

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2017
(Unaudited)

Mandalay Resources Corporation

March 31, 2017

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income three months ended March 31, 2017 and 2016

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended	
	2017	March 31, 2016
	(\$'000)	(\$'000)
Revenue	45,373	50,442
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note 13)	31,988	31,426
Depletion and depreciation	10,532	11,094
	42,520	42,520
Income from mine operations	2,853	7,922
Expenses		
Administration	1,967	1,742
Write-off of mining interests (Note 6)	-	3,441
Share-based compensation (Note 12(b))	237	197
Loss on disposal of property, plant and equipment	9	13
Business development costs	5	12
	2,218	5,405
Profit from operations	635	2,517
Other income (expenses)		
Finance costs (Note 16)	(1,414)	(1,386)
Loss on financial instruments (Note 17)	(830)	(931)
Interest and other income	97	78
Foreign exchange loss	(1,079)	(1,761)
	(3,226)	(4,000)
Loss before income taxes	(2,591)	(1,483)
Income tax (recovery) expense (Note 20)		
Current	(180)	840
Deferred	(62)	(3,472)
Income tax recovery	(242)	(2,632)
Net (loss) income for the period	(2,349)	1,149
Other comprehensive income, net of tax		
Foreign currency translation	3,713	5,660
Comprehensive income for the period	1,364	6,809
Net (loss) income per share		
Basic	(0.01)	0.00
Diluted	(0.01)	0.00
Weighted average number of common shares outstanding (Note 16)		
Basic ('000)	451,174	411,278
Diluted ('000)	451,174	412,459

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at March 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

(Unaudited)

	March 31, 2017 (\$'000)	December 31, 2016 (\$'000)
Assets		
Current assets		
Cash and cash equivalents	58,857	66,917
Trade receivables and other assets (Note 4)	30,260	26,226
Inventories (Note 5)	23,147	25,207
Prepaid expenses	4,407	3,713
Assets held for sale (Note 21)	31,656	31,382
	148,327	153,445
Non-current assets		
Reclamation and other deposits	5,368	5,146
Trade and other receivables (Note 4)	1,896	1,884
Property, plant and equipment (Note 6)	193,109	188,818
Intangible asset (Note 7)	181	305
Deferred tax asset	910	634
	201,464	196,787
	349,791	350,232
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	22,498	23,133
Borrowings (Note 9)	1,261	1,303
Five-year exchangeable loan (Note 10)	56,811	56,424
Income taxes payable	2,383	3,570
Other provisions (Note 11)	2,469	2,603
Financial instruments (Note 15)	1,865	1,072
Liabilities associated with assets held for sale (Note 21)	21,701	21,554
	108,988	109,659
Non-current liabilities		
Borrowings (Note 9)	1,056	1,263
Reclamation and site closure costs provision	23,655	23,391
Other provisions (Note 11)	1,337	1,146
Deferred tax liability	12,010	11,736
	38,058	37,536
	147,046	147,195
Equity		
Share capital (Note 12)	191,819	191,819
Share option reserve (Note 12)	9,120	8,854
Foreign currency translation reserve	(33,820)	(37,529)
Retained earnings	35,626	39,893
	202,745	203,037
	349,791	350,232

Approved by the Board of Directors and authorized for issue on May 10, 2017.

(Signed) Mark Sander

Mark Sander, President and Chief Executive Officer

(Signed) Robert Doyle

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity three months ended March 31, 2017 and 2016

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

(Unaudited)

	Number of shares issued	Share capital	Foreign currency		Retained earnings	Total equity
			Share option reserve	translation reserve		
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2016	451,174	191,819	8,854	(37,529)	39,893	203,037
Net loss	-	-	-	-	(2,349)	(2,349)
Other comprehensive income for the period	-	-	-	3,713	-	3,713
Total comprehensive income	-	-	-	3,713	(2,349)	1,364
Share-based compensation (Note 12(b))	-	-	266	-	-	266
Dividends paid (Note 12(e))	-	-	-	-	(1,922)	(1,922)
Balance, March 31, 2017	451,174	191,819	9,120	(33,816)	35,622	202,745

	Number of shares issued	Share capital	Foreign currency		Retained earnings	Total equity
			Share option reserve	translation reserve		
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2015	410,420	158,979	9,510	(32,794)	71,999	207,694
Net income	-	-	-	-	1,149	1,149
Other comprehensive income for the period	-	-	-	5,660	-	5,660
Total comprehensive income	-	-	-	5,660	1,149	6,809
Stock options exercised (Note 12(c))	3,038	2,240	(959)	-	-	1,281
Share-based compensation (Note 12(b))	-	-	142	-	-	142
Dividends paid (Note 12(e))	-	-	-	-	(2,715)	(2,715)
Shares issued (Note 12(a))	2,500	1,716	-	-	-	1,716
Balance, March 31, 2016	415,957	162,935	8,693	(27,134)	70,433	214,927

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation
Condensed consolidated interim statements of cash flows
for the three months ended March 31, 2017 and 2016
(Expressed in U.S. dollars)
(Unaudited)

	Year ended December 31,	
	2017	2016
	(\$'000)	(\$'000)
Operating activities		
Net (loss) income	(2,349)	1,149
Adjustments to reconcile net income to net cash flows from operating activities		
Amortization of intangible asset	123	123
Depletion and depreciation	10,532	11,094
Share-based compensation	237	197
Loss on disposal of property, plant and equipment	9	13
Write-off of exploration and evaluation	-	3,441
Finance cost	1,414	1,387
Unrealized gain on derivative financial instruments	830	931
Interest and other income (loss)	(97)	(78)
Foreign exchange gain	1,074	1,297
Income tax expense	(242)	(2,632)
Changes in non-cash operating working capital items		
Trade and other receivables	(4,391)	(10,991)
Inventories	2,185	2,222
Prepaid and other expenses	(607)	(737)
Trade and other payables	(1,592)	(344)
Provisions	(204)	213
Cash generated from operations	6,922	7,285
Interest and other income received	97	78
Interest and bank charges paid	(946)	(937)
Net cash flows from operating activities	6,073	6,426
Investing activities		
Payment on deposits	(71)	(124)
Payment for cancellation of royalty contract	-	(4,000)
Expenditure for property, plant and equipment	(12,092)	(9,057)
Proceeds on disposal of property, plant and equipment	-	10
Net cash flows used in investing activities	(12,163)	(13,171)
Financing activities		
Repayments of borrowings	(292)	(366)
Issuance of common shares for cash	-	1,281
Dividends paid (Note 12 (e))	(1,922)	(2,715)
Net cash flows used in financing activities	(2,214)	(1,800)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	225	84
Increase in cash and cash equivalents	(8,079)	(8,461)
Cash and cash equivalents, beginning of the period	66,936	49,199
Cash and cash equivalents, end of period	58,857	40,738
Cash and cash equivalents consist of		
Cash	58,857	40,738
Cash equivalents	-	-
	58,857	40,738

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2017 and December 31, 2016

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

(Unaudited)

1. Description of business and nature of operations

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

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

2. Basis of preparation

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

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

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

Judgments made by management in the application of International Financial Reporting Standards (“IFRS”) that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in the Company’s audited consolidated financial statements for the year ended December 31, 2016.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2016. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016.

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, 2016, except for the adoption of amendments and interpretations effective January 1, 2017. These amendments and interpretations had little or no impact on the Consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2017 and December 31, 2016

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

(Unaudited)

4. Trade and other receivables

Trade and other receivables consist of the following:

	March 31, 2017	December 31, 2016
	(\$'000)	(\$'000)
Trade receivables	20,819	18,628
Mark to market adjustment	1,911	-
VAT and other indirect tax receivables	7,241	7,537
Other receivables	1,960	1,684
Marketable securities	225	261
	32,156	28,110
Less: non-current portion	1,896	1,884
Total current portion	30,260	26,226

There was no allowance for doubtful accounts as at March 31, 2017, or December 31, 2016.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at March 31, 2017, this mark-to-market adjustment is recorded as a \$1,911,000 adjustment to trade and other receivables (2016 – \$nil).

5. Inventories

Inventories consist of the following:

	March 31, 2017	December 31, 2016
	(\$'000)	(\$'000)
Finished goods	4,509	8,722
Work in progress and stockpiled ore	9,051	5,533
Consumables	9,587	10,952
	23,147	25,207

The amount of inventories recognized in cost of operations for the three months ended March 31, 2017, is \$43,416,000 (2016 – \$42,520,000).

The Company did not recognise a write-down of consumables as at March 31, 2017 (2016 – \$nil).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at March 31, 2017 and December 31, 2016

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

(Unaudited)

6. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost												
As at January 1, 2016	59,576	68,640	51,408	29,120	47,802	16,044	2,928	7,544	3,278	13,917	43,486	343,743
Additions	-	14,390	11,818	3,389	3,296	4,879	206	4,551	2,626	1,947	4,370	51,472
Disposals	-	-	-	(3,124)	-	(50)	(232)	-	-	-	(186)	(3,592)
Reclassification to mining interest	5,763	1,024	-	-	-	-	-	(5,763)	(1,024)	-	-	-
Transferred to Asset held for sale	-	-	-	-	-	-	(2,644)	-	-	-	(6,726)	(9,370)
Write-off of mining interest	-	(14,179)	-	-	-	-	-	-	-	-	-	(14,179)
Write-off of exploration and evaluation	-	-	-	-	-	-	-	(491)	(3,066)	(189)	-	(3,746)
Foreign exchange	(571)	-	(4,184)	(235)	-	(1,377)	31	14	-	(639)	(64)	(7,025)
As at December 31, 2016	64,768	69,875	59,042	29,150	51,098	19,496	289	5,855	1,814	15,036	40,880	357,303
Additions	777	3,364	3,264	1,015	417	1,753	206	988	383	5	272	12,444
Disposals	-	-	-	(48)	-	-	-	-	-	-	-	(48)
Reclassification to mining interest	94	-	-	-	-	-	-	(94)	-	-	-	-
Foreign exchange	3,065	-	741	1,706	-	329	1	337	-	(210)	(159)	5,810
As at March 31, 2017	68,704	73,239	63,047	31,823	51,515	21,578	496	7,086	2,197	14,831	40,993	375,509
Accumulated depreciation												
As at January 1, 2016	35,976	42,934	8,479	8,306	30,306	4,493	407	-	-	-	-	130,901
Expense	8,559	8,508	8,185	5,802	6,720	3,234	58	-	-	-	-	41,066
Disposals	-	-	-	(1,690)	-	-	-	-	-	-	-	(1,690)
Foreign exchange	(408)	-	(696)	(182)	-	(510)	4	-	-	-	-	(1,792)
As at December 31, 2016	44,127	51,442	15,968	12,236	37,026	7,217	469	-	-	-	-	168,485
Expense	2,338	2,359	2,247	1,549	1,505	705	11	-	-	-	-	10,714
Disposals	-	-	-	(39)	-	-	-	-	-	-	-	(39)
Foreign exchange	2,171	-	181	755	-	132	1	-	-	-	-	3,240
As at March 31, 2017	48,636	53,801	18,396	14,501	38,531	8,054	481	-	-	-	-	182,400
Carrying value												
As at January 1, 2016	23,600	25,706	42,929	20,814	17,496	11,551	2,521	7,544	3,278	13,917	43,486	212,842
As at December 31, 2016	20,641	18,433	43,074	16,914	14,072	12,279	(180)	5,855	1,814	15,036	40,880	188,818
As at March 31, 2017	20,068	19,438	44,651	17,322	12,984	13,524	15	7,086	2,197	14,831	40,993	193,109

For the three months ended March 31, 2017, plant and equipment depreciation for Cerro Bayo of \$222,000 (2016 – \$150,000), for Costerfield of \$Nil (2016 – \$nil) was capitalized in mining interests.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2017 and December 31, 2016

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

6. Property, plant and equipment (continued)

In connection with Mandalay's acquisition of Cerro Bayo from Coeur Mining, Inc. ("Coeur Mining"), Coeur Mining received a 2% Net Smelter Royalty interest in production at Cerro Bayo. On March 31, 2016, the Company repurchased and cancelled the royalty from Coeur Mining in exchange for consideration consisting of \$4,000,000 cash and 2,500,000 common shares of the Company with a value of \$1,717,000 at that date. Additions in mining interests of Cerro Bayo for the three months ended March 31, 2016 includes \$5,717,000 related to the value of the cancelled royalty.

During the three months ended March 31, 2016, the Company recognized a \$4,180,000 write-off of residual mining interests in the Fabiola, Yasna and Dagny veins at Cerro Bayo due to the fact there were no additional accessible reserves in those veins.

7. Intangible asset

On July 8, 2015, the Company signed two-year and three-year collective agreements with its union workers at the Cerro Bayo mine and secured these agreements with a cash payment of \$1,046,000. This payment will be amortized over the contractual life of the agreements.

As at March 31, 2017, the carrying amount of the intangible asset is \$181,000, which relates to the 2015 agreement (December 31, 2016 - \$305,000). Amortization expense for the three ended March 31, 2017, of \$123,000 (2016 - \$123,000) is recorded as part of cost of sales.

8. Trade and other payables

	March 31, 2017	December 31, 2016
	(\$'000)	(\$'000)
Trade payables	13,701	13,069
Accrued liabilities	5,992	6,265
Payroll and other taxes payable	2,797	2,780
Cash election option (Note 12(c))	8	36
Mark-to-market adjustment	-	983
	22,498	23,133

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

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at March 31, 2017, there was no mark-to-market adjustments recorded in trade and other payables (2016 - \$983,000).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2017 and December 31, 2016

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

9. Borrowings

Equipment loans

As at March 31, 2017, the Company's Björkdal mine in Sweden, had a balance of \$1,050,000 (December 31, 2016 – \$1,176,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the 3-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 12 months from the period ended March 31, 2017. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling \$1,267,000 (December 31, 2016 – \$1,390,000). These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments, with the final lease payment falling due 31 months from the period ended March 31, 2017. The leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost.

As at March 31, 2017, the current portion of the above facilities is \$1,261,000 (December 31, 2016 – \$1,303,000) and the non-current portion is \$1,056,000 (December 31, 2016 – \$1,263,000).

10. 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 initial exchange price is US\$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of US\$1,556 per ounce. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which net asset value ("NAV") of the SPDR Gold Trust or Gold Shares is calculated.

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares (less the number of Gold Shares, if any, being released from the Custody Account in connection with the exchange) to the Bond holder.

Starting on May 14, 2017, the Company is required to start depositing, on a quarterly basis, Gold Shares into a depository account maintained by The Bank of New York Mellon, London Branch. The depository account serves as security for the Issuer's obligations to the Bond holders.

The number of Gold Shares that must be deposited on each quarterly instalment date is determined in accordance with the following formula:

$$DSI = (1 / A) \times ((B / C) - D)$$

Where:

"DSI" is the number of Gold Shares to be registered in the custody account on the relevant instalment date;

"A" is the number of instalment dates remaining (including the relevant instalment date);

"B" is the aggregate principal amount of the Bonds outstanding as at the relevant instalment date;

"C" is the then prevailing exchange price for the Bonds; and "D" is the number of Gold Shares that are held in the custody account immediately before the relevant instalment date.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2017 and December 31, 2016

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

10. Five-year exchangeable loan (continued)

The Issuer may redeem the Bonds at its option:

- any time after June 13, 2017, 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
- any time, 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.

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 March 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 (Note 15).

11. Other Provisions

	Employee benefits
	(\$000)
Balance, December 31, 2016	3,749
Additions	600
Amounts paid	(713)
Foreign exchange	170
Balance, March 31, 2017	3,806
Less: current portion	2,469
Total non-current portion	1,337

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

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at March 31, 2017 and December 31, 2016

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

12. Share capital

As at March 31, 2017, the Company had an unlimited number of authorized common shares without par value and 451,174,008 common shares outstanding (December 31, 2016 – 451,174,008 common shares). All outstanding common shares are fully paid.

(a) Shares issued

For the three months ended March 31, 2016, the Company issued its common shares upon exercise of share options by their holders. The Company also issued 2.5 million shares to Coeur Mining as part of the purchase of the 2% Net Smelter Return royalty at Cerro Bayo (See Note 6 for detail).

On July 26, 2016, the Company closed its previously announced treasury offering (the "Offering") of 33,915,000 common shares at a price of C\$1.15 per common share for aggregate gross proceeds of C\$39,002,250. The Offering was completed on a bought deal basis and was underwritten by BMO Capital Markets.

(b) Share-based compensation

For the three months ended March 31, 2017, the Company recorded \$237,000 (2016 – \$197,000) as net share-based compensation expense and recorded this amount in share option reserve.

	2017	2016
	(\$'000)	(\$'000)
Stock based compensation on options	233	280
Fair value for cash election option	(19)	(122)
RSU amortization	23	39
	237	197

The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$0.60 (2016 – C\$0.91) was calculated using the following weighted average assumption. Expected stock price volatility and option life is based on the Company's historical share price volatility.

	2017	2016
Risk free interest rate	0.97%	0.60%
Expected dividend yield	5.71%	4.48%
Expected life of options in years	7.00	5.00
Expected stock price volatility	42.46%	44.05%
Expected forfeiture rate	0.00%	0.00%

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over three years and have a maximum term of five years from the date of grant, but can have a maximum term of up to 10 years.

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12. Share capital (continued)

(c) Stock options

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at March 31, 2017, the liability is \$8,000 (December 31, 2016 - \$36,000).

The Company recognized a fair value measurement gain of \$19,000 for the three months ended March 31, 2017 (2016 – \$122,000), which is included in the share-based compensation expense.

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

	2017	2016
Risk free interest rate	0.75%	0.54%
Expected dividend yield	3.31%	4.03%
Expected life of options in years	2.99	2.98
Expected stock price volatility	45.52%	43.63%
Expected forfeiture rate	0.00%	0.00%

As at March 31, 2017, 775,000 (2016 – 1,455,000) stock options with the cash election option are outstanding.

	Number of options	Weighted average exercise price C\$
Balance, December 31, 2015	18,912,500	0.89
Granted	5,463,000	0.91
Exercised-equity issuance	(4,123,300)	0.63
Forfeited	(1,010,000)	0.93
Balance, December 31, 2016	19,242,200	0.95
Granted	4,400,000	0.60
Expired	(2,621,700)	0.78
Forfeited	(92,500)	0.95
Balance, March 31, 2017	20,928,000	0.90

The weighted average share price at the time when the stock options were exercised during the three months ended March 31, 2017, was C\$nil (2016 – C\$0.95).

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12. Share capital (continued)

(c) Stock options (continued)

The following table summarizes information about the stock options outstanding as at March 31, 2017:

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
3,490,000	0.97	1.13	3,490,000	1.13
3,800,000	1.98	0.98	3,800,000	0.98
20,000	2.60	0.93	-	-
4,290,000	2.98	0.91	-	-
4,928,000	3.98	0.91	-	-
4,400,000	7.25	0.60	-	-
20,928,000	3.60	0.90	7,290,000	1.05

(d) Restricted Share Units

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

The number of RSUs as at March 31, 2017, is as follows:

	Number of RSU awards
Balance, December 31, 2015	419,472
Granted	78,435
Redeemed	(215,730)
Balance, December 31, 2016	282,177
Granted	501,994
Redeemed	-
Outstanding at March 31, 2017	784,171

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12. Share capital (continued)

(d) Restricted Share Units (continued)

For the three months ended March 31, 2017, the Company recorded \$23,000 (2016 – \$39,000), respectively, as share based compensation relating to RSUs.

(e) Dividends

On February 16, 2017, the Board of Directors declared a dividend in the amount of C\$0.0057 per common share, based on the Company's operating results for the the three months ended December 31, 2016, payable to shareholders of record as of February 27, 2017. Total payment of \$1,922,000 was made during the three months ended March 31, 2017 (2016 – 2,715,400).

13. Cost of sales

The cost of sales for the three months ended March 31, 2017 and 2016, consists of:

	Three months ended	
	March 31,	
	2017	2016
	(\$'000)	(\$'000)
Raw materials and consumables	9,692	10,002
Salary and employee benefits	9,539	8,359
Contractors	7,775	6,754
Change in inventories	2,148	2,850
Royalty	178	440
Other	2,656	3,021
	31,988	31,426

14. Finance costs

	Three months ended	
	March 31,	
	2017	2016
	(\$'000)	(\$'000)
Interest on borrowings	56	83
Interest on five year exchangeable bonds (Note 10)	1,273	1,227
Accretion of reclamation and site closure costs	85	229
	1,414	1,539

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15. Financial instruments

(a) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (Note 10) using the Black-Scholes option pricing. For the three months ended March 31, 2017, the derivative value of the conversion feature amounts to \$1,865,200 (2016 – \$1,072,000) and is recorded in current liabilities in the consolidated statements of financial position. The Company recorded a fair value measurement loss of \$793,200 (2016 – \$992,000) for the three months ended March 31, 2017. The value was estimated using the following Level 2 assumptions: risk free interest rate of 0.76% (2016 – 1.47%); volatility of 18% (2016 – 18%), gold forward curve adjustment of (1.15%) (2016 – (0.16%)).

(b) Marketable securities

The value of securities as at March 31, 2017, is \$225,000 (at December 31, 2016 – \$261,000), recorded in trade and other receivables on the consolidated 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 a fair value measurement gain/(loss) of (\$36,000) (2016 – \$62,000) for three months ended March 31, 2017, using Level 1 assumptions.

16. Income per share

As at March 31, 2017 and 2016, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended	
	March 31,	
	2017	2016
	('000)	('000)
Net (loss) income for the year	(2,345)	1,149
Basic weighted average number of shares outstanding	451,174	411,278
Effect of diluted securities :		
Stock options	-	759
RSU	-	421
Diluted weighted average number of shares outstanding	451,174	412,459

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the exercise price exceeded the daily weighted average market value of the common shares for the three months ended March 31, 2017, of C\$0.73 (three months ended March 31, 2016 – C\$0.94) respectively:

	Three months ended	
	March 31,	
	2017	2016
	('000)	('000)
Stock options	20,928	7,588

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as at March 31, 2017 and December 31, 2016

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17. Segmented information

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

	Three months ended March 31, 2017				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	15,620	12,933	16,820	-	45,373
Cost of sales	(9,800)	(8,724)	(13,464)	-	(31,988)
Depletion and depreciation	(3,887)	(3,653)	(2,988)	(4)	(10,532)
Income from mine operations	1,933	556	368	(4)	2,853
Administration expenses	(283)	(848)	(357)	(721)	(2,209)
Income (loss) from operations	1,650	(292)	11	(725)	644
Other expense, except for fair value adjustment	(983)	(138)	(174)	(1,110)	(2,405)
Income (loss) for underlying operations	667	(430)	(163)	(1,835)	(1,761)
Income (loss) for underlying operations per share					
Basic					(\$0.01)
Diluted					(\$0.01)
Fair value adjustments gain (loss) (Note 17)					
Five-year exchangeable bonds (Note 17(a))	-	-	-	(793)	(793)
Marketable Securities (Note 17(c))	-	-	-	(37)	(37)
Total fair value adjustment	-	-	-	(830)	(830)
Income (loss) before income taxes	667	(430)	(163)	(2,665)	(2,591)
Current tax recovery (expense)	89	-	91	-	180
Deferred tax recovery (expense)	(91)	2	151	-	62
Net income (loss)	665	(428)	79	(2,665)	(2,349)
Loss per share					
Basic					(\$0.01)
Diluted					(\$0.01)
Cash expenditure for property, plant and equipment	2,780	4,214	5,098	-	12,092
Total non-current assets as at March 31, 2017	47,545	75,972	77,098	849	201,464
Total assets as at March 31, 2017	82,245	104,102	97,774	65,713	349,791
Total liabilities as at March 31, 2017	16,879	23,452	24,703	82,012	147,046

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(Unaudited)

17. Segmented information (continued)

	Three months ended on March 31, 2016				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	17,867	17,398	15,177		50,442
Cost of sales	(8,817)	(12,362)	(10,247)		(31,426)
Depletion and depreciation	(3,738)	(4,452)	(2,900)	(4)	(11,094)
Income (loss) from mine operations	5,312	584	2,030	(4)	7,922
Administrative expenses	(408)	(779)	(474)	(303)	(1,964)
Write-off of exploration and evaluation	-	(3,441)	-		(3,441)
Income (loss) from operations	4,904	(3,636)	1,556	(307)	2,517
Other expense, except for fair value adjustment	(783)	62	(1)	(2,347)	(3,069)
Income (loss) for underlying operations	4,121	(3,574)	1,555	(2,654)	(552)
Income for underlying operations per share					
Basic					(\$0.00)
Diluted					(\$0.00)
Marketable Securities (Note 17(c))	-	-	-	62	62
Five-year exchangeable bonds (Note 17(a))	-	-	-	(993)	(993)
Total fair value adjustment	-	-	-	(931)	(931)
Net income (loss) before income taxes	4,121	(3,574)	1,555	(3,585)	(1,483)
Current tax expense	(584)	-	(256)	-	(840)
Deferred tax recovery (expense)	850	2,541	81	-	3,472
Net income (loss)	4,387	(1,033)	1,380	(3,585)	1,149
Income per share					
Basic					\$0.00
Diluted					\$0.00
Cash expenditures for property, plant and equipment	1,296	3,540	4,168	53	9,057
Total non-current assets as at March 31, 2016	54,792	92,796	74,487	30,847	252,922
Total assets as at March 31, 2016	78,647	128,463	93,919	56,088	357,117
Total liabilities as at March 31, 2016	14,010	23,459	26,299	78,421	142,189

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17. Segmented information (continued)

For the three months ended March 31, 2017, the Company had four customers from whom it earned more than 10% of its total revenue (2016 – five customers).

Revenue from these customers is summarized as follows:

	Three months ended	
	March 31, 2017 (\$'000)	March 31, 2016 (\$'000)
Costerfield (gold and antimony)		
Customer 1	10,211	11,242
Customer 2	4,393	5,947
	14,604	17,189
Cerro Bayo (silver and gold)		
Customer 3	6,817	9,217
Customer 4	-	3,967
	6,817	13,184
Björkdal (gold)		
Customer 5	14,112	12,580
	14,112	12,580
Total	35,533	42,953

18. Fair value measurement

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

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

As at March 31, 2017, the provisional pricing feature of trade receivables, other receivables and marketable securities are based on Level 1 input. Provisional pricing feature of trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

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19. Related party transactions

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

	Three months ended	
	March 31,	
	2017	2016
	(\$'000)	(\$'000)
Administration expenses and salaries		
SKS Business Services	59	62

20. Income tax

During the three months ended March 31, 2017, the Company had recognised current tax expense of \$180,000 (2016 – \$840,000) and deferred tax recovery of \$62,000 (2016 – recovery of \$3,472,000).

21. Assets and liabilities held for sale

On October 31, 2016, Mandalay entered into a definitive agreement with WPC Resources Inc. (TSXV: WPC) (“WPC”) pursuant to which WPC has agreed to purchase the Lupin gold mine (“Lupin”) and the Ulu (“Ulu”) gold project from Mandalay. Following the agreement all the assets related to Lupin and Ulu amounting to \$31,656,000 (December 31, 2016 – 31,282,000) are classified as held for sale, and Liabilities of \$21,701,000 (December 31, 2016 – 21,554,000) directly associated with Lupin and Ulu are classified as Liabilities directly associated with assets held for sale.

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

	March 31,	December 31,
	2017	2016
	(\$'000)	(\$'000)
Assets		
Reclamation deposits and other	20,836	20,634
Property, plant and equipment	9,508	9,370
Current assets	1,312	1,378
Assets held for sale	31,656	31,382
Liabilities		
Reclamation and site closure costs	21,663	21,516
Other liabilities	38	38
Liabilities associated with Assets held for sale	21,701	21,554

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22. Commitments and contingencies

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

The Company's Björkdal mine has entered into several equipment leases and the detailed future minimum payments relating to these leases are outlined in Note 9.

23. Subsequent events

On May 11, 2017, the Board of Directors declared a quarterly dividend of \$2.7 million, or \$0.0060 per share (C\$0.0083 per share), payable on June 01, 2017 to shareholders of record as of May 22, 2017.

On April 19, 2017, the Company announced that Gold Exchange Limited, an unaffiliated special purpose vehicle incorporated in Jersey, has launched a repurchase offer and consent solicitation in respect of its \$60,000,000 principal amount 5.875% secured exchangeable bonds due in 2019. The result of this offer will be known after the date of these financial statements.