MANDALAY RESOURCES

Management's Discussion and Analysis

For the three and six months ended June 30, 2018

As of August 8, 2018

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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 three and six months ended June 30, 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 SECOND QUARTER 2018 FINANCIAL AND OPERATING SUMMARY

Financial Summary

- Revenue in the quarter was $27.9 million (including $0.3 million in adverse revenue adjustments related to open sales contracts from prior quarters) compared to $44.1 million in the prior year quarter (including $0.4 million adverse revenue adjustments related to open sales contracts from prior quarters). The decline in quarterly revenue during the second quarter of 2018 compared to the same quarter of the prior year was primarily attributable to 13,657 fewer gold equivalent ounces sold than in the second quarter of 2017. A major driver of the lower sales is the fact that Cerro Bayo was not in production in the second quarter of 2018 but was producing in the second quarter of 2017. Consequently, Cerro Bayo generated no revenue in the second quarter of 2018 versus $9.8 million in the second quarter of the prior year.

- Adjusted EBITDA[1] in the second quarter of 2018 was $3.7 million versus $12.1 million in the second quarter of 2017. Lower adjusted EBITDA in the 2018 quarter was mainly because of lower revenue, as mentioned above.

[1] Adjusted EBITDA and Adjusted net loss are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

- Adjusted net loss[1] for the period was $3.7 million, compared to an adjusted net loss of $6.9 million in the same quarter last year.

- Consolidated after tax net loss in the second quarter of 2018 was $23.7 million ($0.05 loss per share) compared to consolidated net loss of $10.1 million ($0.02 per share) in the second quarter of 2017. The increased loss for the quarter was predominantly due to an $18.5 million write down of the Challacollo mine, as, subsequent to quarter end, there was an indication the recoverable amount was lower than the carrying amount at the end of the quarter mainly based on the Company's execution of a non-binding letter of intent for the sale of the asset to a third party – see Section 1.14 "Subsequent Events" for more detail.

- At June 30, 2018, the Company had $15.5 million of cash and cash equivalents compared to $16.9 million as at December 31, 2017. As at June 30, 2018, the Company has $25.0 million remaining to draw down on its revolver facility, if required.

1. Operational Summary

Consolidated Production and Sales

- In the second quarter of 2018, Mandalay produced a total of 22,348 ounces of gold equivalent, including 19,154 ounces of gold and 503 tonnes of antimony, versus 38,491 ounces of gold equivalent produced in the second quarter of 2017, consisting of 28,219 ounces of gold, 359,457 ounces of silver and 765 tonnes of antimony.

- Mandalay's consolidated average cash cost[2] of production in the second quarter of 2018 was $1,028 per ounce of gold equivalent versus $853 per ounce of gold equivalent in the second quarter of 2017. Consolidated average cash cost of production year to date was $1,044 per ounce of gold equivalent versus $914 per ounce of gold equivalent for the prior year period. Consolidated all-in cost[3] in the second quarter of 2018 was $1,405 per ounce of gold equivalent versus $1,173 per ounce of gold equivalent in the second quarter of 2017. Consolidated all-in cost year to date was $1,434 per ounce of gold equivalent versus $1,243 per ounce of gold equivalent in the prior year period. Cash cost figures exclude Cerro Bayo care and maintenance costs of $1.4 million incurred during the current quarter, as compared to $2.4 million in the previous year quarter.

- Foreign exchange rates slightly impacted U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 1.3212/US$ in the second quarter of 2018 versus 1.3321/US$ in the prior year period. The Chilean Peso averaged 621 peso/US$ in the second quarter of 2018 versus 664 peso/US$ in the prior year period. The Swedish Krona averaged 8.6737 krona/US$ in the second quarter of 2018 versus 8.8039 krona/US$ in the prior year period. Petroleum prices were approximately 56% higher in the second quarter of 2018 than in the prior year period.

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

- Quantities of metal sold during the second quarter of 2018 were 22,052 ounces of gold equivalent (18,497 ounces of gold and 560 tonnes of antimony) compared to 35,709 ounces of gold equivalent (24,896 ounces of gold, 377,916 ounces of silver and 806 tonnes of antimony) in the second quarter of 2017.

- Prices realized during the second quarter of 2018 were $1,279 per ounce for gold and $7,657 per tonne for antimony versus $1,267 per ounce for gold and $8,464 per tonne for antimony in the same period in 2017 (0.9% higher price for gold and 9.53% lower for antimony).

Mandalay Saleable Production

Metal	**Source**	**Three months to 30 June 2018**	**Three months to 30 June 2017**	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Gold (oz)	Björkdal	14,017	16,112	26,733	26,760
	Costerfield	5,137	8,933	11,724	16,920
	Cerro Bayo	-	3,174	-	5,909
	Total	**19,154**	**28,219**	**38,457**	**49,589**
Antimony (t)	Costerfield	**503**	**765**	**1,108**	**1,506**
Silver (oz)	Cerro Bayo	**-**	**359,457**	**-**	**794,533**
Average quarterly prices:					
Gold US$/oz		1,307	1,256	1,318	1,236
Antimony US$/tonne		8,295	8,816	8,396	8,417
Silver US$/oz		17	17.15	16.66	17.26
Au Eq. (oz)[1]	Björkdal	14,017	16,112	26,733	26,760
	Costerfield	8,331	14,300	18,787	27,191
	Cerro Bayo	-	8,079	-	17,021
	Total	**22,348**	**38,491**	**45,520**	**70,972**

[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 to 30 June 2018	Three months to 30 June 2017	Six months ended 30 June 2018	Six months ended 30 June 2017
Gold (oz)	Bjorkdal	12,428	12,752	30,105	25,873
	Costerfield	6,069	8,912	13,200	16,459
	Cerro Bayo	-	3,232	-	6,232
	Total	**18,497**	**24,896**	**43,305**	**48,564**
Antimony (t)	Costerfield	**560**	**806**	**1,239**	**1,514**
Silver (oz)	Cerro Bayo	**-**	**377,916**	**-**	**829,693**
Average quarterly prices:					
Gold US$/oz		1,307	1,256	1,318	1,236
Antimony US$/tonne		8,295	8,816	8,396	8,417
Silver US$/oz		17	17.15	17	17
Au Eq. (oz)[2]	Bjorkdal	12,428	12,752	30,105	25,873
	Costerfield	9,624	14,568	21,098	26,803
	Cerro Bayo	-	8,389	-	17,834
	Total	**22,052**	**35,709**	**51,203**	**70,510**

[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 14,017 ounces of gold in the second quarter of 2018 versus 12,716 ounces of gold in the first quarter of 2018 and 16,112 ounces of gold in the second quarter of 2017. The comparative increase and decrease in production was directly related to the milled head grades, as mill throughput tonnages remained broadly constant between periods. See "Results of Operations – Björkdal" for more detail.

- *Operating Costs* — Cash cost per saleable ounce of gold produced at Björkdal in the second quarter of 2018 was $876 and the site all-in cost per saleable ounce of gold produced was $1,155, lower when compared to cash cost of $1,094 and all-in cost of $1,387 per ounce in the first quarter of 2018, and slightly higher than the cash cost of $824 and all-in cost of $1,081 per ounce for the second quarter of 2017. The lower cost per ounce in the current period compared to the last quarter was due to higher grades, and therefore more saleable ounces in the current quarter. Cash cost per ounce in the current period compared previous year period was higher due to decrease in production from lower grades, however these were offset by lower absolute cash costs. The current quarter also benefitted from higher volume of processed ore than mined ore at the mine.

Costerfield Gold-Antimony Mine, Victoria, Australia

- *Production* — Saleable gold production for the second quarter of 2018 was 5,137 ounces versus 6,587 ounces in the first quarter of 2018 and 8,933 ounces in the second quarter of 2017. Saleable antimony production for the second quarter of 2018 was 503 tonnes versus 605 tonnes in the previous quarter and 765 tonnes in the second quarter of 2017. Production in the current quarter was lower than in the year-ago quarter due to a delay in transitioning from the Augusta and Cuffley lodes to mining the Brunswick lode, as higher than expected levels of water were encountered in the lode which have had to be dewatered. These issues have been resolved and the Company is expecting production to improve in the coming months. See "Results of Operations – Costerfield".

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the second quarter of 2018 was $1,049 versus $869 in the first quarter of 2018, and $648 in the second quarter of 2017. The site all-in cost per ounce of gold equivalent produced in the second quarter of 2018 was $1,512 versus $1,326 in the previous quarter and $962 in the second quarter of 2017. Cash cost per ounce was higher for the current quarter due to lower grades mined of both gold and antimony but total value cash cost savings were recognized in the 2018 quarter, compared to the comparative 2017 quarter.

Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production and Operating Costs* — 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.

Exploration

Ongoing exploration activities during the second quarter of 2018 included:

Björkdal

Drilling continued, focused during the current period on extending open pit resources in the West Pit and underground in the Main, Central and Stringer zones. 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

Extensional drilling was performed on Brunswick lode. 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, and June 27, 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 was completed in the second quarter of this year, suggests that there is potential to access the shoot from the existing Brunswick access. The Company plans to continue 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.

1.1 SELECTED QUARTERLY INFORMATION

Summary Financial Information

The following table sets forth a summary of the Company's financial results for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30, 2018 ($'000)	Three months ended June 30, 2017 ($'000)	Six months ended June 30, 2018 ($'000)	Six months ended June 30, 2017 ($'000)
Revenue	27,944	44,124	67,692	89,497
Cost of sales	22,348	30,030	48,168	62,018
Income from mining operations before depreciation and depletion	5,596	14,094	19,524	27,479
Depreciation and depletion	8,075	11,806	16,916	22,338
Income/(loss) from mining operations	(2,479)	2,288	2,608	5,141
Administration costs	1,945	1,964	3,738	3,937
Adjusted EBITDA*	3,651	12,130	15,786	23,542
Finance costs, foreign exchange and others**	20,816	10,121	24,132	13,594
Consolidated loss before tax	(25,240)	(9,797)	(25,262)	(12,390)
Current tax expense (recovery)	(121)	870	662	690
Deferred tax income	(1,408)	(562)	(974)	(624)
Adjusted net loss before special items after tax *	(3,743)	(6,933)	(2,806)	(9,284)
Consolidated net loss after tax	(23,711)	(10,105)	(24,950)	(12,456)
Total assets	259,461	320,062	259,461	320,062
Total liabilities	124,309	126,811	124,309	126,811
Adjusted loss per share before special items*	(0.01)	(0.02)	(0.01)	(0.02)
Consolidated loss per share	(0.05)	(0.02)	(0.06)	(0.03)

* 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 down of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

Summary Balance Sheet

	As at June 30, 2018 ($'000)	As at December 31, 2017 ($'000)
Cash and cash equivalents	15,480	16,935
Inventories, accounts receivables and other current assets	37,815	54,285
Property, plant and equipment	169,770	194,564
Reclamation deposit and other non current assets	36,396	39,277
Total assets	**259,461**	**305,061**
Five year exchangeable loan*	27,039	27,784
Other current liabilities*	41,888	32,683
Non current liabilities	55,382	79,055
Equity attributable to common share holders	135,152	165,539
Total equity and liability	**259,461**	**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 and six months ended June 30, 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 June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	($'000)	($'000)	**($'000)**	($'000)
Net cash flows from operating activities	**4,035**	**5,351**	**21,575**	**11,425**
Capital expenditures	(11,943)	(12,998)	(23,236)	(25,090)
Free cash flow	**(7,908)**	**(7,647)**	**(1,661)**	**(13,665)**
Reclamation deposits	(16)	(62)	(188)	(133)
Reclamation expenditures	(905)	-	(1,158)	-
Other investing activity	-	18	-	18
Net repayment of borrowings	538	(29,622)	413	(29,914)
Proceeds from Ulu option agreement	310	-	310	-
Dividend paid	-	(2,781)	-	(4,703)
Effects of exchange rate changes	54	(404)	829	(161)
Net cash flow	**(7,927)**	**(40,498)**	**(1,455)**	**(48,558)**
Cash and cash equivalents, beginning of the period	23,407	58,857	16,935	66,917
Cash and cash equivalents, end of the period	**15,480**	**18,359**	**15,480**	**18,359**

Adjusted EBITDA and Adjusted Net Income Reconciliation to Net Income

The table below reconciles Adjusted EBITDA and Adjusted Net Income to reported net income for the three and six months ended June 30, 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 June 30, 2018		Three months ended June 30, 2017		Six months ended June 30, 2018		Six months ended June 30, 2017	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Consolidated Net loss		(23,711)		(10,105)		(24,950)		(12,456)
Special items								
Write down of assets	18,533		777		18,533		777	
Care and maintenance	1,435		2,395		3,611		2,395	
		19,968		3,172		22,144		3,172
Adjusted Net Income/(loss) before special items		(3,743)		(6,933)		(2,806)		(9,284)
Add: Non-cash and finance costs								
Depletion and depreciation	8,075		11,806		16,916		22,338	
Loss on disposal of property, plant and equipment	118		503		126		512	
Share based compensation	157		237		404		474	
Interest and finance charges	1,362		4,234		2,730		5,648	
Fair value adjustments	(1,037)		1,740		(794)		2,571	
Current tax	(121)		870		662		690	
Deferred tax	(1,408)		(562)		(974)		(624)	
Foreign exchange loss	468	7,614	166	18,994	227	19,297	1,245	32,854
		3,871		12,061		16,491		23,570
Less: Interest and other income	(220)	(220)	69	69	(705)	(705)	(28)	(28)
Adjusted EBITDA		3,651		12,130		15,786		23,542

1.2 RESULTS OF OPERATIONS

Mandalay (Consolidated)

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Revenue in the quarter was $27.9 million (including $0.3 million in adverse revenue adjustments related to open sales contracts from prior quarters) compared to $44.1 million in the prior year quarter (including $0.4 million adverse 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, and therefore no revenue recognized, at the Cerro Bayo mine in the current quarter.

Cost of sales in the current quarter was $22.3 million compared with $30.0 million in the year ago quarter leaving adjusted EBITDA in the second quarter of 2018 of $3.7 million, compared to $12.1 million in the second quarter of 2017. The difference is primarily due to no revenue and cost of sales from Cerro Bayo.

Consolidated after tax net loss in the second quarter of 2018 was $23.7 million ($0.05 loss per share) compared to consolidated net loss of $10.1 million ($0.02 per share) in the second quarter of 2017, mainly due to the write down of the book value of the Challacollo mine, as mentioned above.

Capital expenditures in the second quarter of 2018, including capitalized depreciation and exploration, were $11.9 million. Of this amount, $6.7 million occurred at Costerfield, $5.1 million at Björkdal and $0.1 million at Challacollo. By comparison, total capital expenditures, including capitalized depreciation and exploration, in the second quarter of 2017 were $13.2 million.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

During the first six months of 2018, revenue was $67.7 million versus $89.5 million in 2017. The decline in quarterly and year to date revenue was due primarily to suspension of operations at Cerro Bayo. Profit from mine operations during first half of 2018 was $2.6 million compared to $5.1 million in 2017, with the difference caused by the lower revenue in 2018, explained above.

During the first six months of 2018, the Company recorded adjusted net loss before special items of $2.8 million and consolidated net loss of $24.9 million. This compares to adjusted net loss before special items of $9.3 million and consolidated net loss of $12.5 million during the six months ended June 30, 2017. Lower adjusted EBITDA was due to lower revenue in the first half year of 2018 than in the 2017 period.

During the first six months of 2018, the Company invested $11.2 million in capital development, $3.8 million in exploration, and $7.9 million in property, plant and equipment. The corresponding amounts for 2017 were $13.6 million for capital development, $4.3 million for exploration and $6.9 million for property, plant and equipment.

Björkdal

Björkdal Financial and Operating Results for the Three Months Ended June 30, 2018 and 2017

During the second quarter of 2018, Björkdal produced a total 289,468 tonnes of ore from the open pit and underground operations, with an average grade of 1.34 grams per tonne gold as compared to 284,007 tonnes for second quarter of 2017 with average grade of 1.57 grams per tonne. The higher tonnage production during the 2018 quarter continued the improvements due to relieving bottlenecks to mine production that emerged as the Company completed the move to more selective mining.

The weighted average mining cost from the open pit and underground was $26.09 per tonne in the second quarter of 2018, lower than the $29.76 per tonne in the corresponding period of 2017 due to increased efficiencies.

During the second quarter of 2018, the Björkdal concentrator processed 315,792 tonnes of ore against 306,917 tonnes of ore in the previous year. The head grade in the current period was lower (1.56 grams per tonne gold) compared to the year-ago quarter (1.87 grams per tonne gold). Metallurgical recoveries during the second quarter of 2018 were 89.99%, against 89.19% for the second quarter of 2017, mainly due to the commissioning of the floatation expansion project, commissioned in the third quarter of 2017. Processing cost was $7.53 per tonne in the second quarter of 2018, slight increase from the previous year cost of $7.48. The Company is in the process of adding automation controls to the Björkdal plant and is beginning to see additional recovery improvements of approximately 1% as the circuit stabilizes. This has also resulted in the removal of more gold in the gravity circuit, with the overall impact of improving our gold payables in the plant.

During the second quarter of 2018, Björkdal produced 14,017 saleable gold ounces and sold 12,428 ounces. By comparison, in the second quarter of 2017, Björkdal produced 16,112 saleable gold ounces and sold 12,752 ounces. Cash cost per gold ounce was $876 and all-in cost was $1,155 in 2018, higher than the costs of $824 cash and $1,081 all-in, respectively, in 2017. The higher cash cost in the current quarter resulted from decreased gold production.

Björkdal generated revenue of $16.1 million for the quarter ended June 30, 2018, versus $16.2 million in the year-ago quarter. Income from mine operations before depreciation and depletion was $4.4 million versus $5.7 million in the year ago quarter. Adjusted EBITDA was $4.4 million versus $5.7 million in the year ago quarter. Net loss before tax was $0.3 million and net profit after tax was $0.6 million in 2018 versus net profit before tax of $0.8 million and after tax of $0.6 million, respectively, in 2017.

During the second quarter of 2018, Björkdal invested $3.0 million in mine development, $1.1 million in property, plant and equipment and $1.0 million in exploration. During the second quarter of 2017, Björkdal invested $3.2 million in mine development, $1.3 million in property, plant and equipment and $0.7 million in exploration.

Björkdal financial results

	Three months ended June 30, 2018 ($'000)	Three months ended June 30, 2017 ($'000)	Six months ended June 30, 2018 ($'000)	Six months ended June 30, 2017 ($'000)
Revenue	16,109	16,246	40,176	33,066
Cost of sales	11,745	10,542	28,330	24,005
Income from mining operations before depreciation and depletion	4,364	5,704	11,846	9,061
Depreciation and depletion	3,911	4,146	7,637	7,134
Income from mining operations	453	1,558	4,209	1,927
Administration(1)	270	214	501	565
Adjusted EBITDA(2)(4)	4,370	5,702	11,856	9,061
Finance costs, foreign exchange and others(2)	512	499	1,157	1,073
Income (loss) before tax	(329)	845	2,551	289
Current tax expense (recovery)	83	299	654	208
Deferred tax recovery	(1,026)	(16)	(926)	(167)
Operating net income after tax(4)	1,436	1,262	4,629	2,987
Adjusted net income after tax before special items(4)	614	562	2,823	248
Consolidated net income after tax	614	562	2,823	248
Capital expenditure (5)	5,088	5,187	11,303	10,284

[1]Includes intercompany transfer pricing recharge costs of $276,000 in the three months ended in June 30, 2018 and $212,000 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 down 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 Financial and Operating Results for the Six Months Ended June 30, 2018 and 2017

During the first half of 2018, Björkdal produced a combined 604,359 tonnes of ore from the open pit and underground operations, with an average grade of 1.39 grams per tonne gold as compared to 522,130 tonnes in the prior year period of 2017 with average grade of 1.47 grams per tonne. During the first half of 2018, 1,938 metres of operating development was completed against 2,654 metres in the corresponding period of 2017. The weighted average mining cost from the open pit and underground was $26.74 per tonne in the first half year of 2018 against $31.00 per tonne in 2017. The cost decrease was due to more tonnes being mined in the current period.

Björkdal operating statistics

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

	Unit	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017	Three months ended March 31, 2018
Mining Production and Mining Cost						
Operating development	m	783	1,197	1,938	2,654	1,155
Mined ore	t	289,468	284,007	604,359	522,130	314,891
Ore mined Au grade	g/t	1.34	1.57	1.39	1.47	1.43
Mined contained Au	oz	12,463	14,352	26,943	24,702	14,480
Mining cost per tonne ore	$/t	26.09	29.76	26.74	31.00	27.34
Processing and Processing Cost						
Processed ore	t	315,792	306,917	606,248	626,009	290,456
Mill head grade Au	g/t	1.56	1.87	1.56	1.53	1.55
Recovery Au	%	89.99	89.19	89.89	88.47	89.73
Concentrate produced	dry t	1,431	1,034	2,862	2,052	1,431
Concentrate grade Au	g/t	305	485	291	406	276
Saleable Au produced	oz	14,017	16,112	26,734	26,760	12,716
Processing cost per tonne ore	$/t	7.53	7.48	8.57	7.80	9.68
Sales						
Concentrate sold	dry t	1,337	1,010	2,673	2,230	1,337
Concentrate Au grade	g/t	289	393	350	361	411
Au sold	oz	12,428	12,752	30,105	25,873	17,677
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	38.90	43.25	43.22	40.77	47.91
Site cash operating cost/tonne concentrate produced(1)	$/t	8,585	12,838	9,155	12,439	9,725
Adjusted EBITDA/tonne ore milled(1)	$/t	13.84	18.58	19.55	14.49	25.77
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,054	5,515	4,142	4,420	5,231
Cash cost per Au oz produced(1)(2)	$/oz	876	824	980	954	1,094
Site all-in cost per oz Au oz produced(1)(3)	$/oz	1,155	1,081	1,265	1,220	1,387
Capital Spending						
Capital development (Underground)	m	566	482	1,180	958	614
Capital development (Open pit)	t	253,358	527,172	641,062	1,035,059	387,704
Capital development cost	$000	3,009	3,162	5,943	6,085	2,934
Capital purchases	$000	1,085	1,313	4,060	3,077	2,975
Capitalized exploration	$000	994	712	1,300	1,122	305

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.

During the first half year of 2018, the Björkdal concentrator processed 606,248 tonnes of ore with grades of 1.56 grams per tonne gold against 626,009 tonnes of ore with average grade of 1.53 grams per tonne gold in 2017. Metallurgical recoveries during the first half of 2018 were 89.89% compared with 88.47%

for the year 2017. Processing cost was $8.57 per tonne in the first half of 2018 as compared to $7.80 per tonne in 2017.

During the first half of 2018, Björkdal produced 26,734 saleable gold ounces and sold 30,105 ounces. In the first half of 2017, Björkdal produced 26,760 saleable gold ounces and sold 25,873 ounces. Cash cost per gold ounce was $980 and all-in cost was $1,265 in 2018 against $954 and $1,220 respectively in 2017.

During the first half of 2018, the Company invested $5.9 million in mine development, $4.1 million in property, plant and equipment and $1.3 million in exploration. During the first half of 2017, the Company invested $6.1 million in mine development, $3.1 million in property, plant and equipment and $1.1 million in exploration.

Costerfield

Costerfield Financial and Operating Results for the Three Months Ended June 30, 2018 and 2017

Production and therefore financial results were slightly lower in the current period, due to a delay in transitioning from the Augusta and Cuffley lodes to mining the Brunswick lode, as higher than expected levels of water were encountered in the lode which have had to be dewatered.

In the second quarter of 2018, Costerfield produced a total of 8,331 ounces of gold equivalent at cash costs and all-in costs of $1,049 and $1,512 per ounce of gold equivalent, respectively. This compares to the prior year quarter production of 14,300 ounces of gold equivalent at $648 cash costs and $962 all-in cost per ounce gold equivalent.

Costerfield generated revenue of $11.8 million for the quarter ended June 30, 2018. Income from mine operations before depreciation and depletion was $1.3 million, adjusted EBITDA was $1.3 million, net loss before tax was $2.5 million and net loss after tax was $1.9 million. Comparable results for the quarter ended June 30, 2017 were revenue of $18.1 million, income from mine operations before depreciation and depletion of $7.8 million, adjusted EBITDA of $7.8 million, net income before tax of $3.4 million and net income after tax of $2.5 million.

The Costerfield mine completed 875 metres of operating development in the second quarter of 2018 versus 1,341 metres in 2017. 37,816 tonnes of ore were mined in second quarter of 2018 as compared to 35,565 tonnes in the second quarter of 2017. Mining cost decreased to $146 per tonne from the previous year's quarter of $173 per tonne. The mined gold grade in the second quarter of 2018 was 5.36 grams per tonne versus 9.39 grams per tonne in 2017, while the mined antimony grade was 2.35% in 2018 versus 3.57% in the prior year quarter, as mentioned, these grades are expected to lift as we start mining the Brunswick lode.

Costerfield financial results

	Three months ended June 30, 2018 ($'000)	Three months ended June 30, 2017 ($'000)	Six months ended June 30, 2018 ($'000)	Six months ended June 30, 2017 ($'000)
Revenue	11,836	18,105	27,436	33,725
Cost of sales	10,494	10,332	19,649	20,132
Income from mining operations before depreciation and depletion	1,343	7,773	7,787	13,593
Depreciation and depletion	3,728	4,280	8,330	8,166
Income from mining operations	(2,386)	3,493	(543)	5,427
Administration (1)	263	187	651	447
Adjusted EBITDA (2)(4)	1,302	7,753	7,555	13,497
Finance costs, foreign exchange and others (3)	(191)	(49)	(278)	1,269
Income before tax	(2,458)	3,355	(916)	3,711
Current tax expense (recovery)	(203)	1,421	8	1,332
Deferred tax expense	(383)	(544)	(48)	(453)
Operating net income after tax (4)	(1,568)	2,939	(200)	3,812
Adjusted net income after tax before special items (4)	(1,872)	2,478	(876)	2,832
Consolidated net income after tax	(1,872)	2,478	(876)	2,832
Capital expenditure (5)	6,720	3,951	11,540	6,740

1Includes intercompany transfer pricing recharge costs of $222,000 in the three months ended June 30, 2018 and $167,000 in the corresponding period of 2017.

2Does not include intercompany transfer pricing recharge costs.

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

4Adjusted 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.

5Includes capitalized depreciation on equipment.

During the second quarter of 2018, Costerfield processed more ore than in the year ago quarter (39,311 tonnes vs 36,878 tonnes), accompanied by higher processing cost of $38.75 per tonne in second quarter of 2018 and $36.35 per tonne in second quarter of 2017.

Plant gold head grade in 2018 was 5.44 grams per tonne versus 9.39 grams per tonne in the year ago quarter, while the antimony head grade was 2.18% in 2018 versus 3.55% in 2017. These grade declines were expected and account for the reduced metal output despite more tonnes being processed. The plant achieved recoveries of 86.89% for gold and 92.00% for antimony versus 90.15% for gold and 95.56% for antimony in second quarter of 2017.

Total saleable metal production in the second quarter of 2018 was 5,137 oz of gold and 503 tonnes of antimony versus 8,933 ounces of gold and 765 tonnes of antimony in the second quarter of 2018. A total of 6,069 ounces of gold and 560 tonnes of antimony were sold in the second quarter of 2018 versus a total of 8,912 ounces of gold and 806 tonnes of antimony sold in the second quarter of 2017.

During the second quarter of 2018, Costerfield incurred $3.1 million in capital development costs, spent $1.4 million in exploration and $2.2 million in property, plant and equipment. The corresponding amounts for the prior year quarter were $1.1 million, $1.4 million and $1.5 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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017	Three months ended March 31, 2018
Mining Production and Mining Cost						
Operating development	m	875	1,341	2,017	2,791	1,141
Mined ore	t	37,816	35,565	77,806	71,827	39,990
Ore mined Au grade	g/t	5.36	9.39	6.06	8.79	6.73
Ore mined Sb grade	%	2.35	3.57	2.43	3.43	2.52
Mined contained Au	oz	6,516	10,741	15,168	20,290	8,652
Mined contained Sb	t	888	1,271	1,895	2,461	1,006
Mining cost per tonne ore	$/t	146	173	144	167	142
Processing and Processing Cost						
Processed ore	t	39,311	36,878	77,869	74,038	38,558
Mill head grade Au	g/t	5.44	9.39	6.07	8.86	6.72
Mill head grade Sb	%	2.18	3.55	2.41	3.45	2.64
Recovery Au	%	86.89	90.15	87.78	90.04	88.51
Recovery Sb	%	92.00	95.56	92.33	96.09	92.61
Concentrate produced	dry t	1,524	2,404	3,356	4,667	1,832
Concentrate grade Au	g/t	74.67	67.90	78.49	68.73	81.67
Concentrate grade Sb	%	51.61	51.93	51.55	52.58	51.50
Au produced in gravity concentrate	oz	2,294	4,737	4,825	8,587	2,532
Au produced in sulfide concentrate	oz	2,843	4,196	6,899	8,333	4,055
Saleable Au produced	oz	5,137	8,933	11,724	16,920	6,587
Saleable Sb produced	t	503	765	1,108	1,506	605
Saleable Au equivalent produced	oz	8,331	14,300	18,787	27,191	10,456
Processing cost per tonne ore	$/t	38.75	36.35	37.72	37.61	36.67
Sales						
Concentrate sold	dry t	1,645	2,470	3,721	4,603	2,077
Concentrate Au grade	g/t	80.38	65.98	81.19	68.25	81.83
Concentrate Sb grade	%	51.32	52.23	51.86	52.64	52.28
Au sold in gravity concentrate	oz	2,502	4,825	5,132	8,550	2,629
Au sold in sulfide concentrate	oz	3,566	4,087	8,069	7,909	4,502
Au sold	oz	6,069	8,912	13,200	16,459	7,131
Sb sold	t	560	806	1,239	1,514	679
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed[(1)]	$/t	219	248	226	247	232
Site cash operating cost/tonne concentrate produced[(1)]	$/t	5,657	3,799	5,234	3,916	4,882
Adjusted EBITDA/tonne ore milled[(1)]	$/t	33	210	97	182	162
Adjusted EBITDA/tonne concentrate produced[(1)]	$/t	854	3,225	2,252	2,894	3,415
Cash cost per oz Au equivalent produced[(1)(2)]	$/oz	1,049	648	949	682	869
Site all-in cost/oz Au eq. oz produced[(1)(3)]	$/oz	1,512	962	1,408	996	1,326
Capital Spending						
Capital development	m	750	238	1,382	408	632
Capital development cost	$000	3,140	1,098	5,256	1,875	2,116
Capital development cost/meter	$/m	4,188	4,614	3,803	4,596	3,347
Capital purchases	$000	2,157	1,455	3,791	2,480	1,634
Capitalized exploration	$000	1,423	1,397	2,493	2,386	1,070

[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.

Costerfield Financial and Operating Results for the Six Months Ended June 30, 2018 and June 30, 2017

For the first half year 2018, Costerfield produced 18,787 ounces of gold equivalent at cash costs and all-in costs of $949 and $1,408 per ounce of gold equivalent, respectively, which compares to 27,191 ounces of gold equivalent at cash costs and all-in costs of $682 and $996 per ounce of gold equivalent, respectively, in the prior year period.

The Costerfield mine completed 2,017 meters of operating development in the first half year ended June 30, 2018 versus 2,791 meters in 2017. There was 408 m capital development in the first half of 2017, while there was 1,382 m completed in 2018.

The operation mined higher amounts of ore in 2018 than in 2017 – 77,806 tonnes this year versus 71,827 tonnes in 2017. Mining costs decreased to $144 per tonne from $167 per tonne in the prior year. The mined gold grade in 2018 decreased to 6.06 grams per tonne from 8.79 grams per tonne in 2017, while the mined antimony grade declined to 2.43% in 2018 from 3.43%.

Plant throughput in first half of 2018 was higher (77,869 tonnes) than in 2017 (74,038 tonnes) and unit costs were: $37.61 per tonne in 2017 versus $37.72 per tonne in 2018.

Plant gold head grade in the first half of 2018 was 6.07 grams per tonne versus 8.86 grams per tonne gold a year ago, while the antimony head grade was 2.41% in 2018 versus 3.45% in 2017. The plant achieved recoveries of 87.78% for gold and 92.33% for antimony versus 90.04% for gold and 96.09% for antimony in the first half of 2017.

Total saleable metal production in the first half of 2018 was 1,108 tonnes antimony and 11,724 ounces gold versus 1,506 tonnes antimony and 16,920 ounces gold in 2017. A total of 13,200 ounces gold and 1,239 tonnes antimony were sold in the first half of 2018 versus a total of 16,459 ounces gold and 1,514 tonnes antimony sold in the first half of 2017.

In the first half of 2018, the Company spent $5.3 million on capital development, $2.5 million on exploration and $3.8 million on property, plant and equipment at Costerfield. The corresponding amounts for the prior year period were $1.9 million, $2.4 million and $2.5 million, respectively.

Cerro Bayo

Cerro Bayo Financial and Operating Results for the Three Months Ended June 30, 2018 and 2017

During the three months ended June 30, 2018 there was no production at Cerro Bayo mine due to the suspension of operations following the flooding of the Delia NW mine on June 9, 2017. The Cerro Bayo mine has been on care and maintenance and the workforce was substantially reduced 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 $1.4 million and $3.6 million of care and maintenance costs during the second quarter and first six months of 2018 respectively.

Cerro Bayo financial results

	Three months ended June 30, 2018 ($'000)	Three months ended June 30, 2017 ($'000)	Six months ended June 30, 2018 ($'000)	Six months ended June 30, 2017 ($'000)
Revenue	(1)	9,773	80	22,706
Cost of sales	110	9,156	189	17,881
Income from mining operations before depreciation and depletion	(111)	617	(109)	4,825
Depreciation and depletion	432	3,376	938	7,029
Income (loss) from mining operations	(543)	(2,759)	(1,047)	(2,204)
Administration (1)	203	549	494	1,385
Adjusted EBITDA (2)(4)	(38)	385	52	3,993
Finance costs, foreign exchange and others (3)	(98)	1,780	42	2,189
Care and maintenance and other expenses	1,435	2,395	3,611	2,395
Loss before tax	(2,083)	(7,483)	(5,194)	(8,173)
Current tax recovery	-	(850)	-	(850)
Deferred tax recovery	-	(2)	-	(4)
Operating net loss after tax (4)	(1,776)	(6,104)	(4,513)	(6,271)
Adjusted net loss after tax before special items (4)	(648)	(5,854)	(1,583)	(6,542)
Consolidated net loss after tax	(2,083)	(6,631)	(5,194)	(7,319)
Capital expenditure (5)	-	3,569	-	7,733

1 Includes intercompany transfer pricing recharge costs of $276,000 in the three months ended in June 30, 2018 and $317,000 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 down 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

On August 1, 2018, the Company announced that it had entered into a non-binding letter of intent with Aftermath Silver Ltd. ("Aftermath") pursuant to which Aftermath would acquire Minera Mandalay Challacollo Limitada ("MMC"), a wholly-owned subsidiary of the Company which owns the Challacollo project, in exchange for total consideration of C$11,625,00. See Section 1.14 "Subsequent Events" for more detail.

La Quebrada

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

Lupin and Ulu

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 to secure its reclamation obligations with respect to the Lupin mine be reduced by C$5.345 million. On August 3, 2018, that amount was released to the Company.

Spending on care and maintenance and reclamation at Lupin and Ulu was $0.1 million during the second quarter of 2018. The corresponding amount for the prior year quarter was $0.3 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 April 1, 2018 June 30, 2018	Average rate April 1, 2017 June 30, 2017	Average rate January 1, 2018 June 30, 2018	Average rate January 1, 2017 June 30, 2017
1A$ = C$	0.9772	1.0095	0.9855	1.0067
1A$ = US$	0.7569	0.7507	0.7713	0.7545
1 US$ = C$	1.2910	1.3446	1.2776	1.3342
1 US$ = Chilean Peso	621	664	612	660
1 US$= SEK	8.6737	8.8039	8.3957	8.8620

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of gold were higher in the second quarter of 2018 than in the second quarter of 2017; antimony and silver prices were lower. Realized prices in the second quarter of 2018 were lower than relative average market prices for each metal.

COMMODITY	Average rate April 1, 2018 June 30, 2018	Average rate April 1, 2017 June 30, 2017	Average rate January 1, 2018 June 30, 2018	Average rate January 1, 2017 June 30, 2017
Realized gold US$/oz[1]	1,279	1,267	1,327	1,273
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,307	1,256	1,318	1,236
Realized antimony US$/tonne[1]	7,657	8,464	8,225	8,519
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	8,295	8,816	8,396	8,417
Realized silver price US$/oz[1]	-	15.21	-	17.80
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	16.55	17.15	16.66	17.26

[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 2, 2018 ($'000)	Quarter 1, 2018 ($'000)	Quarter 4, 2017 ($'000)	Quarter 3, 2017 ($'000)
Revenue	27,944	39,747	38,093	35,407
Income/(loss)	(23,711)	(1,237)	(23,073)	(7,181)
Income/(loss) per share - Basic	(0.05)	(0.00)	(0.05)	(0.02)
Income/(loss) per share - Diluted	(0.05)	(0.00)	(0.05)	(0.02)

Particulars	Quarter 2, 2017 ($'000)	Quarter 1, 2017 ($'000)	Quarter 4, 2016 ($'000)	Quarter 3, 2016 ($'000)
Revenue	44,124	45,373	32,391	48,544
Income/(loss)	(10,105)	(2,349)	(25,542)	549
Income/(loss) per share - Basic	(0.02)	(0.01)	(0.06)	0.00
Income/(loss) per share - Diluted	(0.02)	(0.01)	(0.06)	0.00

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 Cerro 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 June 30, 2018, the Company's working capital was negative $15.6 million compared to $10.8 million at December 31, 2017. Working capital would have been $26.4 million as of June 30, 2018, had the five-year exchangeable loan and revolver facility loan been classified as long-term debt. The Company had cash and cash equivalents of $15.5 million at June 30, 2018, as compared to $16.9 million at December 31, 2017.

As at June 30, 2018, the Company was in compliance with all covenants under the Revolver Facility, apart from the Tangible Net Worth covenant. As this non-compliance is a default event, HSBC has the right to require immediate repayment of any outstanding amount and/or cancel the facility, and therefore, the outstanding amount has been classified as a current liability as at June 30, 2018. Subsequent to June 30, 2018, the Company has received dispensation from HSBC for the breach of this covenant.

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

Five-year exchangeable 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. 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 June 30, 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 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.

The facility has the below mentioned financial covenants:

- Interest Coverage Ratio of not less than 3.00:1.00 at all times (consolidated basis, calculated on rolling four-quarter basis);
- Leverage Ratio of not more than 3.00:1.00 at all times;
- Tangible Net Worth of less than 75% of Adjusted Tangible Net Worth and Closing Date + 50% of net income (cumulative) earned after Closing Date; and
- Current Ratio of not less than 1.20:1.00.

As at June 30, 2018, the Company was in compliance with all covenants under the Revolver Facility, apart from the Tangible Net Worth covenant. As this non-compliance is a default event, HSBC has the right to require immediate repayment of any outstanding amount and/or cancel the facility, and therefore, the outstanding amount has been classified as a current liability as at June 30, 2018. Subsequent to June 30, 2018, the Company has received dispensation from HSBC for the breach of this covenant.

During the year ended December 31, 2017, $15 million had been drawn. No additional funds were drawn during the six months ended June 30, 2018.

Fair-value adjustments

As at June 30, 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. This amount was revised with the repurchase of a portion of the Loan that occurred in the second quarter of 2017. As at June 30, 2018, the Company has recomputed the derivative portion of the Loan at $2.7 million, as compared to $3.6 million as at June 30, 2017. As a result, there is a mark-to-market adjustment gain of $1.1 million in the quarter, compared to gain of less than $0.4 million in the year ago quarter.

Marketable securities - The Company holds marketable securities with a fair market value of $0.1 million as at June 30, 2018, as compared to $0.2 million as at June 30, 2017, 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 recorded fair value measurement loss of $0.1 million for the quarter ended June 30, 2018, as compared to loss of less than $0.1 million in the year ago quarter.

Contractual obligations

Contractual obligations	Payments due by year ($ '000)			Total ($ '000)
	Less than 1 year	1-3 years	4-5 years	
Five-year exchangeable loan	-	-	30,000	30,000
HSBC Revolver facility*	15,000	-	-	15,000
Lease obligations	998	1,083	404	2,485
Other equipment loan obligations	389	380	33	802
Total contractual obligations	**16,387**	**1,463**	**30,437**	**48,287**

**note this is only classified as less than 1 year, due to the temporary breach of covenant. It would otherwise have been included in the 1-3 years classification – see Section 1.5 for more detail.*

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 June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	($'000)	($'000)	**($'000)**	($'000)
Administration expenses, salaries and consultancy services				
SKS Business Services	**47**	47	**94**	89

1.9 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 June 30, 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.

1.10 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.

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 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.

1.11 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 451,595,877 common shares issued and outstanding. The weighted average number of shares outstanding during the second quarter used for the calculation of per share results was 451,504,394.

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 CAD$	As of June 30, 2018	As of August 08, 2018	Expiry Date
0.20	5,280,000	5,280,000	30 June, 2025
0.60	4,099,900	4,099,900	30 June, 2024
0.91	4,318,000	4,318,000	23 March, 2021
0.91	3,725,000	3,725,000	24 March, 2020
0.98	3,300,000	3,300,000	24 March, 2019
Total	**20,722,900**	**20,722,900**	

During the quarter ended June 30, 2018, 100 options were exercised. There were 20,722,900 options outstanding as of June 30, 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 June 30, 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	(316,046)
Outstanding at June 30, 2018	372,300

1.12 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) for all the mines of the company is Chris Gregory working as an employee.

1.13 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.

1.14 SUBSEQUENT EVENTS

On April 18, 2018, the Nunavut Water Board reached a decision to recommend that the Letter of Credit that has been posted by Mandalay as security for its reclamation obligations in respect of the Lupin mine be reduced by C$5,345,000. Subsequent to June 30, 2018, this recommendation has been approved by the Minister of Indigenous and Northern Affairs and the funds were released to the Company on August 3, 2018.

On August 1, 2018, the Company announced that it had entered into a non-binding letter of intent with Aftermath Silver Ltd. ("Aftermath") pursuant to which Aftermath would acquire Minera Mandalay Challacollo Limitada ("MMC"), a wholly-owned subsidiary of the Company which owns the Challacollo project, in exchange for total consideration of C$11,625,000.

1.15 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 9 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 10 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.

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 10 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. 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.

9. *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.

10. *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.

11. *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.