Condensed consolidated interim financial statements of

# Mandalay Resources Corporation

June 30, 2017
(Unaudited)

# Mandalay Resources Corporation
June 30, 2017

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# Mandalay Resources Corporation

Condensed consolidated interim statements of income (loss) and comprehensive income (loss)

three and six months ended June 30, 2017 and 2016

(Expressed in U.S. dollars)

(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **($'000)** | ($'000) | **($'000)** | ($'000) |
| **Revenue** | **44,124** | 54,166 | **89,497** | 104,608 |
| Cost of operations | | | | |
| Cost of sales, excluding depletion and depreciation (Note 13) | **30,030** | 29,927 | **62,018** | 61,353 |
| Depletion and depreciation | **11,806** | 10,739 | **22,338** | 21,833 |
| | **41,836** | 40,666 | **84,356** | 83,186 |
| Income from mine operations | **2,288** | 13,500 | **5,141** | 21,422 |
| Expenses | | | | |
| Administration | **1,915** | 2,112 | **3,875** | 3,854 |
| Other operating expenses (Note 22) | **2,395** | - | **2,395** | - |
| Write-off of mining interests (Note 6) | **777** | - | **777** | 3,441 |
| Share-based compensation (Note 12(b)) | **237** | 373 | **474** | 570 |
| Loss on disposal of property, plant and equipment (Note 6) | **503** | 274 | **512** | 287 |
| Business development costs | **49** | - | **61** | 12 |
| | **5,876** | 2,759 | **8,094** | 8,164 |
| Profit (loss) from operations | **(3,588)** | 10,741 | **(2,953)** | 13,258 |
| Other income (expenses) | | | | |
| Finance costs (Note 14) | **(4,234)** | (1,443) | **(5,648)** | (2,829) |
| Loss on financial instruments (Note 15) | **(1,740)** | (1,020) | **(2,571)** | (1,951) |
| Other income (expenses) | **(69)** | 121 | **28** | 199 |
| Foreign exchange loss | **(166)** | (196) | **(1,244)** | (1,957) |
| | **(6,209)** | (2,538) | **(9,435)** | (6,538) |
| Profit (loss) before income taxes | **(9,797)** | 8,203 | **(12,388)** | 6,720 |
| Income tax (recovery) expense (Note 20) | | | | |
| Current | **870** | 1,836 | **690** | 2,676 |
| Deferred | **(562)** | 2,756 | **(624)** | (716) |
| Income tax expense | **308** | 4,592 | **66** | 1,960 |
| **Net (loss) income for the period** | **(10,105)** | 3,611 | **(12,454)** | 4,760 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation | **3,150** | (3,935) | **6,863** | 1,725 |
| Comprehensive income (loss) for the period | **(6,955)** | (324) | **(5,591)** | 6,485 |
| **Net (loss) income per share** | | | | |
| Basic | **(0.02)** | 0.01 | **(0.03)** | 0.01 |
| Diluted | **(0.02)** | 0.01 | **(0.03)** | 0.01 |
| **Weighted average number of common shares outstanding (Note 16)** | | | | |
| Basic ('000) | **451,253** | 416,238 | **451,214** | 413,743 |
| Diluted ('000) | **451,253** | 418,651 | **451,214** | 415,204 |

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at June 30, 2017 and December 31, 2016

(Expressed in U.S. dollars)

(Unaudited)

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| | **($'000)** | ($'000) |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **18,359** | 66,917 |
| Trade receivables and other assets (Note 4) | **31,807** | 26,226 |
| Inventories (Note 5) | **24,155** | 25,207 |
| Prepaid expenses | **2,507** | 3,713 |
| Assets held for sale (Note 21) | **38,886** | 31,382 |
| | **115,714** | 153,445 |
| Non-current assets | | |
| Reclamation and other deposits | **5,633** | 5,146 |
| Trade and other receivables (Note 4) | **1,902** | 1,884 |
| Property, plant and equipment (Note 6) | **196,093** | 188,818 |
| Intangible asset (Note 7) | **58** | 305 |
| Deferred tax asset | **662** | 634 |
| | **204,348** | 196,787 |
| | **320,062** | 350,232 |
| **Liabilities** | | |
| Current liabilities | | |
| Trade and other payables (Note 8) | **24,832** | 23,133 |
| Borrowings (Note 9) | **1,275** | 1,303 |
| Five-year exchangeable loan (Note 10) | **27,489** | 56,424 |
| Income taxes payable | **136** | 3,570 |
| Other provisions (Note 11) | **2,716** | 2,603 |
| Financial instruments (Note 15) | **3,569** | 1,072 |
| Liabilities associated with assets held for sale (Note 21) | **29,115** | 21,554 |
| | **89,132** | 109,659 |
| Non-current liabilities | | |
| Borrowings (Note 9) | **864** | 1,263 |
| Reclamation and site closure costs provision | **23,885** | 23,391 |
| Other provisions (Note 11) | **1,473** | 1,146 |
| Deferred tax liability | **11,457** | 11,736 |
| | **37,679** | 37,536 |
| | **126,811** | 147,195 |
| **Equity** | | |
| Share capital (Note 12) | **191,893** | 191,819 |
| Share option reserve (Note 12) | **9,289** | 8,854 |
| Foreign currency translation reserve | **(30,666)** | (37,529) |
| Retained earnings | **22,735** | 39,893 |
| | **193,251** | 203,037 |
| | **320,062** | 350,232 |

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

**(Signed) Mark Sander**
Mark Sander, President and Chief Executive Officer

**(Signed) Robert Doyle**
Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity
six months ended June 30, 2017 and 2016
(Expressed in U.S. dollars, except number of shares)
(Unaudited)

| | Number of shares issued | Share capital | Share option reserve | Foreign currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | ('000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| **Balance, December 31, 2016** | **451,174** | **191,819** | **8,854** | **(37,529)** | **39,893** | **203,037** |
| Net loss | - | - | - | - | (12,455) | **(12,455)** |
| Other comprehensive income for the period | - | - | - | 6,863 | - | **6,863** |
| **Total comprehensive income (loss)** | **-** | - | - | 6,863 | (12,455) | **(5,592)** |
| Share-based compensation (Note 12(b)) | - | - | 509 | - | - | **509** |
| Dividends paid (Note 12(e)) | - | - | - | - | (4,703) | **(4,703)** |
| Redemption of RSU (Note 12(d)) | 106 | 74 | (74) | - | - | **-** |
| **Balance, June 30, 2017** | **451,280** | **191,893** | **9,289** | **(30,666)** | **22,735** | **193,251** |

| | Number of shares issued | Share capital | Share option reserve | Foreign currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | ('000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| **Balance, December 31, 2015** | **410,420** | **158,979** | **9,510** | **(32,794)** | **71,999** | **207,694** |
| Net income | **-** | **-** | **-** | - | 4,760 | **4,760** |
| Other comprehensive income for the period | **-** | **-** | **-** | 1,725 | - | **1,725** |
| **Total comprehensive income** | **-** | - | - | 1,725 | 4,760 | **6,485** |
| Shares issued (Note 12(a)) | 2,500 | 1,717 | - | - | - | **1,717** |
| Stock options exercised (Note 12(c)) | 3,458 | 2,644 | (1,118) | - | - | **1,526** |
| Share-based compensation (Note 12(b)) | - | - | 394 | - | - | **394** |
| Dividends paid (Note 12(e)) | - | - | - | - | (5,712) | **(5,712)** |
| Redemption of RSU (Note 12(d)) | 179 | 124 | (124) | - | - | **-** |
| **Balance, June 30, 2016** | **416,557** | **163,464** | **8,662** | **(31,069)** | **71,047** | **212,104** |

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows
for the three and six months ended June 30, 2017 and 2016
(Expressed in U.S. dollars)
(Unaudited)

| | Three months ended | June 30, | Six months ended | June 30, |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **($'000)** | ($'000) | **($'000)** | ($'000) |
| **Operating activities** | | | | |
| Net (loss) income | **(10,105)** | 3,611 | **(12,455)** | 4,760 |
| Adjustments to reconcile net income to net cash flows from operating activities | | | | |
| Amortization of intangible asset | **123** | 123 | **246** | 246 |
| Depletion and depreciation | **11,806** | 10,739 | **22,338** | 21,833 |
| Share-based compensation | **237** | 373 | **474** | 570 |
| Loss on disposal of property, plant and equipment | **503** | 274 | **512** | 287 |
| Write-off of mining interest | **777** | - | **777** | 3,441 |
| Finance cost | **4,234** | 1,443 | **5,648** | 2,829 |
| Unrealized gain on derivative financial instruments | **1,740** | 1,020 | **2,571** | 1,951 |
| Interest and other income (loss) | **69** | (121) | **(28)** | (199) |
| Foreign exchange gain (loss) | **634** | (608) | **1,708** | 689 |
| Income tax expense | **308** | 4,592 | **66** | 1,960 |
| Changes in non-cash operating working capital items | | | | |
| Trade and other receivables | **(982)** | 3,356 | **(5,373)** | (7,635) |
| Inventories | **(916)** | (1,040) | **1,269** | 1,182 |
| Prepaid and other expenses | **2,193** | (1,433) | **1,586** | (2,170) |
| Trade and other payables | **1,169** | (890) | **(423)** | (1,234) |
| Provisions | **646** | 817 | **442** | 1,030 |
| Cash generated from operations | **12,436** | 22,256 | **19,358** | 29,540 |
| Income taxes paid | **(2,860)** | (2,871) | **(2,860)** | (2,871) |
| Interest and other income (expenses) | **(69)** | 121 | **28** | 199 |
| Interest and bank charges paid | **(4,156)** | (918) | **(5,102)** | (1,855) |
| Net cash flows from operating activities | **5,351** | 18,588 | **11,424** | 25,013 |
| **Investing activities** | | | | |
| Payment on deposits | **(62)** | (47) | **(133)** | (171) |
| Payment for cancellation of royalty contract | **-** | - | **-** | (4,000) |
| Expenditure for property, plant and equipment | **(12,998)** | (11,472) | **(25,090)** | (20,529) |
| Proceeds on disposal of property, plant and equipment | **18** | 147 | **18** | 157 |
| Net cash flows used in investing activities | **(13,042)** | (11,372) | **(25,205)** | (24,543) |
| **Financing activities** | | | | |
| Proceeds from borrowings | **33** | 908 | **33** | 908 |
| Repayments of borrowings and associated costs | **(29,655)** | (238) | **(29,947)** | (604) |
| Issuance of common shares for cash | **-** | 245 | **-** | 1,526 |
| Proceeds from Ulu option agreement | **-** | 186 | **-** | 186 |
| Dividends paid (Note 12 (e)) | **(2,781)** | (2,996) | **(4,703)** | (5,712) |
| Net cash flows used in financing activities | **(32,403)** | (1,895) | **(34,617)** | (3,696) |
| Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies | **(404)** | (392) | **(160)** | (306) |
| Increase (decrease) in cash and cash equivalents | **(40,498)** | 4,929 | **(48,558)** | (3,532) |
| Cash and cash equivalents, beginning of the period | **58,857** | 40,738 | **66,917** | 49,199 |
| **Cash and cash equivalents, end of period** | **18,359** | 45,667 | **18,359** | 45,667 |
| Cash and cash equivalents consist of | | | | |
| Cash | **18,359** | 45,667 | **18,359** | 45,667 |
| Cash equivalents | **-** | - | **-** | **-** |
| | **18,359** | 45,667 | **18,359** | 45,667 |

See accompanying notes to the condensed consolidated interim financial statements

## 1. Description of business and nature of operations

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

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

## 2. Basis of preparation

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

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

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

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

## 3. Summary of significant accounting policies

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

*Changes in accounting standards*

The accounting policies adopted in preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of amendments and interpretations effective January 1, 2017. These amendments and interpretations had little or no impact on the Consolidated financial statements.

*Accounting standards issued but not yet effective*

The Company has not early adopted these new and amended standards. The Company is currently assessing the impact of the following standards and plans to adopt the new standards on the required effective dates. Of the other standards and interpretations that are issued, but not yet effective, as these are not expected to impact the Company, they have not been listed here.

**3. Summary of significant accounting policies (continued)**

*Accounting standards issued but not yet effective*

(i) IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

(ii) IFRS 15, *Revenue from Contracts with Customers*

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

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

(iii) IFRS 16, Leases

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied).

The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

## 4. Trade and other receivables

Trade and other receivables consist of the following:

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| | **($'000)** | ($'000) |
| Trade receivables | **23,533** | 18,628 |
| VAT and other indirect tax receivables | **7,239** | 7,537 |
| Other receivables | **2,744** | 1,684 |
| Marketable securities | **193** | 261 |
| | **33,709** | 28,110 |
| Less: non-current portion | **1,902** | 1,884 |
| **Total current portion** | **31,807** | 26,226 |

There was no allowance for doubtful accounts as at June 30, 2017, or December 31, 2016.

## 5. Inventories

Inventories consist of the following:

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| | **($'000)** | ($'000) |
| Finished goods | **8,500** | 8,722 |
| Work in progress and stockpiled ore | **5,198** | 5,533 |
| Consumables | **10,457** | 10,952 |
| | **24,155** | 25,207 |

The amount of inventories recognized in cost of operations for the three and six months ended June 30, 2017, is $41,836,000 and $84,356,000 (2016 – $40,666,000 and $83,186,000).

The Company did not recognise a write-down of consumables for three and six months ended June 30, 2017 (2016 – $nil).

## 6. Property, plant and equipment

| Particulars | Mining interests | | | Plant and equipment | | | | Exploration and evaluation | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Costerfield | Cerro Bayo | Björkdal | Costerfield | Cerro Bayo | Björkdal | Others | Costerfield | Cerro Bayo | Björkdal | Others | |
| | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| Cost | | | | | | | | | | | | |
| As at January 1, 2016 | 59,576 | 68,640 | 51,408 | 29,120 | 47,802 | 16,044 | 2,928 | 7,544 | 3,278 | 13,917 | 43,486 | **343,743** |
| Additions | - | 14,390 | 11,818 | 3,389 | 3,296 | 4,879 | 206 | 4,551 | 2,626 | 1,947 | 4,370 | **51,472** |
| Disposals | - | - | - | (3,124) | - | (50) | (232) | - | - | - | (186) | **(3,592)** |
| Reclassification to mining interest | 5,763 | 1,024 | - | - | - | - | - | (5,763) | (1,024) | - | - | **-** |
| Transferred to Asset held for sale | - | - | - | - | - | - | (2,644) | - | - | - | (6,726) | **(9,370)** |
| Write-off of mining interest | - | (14,179) | - | - | - | - | - | - | - | - | - | **(14,179)** |
| Write-off of exploration and evaluation | - | - | - | - | - | - | - | (491) | (3,066) | (189) | - | **(3,746)** |
| Foreign exchange | (571) | - | (4,184) | (235) | - | (1,377) | 31 | 14 | - | (639) | (64) | **(7,025)** |
| As at December 31, 2016 | 64,768 | 69,875 | 59,042 | 29,150 | 51,098 | 19,496 | 289 | 5,855 | 1,814 | 15,036 | 40,880 | **357,303** |
| Additions | 1,876 | 5,882 | 5,860 | 2,480 | 1,354 | 3,050 | 205 | 2,386 | 497 | 1,082 | 794 | **25,466** |
| Disposals | - | - | - | (278) | (2,181) | - | - | - | - | - | - | **(2,459)** |
| Write-off of mining interest | - | (777) | - | - | - | - | - | - | - | - | - | **(777)** |
| Reclassification to mining interest | 393 | - | - | - | - | - | - | (393) | - | - | - | **-** |
| Foreign exchange | 3,408 | - | 3,278 | 1,910 | - | 1,596 | 15 | 400 | - | 102 | - | **10,709** |
| **As at June 30, 2017** | **70,445** | **74,980** | **68,180** | **33,262** | **50,271** | **24,142** | **509** | **8,248** | **2,311** | **16,220** | **41,674** | **390,242** |
| Accumulated depreciation | | | | | | | | | | | | |
| As at January 1, 2016 | 35,976 | 42,934 | 8,479 | 8,306 | 30,306 | 4,493 | 407 | - | - | - | - | **130,901** |
| Expense | 8,559 | 8,508 | 8,185 | 5,802 | 6,720 | 3,234 | 58 | - | - | - | - | **41,066** |
| Disposals | - | - | - | (1,690) | - | - | - | - | - | - | - | **(1,690)** |
| Foreign exchange | (408) | - | (696) | (182) | - | (510) | 4 | - | - | - | - | **(1,792)** |
| As at December 31, 2016 | 44,127 | 51,442 | 15,968 | 12,236 | 37,026 | 7,217 | 469 | - | - | - | - | **168,485** |
| Expense | 5,072 | 4,402 | 5,581 | 3,100 | 2,992 | 1,417 | 11 | - | - | - | - | **22,575** |
| Disposals | - | - | - | (173) | (1,757) | - | - | - | - | - | - | **(1,930)** |
| Foreign exchange | 2,456 | - | 1,036 | 870 | - | 653 | 4 | - | - | - | - | **5,019** |
| **As at June 30, 2017** | **51,655** | **55,844** | **22,585** | **16,033** | **38,261** | **9,287** | **484** | **-** | **-** | **-** | **-** | **194,149** |
| Carrying value | | | | | | | | | | | | |
| As at January 1, 2016 | 23,600 | 25,706 | 42,929 | 20,814 | 17,496 | 11,551 | 2,521 | 7,544 | 3,278 | 13,917 | 43,486 | **212,842** |
| As at December 31, 2016 | 20,641 | 18,433 | 43,074 | 16,914 | 14,072 | 12,279 | (180) | 5,855 | 1,814 | 15,036 | 40,880 | **188,818** |
| **As at June 30, 2017** | **18,790** | **19,136** | **45,595** | **17,229** | **12,010** | **14,855** | **25** | **8,248** | **2,311** | **16,220** | **41,674** | **196,093** |

For the three and six months ended June 30, 2017, plant and equipment depreciation for Cerro Bayo of $157,000 and $379,000 (2016 – $257,000 and $407,000), was capitalized in mining interests.

## 6. Property, plant and equipment (continued)

On June 9, 2017, there was a flooding event in the Delia NW mine at the Company's Cerro Bayo operations. Since that date, mining operations have been temporarily suspended pending investigation and risk assessment of restarting. As part of the review of indicators of impairment, the Company determined that the flooding event at Cerro Bayo and the market capitalization test at the balance sheet date were indicators of impairment for the Cerro Bayo cash generating unit. The Company calculated the recoverable amount based on fair value less cost to sell and determined that the recoverable amount was above the carrying value and as a result no impairment was charged for the Cerro Bayo cash generating unit. The key assumptions in determining the recoverable amount were a long-term gold price of $1,300 per ounce and long-term silver price of $19 per ounce and a discount rate of 7% after tax.

During the three months ended June 30, 2017, also due to flooding at Cerro Bayo on June 9, 2017, the Company has disposed of mining equipment having carrying value of $424,000; this amount has been recognised under the disposal of assets. It also recognized $777,000 write-off of residual mining interests in the Delia NW mine. During the six months ended June 30, 2016, the Company recognized a $3,441,000 write-off of residual mining interests in the Fabiola and Yasna veins at Cerro Bayo due to the fact there were no additional accessible reserves in those veins.

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

## 7. Intangible asset

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

As at June 30, 2017, the carrying amount of the intangible asset is $58,000 (December 31, 2016 – $305,000). Amortization expense for the three and six months ended June 30, 2017, of $123,000 and $246,000 (2016 - $123,000 and $246,000) is recorded as part of cost of sales.

## 8. Trade and other payables

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| | **($'000)** | ($'000) |
| Trade payables | **15,046** | 13,069 |
| Accrued liabilities | **6,856** | 6,265 |
| Payroll and other taxes payable | **2,871** | 2,780 |
| Cash election option (Note 12(c)) | **2** | 36 |
| Mark-to-market adjustment | **57** | 983 |
| | **24,832** | 23,133 |

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

## 8. Trade and other payables (continued)

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at June 30, 2017, there was $57,000 mark-to-market adjustments recorded in trade and other payables (2016 - $983,000).

## 9. Borrowings

***Equipment loans***

As at June 30, 2017, the Company's Björkdal mine in Sweden, had a balance of $1,016,000 (December 31, 2016 – $1,176,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the 3-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 9 months from the period ended June 30, 2017. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling $1,122,000 (December 31, 2016 – $1,390,000). These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments, with the final lease payment falling due 28 months from the period ended June 30, 2017. The leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost.

As at June 30, 2017, the current portion of the above facilities is $1,275,000 (December 31, 2016 – $1,303,000) and the non-current portion is $864,000 (December 31, 2016 – $1,263,000).

## 10. Five-year exchangeable loan

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

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

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

The Issuer may redeem the Bonds at its option:

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

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

## 10. Five-year exchangeable loan (continued)

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the condensed consolidated interim statements of financial position of the Company as at June 30, 2017, and December 31, 2016. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (Note 15).

*Repurchase and Amendment of Bonds*

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

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

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

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

## 11. Other Provisions

| | Employee benefits |
|---|---|
| | ($'000) |
| Balance, December 31, 2016 | 3,749 |
| Additions | 1,320 |
| Amounts paid | (1,071) |
| Foreign exchange | 191 |
| Balance, June 30, 2017 | 4,189 |
| Less: current portion | 2,716 |
| Total non-current portion | 1,473 |

**11. Other Provisions (continued)**

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

**12. Share capital**

As at June 30, 2017, the Company had an unlimited number of authorized common shares without par value and 451,279,731 common shares outstanding (December 31, 2016 – 451,174,008 common shares). All outstanding common shares are fully paid.

*(a) Shares issued*

For the three and six months ended June 30, 2016, the Company issued its common shares upon exercise of share options by their holders. The Company also issued 2.5 million shares to Coeur Mining as part of the purchase of the 2% Net Smelter Return royalty at Cerro Bayo (Note 6).

*(b) Share-based compensation*

For the three and six months ended June 30, 2017, the Company recorded $237,000 (2016 – $373,000) and $474,000 (2016- $570,000) as net share-based compensation expense and recorded this amount in share option reserve.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **($'000)** | ($'000) | **($'000)** | ($'000) |
| Stock based compensation on options | **207** | 206 | **440** | 308 |
| Fair value for cash election option | **(15)** | 119 | **(34)** | 168 |
| RSU amortization | **45** | 48 | **68** | 94 |
| | **237** | 373 | **474** | 570 |

The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C$0.60 (2016 – C$0.22) was calculated using the following weighted average assumption. Expected stock price volatility and option life is based on the Company's historical share price volatility.

| | **2017** | 2016 |
|---|---|---|
| Risk free interest rate | **0.85%** | 0.52% |
| Expected dividend yield | **5.33%** | 3.76% |
| Expected life of options in years | **7.00** | 2.73 |
| Expected stock price volatility | **42.89%** | 45.64% |
| Expected forfeiture rate | **0.00%** | 0.00% |

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

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

**12. Share capital (continued)**

*(c) Stock options*

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at June 30, 2017, the liability is $8,000 (December 31, 2016 - $36,000).

The Company recognized a fair value measurement gain of $15,000 and $34,000 for the three and six months ended June 30, 2017 (2016 – $119,000 loss and $168,000 loss), which is included in the share-based compensation expense.

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

| | **2017** | 2016 |
|---|---|---|
| Risk free interest rate | **0.50%** | 0.52% |
| Expected dividend yield | **3.20%** | 3.76% |
| Expected life of options in years | **2.74** | 2.73 |
| Expected stock price volatility | **46.52%** | 45.64% |
| Expected forfeiture rate | **0.00%** | 0.00% |

As at June 30, 2017, 775,000 (2016 – 1,455,000) stock options with the cash election option are outstanding.

| | **Number of options** | **Weighted average exercise price** |
|---|---|---|
| | | C$ |
| Balance, December 31, 2015 | 18,912,500 | 0.89 |
| Granted | 5,463,000 | 0.91 |
| Exercised-equity issuance | (4,123,300) | 0.63 |
| Forfeited | (1,010,000) | 0.93 |
| Balance, December 31, 2016 | 19,242,200 | 0.95 |
| Granted | 4,800,000 | 0.60 |
| Expired | (2,609,200) | 0.78 |
| Forfeited | (105,000) | 0.84 |
| **Balance, June 30, 2017** | **21,328,000** | **0.90** |

The weighted average share price at the time when the stock options were exercised during the three and six months ended June 30, 2017, was C$0.54 and C$0.65 (2016 – C$1.03 and C$ 0.97).

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

**12. Share capital (continued)**

*(c) Stock options (continued)*

The following table summarizes information about the stock options outstanding as at June 30, 2017:

| Options outstanding | | | Options exercisable | |
|---|---|---|---|---|
| Number of stock options outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price | Number of options exercisable | Weighted average exercise price |
| | | C$ | | C$ |
| 3,490,000 | 0.72 | 1.13 | 3,490,000 | 1.13 |
| 3,800,000 | 1.73 | 0.98 | 3,800,000 | 0.98 |
| 20,000 | 2.35 | 0.93 | 20,000 | 0.93 |
| 4,290,000 | 2.73 | 0.91 | - | - |
| 4,928,000 | 3.73 | 0.91 | - | - |
| 4,400,000 | 7.00 | 0.60 | - | - |
| 400,000 | 7.00 | 0.60 | - | - |
| **21,328,000** | **3.42** | **0.90** | **7,310,000** | **1.05** |

*(d) Restricted Share Units*

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

The number of RSUs as at June 30, 2017, is as follows:

| | RSU awards |
|---|---|
| Balance, December 31, 2015 | 419,472 |
| Granted | 78,435 |
| Redeemed | (215,730) |
| Balance, December 31, 2016 | 282,177 |
| Granted | 511,891 |
| Redeemed | (105,722) |
| Outstanding at June 30, 2017 | 688,346 |

## 12. Share capital (continued)

*(d) Restricted Share Units (continued)*

For the three and six months ended June 30, 2017, the Company recorded $45,000 and $68,000 (2016 – $48,000 and $94,000), respectively, as share based compensation relating to RSUs.

*(e) Dividends*

On February 16, 2017, and May 10, 2017 the Board of Directors declared a dividend in the amount of C$0.0057 and C$0.0083 per common share, based on the Company's operating results for the three months ended December 31, 2016, and March 31, 2017 payable to shareholders of record as of February 27, 2017. Total payments of $2,781,000 and $4,703,000 was made during the three and six months ended June 30, 2017 (2016 – 2,996,000 and 5,712,000).

## 13. Cost of sales

The cost of sales for the three and six months ended June 30, 2017 and 2016, consists of:

| | Three months ended | June 30, | Six months ended | June 30, |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | ($'000) | ($'000) | ($'000) | ($'000) |
| Raw materials and consumables | **10,329** | 10,212 | **20,021** | 20,214 |
| Salary and employee benefits | **9,303** | 9,152 | **18,842** | 17,511 |
| Contractors | **8,249** | 8,069 | **16,024** | 14,823 |
| Change in inventories | **(748)** | (254) | **1,400** | 2,596 |
| Royalty | **221** | 182 | **399** | 622 |
| Other | **2,676** | 2,566 | **5,332** | 5,587 |
| | **30,030** | **29,927** | **62,018** | 61,353 |

## 14. Finance costs

| | Three months ended | June 30, | Six months ended | June 30, |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | ($'000) | ($'000) | ($'000) | ($'000) |
| Interest on borrowings | **62** | 117 | **117** | 187 |
| Interest on five year exchangeable bonds (Note 10) | **1,155** | 1,243 | **2,428** | 2,478 |
| Expenses relating to modification of five year exchangeable bonds | **1,249** | - | **1,249** | - |
| Loss on repayment of five year exchangeable bonds | **1,682** | - | **1,682** | - |
| Accretion of reclamation and site closure costs | **86** | 83 | **172** | 164 |
| | **4,234** | 1,443 | **5,648** | 2,829 |

## 15. Financial instruments

*(a) Marketable securities - asset*

The value of securities as at June 30, 2017, is $193,000 (at December 31, 2016 – $261,000), recorded in trade and other receivables on the condensed consolidated interim statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain/(loss) of ($37,000) and ($75,000) (2016 – gain of $47,000 and $109,000) for three and six months ended June 30, 2017, using Level 1 assumptions.

*(b) Five-year exchangeable loan – liability*

The Company has valued the conversion feature of the five-year exchangeable loan (Note 10) using the Black-Scholes option pricing. For the three months ended June 30, 2017, the derivative value of the conversion feature amounts to $3,569,000 (2016 – $1,072,000) and is recorded in current liabilities in the condensed consolidated interim statements of financial position. The Company recorded a fair value measurement loss of $1,703,000 and $2,496,000 (2016 – loss of $1,067,000 and $2,060,000) for the three and six months ended June 30, 2017. The value was estimated using the following Level 2 assumptions: risk free interest rate of 1.55% (2016 – 1.47%); volatility of 18% (2016 – 18%), gold forward curve adjustment of (0.49%) (2016 – (0.16%)).

## 16. Income per share

As at June 30, 2017 and 2016, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **('000)** | ('000) | **('000)** | ('000) |
| **Net (loss) income for the year** | **(10,105)** | 3,611 | **(12,455)** | 4,760 |
| Basic weighted average number of shares outstanding | **451,253** | 416,238 | **451,214** | 413,743 |
| Effect of diluted securities : | | | | |
| Stock options | - | 2,034 | - | 1,061 |
| RSU | - | 379 | - | 400 |
| **Diluted weighted average number of shares outstanding** | **451,253** | 418,651 | **451,214** | 415,204 |

The following potential stock options and RSU are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the company has reported loss for the three and six months ended June 30, 2017:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **('000)** | ('000) | **('000)** | ('000) |
| Stock options | **20,928** | 3,518 | **16,528** | **7,563** |

## 17. Segmented information

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

| | | | | | Three months ended June 30, 2017 |
|---|---|---|---|---|---|
| | Australia | Chile | Sweden | Canada | Total |
| | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| Revenue | 18,105 | 9,773 | 16,246 | - | 44,124 |
| Cost of sales | (10,332) | (9,156) | (10,542) | - | (30,030) |
| Depletion and depreciation | (4,280) | (3,376) | (4,146) | (4) | (11,806) |
| Income from mine operations | 3,493 | (2,759) | 1,558 | (4) | 2,288 |
| Administration expenses | (644) | (1,183) | (489) | (388) | (2,704) |
| Other operating expenses (Note 22) | - | (2,395) | - | - | (2,395) |
| Write-off of mining interest and impairment (Note 6) | - | (777) | - | - | (777) |
| Income (loss) from operations | 2,849 | (7,114) | 1,069 | (392) | (3,588) |
| Other expense, except for fair value adjustment | 506 | (369) | (224) | (4,382) | (4,469) |
| Income (loss) for underlying operations | **3,355** | **(7,483)** | **845** | **(4,774)** | **(8,057)** |
| Loss from underlying operations per share | | | | | |
| Basic | | | | | ($0.02) |
| Diluted | | | | | ($0.02) |
| Fair value adjustments gain (loss) (Note 15) | | | | | |
| Five-year exchangeable bonds (Note 15(a)) | - | - | - | (1,703) | (1,703) |
| Marketable Securities (Note 15(c)) | - | - | - | (37) | (37) |
| Total fair value adjustment | - | - | - | (1,740) | **(1,740)** |
| Income (loss) before income taxes | 3,355 | (7,483) | 845 | (6,514) | (9,797) |
| Current tax recovery (expense) | (1,421) | 850 | (299) | - | (870) |
| Deferred tax recovery | 544 | 2 | 16 | - | 562 |
| Net income (loss) | **2,478** | **(6,631)** | **562** | **(6,514)** | **(10,105)** |
| Net Loss per share | | | | | |
| Basic | | | | | ($0.02) |
| Diluted | | | | | ($0.02) |
| Cash expenditure for property, plant and equipment | 3,955 | 3,933 | 5,110 | - | 12,998 |
| Total non-current assets as at June 30, 2017 | 47,233 | 75,205 | 80,874 | 1,036 | 204,348 |
| Total assets as at June 30, 2017 | 63,048 | 101,165 | 105,067 | 50,782 | 320,062 |
| Total liabilities as at June 30, 2017 | 13,984 | 25,619 | 25,218 | 61,990 | 126,811 |

## 17. Segmented information (continued)

| | Three months ended on June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Australia | Chile | Sweden | Canada | Total |
| | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| Revenue | 22,993 | 13,309 | 17,864 | - | 54,166 |
| Cost of sales | (9,393) | (7,994) | (12,540) | - | (29,927) |
| Depletion and depreciation | (3,954) | (3,686) | (3,094) | (5) | (10,739) |
| Income (loss) from mine operations | 9,646 | 1,629 | 2,230 | (5) | 13,500 |
| Administrative expenses | (412) | (662) | (464) | (1,221) | (2,759) |
| Income (loss) from operations | 9,234 | 967 | 1,766 | (1,226) | 10,741 |
| Other expense, except for fair value adjustment | (35) | (410) | (13) | (1,060) | (1,518) |
| Income (loss) for underlying operations | 9,199 | 557 | 1,753 | (2,286) | 9,223 |
| Income for underlying operations per share | | | | | |
| Basic | | | | | $0.02 |
| Diluted | | | | | $0.02 |
| Fair value adjustments gain (loss) (Note 15) | | | | | |
| Five-year exchangeable bonds (Note 15(a)) | - | - | - | (1,067) | (1,067) |
| Marketable Securities (Note 15(c)) | - | - | - | 47 | 47 |
| Total fair value adjustment | - | - | - | (1,020) | (1,020) |
| Net income (loss) before income taxes | 9,199 | 557 | 1,753 | (3,306) | 8,203 |
| Current tax recovery (expense) | (1,540) | 44 | (340) | - | (1,836) |
| Deferred tax recovery (expense) | (1,150) | (1,653) | 47 | - | (2,756) |
| Net income (loss) | 6,509 | (1,052) | 1,460 | (3,306) | 3,611 |
| Net Income per share | | | | | |
| Basic | | | | | $0.01 |
| Diluted | | | | | $0.01 |
| Cash expenditures for property, plant and equipment | 2,410 | 4,319 | 4,649 | 94 | 11,472 |
| Total non-current assets as at June 30,2016 | 51,549 | 92,633 | 73,691 | 30,665 | 248,538 |
| Total assets as at June 30,2016 | 74,119 | 126,269 | 94,629 | 60,083 | 355,100 |
| Total liabilities as at June 30,2016 | 13,807 | 22,263 | 27,090 | 79,837 | 142,996 |

## 17. Segmented information (continued)

| | Six months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | **Australia** | **Chile** | **Sweden** | **Canada** | **Total** |
| | **($'000)** | **($'000)** | **($'000)** | **($'000)** | **($'000)** |
| Revenue | 33,725 | 22,706 | 33,066 | - | 89,497 |
| Cost of sales | (20,132) | (17,881) | (24,005) | - | (62,018) |
| Depletion and depreciation | (8,166) | (7,029) | (7,134) | (9) | (22,338) |
| Income from mine operations | 5,427 | (2,204) | 1,927 | (9) | 5,141 |
| Administration expenses | (1,249) | (2,289) | (1,240) | (144) | (4,922) |
| Other operating expenses (Note 22) | - | (2,395) | - | - | (2,395) |
| Write-off of mining interest and impairment (Note 6) | - | (777) | - | - | (777) |
| Income (loss) from operations | 4,178 | (7,665) | 687 | (153) | (2,953) |
| Other expense, except for fair value adjustment | (468) | (507) | (399) | (5,490) | (6,864) |
| Income (loss) for underlying operations | **3,710** | **(8,172)** | **288** | **(5,643)** | **(9,817)** |
| Loss from underlying operations per share | | | | | |
| Basic | | | | | ($0.02) |
| Diluted | | | | | ($0.02) |
| Fair value adjustments gain (loss) (Note 15) | | | | | |
| Five-year exchangeable bonds (Note 15(a)) | - | - | - | (2,496) | (2,496) |
| Marketable Securities (Note 15(c)) | - | - | - | (75) | (75) |
| Total fair value adjustment | - | - | - | (2,571) | **(2,571)** |
| Income (loss) before income taxes | 3,710 | (8,172) | 288 | (8,214) | (12,388) |
| Current tax recovery (expense) | (1,332) | 850 | (208) | - | (690) |
| Deferred tax recovery | 453 | 4 | 167 | - | 624 |
| Net income (loss) | **2,831** | **(7,318)** | **247** | **(8,214)** | **(12,454)** |
| Net Loss per share | | | | | |
| Basic | | | | | ($0.03) |
| Diluted | | | | | ($0.03) |
| Cash expenditure for property, plant and equipment | 6,735 | 8,147 | 10,208 | - | 25,090 |
| Total non-current assets as at June 30, 2017 | 47,233 | 75,205 | 80,874 | 1,036 | 204,348 |
| Total assets as at June 30, 2017 | 63,048 | 101,165 | 105,067 | 50,782 | 320,062 |
| Total liabilities as at June 30, 2017 | 13,984 | 25,619 | 25,218 | 61,990 | 126,811 |

## 17. Segmented information (continued)

| | Six months ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Australia | Chile | Sweden | Canada | Total |
| | ($'000) | ($'000) | ($'000) | ($'000) | ($'000) |
| Revenue | 40,860 | 30,707 | 33,041 | - | 104,608 |
| Cost of sales | (18,210) | (20,356) | (22,787) | - | (61,353) |
| Depletion and depreciation | (7,692) | (8,138) | (5,994) | (9) | (21,833) |
| Income from mine operations | 14,958 | 2,213 | 4,260 | (9) | 21,422 |
| Administration expenses | (820) | (1,441) | (938) | (1,524) | (4,723) |
| Write-off of mining interest and impairment (Note 5) | - | (3,441) | - | - | (3,441) |
| Income (loss) from operations | 14,138 | (2,669) | 3,322 | (1,533) | 13,258 |
| Other expense, except for fair value adjustment | (817) | (348) | (15) | (3,407) | (4,587) |
| **Income (loss) for underlying operations** | **13,321** | **(3,017)** | **3,307** | **(4,940)** | **8,671** |
| Income (loss) for underlying operations per share | | | | | |
| Basic | | | | | $0.02 |
| Diluted | | | | | $0.02 |
| Fair value adjustments gain (loss) (Note 15) | | | | | |
| Five-year exchangeable bonds (Note 15(a)) | - | - | - | (2,060) | (2,060) |
| Marketable Securities (Note 15(c)) | - | - | - | 109 | 109 |
| Total fair value adjustment | - | - | - | (1,951) | **(1,951)** |
| Income (loss) before income taxes | 13,321 | (3,017) | 3,307 | (6,891) | 6,720 |
| Current tax recovery (expense) | (2,125) | 44 | (595) | - | (2,676) |
| Deferred tax recovery (expense) | (300) | 888 | 128 | - | 716 |
| **Net income (loss)** | **10,896** | **(2,085)** | **2,840** | **(6,891)** | **4,760** |
| Net Loss per share | | | | | |
| Basic | | | | | $0.01 |
| Diluted | | | | | $0.01 |
| Cash expenditure for property, plant and equipment | 3,706 | 7,859 | 8,817 | 147 | 20,529 |
| Total non-current assets as at June 30, 2016 | 51,549 | 92,633 | 73,691 | 30,665 | 248,538 |
| Total assets as at June 30, 2016 | 74,119 | 126,269 | 94,629 | 60,083 | 355,100 |
| Total liabilities as at June 30, 2016 | 13,807 | 22,263 | 27,090 | 79,837 | 142,996 |

## 17. Segmented information (continued)

For the three months and six months ended June 30, 2017, the Company had four customers from whom it earned more than 10% of its total revenue (2016 – four customers).

Revenue from these customers is summarized as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2017** | June 30, 2016 | **June 30, 2017** | June 30, 2016 |
| | **($'000)** | ($'000) | **($'000)** | ($'000) |
| Costerfield (gold and antimony) | | | | |
| Customer 1 | **12,673** | 14,766 | **22,884** | 26,008 |
| Customer 2 | **6,090** | 7,937 | **10,484** | 13,883 |
| | **18,763** | 22,703 | **33,368** | 39,891 |
| Cerro Bayo (silver and gold) | | | | |
| Customer 3 | **6,365** | 7,703 | **13,182** | 16,920 |
| | **6,365** | 7,703 | **13,182** | 16,920 |
| Björkdal (gold) | | | | |
| Customer 4 | **12,609** | 13,977 | **36,455** | 26,557 |
| | **12,609** | 13,977 | **36,455** | 26,557 |
| **Total** | **37,737** | 44,383 | **83,005** | 83,368 |

## 18. Fair value measurement

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

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

As at June 30, 2017, the provisional pricing feature of trade receivables, other receivables and marketable securities are based on Level 1 input. Provisional pricing feature of trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

## 19. Related party transactions

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **($'000)** | ($'000) | **($'000)** | ($'000) |
| Administration expenses, salaries and consultancy services | | | | |
| SKS Business Services | **47** | 49 | **89** | 94 |
| Plinian Capital | **-** | 7 | **-** | 7 |

## 20. Income tax

During the three and six months ended June 30, 2017, the Company had recognised current tax expense of $870,000 and $690,000 (2016 – $1,836,000 and $2,676,000) and deferred tax recovery of $562,000 and $624,000 (2016 – expense of $2,756,000 and recovery of $716,000), respectively.

## 21. Assets and liabilities held for sale

On October 31, 2016, Mandalay entered into a definitive agreement with WPC Resources Inc. (TSXV: WPC) ("WPC") pursuant to which WPC has agreed to purchase the Lupin gold mine ("Lupin") and the Ulu ("Ulu") gold project from Mandalay. Following the agreement all the assets related to Lupin and Ulu amounting to $38,886,000 (December 31, 2016 – 31,282,000) are classified as held for sale, and Liabilities of $29,115,000 (December 31,2016 – 21,554,000) directly associated with Lupin and Ulu are classified as Liabilities directly associated with assets held for sale.

The following table presents the assets and liabilities of Lupin and Ulu, classified as assets held for sale and liabilities directly associated with the assets held for sale in the condensed consolidated interim statements of financial position:

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| | **($'000)** | ($'000) |
| **Assets** | | |
| Reclamation deposits and other | **21,412** | 20,634 |
| Property, plant and equipment | **16,211** | 9,370 |
| Current assets | **1,263** | 1,378 |
| Assets held for sale | **38,886** | 31,382 |
| **Liabilities** | | |
| Reclamation and site closure costs | **29,076** | 21,516 |
| Other liabilities | **39** | 38 |
| Liabilities associated with Assets held for sale | **29,115** | 21,554 |

## 22. Other operating expenses

For the three months ended June 30, 2017, the Company has recognised $2,395,000 in expenses relating to certain costs, incurred and provided for, relating to the flooding incident that occurred at the Cerro Bayo mine on June 9, 2017.

## 23. Commitments and contingencies

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

Due to recent events at the Cerro Bayo mine, the Company has provided for certain costs related to possible settlements from third parties in the future. These have been included using management's best estimate, however these estimates could be materially different to the final outcome of the claims.

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

## 24. Subsequent events

On July 25, 2017, the Company entered into a senior secured revolving credit facility with HSBC Bank Canada for up to US$40 million, proceeds of which will be used for working capital, capital expenditures, permitted acquisitions and other general corporate purposes. As required by the terms of the new credit facility, the Company has suspended dividends on its common shares.