months ended 31 Mar 2018**	**Three months ended 31 Mar 2017**
Gold (oz)	Björkdal	12,716	10,648
	Costerfield	6,587	7,987
	Cerro Bayo	-	2,735
	Total	**19,303**	**21,370**
Antimony (t)	Costerfield	**605**	**741**
Silver (oz)	Cerro Bayo	**-**	**435,076**
Average quarterly prices:			
Gold US$/oz		1,329	1,217
Antimony US$/tonne		8,499	8,058
Silver US$/oz		16.77	17.36
Au Eq. (oz)1	Björkdal	12,716	10,648
	Costerfield	10,456	12,891
	Cerro Bayo	-	8,942
	Total	**23,172**	**32,481**

[1] Gold equivalent ounces (or "Au Eq. oz") produced is calculated by multiplying the saleable quantities of gold, silver and antimony in the period by the respective average market price of the commodities in the period, adding the three amounts to get "total contained value based on market price", and then dividing that total contained value by the average market price of gold in the period. Average Au price in the period is calculated as the average of the daily LME PM fixes in the period, with price on weekend days and holidays taken from the last business day; average Sb price in the period is calculated as the average of the high and low Rotterdam warehouse prices for all days in the period, with price on weekend days and holidays taken from the last business day; average Ag price in the period is calculated as the average of the daily London Broker's silver spot price for all days in the period, with price on weekend days and holidays taken from the last business day. The source for all prices is www.metalbulletin.com.

Mandalay Sales

Metal	**Source**	**Three months ended 31 Mar 2018**	**Three months ended 31 Mar 2017**
Gold (oz)	Björkdal	17,677	13,121
	Costerfield	7,131	7,547
	Cerro Bayo	-	3,000
	Total	**24,808**	**23,668**
Antimony (t)	Costerfield	**679**	**708**
Silver (oz)	Cerro Bayo	**-**	**451,777**
Average quarterly prices:			
Gold US$/oz		1,329	1,217
Antimony US$/tonne		8,499	8,058
Silver US$/oz		16.77	17.36
Au Eq. (oz)2	Björkdal	17,677	13,121
	Costerfield	11,474	12,235
	Cerro Bayo	-	9,445
	Total	**29,151**	**34,801**

[2]Gold equivalent ounces (or "Au Eq. oz") sold is calculated by multiplying the quantities of gold, silver, and antimony sold in the period by the respective average market prices of the commodities in the period, adding the three amounts to get a "total contained value based on market price", and then dividing that total contained value by the average market price of gold in the period. The source for all prices is www.metalbulletin.com, with price on weekend days and holidays taken from the last business day.

Björkdal Gold Mine, Sweden

- *Production* — Björkdal produced 12,716 ounces of gold in the first quarter of 2018 versus 22,035 ounces of gold in the previous quarter (a record under Mandalay ownership) and 10,648 ounces of gold in first quarter of 2017. Production is directly related to grade of mill feed as the mill runs at an almost constant throughput rate. The increase in production compared to the first quarter of 2017 was due to higher grades in the current year period.

- *Operating Costs* — Cash cost per saleable ounce of gold produced at Björkdal in the first quarter of this year was $1,094 and the site all-in cost per saleable ounce of gold produced was $1,387, as compared to $617 and $848 respectively in the previous quarter and $1,150 and $1,431 respectively for the prior-year quarter of 2017. The lower cost per ounce in the current period compared to the comparative previous year period was due to increase in production.

Costerfield Gold-Antimony Mine, Victoria, Australia

- *Production* — Saleable gold production for the first quarter of 2018 was 6,587 ounces versus 7,222 ounces in the previous quarter and 7,987 ounces in the first quarter of 2017. Saleable antimony production for the first quarter of 2018 was 605 tonnes versus 805 tonnes in the previous quarter and 741 tonnes in the first quarter of 2017. Although production of gold in the current quarter was lower than in the year-ago quarter (when the highest-grade part of the Cuffley lode was being extracted), it is in line with the current expected grade profile of the mine.

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the first quarter of 2018 was $869 versus $707 in the previous quarter and $719 in the first quarter of 2017. The site all-in cost per ounce of gold equivalent produced in the first quarter of 2018 was $1,326 versus $902 in the previous quarter and $1,033 in the first quarter of 2017.

Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production and Operating Costs* — Cerro Bayo had no production or operating costs in the current quarter due to the suspension of operations following the June 2017 flood.

Exploration

Mandalay announced end of year 2017 Mineral Resources and Reserves on February 20, 2018. This update took into account: starting Resources and Reserves at the beginning of 2017; mining depletion and sterilization; and Resource and Reserves added by new drilling data and plan optimizations in 2017. Broadly, Mandalay's exploration activities succeeded in replacing mining depletion in 2017.

Ongoing exploration activities during the first quarter of 2018 included:

Björkdal

Drilling continued, focused during the fourth quarter on extending open pit resources in the West Pit, Nylunds, and Norrberget areas. Exploration results obtained for the second half of 2017 are incorporated in the end-of-year Mineral Resources and Reserves update (released on February 20, 2018).

Costerfield

Infill and extensional drilling was performed on Brunswick lode to support a development decision for the lode that was made in the fourth quarter of 2017. The impact of the addition of Brunswick reserves was announced in the end-of-year Mineral Resources and Reserves update (released on February 20, 2018).

On April 3, 2018 the Company released details of the recent and ongoing exploration drilling campaign testing the projections of veins beneath the historic Kendall and Costerfield mines. Drill assays demonstrate gold/antimony mineralization along a strike length of approximately 600 m and a dip length of approximately 200 m. There is room to grow this discovery, named the Youle vein, along strike and down dip. The fact that Youle lies near the Brunswick Lode, to which capital development access will be created later in the second quarter of this year, suggests that there is potential to access the shoot quickly and for limited development capital. The Company plans to add additional surface rigs to the Youle drilling program to expand and infill high-grade mineralization as quickly as possible, with the goal of adding significantly to the Company's Mineral Resources and Reserves by the end of 2018.

PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company, the business of which is to acquire, discover, develop and produce mineral commodities. The Company uses its strong technical expertise and understanding of value creation to systematically increase the value of its assets through a disciplined approach to exploration, mining and processing optimization and operational efficiency. The Company's producing assets are its Costerfield gold-antimony mine in Victoria, Australia and its Björkdal gold mine in northern Sweden. Operations at its Cerro Bayo silver-gold mine in Patagonia, Chile are currently suspended pending receipt of permits for restarting. The Company is advancing its feasibility-stage Challacollo silver-gold project near Iquique, Chile. The Company conducts exploration on near-mine and district targets at its operating and feasibility stage projects.

The Company is currently holding its La Quebrada copper-silver project near La Serena, Chile, and its Lupin and Ulu gold projects in Nunavut, Canada, for sale.

Björkdal

Björkdal is a 100% owned underground and open pit gold mine located in northern Sweden. It was acquired through the Company's acquisition of Elgin Mining on September 9, 2014. The concentrator currently processes 3,500 tonnes per day and has been permitted to expand to 4,300 tonnes per day. Activities since the acquisition have been focused on: augmenting the geologic and sampling staff to provide for best-practice core logging, face mapping, and production sampling; establishing an on-site assay lab for fast grade control sample turnaround; formulating an optimized life-of-mine plan balancing production from open pit and underground while reducing dilution in both; accelerating exploration; and completing fundamental metallurgical surveys and ore sorting studies to improve plant performance on higher head grades, and installing expanded flotation capacity to improve recoveries. This work resulted in the highest delivered ore grades from open pit and underground for many years in the fourth quarter of 2016. However, in that quarter and the first quarter of 2017, emerging bottlenecks limited the tonnes of high grade ore delivered from both the underground and open pit mines and thus the full production impact of successful grade control. Most of these bottlenecks have since been resolved, and in the second through fourth quarters of 2017, performance has been excellent. Quarterly production records and low cash cost of production were achieved in the fourth quarter of 2017.

Costerfield

Costerfield is a 100%-owned underground gold-antimony mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Acquired while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day in 2009 to over 400 tonnes per day currently. The production increases (and associated unit cost reductions) are due principally to: a change in mining method from cut-and-fill to blast-hole stoping with cemented rock fill; increasing sub-level spacing from 5 metres to 10 metres; replacing the underground mobile mining fleet; introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput) and construction of a new gold room which has increased the proportion of gold recovered to gravity concentrate. In addition, rigorous improvements in maintenance and production processes in the mine and plant have led to increases in equipment availability and utilization as well as in labor productivities. Exploration (funded by mine operating cash flow) has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life from nil upon acquisition to about a three year mine life today. The most recent reserves addition is the Brunswick lode, which is being developed for production later this year.

Cerro Bayo

Cerro Bayo is a 100%-owned underground silver-gold mine located in the Aysen Province of southern Chile, purchased while on care and maintenance in August, 2010.

Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. Key to the high production and low operating cost of the restarted operation were:

shifting the mining method from shrinkage stoping to completely mechanized blast-hole open stoping; ramping up the operation to a total rate of 1,400 tonnes per day from three mines; and developing four highly competitive concentrate customers. With the repurchase of the Coeur Mining royalty interest in the first quarter of 2016, Cerro Bayo is now royalty-free.

Since June 9, 2017, operations have been suspended due to safety concerns arising from inundation of the Delia NW vein. None of the two other operating mines (Delia SE and Coyita) were impacted by the flooding and they remain in operating condition ready to resume when risk assessment of restarting mining around Laguna Verde is completed and all regulatory permits needed for the full life of mine are granted.

Shortly after the Cerro Bayo flooding occurred, Compania Minera Cerro Bayo suspended its obligations to the customers, suppliers and contractors of its Cerro Bayo mine on the basis that the flooding represented a *force majeur* event. One of the Cerro Bayo suppliers has indicated that it disagrees with the *force majeur* declaration and may seek to initiate arbitration proceedings in Chile under its contract to resolve the dispute. Compania Minera Cerro Bayo does not agree with the supplier's position but it is not yet clear whether arbitration can be avoided or, if the matter proceeds to arbitration, what the outcome of such arbitration would be.

Challacollo

Challacollo is a 100% owned silver-gold deposit located in Region I, Northern Chile. Mandalay completed an independent NI 43-101 Mineral Resource estimate for this development property in conjunction with its acquisition of the property on February 7, 2014. Since then, the Company has conducted: infill drilling to upgrade previously Inferred Mineral Resource to Indicated; metallurgical studies; mine, plant and infrastructure design; and capital and operating costing. A key outstanding feasibility issue is securing an adequate water supply to support operations. During the second quarter of 2017, the Company discovered adequate water supply in four water exploration holes drilled on concessions about 30 km down-gradient of the deposit. It is currently in the process of perfecting its water rights and permitting additional exploration drilling sites.

La Quebrada

La Quebrada is a 100% owned copper-silver project located near La Serena, Chile. Mandalay completed a maiden Independent NI 43-101 Mineral Resource estimate for the property in 2012 and, until Q2, 2014, had been performing mining, metallurgical, engineering and financial studies while developing options for the project. As part of a strategic review during 2014, the Company determined that La Quebrada is a non-core asset and therefore has suspended all exploration activities. It is holding the asset for sale.

Lupin/Ulu

The Lupin and Ulu gold projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project. On October 31, 2016, the

Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects to WPC Resources Inc. ("WPC"), but the transaction was not completed due to an increase in the reclamation bonding requirements for the Lupin project that was imposed shortly before the planned closing date. In the fourth quarter of 2017, Mandalay achieved compliance with the new bonding requirements and subsequently entered into two separate non-binding letters of intent with WPC that contemplate the acquisition of these properties by WPC on substantially the same terms, in the aggregate, as the earlier definitive agreement. Mandalay has subsequently entered into a definitive agreement with WPC with respect to the Ulu property, on which WPC has made two required option payments totalling $311,000 (see section 1.15 Subsequent Events).

1.1 SELECTED QUARTERLY INFORMATION

Summary Financial Information

The following table sets forth a summary of the Company's financial results for the three months ended March 31, 2018 and 2017:

	Three months ended March 31, 2018 ($'000)	Three months ended March 31, 2017 ($'000)
Revenue	39,747	45,373
Cost of sales	25,820	31,988
Income from mining operations before depreciation and depletion	13,927	13,385
Depreciation and depletion	8,839	10,532
Income from mining operations	5,088	2,853
Administration costs	1,793	1,972
Adjusted EBITDA*	12,134	11,413
Finance costs, foreign exchange and others**	3,315	3,472
Consolidated loss before tax	(20)	(2,591)
Current tax expense (recovery)	783	(180)
Deferred tax expense (income)	434	(62)
Adjusted net income (loss) before special items after tax *	939	(2,349)
Consolidated net loss after tax	(1,237)	(2,349)
Total assets	299,078	349,790
Total liabilities	134,418	147,046
Adjusted income (loss) per share before special items*	0.00	(0.01)
Consolidated loss per share	(0.00)	(0.01)

* Adjusted EBITDA, adjusted net income (loss) and adjusted income (loss) per share before special items are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

**Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

Summary Balance Sheet

	As at March 31, 2018 ($'000)	As at December 31, 2017 ($'000)
Cash and cash equivalents	23,407	16,935
Inventories, accounts receivables and other current assets	42,027	54,285
Non current assets	233,644	233,841
Total assets	**299,078**	**305,061**
Five year exchangeable loan*	26,857	27,784
Current liabilities	29,379	32,683
Non current liabilities	78,182	79,055
Equity attributable to common share holders	164,660	165,539
Total equity and liability	**299,078**	**305,061**

*The five-year exchangeable loan is shown as a current liability on the balance sheet.

Summary Free Cash Flow

The table below reconciles net cash flow from operating activities, to free cash flow, then to net cash flow (increase in cash and cash equivalents) for the three months ended March 31, 2018, and 2017. Free cash flow is a non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

	Three months ended March 31,	
	2018	2017
	($'000)	($'000)
Net cash flows from operating activities	**17,541**	**6,073**
Capital expenditures	(11,310)	(12,092)
Free cash flow	**6,231**	**(6,019)**
Reclamation deposits	(173)	(71)
Reclamation expenditures	(252)	-
Repayment of borrowings	(125)	(292)
Dividend paid	-	(1,922)
Effects of exchange rate changes	772	225
Net cash flow	**6,472**	**(8,079)**
Cash and cash equivalents, beginning of the period	16,935	66,936
Cash and cash equivalents, end of the period	**23,407**	**58,857**

Dividend

Mandalay's policy from 2012 through the first quarter of 2017 was to pay a quarterly dividend equal to an aggregate of 6% of the trailing quarter's gross revenue. As previously announced on July 25, 2017, to comply with terms of the new $40 million revolving credit facility, the Company has suspended dividends going forward. The following table summarizes dividends paid by Mandalay in 2017:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
2017				
	February 16, 2017	February 27, 2017	0.0057	1,922
	May 11, 2017	May 22, 2017	0.0083	2,781
				4,703

Adjusted EBITDA and Adjusted Net Income Reconciliation to Net Income

The tables below reconcile Adjusted EBITDA and Adjusted Net Income to reported net income for the three months ended March 31, 2018 and 2017. Adjusted EBITDA and Adjusted Net Income are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

	Three months ended March 31, 2018		Three months ended March 31, 2017	
	($'000)	($'000)	($'000)	($'000)
Consolidated Net loss		(1,237)		(2,349)
Special items				
Care and maintenance	2,176		-	
		2,176		-
Adjusted Net Income/(loss) before special items		939		(2,349)
Add: Non-cash and finance costs				
Depletion and depreciation	8,839		10,532	
Loss on disposal of property, plant and equipment	7		9	
Share based compensation	247		237	
Interest and finance charges	1,368		1,414	
Fair value adjustments	243		830	
Current tax	783		(180)	
Deferred tax	434		(62)	
Foreign exchange (gain)/loss	(241)	11,680	1,076	13,858
		12,619		11,509
Less: Interest and other income	(485)	(485)	(97)	(97)
Adjusted EBITDA		12,134		11,412

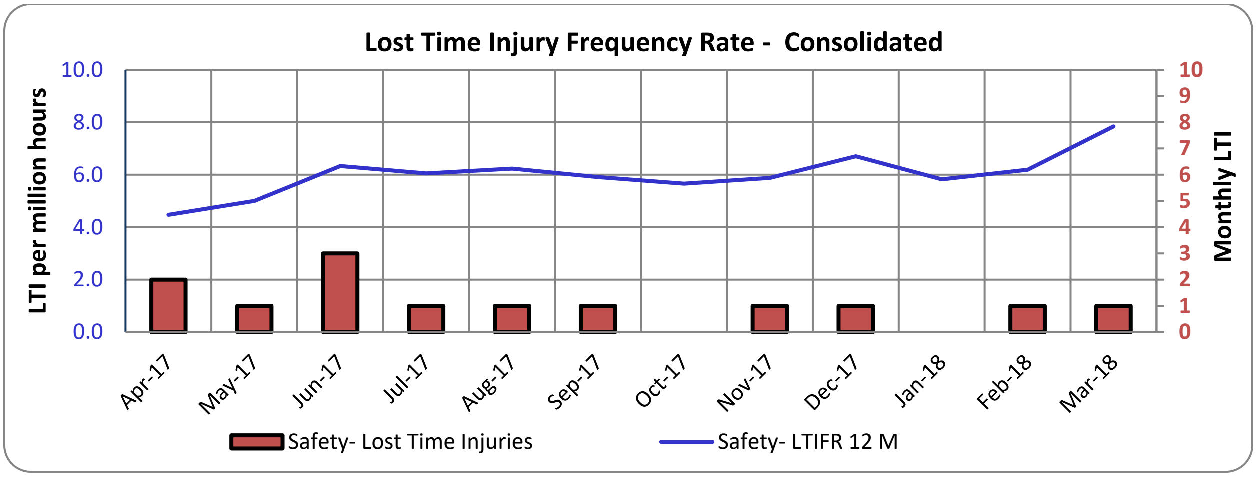
1.2 RESULTS OF OPERATIONS

Safety Performance

The Company has a zero-harm policy which is applied at all sites and continuous efforts are made to improve safety and reduce the lost time injury frequency rate ("LTIFR") at all operations. The following table shows the Company's safety statistics for the 12 months ended March 31, 2018.

Safety table for the rolling 12 months ended March 31, 2018

Incident category	Costerfield	Cerro Bayo	Björkdal	Challacollo	Total
Fatality	-	2	-	-	**2**
Lost time injury (LTI)	6	2	5	-	**13**
Total man hours	451,448	472,819	607,261	10,800	**1,542,328**
LTIFR	13.29	2.11	8.23	-	**7.84**



The Lost Time Injury Frequency Rate (LTIFR, defined as lost time injuries per million hours worked) rate stands at 7.84 as on March 31, 2018, higher than the rate of a year ago but lower than in earlier years.

Mandalay (Consolidated)

Three Months Ended March 31, 2018, compared to Three Months Ended March 31, 2017

Revenue in the quarter was $39.7 million (including $0.1 million in adverse revenue adjustments related to open sales contracts from prior quarters) compared to $45.4 million in the prior year quarter (including no revenue adjustments related to open sales contracts from prior quarters). The decline in quarterly revenue was primarily due to fact that no production occurred at the Cerro Bayo mine in the current quarter, partially offset by comparably higher revenue from the Björkdal mine.

Cost of sales in the current quarter was $25.8 million compared with $32.0 million in the year ago quarter leaving adjusted EBITDA in the first quarter of 2018 of $12.1 million, compared to $11.4 million in the first quarter of 2017. The difference is primarily due to no cost of sales at Cerro Bayo.

Consolidated pre-tax loss was $0.02 million, an improvement compared to the consolidated pre-tax loss of $2.6 million in the year-ago quarter.

Consolidated after tax net loss was $1.2 million ($0.00 loss per share) compared to net loss of $2.3 million ($0.01/share) in the year-ago period. Current tax expense was $0.8 million in the current quarter versus recovery of $0.2 million in the year-ago period.

Capital expenditures in the first quarter of 2018, including capitalized depreciation and exploration, were $11.3 million. Of this amount, $4.8 million occurred at Costerfield, $6.2 million at Björkdal and $0.3 million at Challacollo. By comparison, total capital expenditures, including capitalized depreciation and exploration, in the first quarter of 2017 were $12.5 million.

Björkdal

Björkdal Financial and Operating Results for the Three Months Ended March 31, 2018 and 2017

During the first quarter of 2018, Björkdal produced a total 314,891 tonnes of ore from the open pit and underground operations, with an average grade of 1.43 grams per tonne gold as compared to 238,123 tonnes for first quarter of 2017 with average grade of 1.38 grams per tonne. The higher tonnage production during the 2018 quarter continued the improvements due to relieving bottlenecks to mine production that emerged as we completed the move to more selective mining that discards low grade material:

- In the underground mine, contractor ore haulage was relieved for no capital expense by adding a loader and trucks, improving contractor vehicle maintenance, and adding contractor haulage shifts.
- In the open pit, the contractor blast hole drilling rate was a bottleneck to ore production. The drilling contractor was replaced and for no capital expense, blast hole drilling has caught up the previous deficit.

These production rate improvements are expected to continue. The weighted average mining cost from the open pit and underground was $27.34 per tonne in the first quarter of 2018, lower than the $32.48 per tonne in the corresponding period of 2017 due to increased volumes and efficiencies.

During the first quarter of 2018, the Björkdal concentrator processed 290,456 tonnes of ore against 319,091 tonnes of ore in the previous year. The head grade in the current period was higher (1.55 grams per tonne gold) compared to the year-ago quarter (1.20 grams per tonne gold). Metallurgical recoveries during the first quarter of 2018 were 89.73%, against 88.33% for the first quarter of 2017. Processing cost was $9.68 per tonne in the first quarter of 2018, an increase from the previous year cost of $8.12.

During the first quarter of 2018, Björkdal produced 12,716 saleable gold ounces and sold 17,677 ounces. For comparison, in the first quarter of 2017, Björkdal produced 10,648 saleable gold ounces and sold 13,121 ounces. Cash cost per gold ounce was $1,094 and all-in cost was $1,387 in 2018, lower than the costs of $1,150 cash and $1,431 all-in, respectively, in 2017. The lower cash cost in the current quarter resulted from increased gold production that more than offset the increased cost of selective mining and debottlenecking to reduce cost per ounce.

Björkdal generated revenue of $24.1 million for the quarter ended March 31, 2018, versus $16.8 million in the year-ago quarter. Income from mine operations before depreciation and depletion was $7.5 million versus $3.4 million in the year ago quarter. Adjusted EBITDA was $7.5 million versus $3.4 million in the year ago quarter. Net income before tax was $2.9 million and net profit after tax was $2.2 million in 2018 versus a loss of $0.2 million and a profit of $0.1 million, respectively, in 2017.

During the first quarter of 2018, Björkdal invested $2.9 million in mine development, $3.0 million in property, plant and equipment and $0.3 million in exploration. During the first quarter of 2017, Björkdal invested $2.9 million in mine development, $1.8 million in property, plant and equipment and $0.4 million in exploration.

Björkdal financial results

	Three months ended March 31, 2018 ($'000)	Three months ended March 31, 2017 ($'000)
Revenue	24,066	16,820
Cost of sales	16,585	13,453
Income from mining operations before depreciation and depletion	7,481	3,367
Depreciation and depletion	3,726	2,988
Income from mining operations	3,755	379
Administration(1)	231	353
Adjusted EBITDA(2)(4)	7,485	3,367
Finance costs, foreign exchange and others(2)	645	198
Income (loss) before tax	2,879	(172)
Current tax expense (recovery)	571	(91)
Deferred tax expense (recovery)	99	(151)
Operating net income after tax(4)	3,191	967
Adjusted net income after tax before special items(4)	2,209	70
Consolidated net income after tax	2,209	70
Capital expenditure (5)	6,214	5,097

[1]Includes intercompany transfer pricing recharge costs of $235,000 in the three months ended in March 31, 2018 and $353,000 in the same period of 2017.

[2]Does not include intercompany transfer pricing recharge costs.

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties

[4]Adjusted EBITDA, operating net income (loss) after tax and adjusted net income (loss) are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS measures" for further information.

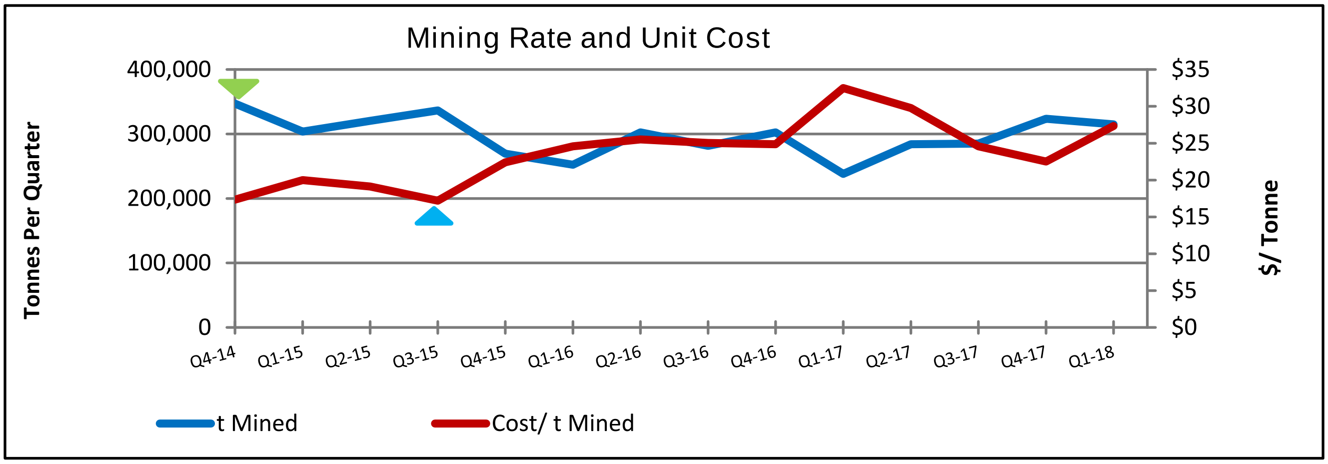
[5]Includes capitalized depreciation on equipment.

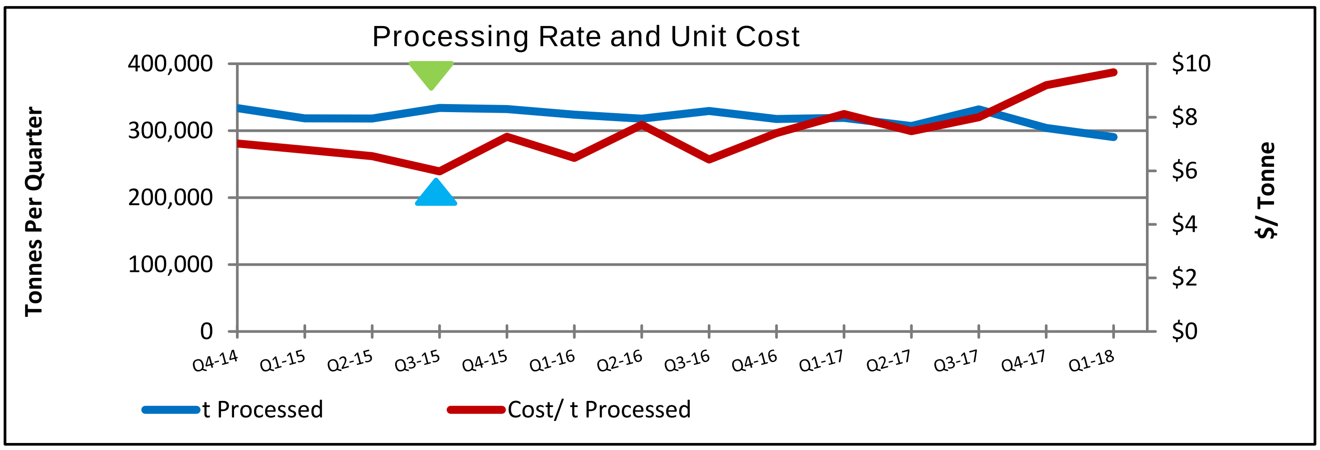
Björkdal operating statistics

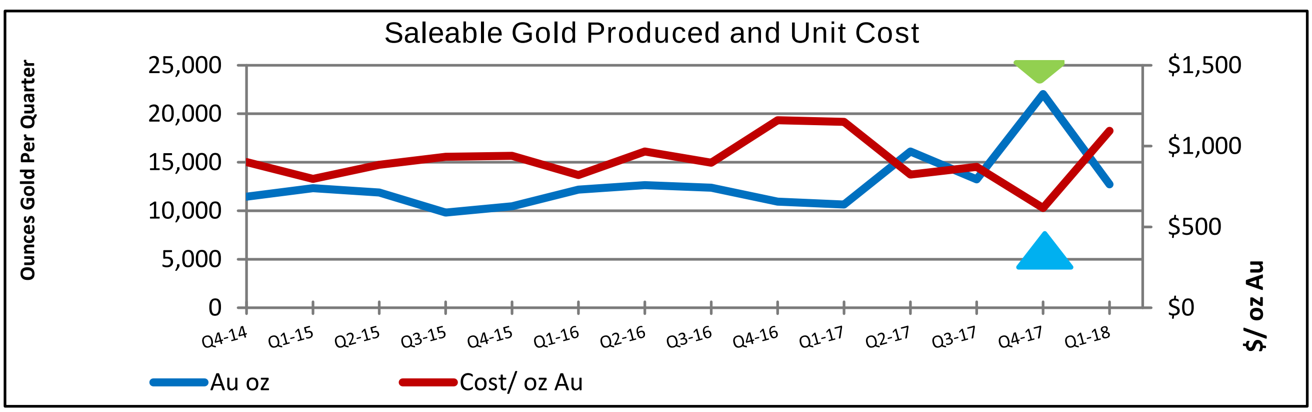
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Björkdal.

	Unit	Three months ended March 31, 2018	Three months ended March 31, 2017
Mining Production and Mining Cost			
Operating development	m	1,155	1,457
Mined ore	t	314,891	238,123
Ore mined Au grade	g/t	1.43	1.38
Mined contained Au	oz	14,480	10,596
Mining cost per tonne ore	$/t	27.34	32.48
Processing and Processing Cost			
Processed ore	t	290,456	319,091
Mill head grade Au	g/t	1.55	1.20
Recovery Au	%	89.73	88.33
Concentrate produced	dry t	1,431	1,018
Concentrate grade Au	g/t	276	325
Saleable Au produced	oz	12,716	10,648
Processing cost per tonne ore	$/t	9.68	8.12
Sales			
Concentrate sold	dry t	1,337	1,221
Concentrate Au grade	g/t	411	334
Au sold	oz	17,677	13,121
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	47.91	38.39
Site cash operating cost/tonne concentrate produced(1)	$/t	9,725	12,033
Adjusted EBITDA/tonne ore milled(1)	$/t	25.77	10.55
Adjusted EBITDA/tonne concentrate produced(1)	$/t	5,231	3,308
Cash cost per Au oz produced(1)(2)	$/oz	1,094	1,150
Site all-in cost per oz Au oz produced(1)(3)	$/oz	1,387	1,431
Capital Spending			
Capital development (Underground)	m	614	475
Capital development (Open pit)	t	387,704	507,887
Capital development cost	$000	2,934	2,923
Capital purchases	$000	2,975	1,764
Capitalized exploration	$000	305	411

1 Does not include intercompany transfer pricing recharge costs and business development costs.
2 The cash cost per ounce of gold produced is a non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.
3 Site all-in cost per ounce of gold produced is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.


Mining Rate and Unit Cost
Tonnes Per Quarter
$/ Tonne
400,000
300,000
200,000
100,000
0
$35
$30
$25
$20
$15
$10
$5
$0
Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17 Q2-17 Q3-17 Q4-17 Q1-18
t Mined
Cost/ t Mined


Processing Rate and Unit Cost
Tonnes Per Quarter
$/ Tonne
400,000
300,000
200,000
100,000
0
$10
$8
$6
$4
$2
$0
Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17 Q2-17 Q3-17 Q4-17 Q1-18
t Processed
Cost/ t Processed


Saleable Gold Produced and Unit Cost
Ounces Gold Per Quarter
$/ oz Au
25,000
20,000
15,000
10,000
5,000
0
$1,500
$1,000
$500
$0
Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17 Q2-17 Q3-17 Q4-17 Q1-18
Au oz
Cost/ oz Au


Record high rate
Record low cost

Costerfield

Costerfield Financial and Operating Results for the Three Months Ended March 31, 2018 and 2017

Operationally, Costerfield delivered a sound quarter in terms of tonnes mined and processed. Production was slightly lower in the current period, however financial outcomes were broadly similar to the previous year comparative period.

In the first quarter of 2018, Costerfield delivered a total of 10,456 ounces of gold equivalent at cash costs and all-in costs of $869 and $1,326 per ounce of gold equivalent, respectively. This compares to the prior year quarter production of 12,891 ounces of gold equivalent at $719 cash costs and $1,033 all-in cost per ounce gold equivalent.

Costerfield generated revenue of $15.6 million for the quarter ended March 31, 2018. Income from mine operations before depreciation and depletion was $6.4 million, adjusted EBITDA was $6.3 million, net income before tax was $1.5 million and net income after tax was $1.0 million. Comparable results for the quarter ended March 31, 2017 were revenue of $15.6 million, income from mine operations before depreciation and depletion of $5.8 million, adjusted EBITDA of $5.7 million, net income before tax of $0.7 million and net income after tax of $0.7 million.

The Costerfield mine completed 1,141 metres of operating development in the first quarter of 2018 versus 1,451 metres in 2017. 39,990 tonnes of ore were mined in first quarter of 2018 as compared to 36,262 tonnes in the first quarter of 2017. Mining cost decreased to $142 per tonne from the previous year's quarter of $161 per tonne. The mined gold grade in the first quarter of 2018 was 6.73 grams per tonne versus 8.19 grams per tonne in 2017, while the mined antimony grade was 2.52% in 2018 versus 3.28% in the prior year quarter.

Costerfield financial results

	Three months ended March 31, 2018 ($'000)	Three months ended March 31, 2017 ($'000)
Revenue	15,600	15,620
Cost of sales	9,156	9,800
Income from mining operations before depreciation and depletion	6,444	5,820
Depreciation and depletion	4,602	3,887
Income from mining operations	1,843	1,933
Administration (1)	387	260
Adjusted EBITDA (2)(4)	6,254	5,745
Finance costs, foreign exchange and others (3)	(87)	1,006
Income before tax	1,543	667
Current tax expense (recovery)	212	(89)
Deferred tax expense	335	91
Operating net income after tax(4)	1,368	1,185
Adjusted net income after tax before special items(4)	996	665
Consolidated net income after tax	996	665
Capital expenditure (5)	4,820	2,790

[1]Includes intercompany transfer pricing recharge costs of $197,000 in the three months ended in March 31, 2018 and $184,000 in the same period of 2017.

[2]Does not include intercompany transfer pricing recharge costs.

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/loss on disposals of properties.

[4]Adjusted EBITDA, operating net income after tax and adjusted net income are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS measures" for further information.

[5]Includes capitalized depreciation on equipment.

During the first quarter of 2018, Costerfield processed more ore than in the year ago quarter (38,558 tonnes vs 37,160 tonnes), accompanied by a slight decrease in processing cost from $38.86 per tonne in first quarter of 2017 to $36.67 per tonne in first quarter of 2018.

Plant gold head grade in 2018 was 6.72 grams per tonne versus 8.33 grams per tonne in the year ago quarter, while the antimony head grade was 2.64% in 2018 versus 3.36% in 2017. These grade declines were expected and account for the reduced metal output despite more tonnes being processed. The plant achieved recoveries of 88.51% for gold and 92.61% for antimony versus 89.91% for gold and 96.65% for antimony in first quarter of 2017.

Total saleable metal production in the first quarter of 2018 was 6,587 oz of gold and 605 tonnes of antimony versus 7,987 ounces of gold and 741 tonnes of antimony in the first quarter of 2017. A total of 7,131 ounces of gold and 679 tonnes of antimony were sold in the first quarter of 2018 versus a total of 7,547 ounces of gold and 708 tonnes of antimony sold in the first quarter of 2017.

During the first quarter of 2018, Costerfield incurred $2.1 million in capital development costs, spent $1.1 million in exploration and $1.6 million in property, plant and equipment. The corresponding amounts for the prior year quarter were $0.8 million, $0.9 million and $1.0 million, respectively.

Costerfield operating statistics

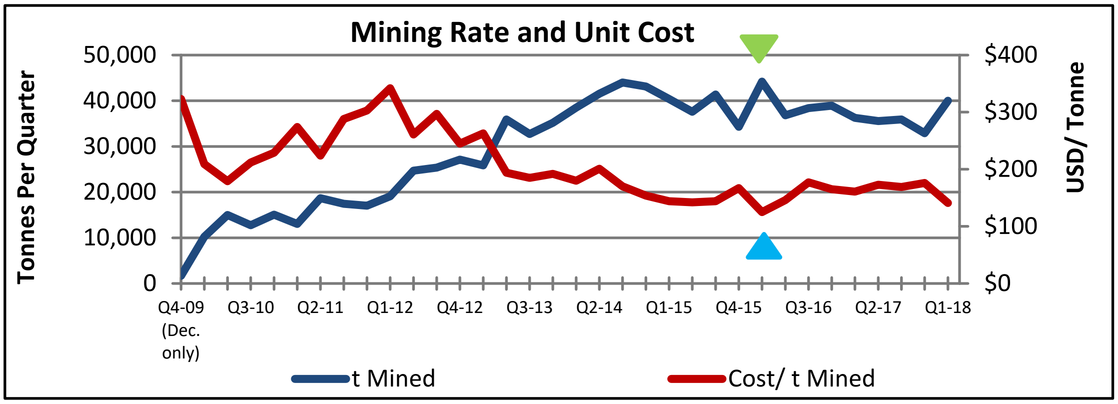
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield.

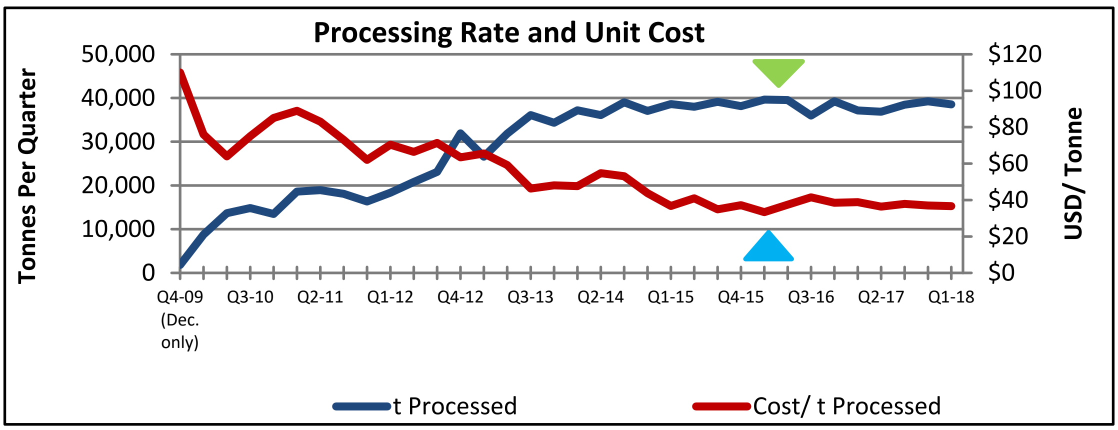
	Unit	Three months ended March 31, 2018	Three months ended March 31, 2017
Mining Production and Mining Cost			
Operating development	m	1,141	1,451
Mined ore	t	39,990	36,262
Ore mined Au grade	g/t	6.73	8.19
Ore mined Sb grade	%	2.52	3.28
Mined contained Au	oz	8,652	9,549
Mined contained Sb	t	1,006	1,190
Mining cost per tonne ore	$/t	142	161
Processing and Processing Cost			
Processed ore	t	38,558	37,160
Mill head grade Au	g/t	6.72	8.33
Mill head grade Sb	%	2.64	3.36
Recovery Au	%	88.51	89.91
Recovery Sb	%	92.61	96.65
Concentrate produced	dry t	1,832	2,262
Concentrate grade Au	g/t	81.67	69.61
Concentrate grade Sb	%	51.50	53.28
Au produced in gravity concentrate	oz	2,532	3,850
Au produced in sulfide concentrate	oz	4,055	4,137
Saleable Au produced	oz	6,587	7,987
Saleable Sb produced	t	605	741
Saleable Au equivalent produced	oz	10,456	12,891
Processing cost per tonne ore	$/t	36.67	38.86
Sales			
Concentrate sold	dry t	2,077	2,133
Concentrate Au grade	g/t	81.83	70.88
Concentrate Sb grade	%	52.28	53.12
Au sold in gravity concentrate	oz	2,629	3,725
Au sold in sulfide concentrate	oz	4,502	3,822
Au sold	oz	7,131	7,547
Sb sold	t	679	708
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	232	246
Site cash operating cost/tonne concentrate produced(1)	$/t	4,882	4,040
Adjusted EBITDA/tonne ore milled(1)	$/t	162	155
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,415	2,542
Cash cost per oz Au equivalent produced(1)(2)	$/oz	869	719
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,326	1,033
Capital Spending			
Capital development	m	632	-
Capital development cost	$000	2,116	777
Capital development cost/meter	$/m	3,347	NA
Capital purchases	$000	1,634	1,024
Capitalized exploration	$000	1,070	988

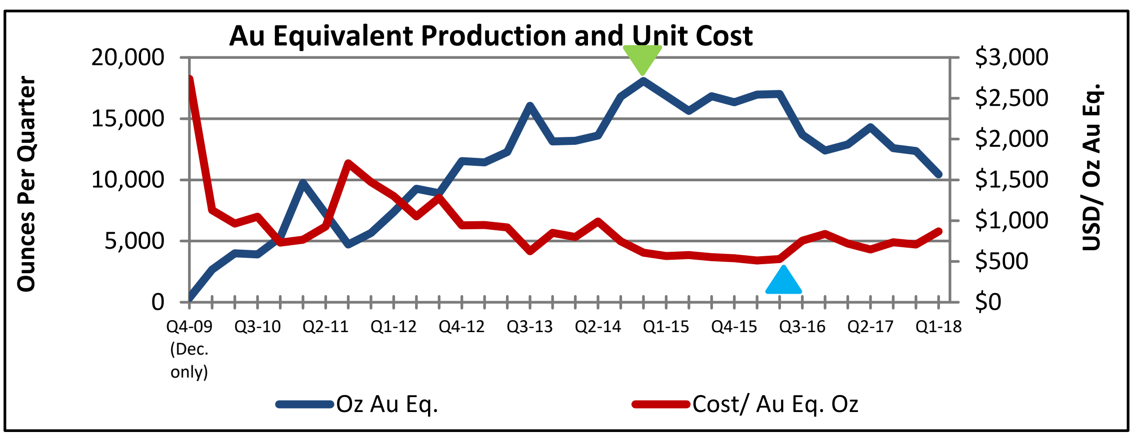
[1]Does not include intercompany transfer pricing recharge costs and business development costs.

[2]Cash cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

[3]Site all-in cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.







▼ Record high rate ▲ Record low cost

Cerro Bayo

Cerro Bayo Financial and Operating Results for the Three Months Ended March 31, 2018 and 2017

During the three months ended March 31, 2018 there was no production at Cerro Bayo mine due to the suspension of operations following the flooding of the Delia NEW mine on June 9, 2017. The Cerro Bayo mine has been on care and maintenance and the workforce was substantially reduced at the end of the fourth quarter of 2017 in order to preserve the Company's financial capacity to invest in restarting operations once it is confident that this can be accomplished safely, and all permits are obtained.

Cerro Bayo incurred $2.2 million of care and maintenance costs during the first quarter of 2018.

Cerro Bayo financial results

	Three months ended March 31, 2018 ($'000)	Three months ended March 31, 2017 ($'000)
Revenue	81	12,933
Cost of sales	79	8,725
Income from mining operations before depreciation and depletion	2	4,208
Depreciation and depletion	506	3,654
Income (loss) from mining operations	(504)	554
Administration (1)	456	836
Adjusted EBITDA (2)(4)	(96)	3,623
Finance costs, foreign exchange and others (3)	131	150
Care and maintenance and other expenses	2,176	-
Loss before tax	(3,267)	(432)
Current tax recovery	-	-
Deferred tax expense (recovery)	-	(2)
Operating net income (loss) after tax (4)	(2,893)	92
Adjusted net loss after tax before special items (4)	(1,091)	(430)
Consolidated net loss after tax	(3,267)	(430)
Capital expenditure (5)	-	4,164

[1] Includes intercompany transfer pricing recharge costs of $358,000 in the three months ended in March 31, 2018 and $251,000 in the same period of 2017.

[2] Does not include intercompany transfer pricing recharge costs.

[3] Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties

[4] Adjusted EBITDA, operating net loss after tax and adjusted net loss are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS measures" for further information.

[5] Includes capitalized depreciation on equipment.

Challacollo

The Company is pursuing transfer of water rights to the location of successful ground water exploration wells completed in the second quarter of 2017. As well, it has applied for environmental permission for further exploration drilling.

La Quebrada

Spending on care and maintenance at La Quebrada was less than $0.1 million during the first quarter of 2018 and corresponding period in 2017.

Lupin and Ulu

Spending on care and maintenance and reclamation at Lupin and Ulu was $0.1 million during the first quarter of 2018. The corresponding amount for the prior year quarter was $0.1 million.

1.3 MARKETS - CURRENCY EXCHANGE RATES

The average currency exchange rates for the reporting period are summarized in the table below.

CURRENCY	Average rate January 1, 2018 March 31, 2018	Average rate January 1, 2017 March 31, 2017
1A$ = C$	0.9939	1.0038
1A$ = US$	0.7859	0.7583
1 US$ = C$	1.2644	1.3236
1 US$ = Chilean Peso	602	656
1 US$= SEK	8.1146	8.9219

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of gold and antimony were higher in the first quarter of 2018 than in the first quarter of 2017; silver prices were lower. Realized prices were impacted by the application of adjustments with respect to open concentrate shipments at forward prices (see "Critical Accounting Policies - Revenue recognition" below). This resulted in realized prices in the first quarter of 2018 being higher than relative average market prices for all the metals.

COMMODITY	Average rate January 1, 2018 March 31, 2018	Average rate January 1, 2017 March 31, 2017
Realized gold US$/oz[1]	1,363	1,279
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,329	1,217
Realized antimony US$/tonne[1]	8,694	8,581
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	8,499	8,058
Realized silver price US$/oz[1]	-	19.96
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	16.77	17.36

[1]Includes the effect of prior period smelter revenue adjustment on sales revenue and realized prices for the period.

1.4 SUMMARY OF QUARTERLY RESULTS

The following information is derived from the Company's quarterly financial statements for the past eight quarters.

Particulars	Quarter 1, 2018 ($'000)	Quarter 4, 2017 ($'000)	Quarter 3, 2017 ($'000)	Quarter 2, 2017 ($'000)
Revenue	39,747	38,093	35,407	44,124
Income/(loss)	(1,237)	(23,073)	(7,181)	(10,105)
Income/(loss) per share - Basic	(0.00)	(0.05)	(0.02)	(0.02)
Income/(loss) per share - Diluted	(0.00)	(0.05)	(0.02)	(0.02)

Particulars	Quarter 1, 2017 ($'000)	Quarter 4, 2016 ($'000)	Quarter 3, 2016 ($'000)	Quarter 2, 2016 ($'000)
Revenue	45,373	32,391	48,544	54,166
Income/(loss)	(2,349)	(25,542)	549	3,611
Income/(loss) per share - Basic	(0.01)	(0.06)	0.00	0.01
Income/(loss) per share - Diluted	(0.01)	(0.06)	0.00	0.01

Since the acquisition of the Costerfield mine in December, 2009, of the Cerro Bayo mine in August, 2010, and the Björkdal mine in September, 2014, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield, Cerro Bayo and Björkdal mines. Financial results are impacted by the amounts of gold, silver and antimony production, the costs associated with that production and the prices received for metal in concentrate. Metal prices are determined using prevailing international prices for gold, silver and antimony. The Company's products are priced in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield), Chilean pesos (at Cero Bayo) and Swedish Krona (at Björkdal). The Company's results will be impacted by exchange rate variations during the reporting periods.

Volatility in revenue and earnings over the past two years is due to the combined impact of changes in production volumes, fluctuations in metal prices and timing of concentrate shipments. These include most recently the performance improvements resulting from emerging turnaround at Björkdal, offset by the operational suspension at Cerro Bayo.

1.5 LIQUIDITY, SOLVENCY AND USES OF CASH

At March 31, 2018, the Company had working capital of $9.2 million compared to $10.8 million at December 31, 2017. Working capital would have been $36.0 million as of March 31, 2018, had the exchangeable loan been classified as long-term debt. The Company had cash and cash equivalents of $23.4 million at March 31, 2018, as compared to $16.9 million at December 31, 2017.

On July 25, 2017, the Company entered into a new senior secured revolving credit facility with HSBC Bank Canada for up to US$40 million. During the year ended December 31, 2017, $15 million had been drawn. No additional funds were drawn during the three months ended March 31, 2018.

On February 12, 2018, the Company filed a base shelf prospectus up to an aggregate amount of C$250 million. The Company currently anticipates allocating net proceeds of any offering under the Prospectus towards its continued growth strategy and for general corporate purposes. The acquisition of a significant producing asset is a key corporate objective for the Company in 2018 and the Company accordingly anticipates that a significant portion of the net proceeds of any offering under the Prospectus will be used to fund potential acquisitions. The Company, however, gives no assurance that it will be able to negotiate commercially acceptable terms for one or more acquisitions that will cause it to access these funds.

In the future, the Company expects to continue to fund operational requirements through a combination of internally generated cash flow, sales of non-core assets, joint venture arrangements for its projects, debt offerings and equity financing.

The Company continuously reviews operational results, expenditures and additional financial opportunities in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations.

1.6 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Gold bonds loan

In May, 2014, Mandalay issued $60 million of debt securities at an interest rate of 5.875% for proceeds of $60 million 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 has 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.

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 US$9 million 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.

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. 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 consolidated statements of financial position of the Company as at December 31, 2017, and December 31, 2016. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date.

Repurchase and Amendment

On May 26, 2017, the Issuer repurchased $29,950,000 of the Bonds from the holders thereof at a price 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 Bonds:

- extending the maturity date of the Bonds to May 13, 2022;
- deleting a condition of the Bonds that required that beginning on May 14, 2017, as additional security for the Bonds, the Issuer was required to start depositing the aggregate number of shares of the SPDR Gold Trust 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 (in ounces) at the Company'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.

For clarity, Company has provided some examples below to further explain the details of the Loan, all of which exclude the interest that is payable on the principal until the date of redemption or maturity at the rate of 6.875%:

i) If all the bondholders exercised their right to redeem on March 31, 2018, assuming a gold price of $1,324/oz (which is equivalent to US$125.79 per Gold Share), then the repayment cost to the Company would be approximately $28.4 million.

   $30 million ÷ $1,400/oz × $1,324 = $28.4 million

ii) The repayment cost to the Company to repay the Loan on maturity will be minimum $30 million if the Gold Share price remains constant or below $135 per share.

iii) If the price of gold during the Loan term reaches $1,700/oz (which is equivalent to US$ 161.51 per Gold Share) and the Bondholders elect to redeem the Gold Shares prior to maturity date, then the repayment cost to the Company will be $36.4 million.

   $30 million ÷ $1,400/oz × $1,700 = $36.4 million

US$40 million revolving credit facility

One July 25, 2017, the Company announced a new US$ 40 million senior secured revolving credit facility with HSBC Bank Canada (the "Facility"). The Facility matures on July 24, 2020. Proceeds from the Facility will be used for working capital, capital expenditures, permitted acquisitions and other general corporate purposes.

Amounts drawn on the Facility bear 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 Facility is subject to a standby fee of 1.0% per annum. The 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.

The Facility includes a number of customary positive and negative covenants, including a prohibition on the payment of dividends by the Company without HSBC's consent. As a result, in connection with entering into the Facility, the Company has agreed to suspend its dividend.

During the year ended December 31, 2017, $15 million had been drawn. No additional funds were drawn during the three months ended March 31, 2018.

Fair-value adjustments

As at March 31, 2018, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Conversion feature under debt financing – In May, 2014, the Company borrowed $60 million in a debt financing at an interest rate of 5.875% as described above.

In May, 2014, the Company computed and initially allocated $4.6 million to the value of derivative financial instruments associated with the Loan. As at March 31, 2018, the Company has recomputed the derivative portion of the Loan at $3.8 million. As a result, there is a mark-to-market adjustment loss of $0.2 million in the quarter.

Marketable securities - The Company holds marketable securities with a fair market value of $0.2 million as at March 31, 2018, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company did not record any fair value measurement gain or loss for the quarter ended March 31, 2018.

The above items are non-operating in nature and the following tables summarize the impact of the accounting for these changes.

Fair value and deferred tax adjustments impact on items in the statement of financial position

	Before fair value and deferred tax adjustments [(a)]	Note	Fair value and deferred tax adjustments Q1 2018	As of March 31, 2018 [(a)]
	($'000)		($'000)	($'000)
Assets				
Marketable Securities	155	(c)	-	155
Liabilities				
Deferred tax	12,177	(b)	(434)	11,743
Derivative financial instruments	4,053	(d)	(243)	3,810
Equity				
Retained earnings/(deficit)	(6,992)		(677)	(7,669)

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax expense of $434,000 for the three months ended March 31, 2018.

(c) The Company recorded fair value measurement loss of $nil relating to marketable securities for the three months ended March 31, 2018.

(d) The Company recorded fair value measurement loss of $243,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended March 31, 2018.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended March 31, 2018 and 2017

	For the period ended March 31, 2018			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Loss from operations	865			865
Interest and other income	485			485
Finance costs	(1,368)			(1,611)
		(a)	-	
		(b)	(243)	
Foreign exchange gain	241			241
Net loss before tax	223		(243)	(20)
Current tax expense	(783)			(783)
Deferred tax income		(c)	(434)	(434)
Net income/(loss)	(560)		(677)	(1,237)
Loss per share				
Basic	($0.00)			($0.00)
Diluted	($0.00)			($0.00)

a) The Company recorded fair value measurement loss of $nil relating to marketable securities for the three months ended March 31, 2018.
b) The Company recorded fair value measurement loss of $243,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended March 31, 2018.
c) The Company recorded a deferred tax expense of $434,000 for the three months ended March 31, 2018.

	Before fair value and deferred tax adjustments [a]	Note	Fair value and deferred tax adjustments	As of March 31, 2017 [a]
			Q1 2017	
	($'000)		($'000)	($'000)
Assets				
Deferred tax	848	(b)	62	910
Marketable Securities	37	(c)	(37)	
Liabilities				
	2,658	(d)	(793)	1,865
Equity				
Retained earnings/(deficit)	36,394		(768)	35,626

a) Values are net of foreign exchange translation.
b) The Company recorded a deferred tax recovery of $62,000 for the three months ended March 31, 2017.
c) The Company recorded fair value measurement loss of $37,000 relating to marketable securities for the three months ended March 31, 2017.
d) The Company recorded fair value measurement loss of $793,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended March 31, 2017.

	For the period ended March 31, 2017			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Loss from operations	635			635
Interest and other income	97			97
Finance costs	(1,414)			(2,244)
		(a)	(37)	
		(b)	(793)	
		(c)	-	
Foreign exchange gain	(1,079)			(1,079)
Net income/(loss) before tax	(1,761)		(830)	(2,591)
Current tax	180			180
Deferred tax		(d)	62	62
Net loss	(1,581)		(768)	(2,349)
Income (loss) per share				
Basic	($0.00)			($0.01)
Diluted	($0.00)			($0.01)

(a) The Company recorded fair value measurement loss of $37,000 relating to marketable securities for the three months ended March 31, 2017.

(b) The Company recorded fair value measurement loss of $793,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended March 31, 2017.

(c) The Company recorded a deferred tax recovery of $62,000 for the three months ended March 31, 2017.

1.7 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.8 TRANSACTIONS WITH RELATED PARTIES

The Chief Financial Officer of the Company, Sanjay Swarup is the Director of SKS Business Services, which provides contractual accounting services to the Company.

	Three months ended March 31,	
	2018	2017
	($'000)	($'000)
Administration expenses, salaries and consultancy services		
SKS Business Services	**48**	59

1.9 CRITICAL ACCOUNTING POLICIES

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of the condensed consolidated interim financial statements include, but are not limited to, the recoverability of trade and other receivables, measurement of revenue and trade receivables, the proven and probable ore reserves and resources of mining properties and the related depletion and amortization amounts, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the assumptions used in the accounting for stock-based compensation, the provision for income and mining taxes and composition of future income and mining tax assets and liabilities, the expected economic lives of and the estimated future operating results and net cash flows from mining interests, the anticipated costs of reclamation and other closure cost obligations, the fair value measurement of derivative financial instruments and silver note, and the fair value of assets and liabilities acquired in business combinations.

Changes in accounting standards

The accounting policies adopted in preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of amendments and interpretations effective January 1, 2018. These amendments and interpretations are outlined in the condensed consolidated interim financial statements of March 31, 2018.

Revenue recognition

IFRS 15 was issued in May 2014, and amended in April 2016. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The Company has applied the modified retrospective approach under the transition provisions of IFRS 15. The implementation of the new standard, effective January 1, 2018, has not had a significant financial statement impact in in the year ended December 31, 2017, or in the three months ended March 31, 2018.

One impact noted for the Company is that the provisional pricing adjustment no longer meets the definition of revenue from customers under IFRS 15, and is now considered under IFRS 9, Financial Instruments.

The following policies applied in accounting for revenue for the three months ended March 31, 2018. In the comparative period, revenue was accounted for in accordance with the revenue recognition policy disclosed in the Company's December 31, 2017 annual audited consolidated financial statements.

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of metals is recognized when all of the following conditions are satisfied:

- the significant risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

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

Inventories

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

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

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

The estimates and assumptions used in the measurement of work-in-process inventories include saleable ounces of gold, silver and antimony and the gold, silver and antimony prices to be realized when the metal is sold. If these estimates or assumptions prove to be inaccurate, the Company could be required to write down the carrying amounts of its work-in-process inventories, which would reduce the Company's earnings and working capital.

Property, plant and equipment

Exploration and Evaluation

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

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash and the value of share considerations paid for the property and exploration costs incurred on the property. The recorded amount does not reflect recoverable values as this will be dependent on the results of exploration and development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

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

Management reviews the carrying value of capitalized exploration and evaluation costs at least annually. In the case of undeveloped projects, there may be only Inferred Resources or perhaps just pre-resource exploration data to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and be put into production when the current sources of ore are exhausted or to replace the reduced output.

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

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all unrecoverable costs associated with the project are written off.

Mining Interests

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

Capitalized costs are depleted using the unit-of-production method over the estimated economic life of the mine to which they relate.

Plant and equipment

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

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

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

Depreciation

Mining interests are depreciated using the unit-of-production method based on the estimated total recoverable metal contained in proven and probable reserves or proven, probable and measured and indicated resources, depending on the nature of the ore body, at the related mine when the production level intended by management has been reached.

The production level intended by management is considered to be reached when operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and there are indicators that these operating results will be sustained. Other factors include one or more of the following:

- a significant utilization rate of plant capacity has been achieved;
- a significant portion of available funding is directed towards operating activities;
- a pre-determined, reasonable period of time of stable operation has passed; and
- a development project significant to the primary business objective of the Company has been completed and significant milestones have been achieved.

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

Plant and equipment cost is depreciated using the straight-line method or diminishing-balance method over their estimated useful lives if their lives are shorter than the mine life; otherwise they are depreciated on the unit-of-production basis.

Site closure and reclamation cost obligations

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

Changes in site closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

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

Reserve estimates

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

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

Income taxes

The Company uses the liability method of accounting for income taxes. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and on the carry forward of tax losses and tax credit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

1.10 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade receivables and other assets, reclamation and other deposits, derivative financial instruments, trade and other payables. The Company also periodically uses financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and antimony and against currency exchange rate fluctuations. See "Hedging Activities" below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at March 31, 2018, the Company had no past overdue trade receivables.

The Company invests its excess cash principally in highly rated government and corporate debt securities. The Company has established guidelines related to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's audit committee and modified to reflect changes in market conditions.

The Company is subject to interest rate risk on its cash and cash equivalents and believes that its results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity but generally with maturities of three months or less from the date of purchase.

The Company reports its financial statements in U.S. dollars. However, the Company's operations are located in Australia, Chile and Sweden, where local costs are at least partially incurred in local currencies. As a consequence, the financial results of the Company's operations as reported in U.S. dollars are subject to changes in the value of the U.S. dollar relative to the Australian dollar, Chilean peso and Swedish krona. The Company has at times entered into foreign exchange hedges to limit exposure to exchange rate fluctuations. The Company's management assesses the Company's strategy towards its foreign exchange rate risk as needed, depending on market conditions.

Hedging Activities

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

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates and expectations about future changes in interest rates ;
- purchases and sales of gold and silver by central banks and other holders;
- demand for jewelry containing gold and silver;
- industrial demand for antimony (mostly for flame retardants) versus supply, largely controlled by China; and
- investment activity, including speculation, in gold and silver as commodities.

The Company occasionally purchases derivative financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and upward fluctuations in oil prices. No such derivative financial instruments were purchased during three months ended March 31, 2018.

1.11 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. The Company uses Sage AccPac Enterprise Resource Planning (ERP) software in order to strengthen internal control and reporting.

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluates the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 on a regular basis. The Company's controls include policies and procedures that:

- relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the design and operational effectiveness of the Company's internal control over financial reporting using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013).

The Company has engaged KPMG to conduct its internal audit. This is designed to further identify potential gaps in internal control procedures and help create internal policy documents as necessary.

III. Limitation of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

1.12 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 451,595,776 common shares issued and outstanding. The weighted average number of shares outstanding during the first quarter used for the calculation of per share results was 451,299,074.

Outstanding incentive stock options that could result in the issuance of additional common shares at the respective dates as of the date of this MD&A are as follows:

Exercise Price CND$	As of March 31, 2018	As of May 09, 2018	Expiry Date
0.20	-	4,925,000	30 June, 2025
0.60	4,800,000	4,800,000	30 June, 2024
0.91	4,778,000	4,778,000	23 March, 2021
0.91	4,185,000	4,200,000	24 March, 2020
0.98	3,715,000	3,715,000	24 March, 2019
Total	**17,478,000**	**22,403,000**	

During the quarter ended March 31, 2018, no options were exercised. There were 17,478,000 options outstanding as of March 31, 2018, which could result in issuance of shares.

During 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs receive the Company's common shares at no cost at the end of vesting periods. 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 number of RSUs as at March 31, 2018, is as follows:

	Number of RSU awards
Balance, December 31, 2016	282,177
Granted	511,890
Redeemed	(105,721)
Balance, December 31, 2017	688,346
Redeemed	(34,134)
Outstanding at March 31, 2018	654,212

1.13 QUALIFIED PERSONS

Disclosures of a scientific or technical nature in this MD&A in respect of each of the Company's material mineral resource properties were prepared by, or under the supervision of, the "qualified persons" (as that term is defined in NI 43-101) listed below:

Project	Qualified Person	Relationship to Mandalay Resources
Costerfield	Chris Gregory	Employee
Björkdal	Chris Gregory	Employee
Cerro Bayo	Scott Manske	Employee
La Quebrada	Scott Manske	Employee
Challacollo	Scott Manske	Employee

1.14 FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mining industry risks; fluctuations in the market price of mineral commodities; project development; expansion targets and operational delays; environmental risks and hazards; requirement of additional financing; health and safety; uncertainty as to calculations of mineral deposit estimates; marketability; licenses and permits; title matters; governmental regulation of the mining industry; current global financial conditions; currency risk; uninsured risks; competition; repatriation of earnings; properties without known mineral reserves; dependence upon key management personnel and executives; dependence on major customers; infrastructure; litigation; potential volatility of market price of common shares; possible conflicts of interest of directors and officers of the Company; risk of dilution; payment obligations relating to properties; instability of political and economic environments; and integration of acquisitions. Specific reference is made to the Annual Information Form for a discussion of some of the factors underlying forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

1.15 SUBSEQUENT EVENTS

Ulu Option Agreement: In April, 2018, the Company received the sum of CAD $400,000 from WPC Resources pursuant to the terms of the existing option agreement between WPC Resources and the

Company subject to which WPC has the right to acquire the Ulu gold exploration property in Nunavut, Canada.

Lupin Reclamation Deposit: On April 18, 2018, the Nunavut Water Board reached a decision to recommend that the security held in respect of the Letter of Credit that has been posted by Mandalay in respect of the Lupin mine be reduced by C$5.345 million. This recommendation is subject to approval by the Minister of Indigenous and Northern Affairs within 45 days. If the reduction is approved, Mandalay expects to have the cash returned in the second quarter of 2018

1.16 NON-IFRS MEASURES

Non-IFRS performance measures are included in this MD&A because the Company believes these are useful indicators to discuss and understand performance of the Company and its operations. These performance measures do not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These non-IFRS performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS.

Management uses adjusted EBITDA, adjusted net income, income after tax from underlying operations and operating net income/(loss) after tax as measures of operating performance to assist in assessing the Company's ability to generate liquidity through operating cash flow in order to fund future working capital needs and to fund future capital expenditures, as well as in measuring financial performance from period to period on a consistent basis. Management uses adjusted net income in order to facilitate an understanding of the Company's financial performance prior to the impact of non-recurring or special items. The Company believes that these measures are used by and are useful to investors and other users of the Company's financial statements in evaluating the Company's operating and cash performance because they allow for analysis of its financial results without regard to special, non-cash and other non-core items, which can vary substantially from company to company and over different periods.

The Company presents "cash cost" and "all-in sustaining costs" metrics for its gold and silver production because it believes that these measures assist investors and other users of the Company's financial statements in understanding the economics of the Company's gold and silver mining activities. "Free cash flow" is included as the Company believes it provides Management, investors and analysts insight in evaluating the Company's ability to generate cash flow. This measure is comparable to, but not necessarily indicative of cash flow from operating activities as per IFRS, therefore a reconciliation between these two measures is included on page 13 for clarity. Management also uses these metrics to assess Company's ability to meet short and long term financial objectives.

1. *Adjusted EBITDA* - The Company defines adjusted EBITDA as income from mine operations, net of administration and business development costs, and before interest, taxes, non-cash charges/(income), intercompany charges and finance costs. Refer to page 15 for a reconciliation between adjusted EBITDA and net income.

2. *Income after tax from underlying operations* - The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note

and deferred tax expense or recovery. Refer to page 37-39 for reconciliation between income from underlying operations and income from operations.

3. *Operating net income/(loss) after tax* - The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs.

4. *Adjusted net income/(loss)* - The Company defines adjusted net income as net income before special items. Special items are items of income and expense that are presented separately due to their non-recurring nature or the expected infrequency of the events giving rise to them. Refer to page 15 for reconciliation between adjusted net income and net income.

5. Saleable gold equivalent ounces produced

    a. For Costerfield, equivalent gold ounces produced is calculated by adding to saleable gold ounces produced, the saleable antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period.
    b. For Cerro Bayo, equivalent gold ounces produced is calculated by adding to saleable gold ounces produced, the saleable silver ounces produced times the average silver price in the period divided by the average gold price in the period.
    c. For Björkdal, equivalent gold ounces equals gold ounces.
    d. For consolidated Mandalay, total equivalent gold ounces equals the sum of equivalent gold ounces produced at all the operations.

6. *Site cash cost per ounce of saleable gold equivalent produced* – For all sites, the cash cost per ounce of saleable gold equivalent equals the total cash operating cost associated with the production of saleable equivalent ounces produced in the period divided by the saleable equivalent gold ounces produced. The cash cost excludes royalty expenses.

7. *Site all-in cost per ounce of saleable gold equivalent produced* - Site all-in costs include total cash operating costs, royalty expense, accretion, depletion, depreciation and amortization. For all sites, the all-in cost per ounce of saleable gold equivalent in a period equals the all-in cost divided by the saleable equivalent gold ounces produced in the period.

8. *Cash cost per ounce of saleable silver produced net of gold byproduct credit (Cerro Bayo only)*- The cash cost per saleable silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals saleable ounces gold produced times the average realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the saleable silver ounces produced in the period. The cash cost excludes royalty expenses.

9. *Site all-in cost per ounce of saleable silver produced net of gold byproduct credit (Cerro Bayo only)*- The site all-in cost per saleable silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, accretion, depletion, depreciation and amortization to cash cost net of gold byproduct credit as calculated in 1.16.8 above and dividing the resultant number by the saleable silver ounces produced in the period.

10. *Corporate average cash cost per ounce of gold equivalent produced* – The corporate average cash cost per saleable ounce gold equivalent produced in the period equals the sum of cash costs associated with the production of the gold equivalent ounces at all operating sites in the period plus the corporate overhead expense in the period divided by the total saleable gold equivalent ounces produced in the period. The cash cost excludes royalty expenses.

11. *Corporate average all-in cost per ounce of gold equivalent produced* – The corporate average cash cost per saleable ounce gold equivalent produced in the period equals the sum of cash costs associated with the production of the gold equivalent ounces at all operating sites in the period plus the corporate overhead expense in the period plus royalty expense, accretion, depletion, depreciation and amortization, divided by the total saleable gold equivalent ounces produced in the period.

12. *Cash capital expenditures* - The cash capital expenditures is defined as cash spent on mining interests, property, plant and equipment, and exploration as per the cash flow statement of the financial statements.

13. *Free cash flow* - The Company defines free cash flow as a measure of the Corporation's ability to generate and manage liquidity. It is calculated starting with the net cash flows from operating activities (as per IFRS) and then adding capital expenditures and cash payments related to the cancellation of certain royalty contracts.