MANDALAY RESOURCES

Management's Discussion and Analysis

For the quarter ended March 31, 2017

As of May 10, 2017

CONTENTS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated interim financial statements and notes to the condensed consolidated interim financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended March 31, 2017, and the Company's annual information form dated March 31, 2017 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States ("U.S.") dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

1.0 FIRST QUARTER 2017 FINANCIAL AND OPERATING SUMMARY

1. Financial Summary

- Revenue in the quarter declined to $45.4 million (including no revenue adjustments related to open sales contracts from prior quarters) from $50.4 million in the prior year quarter (including favorable revenue adjustments of $1.2 million related to open sales contracts from prior quarters). The decline in quarterly revenue was primarily due to lower volume of metal sold in the 2017 period than in the 2016 period, partially offset by higher average market prices in the first quarter of 2017 than in the first quarter of 2016.

- Adjusted EBITDA[1] in the first quarter of 2017 was $11.4 million versus $17.3 million in the first quarter of 2016. Lower adjusted EBITDA was due to lower revenue in the 2017 period than in the corresponding 2016 period.

- Operating income from mine operations before tax in the first quarter of 2017 was $13.4 million versus income of $19.0 million in the year-ago quarter.

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

- Consolidated after tax net loss in the first quarter of 2017 was $2.3 million ($0.01 loss per share) compared to a consolidated net income of $1.1 million ($0.00 income per share) in the first quarter of 2016. Again, lower revenue due to lower volume metal sold was the main reason for the lower performance in the current quarter.

- Dividends paid in the first quarter of 2017 were $1.9 million (C$0.0057 per share) compared to $2.7 million (C$0.0088 per share) in the corresponding quarter of 2016.

- Total cash capital expenditure[1] during the first quarter of 2017 was $12.1 million compared to $9.1 million in the year-ago quarter.

- At March 31, 2017, the Company had $58.9 million of cash and cash equivalents compared to $66.9 million as at December 31, 2016.

2. Operational Summary

Consolidated Production and Sales

- In the first quarter of 2017, Mandalay produced a total of 32,481 ounces of gold equivalent, including 21,370 ounces of gold, 435,076 ounces of silver and 741 tonnes of antimony. This compares to 39,965 ounces of gold equivalent produced in the first quarter of 2016, consisting of 28,954 ounces of gold, 515,216 ounces of silver and 1,000 tonnes of antimony. At Costerfield, production in the current quarter is consistent with the previous two quarters and the current grade profile of the mine. This quarter's results were lower than the 2016 quarter as we were then producing from high grade areas of the Cuffley lode. Production from Cerro Bayo in the current quarter was comparatively lower than the year-ago quarter, but consistent with the restated reserves and guidance published in February, 2017. Further details on this subject and its potential future impacts is set out under "Results of Operations – Cerro Bayo" below. Björkdal production was similar to the previous quarter. Ore volumes were limited due to several mining bottlenecks which mostly have been resolved by the time of this MD&A. More detail is included below under "Results of Operations – Björkdal".

- Mandalay's consolidated average cash cost[2] of production in the first quarter of 2017 was $987 per ounce of gold equivalent versus $751 per ounce of gold equivalent in the first quarter of 2016. Consolidated all-in cost[3] in the current quarter was $1,326 per ounce of gold equivalent versus $1,042 per ounce of gold equivalent in the prior-year quarter. The higher per ounce costs in the current quarter flow directly from the lower grades leading to lower production at each of the mines.

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

- Operational exchange rates slightly impacted U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 0.7583/US$ in the first quarter of 2017 versus 0.7223/US$ in the prior year period. The Chilean Peso averaged 656 peso/US$ versus 701 peso/US$ in the prior period. The Swedish Krona averaged 8.9219 krona/US$ in the period versus 8.4531 krona/US$ in the prior period. Petroleum prices were approximately 3.37% higher than in the prior period.

- Quantities of metal sold during the quarter were 23,668 ounces of gold, 451,777 ounces of silver and 708 tonnes of antimony compared to 29,183 ounces of gold, 602,621 ounces of silver and 893 tonnes of antimony in the first quarter of 2016. These sales totaled 34,801 ounces of gold equivalent versus 40,808 ounces of gold equivalent in the corresponding quarter of 2016.

- Prices realized during the quarter were $1,279 per ounce for gold, $19.96 per ounce for silver and $8,581 per tonne for antimony versus $1,241 per ounce for gold, $15.75 per ounce for silver and $5,292 per tonne for antimony in the same period in 2016 (3.1% higher price for gold, 26.7% higher for silver and 62.2% higher for antimony).

Looking forward, the Company expects that it will produce a total of gold equivalent ounces within the revised guidance range issued on February 16, 2017:

- Costerfield production will increase in the second quarter as the mining of higher grade areas in Cuffley Deeps begins and will continue higher for the remainder of the year;

- Cerro Bayo production will gradually increase as the developed state of the mine improves;

- Björkdal performance will continue to improve in quarters two, three, and four as impact of several recently implemented operational improvements take hold.

Mandalay Saleable Production

Metal	Source	Three months to 31 March 2017	Three months to 31 March 2016
Gold (oz)	Costerfield	7,987	12,433
	Cerro Bayo	2,735	4,336
	Björkdal	10,648	12,185
	Total	**21,370**	**28,954**
Antimony (t)	Costerfield	**741**	**1,000**
Silver (oz)	Cerro Bayo	**435,076**	**515,216**
Average quarterly prices:			
Gold US$/oz		1,217	1,181
Antimony US$/tonne		8,058	5,353
Silver US$/oz		17.36	14.85
Au Eq. (oz)[1]	Costerfield	12,891	16,966
	Cerro Bayo	8,942	10,814
	Björkdal	10,648	12,185
	Total	**32,481**	**39,965**

[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 31 March 2017	Three months to 31 March 2016
Gold (oz)	Costerfield	7,547	10,816
	Cerro Bayo	3,000	6,030
	Bjorkdal	13,121	12,337
	Total	**23,668**	**29,183**
Antimony (t)	Costerfield	**708**	**893**
Silver (oz)	Cerro Bayo	**451,777**	**602,621**
Average quarterly prices:			
Gold US$/oz		1,217	1,181
Antimony US$/tonne		8,058	5,353
Silver US$/oz		17.36	14.85
Au Eq. (oz)[2]	Costerfield	12,235	14,864
	Cerro Bayo	9,445	13,607
	Bjorkdal	13,121	12,337
	Total	**34,801**	**40,808**

[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.

Costerfield Gold-Antimony Mine, Victoria, Australia

- *Production* — Saleable gold production for the first quarter of 2017 was 7,987 ounces versus 7,523 ounces in the previous quarter and 12,433 ounces in the first quarter of 2016. Saleable antimony production for the first quarter of 2017 was 741 tonnes versus 792 tonnes in the previous quarter and 1,000 tonnes in the first quarter of 2016. Although production in the current quarter was lower than in the year-ago quarter (when the highest grade part of the Cuffley lode was being extracted), it was higher than in the previous quarter and is in line with the current grade profile of the mine.

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the first quarter of 2017 was $719 versus $837 in the previous quarter and $512 in the first quarter of 2016. The higher cash cost in the first quarter of 2017 than in the year-ago period resulted from lower saleable production due to lower grades of ore mined and processed. The site all-in cost per ounce of gold equivalent produced in the first quarter of 2017 was $1,033 versus $1,096 in the previous quarter and $724 in the first quarter of 2016.

Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production* — Cerro Bayo produced 435,076 ounces of silver and 2,735 ounces of gold in the first quarter of 2017 versus 365,214 ounces of silver and 2,807 ounces of gold in the previous quarter and 515,216 ounces of silver and 4,336 ounces of gold in the first quarter of 2016. Production at Cerro Bayo improved in the first quarter of 2017 from the fourth quarter of 2016, but remained lower than in the prior year quarter mainly due to the new mine plan implemented in response to the reduced reserves along the Delia SE vein announced in February, 2017.

- *Operating Costs* — Cash cost per saleable ounce silver produced net of gold credits was $14.04 in the first quarter of 2017 versus $17.48 in the previous quarter and $9.76 in the first quarter of 2016. Cash costs recovered modestly from the fourth quarter of 2016, although they remained substantially higher than the year ago quarter. The site all-in cost per ounce silver produced net of gold by-product credit was $22.54 in the first quarter of 2017 versus $25.99 in the previous quarter and $18.78 in the first quarter of 2016.

Björkdal Gold Mine, Sweden

- *Production* — Björkdal produced 10,648 ounces of gold in the first quarter of 2017 versus 10,934 ounces of gold in the previous quarter and 12,185 ounces of gold in first quarter of 2016. Production is directly related to grade of mill feed as the mill runs at an almost constant throughput rate. Grades in the current quarter were lower than the previous quarter and year-ago quarter mainly due to several bottlenecks in production of ore from the open pit and underground mines, most of which have been since resolved (see below).

- *Operating Costs* — Cash cost per saleable ounce og gold produced at Björkdal in the first quarter of this year was $1,150 and the site all-in cost per saleable ounce of gold produced was $1,431, as compared to $1,160 and $1,374 in the previous quarter and $821 and $1,059 respectively for the prior-year quarter of 2016. The increase in costs in the current period was mainly due to lower grade mined and processed.

Exploration

A detailed update of exploration activity at all four of Mandalay's material properties in the second half of 2016 was released on January 27, 2017. Activities during the first quarter of 2017 included:

Cerro Bayo

Infill and extensional drilling was performed to support production planning and drilling was completed on the Antimonio and Nina targets.

Costerfield

Infill and extensional drilling was performed on Brunswick and Brunswick South lodes to support a development decision anticipated for later in 2017.

Björkdal

Underground core drilling continued in order to infill previous drill holes to support anticipated reserve increases at the next reserves update.

Challacollo

Permission to drill for water on concessions granted to Mandalay was received in the first quarter of 2017 and drilling is anticipated to commence in the second quarter.

La Quebrada, Chile

La Quebrada is a non-core asset of the Company and remained on care and maintenance in the first quarter of 2017.

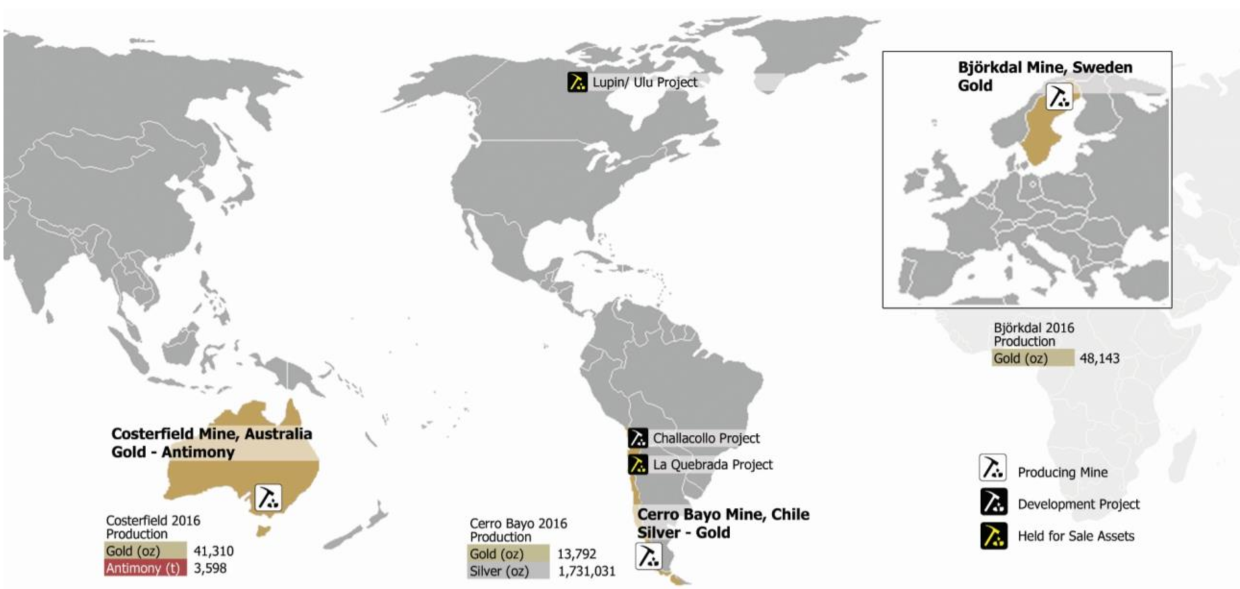
Lupin and Ulu, Canada

The Lupin and Ulu gold projects in Nunavut, Canada were acquired as part of the Company's acquisition of Elgin Mining and are currently held for sale as non-core assets. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects. On February 6, 2017, the proposed purchaser announced a private placement intended to finance the acquisition and advance the project. Mandalay currently expects the transaction to close by the third quarter of 2017.

1.1 PORTFOLIO AND OPERATIONAL OVERVIEW

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

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



Costerfield

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

Cerro Bayo

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

Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. Key to the financial performance of the restarted operation were: shifting the mining method from shrinkage stoping to completely mechanized blast-hole open stoping; ramping up the operation to a total rate of 1,400 tonnes per day from three mines; and developing four highly competitive concentrate customers. Cerro Bayo is royalty-free.

As previously disclosed (see press releases of February 16 and 23, 2017) detailed development sampling has refined Mandalay's understanding of gold and silver distribution in the Delia SE vein. Whereas the limits of ore grades at shallow development levels of the vein approximated the drilling-based block model, the deepest three levels have exposed more internal waste in the mineralized shoot than was previously thought. The updated estimate of reserves for the vein contained fewer gold and silver ounces than the previous estimate, and re-optimization of the mine plan for the reduction led to revised production guidance showing reduced ounces of metal and higher cost per ounce than previously. Further detail on this reduction is included in the recent NI 43-101 technical report, available on the Mandalay website and under Mandalay's profile at www.sedar.com. To the date of this MD&A, the mine is following the revised plan quite closely at a 1,000 tonnes per day plant throughput rate.

Björkdal

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

- At the end of the first quarter of 2017, the Company added underground loading and haulage capacity to increase the haulage of stope ore, which is the highest-grade material delivered from the mines. This will result in an increased rate of delivery of high-grade underground ore throughout the remainder of the year;

- The Company has ordered longer booms for its jumbos, which will increase the rate of development undergound at minimal incremental additional cycle time or cost increases.

- The Lake Zone mining concession is now fully granted and the concesssion is fully operable at this point. We can now process previously mined and stockpiled high grade development ore from the concession, providing a short-term boost to second quarter production, and we can resume development and stoping in the concession in the longer term.

- The Company has eliminated the emerging bottleneck due to the slow blast hole drilling rate in the open pit by changing contractors in the first quarter. The new contractor has increased both the number of drills and the number of crews; it has successfully mobilized and ramped up to the target rate of drilling. This will have the effect of increasing the rate of delivery of open pit ore to the plant going forward.

- The Company implemented Phase 1 of its low-grade ore sorting program, consisting of crushing and screening material grading between 0.35 and 1.00 grams per tonne gold from the active mine and historic stockpiles in early January for zero capital expenditure. Initial indications from the first months of operation have been very positive. The process will be optimized throughout the second quarter in an attempt find the optimum screen size to maximize the grade of fines processed immediately while crushing the B-ore to 100% minus 100 mesh so that it can be fed without further rehandling (and cost) to the anticipated optical sorting plant to be constructed beginning in later this year; and

Exploration efforts during 2016 resulted in updated ore reserves adding some 200,000 ounces of Probable Reserves (more than three years of mine life; see press release of December 15, 2016). The construction of the flotation expansion, expected to improve gold recoveries by approximately 1.7%, continues on time and on budget toward commissioning later this year.

Challacollo

Challacollo is a 100% owned silver-gold deposit located in Region I, Northern Chile. Mandalay completed an independent NI 43-101 Mineral Resource estimate for this development property in conjunction with its acquisition of the property on February 7, 2014. Since then, the Company has completed: infill drilling to upgrade previously Inferred Mineral Resource to Indicated; metallurgical studies; mine, plant and infrastructure design; and capital and operating costing. The key outstanding feasibility issue is securing an adequate water supply to support operations. Initial test water well drilling was not successful in this regard and the currently permitted water source is deemed to be too environmentally sensitive to be used for the project. The Company has identified alternate water source options, has received exploration permits for water well drilling on nearby concessions, and plans to drill for water in the second quarter of 2017. The overall operations permit application has been postponed until an adequate water supply can be secured and incorporated into the project design.

La Quebrada

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

Lupin/Ulu

The Lupin and Ulu gold projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects. On February 6, 2017, the proposed purchaser announced a private placement intended to finance the acquisition and advance the project. Mandalay currently expects the transaction to close by the third quarter of 2017.

1.2 SELECTED QUARTERLY INFORMATION

Summary Financial Information

The following table sets forth a summary of the Company's financial results for the three months ended March 31, 2017 and 2016:

	Three months ended March 31, 2017 ($'000)	Three months ended March 31, 2016 ($'000)
Revenue	45,373	50,442
Cost of sales	31,988	31,426
Income from mine operations before depreciation and depletion	13,385	19,016
Depreciation and depletion	10,532	11,094
Income from mine operations	2,852	7,922
Administration costs	1,967	1,742
Business development costs	5	12
Adjusted EBITDA*	11,412	17,262
Finance costs, foreign exchange and others**	3,470	7,651
Consolidated (loss) income before tax	(2,590)	(1,483)
Current tax (income) expense	(180)	840
Deferred tax expense	(62)	(3,472)
Adjusted net (loss) income before special items after tax *	(2,349)	1,020
Consolidated net (loss) income after tax	(2,349)	1,149
Total assets	349,790	357,117
Total liabilities	147,046	142,190
Adjusted (loss) income per share before special items*	(0.01)	0.00
Consolidated (loss) income per share	(0.01)	0.00

* Adjusted EBITDA and adjusted net (loss) income and adjusted (loss) income per share before special items are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.
**Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

Summary Balance Sheet

	As at March 31, 2017	As at December 31, 2016
Cash and cash equivalents	58,857	66,917
Inventories, accounts receivables and other current assets	57,820	55,146
Assets held for sale	31,656	31,382
Non current assets	201,457	196,787
Total assets	**349,790**	**350,232**
Five year exchangeable loan*	56,811	56,424
Current liabilities	29,215	31,681
Liabilities held for sale	21,701	21,554
Non current liabilities	39,319	37,536
Equity attributable to common share holders	202,744	203,037
Total equity and liability	**349,790**	**350,232**

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

Summary Free Cash Flow

The table below reconciles net cash flow from operating activities, to free cash flow, then to net cash flow (increase in cash and cash equivalents) for the three months ended March 31, 2017 and 2016. Free cash flow is a non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

	Three months ended March 31,	
	2017	2016
Net cash flows from operating activities	**6,073**	**6,426**
Royalty purchase	-	(4,000)
Capital expenditures	(12,092)	(9,057)
Free cash flow	**(6,019)**	**(6,631)**
Other investing activity	(71)	(114)
Repayment of/Proceeds from borrowings	(292)	(366)
Shares issued for cash, net of cost	-	1,281
Dividend paid	(1,922)	(2,715)
Effects of exchange rate changes	225	84
Net cash flow	**(8,079)**	**(8,461)**
Cash and cash equivalents, beginning of the period	66,936	49,199
Cash and cash equivalents, end of the period	**58,857**	**40,738**

Dividend

Mandalay's current policy is to pay a quarterly dividend equal to an aggregate of 6% of the trailing quarter's gross revenue. The following table summarizes dividends paid by Mandalay in 2017 and 2016:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
2017				
		February 27, 2017	0.0057	2,572
				2,572
2016				
	February 18, 2016	February 29, 2016	0.0088	2,715
	May 11, 2016	May 24, 2016	0.0094	2,996
	August 11, 2016	August 22, 2016	0.0094	3,272
	November 02, 2016	November 24, 2016	0.0086	2,890
				11,873

Adjusted EBITDA and Adjusted Net Income Reconciliation to Net Income

The tables below reconcile Adjusted EBITDA and Adjusted Net Income to reported net income for the three months ended March 31, 2017 and 2016. Adjusted EBITDA and Adjusted Net Income are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

	Three months ended March 31, 2017		**Three months ended March 31, 2016**	
	($'000)	**($'000)**	**($'000)**	**($'000)**
Consolidated Net Income/(loss)		(2,349)		1,149
Special items				
Mining interest write off and impairment	-		3,441	
- tax impact of above	-		(826)	
Tax impact on Cerro Bayo royalty purchase	-		(1,372)	
		-		(129)
Adjusted Net Income/(loss) before special items		(2,349)		1,020
Add: Non-cash and finance costs				
Depletion and depreciation	10,532		11,094	
Loss (gain) on disposal of property, plant and equipment	9		13	
Write-off of exploration and evaluation	-		-	
Share based compensation	237		197	
Interest and finance charges	1,414		1,386	
Fair value adjustments	830		931	
Current tax	(180)		840	
Deferred tax	(62)		98	
Foreign exchange (gain)/loss	1,076	13,858	1,761	16,320
		11,509		17,340
Less: Interest and other income	(97)	(97)	(78)	(78)
Adjusted EBITDA		11,412		17,262

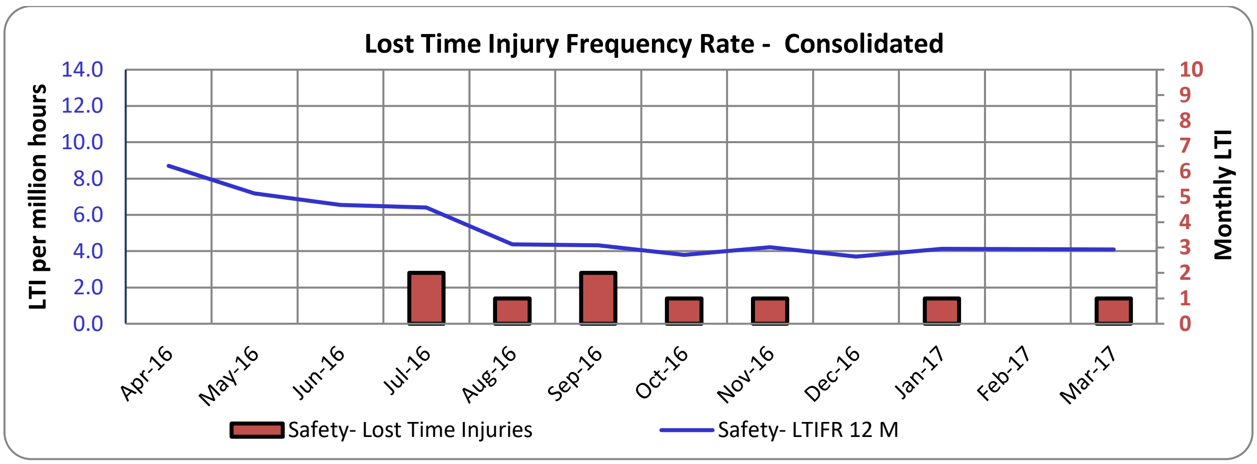
1.3 RESULTS OF OPERATIONS

Safety Performance

The Company has a zero-harm policy which is applied at all sites and continuous efforts are made to reduce the lost time injury frequency rate ("LTIFR") at all operations. The following table shows the Company's safety statistics for the year ended March 31, 2017.

Safety table for year end March 2017

Incident category	Costerfield	Cerro Bayo	Björkdal	Challacollo	Total
Fatality	-	1	-	-	**1**
Lost time injury (LTI)	-	7	2	-	**9**
Total man hours	429,562	1,260,360	499,440	10,800	**2,200,162**
LTIFR	-	5.55	4.00		**4.09**



The Company made significant improvements in the Lost Time Injury Frequency Rate (LTIFR, defined as lost time injuries per million hours worked) in 2017. The rate stands at 4.09 as on March 31, 2017. Two of the three operations (Costerfield and Cerro Bayo) had no lost time incidents through the latest quarter.

Results of Operations (Consolidated)

Three Months Ended March 31, 2017 compared to Three Months Ended March 31, 2016

Revenue in the current quarter declined to $45.4 million (with no revenue adjustments related to open sales contracts from prior quarters) compared with revenue in the prior year quarter of $50.4 million (including favorable revenue adjustments of $1.2 million related to open sales contracts from prior quarters). This lower revenue was due mostly to lower volumes of metal sold, partially offset by higher metal prices.

When the lower revenue was combined with $0.6 million increased total cost of sales, the result was an adjusted EBITDA in the first quarter of 2017 of $11.4 million, down from $17.3 million in the first quarter of 2016.

Consolidated pre-tax loss increased to $2.6 million from $1.5 million in the year-ago quarter, mainly due to lower revenue in the current quarter.

Consolidated after tax net loss increased to $2.3 million ($0.01 loss per share) from net profit of $1.1 million ($0.00 profit per share) in the year-ago period. Current tax recovery was $0.2 million in the current quarter versus current tax expense of $0.8 million a year ago.

Capital expenditures in the first quarter of 2017, including capitalized depreciation and exploration, were $12.5 million. Of this amount $4.2 million was spent at Cerro Bayo, $2.8 million at Costerfield, $5.1 million at Björkdal and $0.2 million at Challacollo. By comparison, total capital expenditures in the first quarter of 2016 were $13.3 million.

Costerfield

Costerfield Financial and Operating Results for the Three Months Ended March 31, 2017 and 2016

Operationally, Costerfield delivered a solid quarter in terms of tonnes mined and processed, with production and financial outcomes correlated to lower grades processed in the current year than in the year-ago quarter. These lower grades were expected according to the long term mine plan as we mined out the heart of the very high grade Cuffley lode.

In the first quarter of 2017, Costerfield delivered a total of 12,891 ounces of gold equivalent at cash costs and all-in costs of $719 and $1,033 per ounce of gold equivalent, respectively. This is compared to the prior-year quarter production of 16,966 ounces of gold equivalent at $512 cash costs and $724 all-in-cost per ounce gold equivalent. The differences in production and cost are almost entirely due to the lower grades processed in the current quarter, with the per tonne mining costs rising modestly due to less favorable geometries as we mined out the core of the Cuffley lode.

Costerfield generated revenue of $15.6 million for the quarter ended March 31, 2017. Income from mine operations before depreciation and depletion was $5.8 million, adjusted EBITDA was $5.7 million, operating net income was $1.2 million and net income after tax was $0.7 million. Comparable results for the quarter ended March 31, 2016 were revenue of $17.9 million, income from mine operations before depreciation and depletion of $9.0 million, adjusted EBITDA of $8.9 million, operating net income of $4.8 million and net income after tax of $4.0 million.

The Costerfield mine completed 1,451 metres of operating development in the first quarter of 2017 versus 1,475 metres in 2016.

36,262 tonnes of ore were mined in first quarter of 2017 as compared to 44,192 tonnes in the first quarter of 2016. Mining cost increased to $161 per tonne from the previous year's quarter of $125 per tonne due to less favorable mining geometries. The mined gold grade in the first quarter of 2017 was 8.19 grams per tonne versus 11.60 grams per tonne in 2016, while the mined antimony grade was 3.28% in 2017 versus 3.93% in the prior year quarter.

Costerfield financial results

	Three months ended March 31, 2017 ($'000)	Three months ended March 31, 2016 ($'000)
Revenue	15,620	17,867
Cost of sales	9,800	8,817
Income from mine operations before depreciation and depletion	5,820	9,050
Depreciation and depletion	3,887	3,738
Income from mine operations	1,933	5,312
Administration (1)	260	365
Adjusted EBITDA (2)(4)	5,745	8,919
Finance costs, foreign exchange and others (3)	1,006	1,183
Income before tax	667	3,764
Current tax recovery	(89)	584
Deferred tax expense	91	(850)
Operating net income after tax(4)	1,185	4,838
Adjusted net income after tax before special items(4)	665	2,658
Consolidated net income after tax	665	4,030
Capital expenditure (5)	2,790	1,296

[1]Includes intercompany transfer pricing recharge costs of $184,000 in the three months ended in March 31, 2016 and $235,000 in the same period of 2016;

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

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

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

[5]Includes capitalized depreciation on equipment.

During the first quarter of 2017, Costerfield processed slightly less ore than in the year-ago quarter (37,160 tonnes versus 39,635 tonnes), accompanied by a slight increase in processing cost from $33.36 per tonne in 2016 to $38.86 per tonne in 2017.

Plant gold head grade in 2017 was 8.33 grams per tonne versus 11.79 grams per tonne in the year-ago quarter, while the antimony head grade was 3.36% in 2017 versus 4.08% in 2016. These grade declines were expected and account for the reduced metal output despite more tonnes being processed. The plant achieved recoveries of 89.91% for gold and 96.65% for antimony versus 90.58% for gold and 95.35% for antimony in first quarter of 2016.

Total saleable metal production in the first quarter of 2017 was 741 tonnes of antimony and 7,987 ounces of gold versus 1,000 tonnes of antimony and 12,433 ounces of gold in the first quarter of 2016. A total of

7,547 ounces of gold and 708 tonnes of antimony were sold in the first quarter of 2017 versus a total of 10,816 ounces of gold and 893 tonnes of antimony sold in the first quarter of 2016.

During the first quarter of 2017, Costerfield incurred capital development costs of $0.8 million, spent $0.9 million in exploration and $1.0 million in property, plant and equipment. The corresponding amounts for the prior year quarter were nil, $0.9 million and $0.3 million, respectively.

Costerfield operating statistics

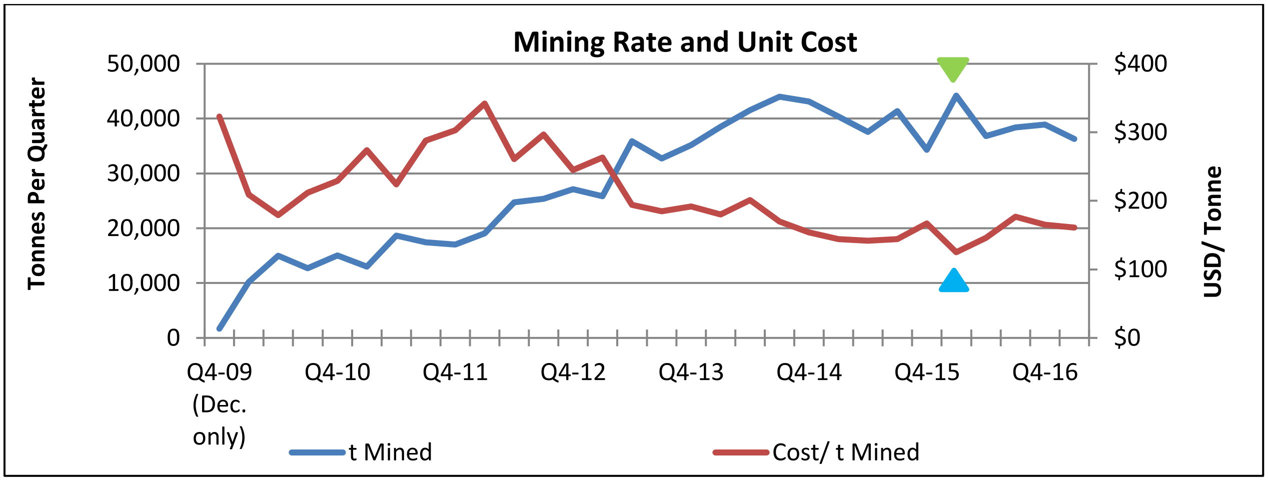
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield.

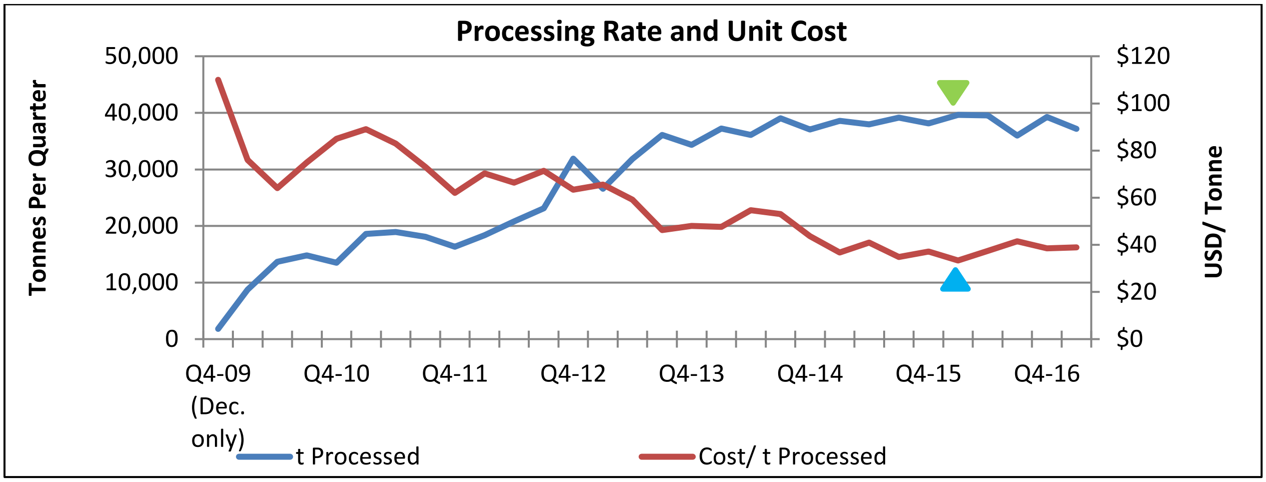
	Unit	Three months ended March 31, 2017	Three months ended March 31, 2016
Mining Production and Mining Cost			
Operating development	m	1,451	1,475
Mined ore	t	36,262	44,192
Ore mined Au grade	g/t	8.19	11.60
Ore mined Sb grade	%	3.28	3.93
Mined contained Au	oz	9,549	16,482
Mined contained Sb	t	1,190	1,735
Mining cost per tonne ore	$/t	161	125
Processing and Processing Cost			
Processed ore	t	37,160	39,635
Mill head grade Au	g/t	8.33	11.79
Mill head grade Sb	%	3.36	4.08
Recovery Au	%	89.91	90.58
Recovery Sb	%	96.65	95.35
Concentrate produced	dry t	2,262	2,859
Concentrate grade Au	g/t	69.61	87.31
Concentrate grade Sb	%	53.28	53.94
Au produced in gravity concentrate	oz	3,850	5,523
Au produced in sulfide concentrate	oz	4,137	6,910
Saleable Au produced	oz	7,987	12,433
Saleable Sb produced	t	741	1,000
Saleable Au equivalent produced	oz	12,891	16,966
Processing cost per tonne ore	$/t	38.86	33.36
Sales			
Concentrate sold	dry t	2,133	2,589
Concentrate Au grade	g/t	70.88	84.05
Concentrate Sb grade	%	53.12	54.32
Au sold in gravity concentrate	oz	3,725	5,109
Au sold in sulfide concentrate	oz	3,822	5,707
Au sold	oz	7,547	10,816
Sb sold	t	708	893
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	246	214
Site cash operating cost/tonne concentrate produced(1)	$/t	4,040	2,973
Adjusted EBITDA/tonne ore milled(1)	$/t	155	225
Adjusted EBITDA/tonne concentrate produced(1)	$/t	2,542	3,120
Cash cost per oz Au equivalent produced(1)(2)	$/oz	719	512
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,033	724
Capital Spending			
Capital development	m	-	-
Capital development cost	$000	777	-
Capital development cost/meter	$/m	NA	NA
Capital purchases	$000	1,024	305
Capitalized exploration	$000	988	958

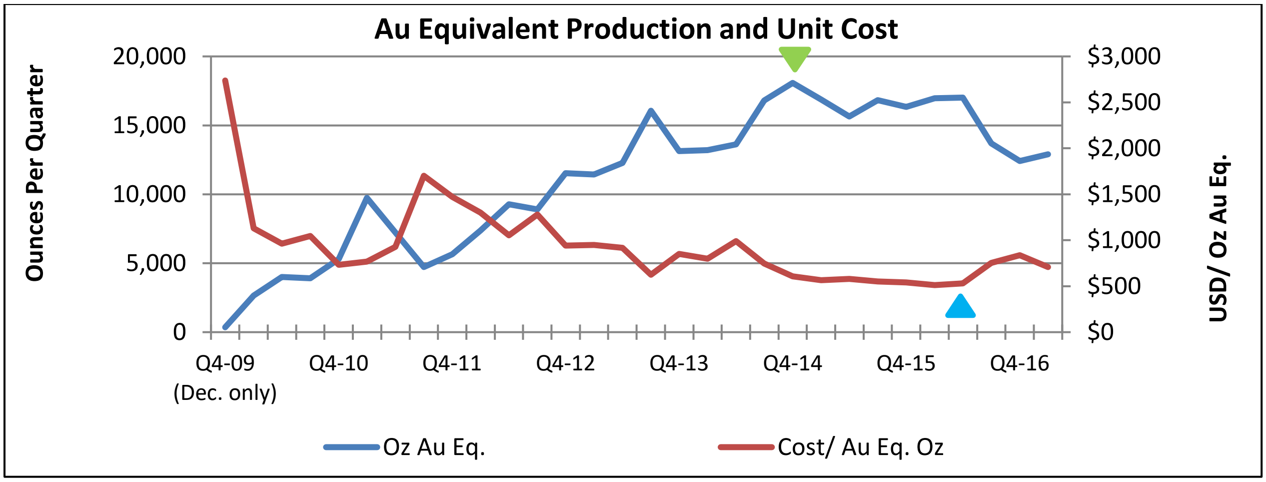
[1]Does not include intercompany transfer pricing recharge costs and business development costs.

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

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







▼ Record high rate ▲ Record low cost

Cerro Bayo

Cerro Bayo Financial and Operating Results for the Three Months Ended March 31, 2017 and 2016

During the first quarter of 2017, the Cerro Bayo mine produced 77,322 tonnes of ore versus 105,507 tonnes in the corresponding prior year period. In the current quarter, Cerro Bayo delivered higher grade of silver and lower grade of gold than in the year-ago quarter (205.12 grams per tonne silver and 1.34 grams per tonne gold versus 172.50 grams per tonne silver and 1.50 grams per tonne gold). Due to the reduced volume of mined ore, mining cost increased to $60.55 per tonne from $47.56 in the year-ago quarter, although the total operating cost in the mine remained approximately constant. The lower volume of ore was a planned result of the updated reserve model accounting for reduced metal inventory in the Delia SE vein.

During the first quarter of 2017, the Cerro Bayo concentrator processed 74,044 tonnes of ore with grades of 209.87 grams per tonne silver and 1.34 grams per tonne gold, compared to 105,347 tonnes of ore with grades of 172.18 grams per tonne silver and 1.49 grams per tonne gold during the first quarter of 2016. Metallurgical recoveries during the first quarter of 2017 were 88.06% for gold and 91.44% for silver in 2017 versus 87.89% for gold and 91.46% for silver in the prior year period. Processing cost per tonne ore in the current quarter was higher than in the year-ago quarter due to the comparatively lower amount of tonnes through the mill.

Cerro Bayo produced 435,076 ounces saleable silver and 2,735 ounces saleable gold in the first quarter of 2017, as compared to 515,216 ounces saleable silver and 4,336 ounces saleable gold in the comparable 2016 period. During the first quarter of 2017, Cerro Bayo sold 3,000 ounces of gold and 451,777 ounces of silver. Sales during the comparable quarter of 2016 were 6,030 ounces of gold and 602,621 ounces of silver.

Cash cost per ounce of silver net of gold credit was $14.04 and all-in cost was $22.57 per ounce in the first quarter of 2017, compared to $9.76 and $18.78, respectively for the corresponding 2016 period. The higher unit costs are a consequence of lower metal production in the face of relatively constant total operating cost.

Cerro Bayo generated revenue of $12.9 million for the quarter ended March 31, 2017. Income from mine operations before depreciation and depletion was $4.2 million. Cost of sales at Cerro Bayo in the first quarter, decreased by $3.6 million, from $12.4 million to $8.7 million. Administrative expenses for the quarter ended March 31, 2017 were $1.9 million compared to $1.7 million during the quarter ended March 31, 2016.

Adjusted EBITDA was $3.7 million, net loss before tax was $0.4 million and consolidated net loss after tax was $0.4 million. For the quarter ended March 31, 2016, revenue was $17.4 million, income from mine operations before depreciation and depletion was $5.0 million. Adjusted EBITDA was $4.5 million, net loss before tax was $3.9 million, and net loss after tax was $1.4 million.

During the first quarter of 2017, Cerro Bayo invested $3.2 million in mine development versus $1.4 million in the same period in 2016. The mine spent $0.4 million for the purchase of property, plant and equipment in 2017 versus $1.4 million in 2016. The mine spent $0.5 million on exploration, in line with $0.5 million in the first quarter of 2016.

Cerro Bayo financial results

	Three months ended March 31, 2017 ($'000)	Three months ended March 31, 2016 ($'000)
Revenue	12,933	17,398
Cost of sales	8,725	12,362
Income (loss) from mine operations before depreciation and deplet	4,208	5,036
Depreciation and depletion	3,654	4,452
Income (loss) from mine operations	554	584
Administration (1)	836	767
Adjusted EBITDA (2)(4)	3,623	4,528
Finance costs, foreign exchange and others (3)	150	3,739
Income (loss) before tax	(432)	(3,922)
Current tax (recovery) expense	-	-
Deferred tax expense (recovery)	(2)	(2,541)
Operating net income loss after tax(4)	92	(763)
Adjusted net loss after tax before special items(4)	(430)	(138)
Consolidated net loss after tax	(430)	(1,381)
Capital expenditure (5)	4,164	3,345

[1] Includes intercompany transfer pricing recharge costs of $251,000 in the three months ended in March 31, 2017 and $258,000 in the same period of 2016;

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

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

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

[5]Includes capitalized depreciation on equipment.

Cerro Bayo operating statistics

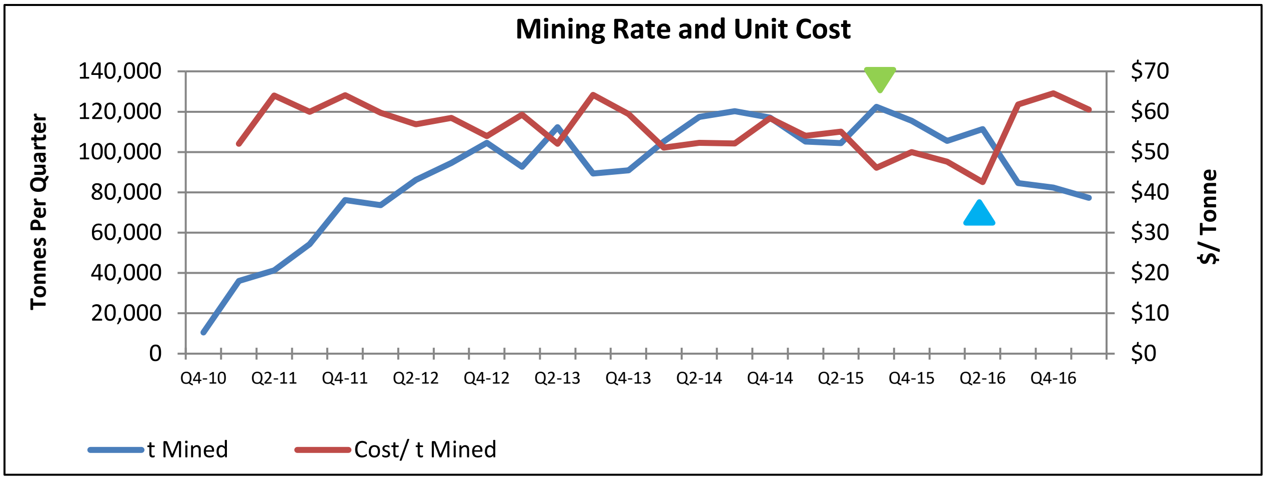
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Cerro Bayo.

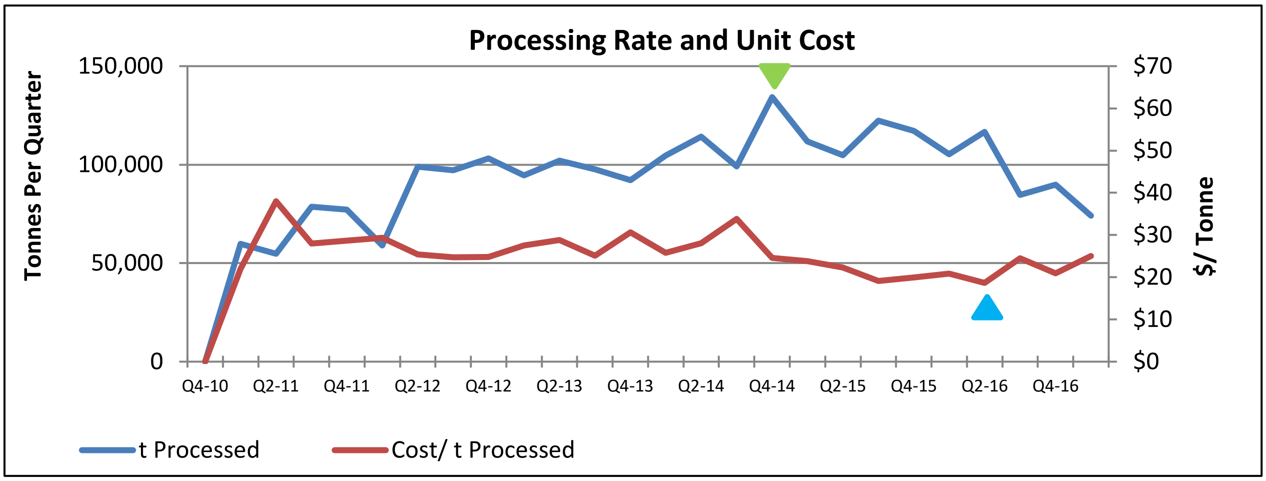
	Unit	Three months ended March 31, 2017	Three months ended March 31, 2016
Mining Production and Mining Cost			
Operating development	m	1,619	1,155
Mined ore	t	77,322	105,507
Ore mined Au grade	g/t	1.34	1.50
Ore mined Ag grade	g/t	205.12	172.50
Mined contained Au	oz	3,336	5,081
Mined contained Ag	oz	509,912	585,154
Mining cost per tonne ore	$/t	60.55	47.56
Processing and Processing Cost			
Processed ore	t	74,044	105,347
Mill head grade Au	g/t	1.34	1.49
Mill head grade Ag	g/t	209.87	172.18
Recovery Au	%	88.06	87.89
Recovery Ag	%	91.44	91.46
Concentrate produced	dry t	1,538	1,500
Concentrate grade Au	g/t	56.86	91.94
Concentrate grade Ag	g/t	9,237	11,056
Saleable Au produced	oz	2,735	4,336
Saleable Ag produced	oz	435,076	515,216
Saleable Au equivalent produced	oz	8,942	10,814
Processing cost per tonne ore	$/t	25.03	20.89
Sales			
Concentrate sold	dry t	1,657	1,785
Concentrate Au grade	g/t	57.89	107.42
Concentrate Ag grade	g/t	8,894	10,868
Au sold	oz	3,000	6,030
Ag sold	oz	451,777	602,621
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	105.99	80.64
Site cash operating cost/tonne concentrate produced(1)	$/t	5,101	5,661
Adjusted EBITDA/tonne ore milled(1)	$/t	51	43
Adjusted EBITDA/tonne concentrate produced(1)	$/t	2,466	3,017
Cash cost per oz Ag produced net of Au byproduct credit(1)(2	$/oz	14.04	9.76
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	22.54	18.78
Capital Spending			
Capital development	m	1,173	473
Capital development cost	$000	3,228	1,399
Capital development cost/meter	$/m	2,751	2,959
Capital purchases	$000	417	1,427
Capitalized exploration	$000	519	519

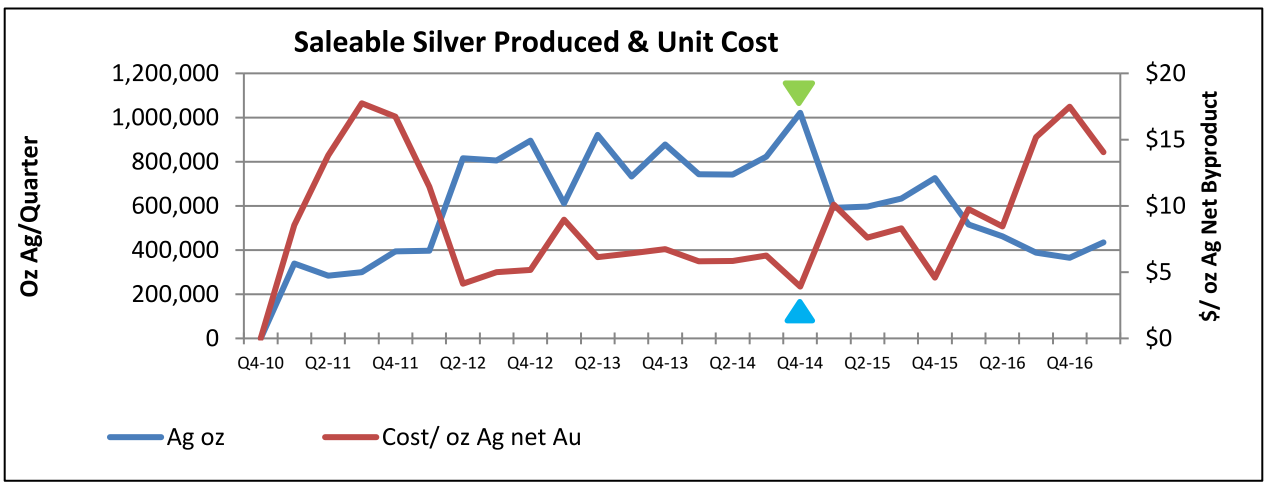
[1]Does not include intercompany transfer pricing recharge costs and business development costs.

[2]The cash cost per ounce of silver produced net of gold byproduct credit 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 silver produced net of gold byproduct credit is a non-IFRS performance measure. Refer to Section 1.16"Non-IFRS Measures" for further information.







Record high rate Record low cost

Björkdal

Björkdal Financial and Operating Results for the Three Months Ended March 31, 2017 and 2016

During the first quarter of 2017, Björkdal produced a combined 238,123 tonnes of ore from the open pit and underground operations, with an average grade of 1.38 grams per tonne gold as compared to 252,268 tonnes for first quarter of 2016 with average grade of 1.32 grams per tonne. The higher grades represent success of the grade control program, whereas the lower tonnes represent bottlenecks in the mines that have since been relieved:

- In the underground, contractor ore haulage was limited during the first quarter, 2017 and has since been relieved by adding trucks, improving the conditions of the contractor trucks, and adding haulage shifts.
- Also in the underground, development rates will be lifted in the coming quarters by replacing jumbo booms with booms of longer length
- In the open pit, the blast hole rate was a bottleneck to ore production: the drilling contractor was replaced; the new contractor has mobilized and is drilling at the targeted rate.

During the first quarter of 2017, 1,457 metres of operating development was completed against 1,140 metres in first quarter of 2016. The weighted average mining cost from the open pit and underground was $32.48 per tonne in the first quarter of 2017 against $24.57 per tonne in the corresponding period of 2016. The increase was due to the impact of reduced tonnage, discarding low grade material, and the increase in operating development and open pit waste removal to maximize the delivery of high grade ore.

During the first quarter of 2017, the Björkdal concentrator processed 319,091 tonnes of ore against 323,929 tonnes of ore in the previous year. The head grade in the current period was lower (1.20 grams per tonne gold) compared to the year-ago quarter (1.35 grams per tonne gold) due to the large volume of screened B-ore and stockpile material processed relative to this material last year. Metallurgical recoveries during the first quarter of 2017 were 88.33%, against 88.44% for the first quarter of 2016. Processing cost was $8.12 per tonne in the first quarter of 2017, increased from previous year quarter from $6.48 per tonne in 2016.

During the first quarter of 2017, Björkdal produced 10,648 saleable gold ounces and sold 13,121 ounces. In the first quarter of 2016, Björkdal produced 12,185 saleable gold ounces and sold 12,337ounces. Cash cost per gold ounce was $1,150 and all-in cost was $1,431 in 2017 against $821 and $1,059 respectively in 2016.

Björkdal generated revenue of $16.8 million for the quarter ended March 31, 2017, versus $15.2 million in the year-ago quarter. Income from mine operations before depreciation and depletion was $3.4 million versus income of $4.9 million in the year ago quarter, and adjusted EBITDA was $3.4 million versus $4.9 million in the year ago quarter. Net loss before tax was $0.2 million and net profit after tax was $0.1 million in 2017 versus profit of $1.3 million and $1.1 million, respectively, in 2016.

During the first quarter of 2017, Björkdal invested $2.9 million in mine development, $1.8 million in property, plant and equipment and $0.4 million in exploration. During the first quarter of 2016, Björkdal invested $2.8 million in mine development, $1.0 million in property, plant and equipment and $0.5 million in exploration.

Björkdal financial results

	Three months ended March 31, 2017 ($'000)	Three months ended March 31, 2016 ($'000)
Revenue	16,820	15,178
Cost of sales	13,453	10,248
Income (loss) from mine operations before depreciation and deplet	3,367	4,930
Depreciation and depletion	2,988	2,900
Income (loss) from mine operations	379	2,030
Administration[(1)]	353	469
Adjusted EBITDA[(2)(4)]	3,367	4,931
Finance costs, foreign exchange and others[(2)]	198	302
Income (loss) before tax	(172)	1,259
Current tax expense (recovery)	(91)	256
Deferred tax recovery	(151)	(81)
Operating net profit (loss) after tax[(4)]	967	1,854
Adjusted net profit (loss) after tax before special items[(4)]	70	1,084
Consolidated net profit (loss) after tax	70	1,084
Capital expenditure [(5)]	5,097	4,243

[1]Includes intercompany transfer pricing recharge costs of $353,000 in the three months ended in March 31, 2017 and $470,000 in the same period of 2016;

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

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

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

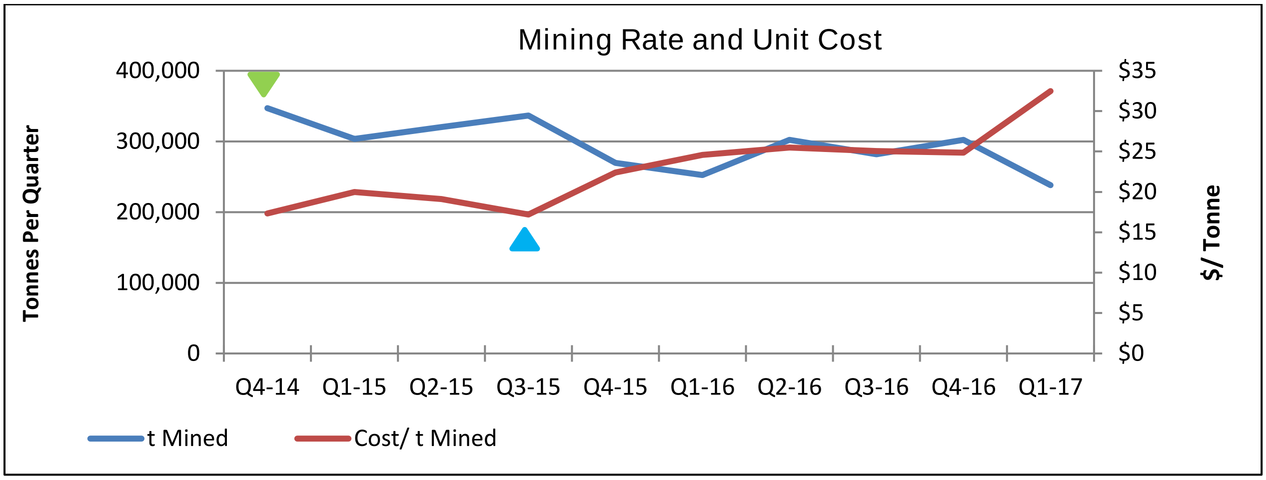
[5]Includes capitalized depreciation on equipment.

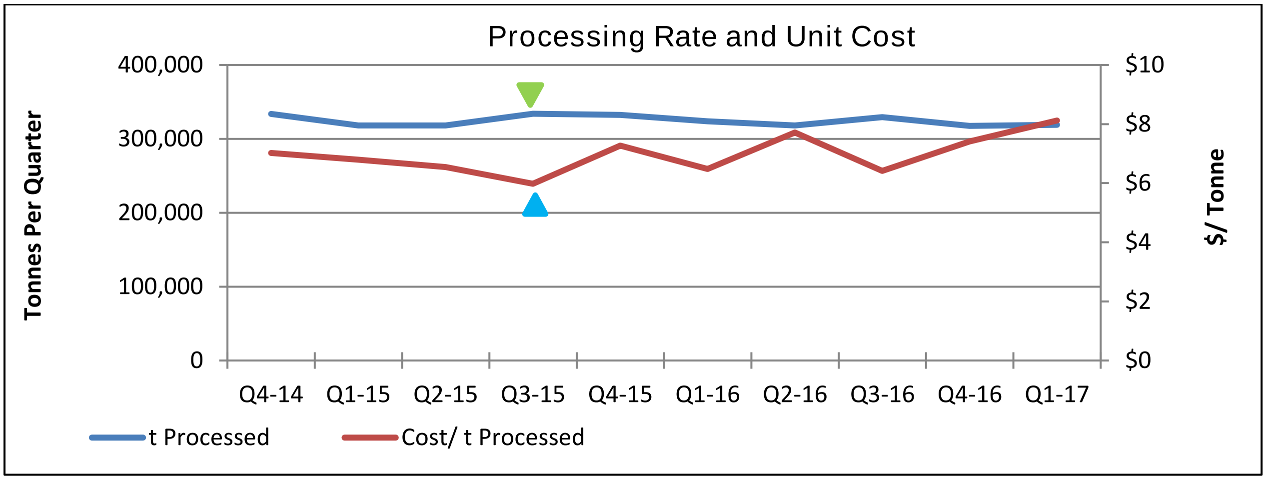
Björkdal operating statistics

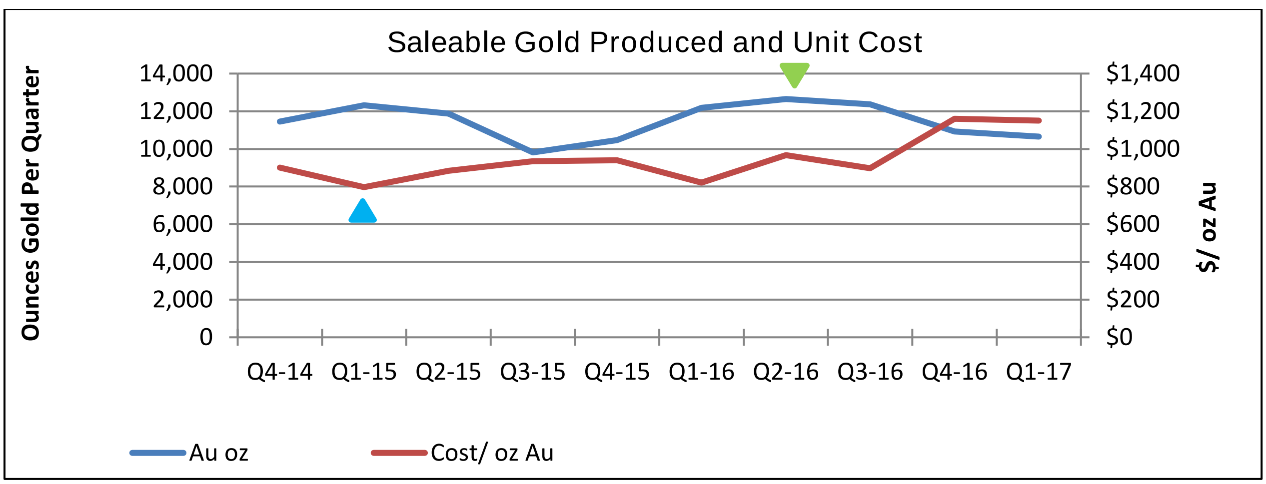
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Björkdal.

	Unit	Three months ended March 31, 2017	Three months ended March 31, 2016
Mining Production and Mining Cost			
Operating development	m	1,457	1,140
Mined ore	t	238,123	252,268
Ore mined Au grade	g/t	1.38	1.32
Mined contained Au	oz	10,596	10,736
Mining cost per tonne ore	$/t	32.48	24.57
Processing and Processing Cost			
Processed ore	t	319,091	323,929
Mill head grade Au	g/t	1.20	1.35
Recovery Au	%	88.33	88.44
Concentrate produced	dry t	1,018	826
Concentrate grade Au	g/t	325	459
Saleable Au produced	oz	10,648	12,185
Processing cost per tonne ore	$/t	8.12	6.48
Sales			
Concentrate sold	dry t	1,221	979
Concentrate Au grade	g/t	334	392
Au sold	oz	13,121	12,337
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	38.39	29.95
Site cash operating cost/tonne concentrate produced(1)	$/t	12,033	11,740
Adjusted EBITDA/tonne ore milled(1)	$/t	10.55	15.22
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,308	5,965
Cash cost per oz Au equivalent produced(1)(2)	$/oz	1,150	821
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,431	1,059
Capital Spending			
Capital development (Underground)	m	475	611
Capital development (Open pit)	t	507,887	620,473
Capital development cost	$000	2,923	2,767
Capital purchases	$000	1,764	992
Capitalized exploration	$000	411	485

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







Record high rate Record low cost

Challacollo

During the first quarter of 2017, the Company spent $0.2 million on property maintenance, exploration and activities related to project development. Exploration results were reported in the press release of January 27, 2017.

Initial operational studies have indicated that water supply of 12 litres per second is required for the operation, and as of December 31, 2016, a suitable source of water has yet to be developed. However, in January, 2017, the Company received permission to explore and develop a source of water on concessions it controls about 30 kilometres from the deposit that are highly prospective for hosting the required water. The Company is preparing to drill water exploration holes on the concessions, expected in May of this year. If and when successful, optimization and refinement of the water supply and usage strategy will be incorporated into the operational plan.

La Quebrada

Spending on care and maintenance at La Quebrada was less than $0.1 million during the first quarter of 2017 and corresponding period in 2016.

Lupin and Ulu

Spending on care and maintenance at Lupin and Ulu was $0.1 million during the first quarter of 2017 . The corresponding amounts for the prior year quarter was $0.1 million. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects to WPC Resources. On February 6, 2017, the proposed purchaser announced a private placement intended to finance the acquisition and advance the project. Mandalay currently expects the transaction to close by the third quarter of 2017.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate Jannuary 1, 2017 March 31, 2017	Average rate Jannuary 1, 2016 March 31, 2016
1A$ = C$	1.0038	0.9908
1A$ = US$	0.7583	0.7223
1 US$ = C$	1.3236	1.3717
1 US$ = Chilean Peso	656	701
1 US$= SEK	8.9219	8.4531

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of gold, silver and antimony were higher in the first quarter of 2017 than in the first quarter of 2016. Realized prices were impacted by the application of adjustments with respect to open concentrate shipments at forward prices (see "Critical Accounting Policies - Revenue recognition" below). This resulted in realized prices in the first quarter of 2017 being marginally higher than relative average market prices.

COMMODITY	Average rate Jannuary 1, 2017 March 31, 2017	Average rate Jannuary 1, 2016 March 31, 2016
Realized gold US$/oz[1]	1,279	1,241
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,217	1,181
Realized antimony US$/tonne[1]	8,582	5,292
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	8,058	5,353
Realized silver price US$/oz[1]	19.96	15.75
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	17.36	14.85

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

1.4 SUMMARY OF QUARTERLY RESULTS

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

Particulars	Quarter 1, 2017 ($'000)	Quarter 4, 2016 ($'000)	Quarter 3, 2016 ($'000)	Quarter 2, 2016 ($'000)	Quarter 1, 2016 ($'000)	Quarter 4, 2015 ($'000)	Quarter 3*, 2015 ($'000)	Quarter 2*, 2015 ($'000)
Revenue	45,373	32,391	48,544	54,166	50,442	43,646	43,282	50,793
Income/(loss)	(2,349)	(25,542)	549	3,611	1,149	(3,105)	1,608	4,400
Income/(loss) per share - Basic	(0.01)	(0.06)	0.00	0.01	0.00	(0.01)	0.00	0.01
Income/(loss) per share - Diluted	(0.01)	(0.06)	0.00	0.01	0.00	(0.01)	0.00	0.01

**Income from prior quarters has been updated to reflect the updated depletion and depreciation as a result of the finalization of the purchase price allocation for Björkdal.*

Since the acquisition of the Costerfield mine in December, 2009, of the Cerro Bayo mine in August, 2010, and the Björkdal mine in September, 2015, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield, Cerro Bayo and Björkdal mines. Financial results are impacted by the amounts of gold, silver and antimony production, the costs associated with that production and the prices received for metal in concentrate. Metal prices are determined using prevailing international prices for gold, silver and antimony. The Company's products are priced in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield), Chilean pesos (at Cero Bayo) and Swedish Krona (at Björkdal). The Company's results will be impacted by exchange rate variations during the reporting periods.

The general trend of increasing metal sales volumes with time represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine and the acquisition of the Björkdal mine. 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.

1.5 LIQUIDITY, SOLVENCY AND USES OF CASH

At March 31, 2017, the Company had working capital of $40.6 million compared to $43.8 million at December 31, 2016. Working capital would have been $97.4 million as of March 31, 2017, had the five-year exchangeable loan been classified as long term debt. The Company had cash and cash equivalents of $58.9 million at March 31, 2017, as compared to $66.9 million at December 31, 2016.

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

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

1.6 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five year 5.875% debt financing

In May, 2014, the Company borrowed $60 million in a five-year loan at an interest rate of 5.875% from Gold Exchangeable Limited ("GEL"), an unaffiliated special purpose vehicle incorporated in Jersey.

GEL raised the financing proceeds by way of a concurrent offering of five-year 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 (the "Borrower"), 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.

Beginning on June 23, 2014, each Bondholder 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 $149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of $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 NAV of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder exercises its exchange rights, GEL will give notice to the Borrower, and the Borrower will be required to deliver the requisite number of Gold Shares to the Bondholder.

As security for its obligations under the Bonds, GEL will be required to deposit into a custody account, in quarterly instalments over the fourth and fifth years of the term of the Bonds, the aggregate number of Gold Shares issuable upon exchange of the Bonds. Pursuant to the terms of the Loan, the Borrower will have to provide such Gold Shares to GEL.

The performance of the Borrower's obligations under the Loan is guaranteed by the Company. This guarantee is secured by first ranking pledge of all of the shares of Mandalay Resources Australia Pty Limited, which owns and operates the Costerfield mine.

GEL 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 $9 million or less principal amount of the Bonds remains outstanding.

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

The maturity date of the Loan is May 13, 2019. However, because the Bondholders have the right to exercise their exchange rights any time after June 23, 2014 (which would trigger a requirement for GEL to exercise its parallel exchange rights under the Loan), the Company has classified the Loan balance as a current liability. IFRS requires that the Company ignore the probability that holders will elect to convert in the next 12 months, even if the Company assesses such probability as remote. However, if holders did elect to convert the debt as of September 30, 2016, the Company would realize a gain of $7.6 million and the holders of the debt would realize a loss of $9.0 million based on the principal value of $60 million.

For clarity, Company has provided some examples below to further explain the details of the exchangeable bond agreement, all of which exclude the interest that is payable on the principal until the date of redemption or maturity at the rate of 5.875%:

i) If all the bondholders exercised their right to redeem on March 31, 2017, assuming a gold price of $1,245/oz (which is equivalent to US$118.72 per Gold Share), then the repayment cost to the Company would be approximately $48.0 million.

   $60 million ÷ $1,556/oz × $1,245 = $48.0 million

ii) The repayment cost to the Company to repay the loan on maturity will be minimum $60 million.

iii) If the average price of gold during the escrow period is $1,700/oz (which is equivalent to US$ 162.1 per Gold Share) then repayment cost to the Company will be $65.6 million.

   $60 million ÷ $1,556/oz × $1,700 = $65.6 million

On April 19, 2017, GEL launched a repurchase offer and consent solicitation in respect of the Bonds, pursuant to which GEL is (i) offering to purchase up to $30 million principal amount of the Bonds from the holders thereof at a price of US$52,500 for each US$50,000 in principal amount of Bonds and (ii) seeking Bondholder approval for a number of proposed amendments to the terms of the Bonds, including:

- extending the maturity date of the Bonds by three years to May 13, 2022;
- deleting the requirement for GEL to start depositing into a custody account, during the last two years of the term of the Bonds, the aggregate number of Gold Shares issuable upon exchange of the Bonds;
- adding a new covenant to the Bonds pursuant to which GEL 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 Mandalay's Costerfield mine falls below (initially) 232,000 gold equivalent ounces;
- increasing the interest rate payable on the Bonds from 5.875% per annum to 6.375% per annum; and
- reducing the exchange price of the Bonds from US$149.99 to US$135.00.

Mandalay will be required to fund any amounts required by GEL to repurchase the Bonds pursuant to the repurchase offer and all associated fees and expenses (including early consent fees and consent fees). Mandalay expects that all such amounts would be funded using available cash on hand. The outstanding amount of the Loan will be reduced by an amount equal to the principal amount of the Bonds repurchased pursuant to the Repurchase. If the proposed amendments to the terms of the Bonds are approved and implemented, similar amendments will be made to the terms of the Loan.

Fair-value adjustments

As at March 31, 2017, 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 five-year debt financing at an interest rate of 5.875% as described above

In May, 2014, the Company computed and initially allocated $4.6 million to the value of derivative financial instruments associated with the Loan. As at March 31, 2017, the Company has recomputed the derivative portion of the Loan at $1.9 million. As a result, there is a mark-to-market adjustment loss of $1.0 million in the quarter.

Marketable securities - The Company holds marketable securities with a fair market value of $0.2 million as at March 31, 2016, 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 a fair value measurement gain of less than $0.1 million for the quarter ended March 31, 2017.

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

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

	Before fair value and deferred tax adjustments [a]	Note	Fair value and deferred tax adjustments Q1 2017	As of March 31, 2017 [a]	As of March 31, 2016 [a]
	($'000)		($'000)	($'000)	($'000)
Assets					
Deferred tax	848	(b)	62	910	7,691
Marketable Securities	37	(c)	(37)		188
Liabilities					
	2,658	(d)	(793)	1,865	1,732
Equity					
Retained earnings/(deficit)	36,390		(768)	35,622	70,433

(a) Values are net of foreign exchange translation.

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

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

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

Fair value and deferred tax adjustments impact on items in the income statement for three months ended March 31, 2017 and 2016

	As of March 31, 2017			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Loss from operations	633			633
Interest and other income	97			97
Finance costs	(1,414)			(2,244)
		(a)	(37)	
		(b)	(793)	
		(c)	-	
Foreign exchange gain	(1,076)			(1,076)
Net loss before tax	(1,760)		(830)	(2,590)
Current tax expense	180			180
Deferred tax expense (income)		(c)	62	62
Net income/(loss)	(1,580)		(768)	(2,348)
Loss per share				
Basic	($0.00)			($0.01)
Diluted	($0.00)			($0.01)

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

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

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

	Before fair value and deferred tax adjustments [a]	Note	Fair value and deferred tax adjustments Q1 2016	As of March 31, 2016 [a]	As of December 31, 2015 [a]
	($'000)		($'000)	($'000)	($'000)
Assets					
Deferred tax	4,219	(b)	3,472	7,691	5,106
Marketable Securities	126	(c)	62	188	115
Liabilities					
Derivative financial instrument (Five year exchangeable bonds)	2,725	(d)	(993)	1,732	740
Equity					
Retained earnings/(deficit)	67,892		2,541	70,433	71,999

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax recovery of $3,472,000 for the three months ended March 31, 2016.

(c) The Company recorded fair value measurement gain of $62,000 relating to marketable securities for the three months ended March 31, 2016.

(d) The Company recorded fair value measurement loss of $993,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended March 31, 2016.

Fair value and deferred tax adjustments impact on items in the income statement for year ended December 31, 2016 and 2015

	As of March 31, 2016			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Loss from operations	2,517			2,517
Interest and other income	78			78
Finance costs	(1,386)			(2,317)
		(a)	62	
		(b)	(993)	
		(c)	-	
Foreign exchange gain	(1,761)			(1,761)
Net income/(loss) before tax	(552)		(931)	(1,483)
Current tax	(840)			(840)
Deferred tax		(d)	3,472	3,472
Net loss	(1,392)		2,541	1,149
Income (loss) per share				
Basic	($0.00)			$0.00
Diluted	($0.00)			$0.00

(a) The Company recorded fair value measurement gain of $62,000 relating to marketable securities for the year ended March 31, 2016.

(b) The Company recorded fair value measurement loss of $993,000 relating to derivative portion of the five-year exchangeable loan for the year ended March 31, 2016.

(c) The Company recorded a deferred tax recovery of $3,472,000 for the year ended March 31, 2016.

1.7 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.8 TRANSACTIONS WITH RELATED PARTIES

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

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

1.9 CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

- the significant risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

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

Inventories

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

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

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

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

Property, plant and equipment

Exploration and Evaluation

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

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

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

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

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

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

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

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

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

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

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

Site closure and reclamation cost obligations

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

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.10 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, 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 December 31, 2016, the Company had no past overdue trade receivables.

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

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

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

Hedging Activities

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

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;

- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold and silver by central banks and other holders;
- demand for jewelry containing gold and silver;
- industrial demand for antimony (mostly for flame retardants) versus supply, largely controlled by China; and
- investment activity, including speculation, in gold and silver as commodities.

The Company occasionally purchases derivative financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and upward fluctuations in oil prices.

1.11 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. The Company implemented Sage AccPac Enterprise Resource Planning (ERP) software in 2011 in order to strengthen internal control and reporting. Sage AccPac implementation combined with improvements in the monthly close process provides appropriate information to the senior management for decision making.

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 evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 during the quarter ended December 31, 2016. The Company's controls include policies and procedures that:

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

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

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

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

Since 2011, the Company has been engaged with KPMG to conduct its internal audit. This is designed to further identify the gaps in internal control procedures and help create internal policy documents as necessary.

The table below is a summary of key internal control issues, their potential impact and the actions the Company is taking to remedy:

Internal control weakness	**Potential impact of the weakness on the issuer's financial reporting and its ICFR**	**Current plan or actions being undertaken for remediating the potential material weakness**
Review of process and activities	Risk of financial loss	Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year. The areas covered during 2017 internal audits will be related to general health and safety at each producing site. The findings and consequent actions of the above audits are intended to mitigate the internal control weaknesses identified.

III. Limitation of Controls and Procedures

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

1.12 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 451,244,490 common shares issued and outstanding. The weighted average number of shares outstanding during the first quarter used for the calculation of per share results was 451,174,008.

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

Exercise Price CND$	As of March 31, 2017	As of May 10, 2017	Expiry Date
0.60	4,400,000	4,400,000	30 June, 2024
0.91	4,928,000	4,928,000	23 March, 2021
0.91	4,290,000	4,290,000	24 March, 2020
0.93	20,000	20,000	06 November, 2019
0.98	3,800,000	3,800,000	24 March, 2019
1.13	3,490,000	3,490,000	18 March, 2018
Total	**20,928,000**	**20,928,000**	

During the quarter ended March 31, 2017, no options were exercised. There were 20,928,000 options outstanding as of March 31, 2017, 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 December 31, 2016, 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	1,994
Redeemed	-
Outstanding at March 31, 2017	284,171

1.13 QUALIFIED PERSONS

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

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

1.14 FORWARD LOOKING STATEMENTS

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

1.15 SUBSEQUENT EVENTS

Quarterly Dividend

On May 10, 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.

Bond Repurchase Offer and Consent Solicitation

On April 19, 2017, GEL launched a repurchase offer and consent solicitation in respect of the Bonds as described in further detail under "Five year 5.875% debt financing" in Section 1.6 – Contractual Commitments and Contingencies.

1.16 NON-IFRS MEASURES

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

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

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

1. *Adjusted EBITDA* - The Company defines adjusted EBITDA as income from mine operations, net of administration and business development costs, and before interest, taxes, non-cash charges/(income), intercompany charges and finance costs. Refer to page 14-15 for a reconciliation between adjusted EBITDA and net income.

2. *Income after tax from underlying operations* - The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 14-15 for reconciliation between income from underlying operations and income from operations.

3. *Operating net income/(loss) after tax* - The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs. Refer to pages 19, 24 and 28 for reconciliation between operating net income after tax and net income after tax.

4. *Adjusted net income* - 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 13-15 for reconciliation between adjusted net income and net income.

5. Saleable gold equivalent ounces produced

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

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

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

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

9. *Site all-in cost per ounce of saleable silver produced net of gold byproduct credit (Cerro Bayo only)*- The site all-in cost per saleable silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, accretion, depletion, depreciation and amortization to cash cost net of gold byproduct credit as calculated in note 7 above and dividing the resultant number by the saleable silver ounces produced in the period.

10. *Corporate average cash cost per ounce of gold equivalent produced* – The corporate average cash cost per saleable ounce gold equivalent produced in the period equals the sum of cash costs

associated with the production of the gold equivalent ounces at all operating sites in the period plus the corporate overhead expense in the period divided by the total saleable gold equivalent ounces produced in the period. The cash cost excludes royalty expenses.

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

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

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