MANDALAY RESOURCES

Management's Discussion and Analysis

For the quarter ended June 30, 2017

As of August 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 three and six months ended June 30, 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 SECOND QUARTER 2017 FINANCIAL AND OPERATING SUMMARY

Mandalay's financial performance in the second quarter of 2017 was negatively affected by the operating suspension at Cerro Bayo in response to the June 9, 2017, flooding of the Delia NW mine. Suspension of operations caused reduced silver and gold production, and therefore revenue, at higher cost per ounce than planned. Operations at Cerro Bayo remain suspended pending completion of the investigation of the root cause of the event and the risk assessment of restarting mining in the vicinity of Laguna Verde. In addition, the Chilean regulator, Sernageomin, has issued a decree that it must approve a request to reopen based on the results of the risk assessment. This undefined process is likely to extend the time necessary to restart the operations.

In addition to impacts on volumes, revenues, and cost of sales, the Company recorded $2.4 million of additional expenses incurred for the search for the miners and crisis management following the event. Other costs include a non-financial write-off of the remaining carrying value of the Delia NW mining interests of $0.8 million and a loss of $0.5 million of property, plant and equipment which will not be recovered from the flooded mine. Further to the event, Cerro Bayo gave notice of force majeure to the primary customers, suppliers and contractors of its Cerro Bayo mine on June 30, 2017. This notice suspends Cerro Bayo's obligations under contracts with these parties.

Mandalay has initiated an independent technical investigation into the flooding of the Delia NW mine, as well as risk assessments for restarting operations of the Coyita, Delia SE, Marcela and Raul mines, which form the basis for Cerro Bayo's current life of mine plan. The Company is reviewing several alternatives for the future of mining at Cerro Bayo and is consulting with all stakeholders in this review process, including employees, unions, and government officials.

1. Financial Summary

- Revenue in the quarter declined to $44.1 million (including $0.4 million adverse revenue adjustments related to open sales contracts from prior quarters) from $54.2 million in the prior year quarter (including favorable revenue adjustments of $0.3 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 compared to the corresponding 2016 period. Year-to-date revenue was $89.5 million compared to $104.6 million in the corresponding 2016 period. The lower volumes and follow-on impacts on EBITDA and earnings largely originate in the flooding event in the Delia NW mine at Cerro Bayo, which resulted in all mining operations being suspended there as of June 9, 2017.

- Adjusted EBITDA[1] in the second quarter of 2017 was $12.1 million versus $22.1 million in the second quarter of 2016. Lower adjusted EBITDA was due to lower revenue in the 2017 period than in the corresponding 2016 period. Year-to-date 2017 adjusted EBITDA was $23.5 million versus $39.4 million in the corresponding period of 2016.

- Income from mine operations before tax in the second quarter of 2017 was $2.3 million versus income of $13.5 million in the year-ago quarter, and consolidated pre-tax loss was $8.5 million compared to income of $8.2 million in the year-ago quarter.

- Consolidated after tax net loss in the second quarter of 2017 was $10.1 million ($0.02 loss per share) compared to consolidated net income of $3.6 million ($0.01 income per share) in the second quarter of 2016. Again, lower revenue due to lower volume metal sold was the main reason for the lower performance in the current quarter. For the year-to-date 2017, consolidated after tax net loss was $12.5 million ($0.02 per share) versus income of $4.8 million in the corresponding period of 2016. Larger losses in the current year flowed primarily from lower EBITDA. Also contributing to the loss were $2.4 million of expenses incurred and provided relating to the flooding incident at Cerro Bayo. Other costs include a non-financial write-off of the remaining carrying value of residual Delia NW mine of $0.8 million associated, and a loss of $0.5 million of property, plant and equipment.

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

- Dividends paid in the second quarter of 2017 were $2.8 million (C$0.0083 per share) compared to $3.0 million (C$0.0094 per share) in the corresponding quarter of 2016.

- Total cash capital expenditure during the second quarter of 2017 was $13.2 million compared to $11.3 million in the year-ago quarter.

- During the quarter, the Company repaid $30.0 million worth of its 5.875% exchangeable loan with Gold Exchange Limited and the maturity date of the remaining $30.0 million of the loan was extended by three years, to May 13, 2022. There were $2.5 million of one-time expenses related to this repayment and modification, half of which were capitalized against the carrying value of the loan liability and while the other half were expensed to the income statement. There was also a loss on derecognition of the loan relating to the repaid amount of $1.7 million, a one-time expense during the quarter.

- At June 30, 2017, the Company had $18.4 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 second quarter of 2017, Mandalay produced a total of 38,491 ounces of gold equivalent, including 28,219 ounces of gold, 359,457 ounces of silver and 765 tonnes of antimony. This closely compares to 39,653 ounces of gold equivalent produced in the second quarter of 2016, consisting of 28,718 ounces of gold, 462,462 ounces of silver and 962 tonnes of antimony.
- At Costerfield, production in the current quarter was lower than the corresponding 2016 quarter but better than the first quarter of 2017. At this very stable operation, quarterly production variations are related to variations in ore grade delivered to the plant from the mine.

- Björkdal production was a record under Mandalay ownership in the current quarter, nearly 3,500 oz more than the year-ago quarter as debottlenecking of mine production rates took hold. More detail is included below under "Results of Operations – Björkdal".

- Production from Cerro Bayo in the current quarter was comparatively lower than the year-ago quarter, mainly due to operational suspension on June 9, 2017, related to the flooding event at the Delia NW mine. More details on this subject are set out under "Results of Operations – Cerro Bayo" below.

- Mandalay's consolidated average cash cost[2] of production in the second quarter of 2017 was $853 per ounce of gold equivalent versus $811 per ounce of gold equivalent in the second quarter of 2016.

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

Consolidated all-in cost[3] in the current quarter was $1,173 per ounce of gold equivalent versus $1,095 per ounce of gold equivalent in the prior-year quarter. Higher average unit costs were mostly related to lower production arising from the operational suspension at Cerro Bayo. Note that the special item of $2.4 million relating to the Cerro Bayo incident-related expenses have been excluded in the cash cost and all-in cost calculations.

- Operational exchange rates slightly impacted U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 1.3321/US$ in the second quarter of 2017 vs 1.3407/US$ in the prior year period. The Chilean Peso averaged 664 peso/US$ vs 677 peso/US$ in the prior period. The Swedish Krona averaged 8.8039 krona/US$ in the period vs 8.2169 krona/US$ in the prior period. Petroleum prices were approximately 9.3% lower than in the prior period.

- Quantities of metal sold during the quarter were 24,896 ounces of gold, 377,916 ounces of silver and 806 tonnes of antimony compared to 29,951 ounces of gold, 439,993 ounces of silver and 993 tonnes of antimony in the second quarter of 2016. These sales totaled 35,709 ounces of gold equivalent versus 40,740 ounces of gold equivalent in the corresponding quarter of 2016. Year-to-date in 2017, sales have totaled 70,510 ounces of gold equivalent versus 81,548 ounces of gold equivalent in 2016.

- Prices realized during the quarter were $1,267 per ounce for gold, $15.21 per ounce for silver and $8,464 per tonne for antimony versus $1,306 per ounce for gold, $19.13 per ounce for silver and $6,681 per tonne for antimony in the same period in 2016 (2.9% lower price for gold, 20.49% lower for silver and 27.0% higher for antimony).

Mandalay Saleable Production

Metal	**Source**	**Three months to 30 June 2017**	**Three months to 30 June 2016**	**Period ended 30 June 2017**	**Period ended 30 June 2016**
Gold (oz)	Costerfield	8,933	12,252	16,920	24,685
	Cerro Bayo	3,174	3,818	5,909	8,154
	Björkdal	16,112	12,648	26,760	24,834
	Total	**28,219**	**28,718**	**49,589**	**57,672**
Antimony (t)	Costerfield	**765**	**962**	**1,506**	**1,962**
Silver (oz)	Cerro Bayo	**359,457**	**462,462**	**794,533**	**977,678**
Average quarterly prices:					
Gold US$/oz		1,256	1,259	-	-
Antimony US$/tonne		8,816	6,244	-	-
Silver US$/oz		17.15	16.78	-	-
Au Eq. (oz)[1]	Costerfield	14,300	17,023	27,191	33,989
	Cerro Bayo	8,079	9,982	17,021	20,796
	Björkdal	16,112	12,648	26,760	24,833
	Total	**38,491**	**39,653**	**70,972**	**79,618**

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

Mandalay Sales

Metal	**Source**	**Three months ended 30 June 2017**	**Three months ended 31 June 2016**	**Six months to 30 June 2017**	**Six months to 30 June 2016**
Gold (oz)	Costerfield	8,912	12,440	16,459	23,256
	Cerro Bayo	3,232	3,698	6,232	9,727
	Björkdal	12,752	13,813	25,873	26,150
	Total	**24,896**	**29,951**	**48,564**	**59,134**
Antimony (t)	Costerfield	**806**	**993**	**1,514**	**1,886**
Silver (oz)	Cerro Bayo	**377,916**	**439,993**	**829,693**	**1,042,614**
Average quarterly prices:					
Gold US$/oz		1,256	1,259		
Antimony US$/tonne		8,816	6,244		
Silver US$/oz		17.15	16.78		
Au Eq. (oz)2	Costerfield	14,568	17,365	26,803	32,229
	Cerro Bayo	8,389	9,562	17,834	23,169
	Björkdal	12,752	13,813	25,873	26,150
	Total	**35,709**	**40,740**	**70,510**	**81,548**

[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 second quarter of 2017 was 8,933 ounces versus 7,987 ounces in the previous quarter and 12,252 ounces in the second quarter of 2016. Saleable antimony production for the second quarter of 2017 was 765 tonnes versus 741 tonnes in the previous quarter and 962 tonnes in the second 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 second quarter of 2017 was $648 versus $719 in the previous quarter and $530 in the second quarter of 2016. The higher cash cost in the second 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 second quarter of 2017 was $962 versus $1,033 in the previous quarter and $772 in the second quarter of 2016.

Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production* — Cerro Bayo produced 359,457 ounces of silver and 3,174 ounces of gold in the second quarter of 2017 versus 435,076 ounces of silver and 2,735 ounces of gold in the previous quarter and 462,462 ounces of silver and 3,818 ounces of gold in the second quarter of 2016. Production in the current quarter was lower than in previous quarters due to the suspension of operations following the June flooding incident.

- *Operating Costs* — Cash cost per saleable ounce silver produced net of gold credits was $12.31 in the second quarter of 2017 versus $14.04 in the previous quarter and $8.45 in the second quarter of 2016. Cash costs recovered modestly from the first quarter of 2017, 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 $24.05 in the second quarter of 2017 versus $22.54 in the previous quarter and $16.54 in the second quarter of 2016. Note that the special item of $2.4 million relating to the Cerro Bayo incident-related expenses have been excluded in the cash cost and all-in cost calculations.

Björkdal Gold Mine, Sweden

- *Production* — Björkdal produced 16,112 ounces of gold in the second quarter of 2017 versus 10,648 ounces of gold in the previous quarter and 12,648 ounces of gold in second quarter of 2016. Production is directly related to grade of mill feed as the mill runs at an almost constant throughput rate. Grades and production in the current quarter were at a record high mainly due to the effective elimination of several bottlenecks in production from the open pit and underground mines.

- *Operating Costs* — Cash cost per saleable ounce of gold produced at Björkdal in the second quarter of this year was $824 and the site all-in cost per saleable ounce of gold produced was $1,081, as compared to $1,150 and $1,431 in the previous quarter and $967 and $1,212 respectively for the prior-year quarter of 2016. The lower cost per ounce in the current period compared to previous periods was due to record gold production this quarter.

Exploration

A detailed update of exploration activity at all four of Mandalay's material properties in the second half of 2016 was released on July 24, 2017. Activities during the second quarter of 2017 included:

Costerfield

- Infill and extensional drilling was performed on Brunswick and Brunswick South lodes to support a development decision anticipated for later in 2017. As well, multiple intersections on a possibly significant mineralized shoot beneath the historic main Costerfield workings were obtained.

Björkdal

- Underground core drilling and open pit core and reverse circulation drilling were performed, obtaining numerous high-grade intercepts that the Company believes will support increased reserves in the end of year update.

Cerro Bayo

- Core drilling during the second quarter continued to support mine production decisions. Since the suspension of operations on June 9, core drilling capacity has been diverted to drill search holes for possible air pockets in the flooded Delia NW mine and to confirm sediment depths under the lake for the ongoing risk assessment.

Challacollo

- Permission to drill for water on concessions granted to Mandalay was received in the first quarter of 2017. Four holes were completed during the second quarter, all four of which found significant amounts of water.

La Quebrada, Chile

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

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 producing assets are its Costerfield gold-antimony mine in Victoria, Australia; its Cerro Bayo silver-gold mine in Patagonia, Chile (temporarily suspended pending risk assessment); 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. With the repurchase of the Coeur Mining royalty interest in the first quarter of 2016, Cerro Bayo is now royalty-free.

As previously disclosed (see press releases of February 16 and 23, 2017) detailed development sampling has refined our 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-optimisation 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. Through the Delia NW flooding event on June 9, 2017, Cerro Bayo had followed the revised plan quite closely at a 1,000 tonnes per day plant throughput rate. Since June 9, operations have been suspended pending completion of a risk assessment of continued mining around Laguna Verde.

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 limited the tonnes of high grade ore delivered from both the underground and open pit mines and thus the full production impact of successful grade control. Most of these bottlenecks have since been resolved, and the second quarter of 2017 was a record production quarter under Mandalay ownership:

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, and the Company discovered adequate water supply in four water exploration holes drilled on concessions about 30 km down-gradient of the deposit.

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, but the transaction was not completed due to a C$9 million increase in the bonding requirements for the Lupin project that was imposed shortly before the planned closing date. In light of the increased bonding requirement, the Company is transitioning to final reclamation of the Lupin project, which it firmly believes can be accomplished for the original bonded amounts or less.

1.2 SELECTED QUARTERLY INFORMATION

Summary Financial Information

The following table sets forth a summary of the Company's financial results for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017 ($'000)	Three months ended June 30, 2016 ($'000)	Six months ended June 30, 2017 ($'000)	Six months ended June 30, 2016 ($'000)
Revenue	44,124	54,166	89,497	104,608
Cost of sales	30,030	29,927	62,018	61,353
Income from mine operations before depreciation and depletion	14,094	24,239	27,479	43,255
Depreciation and depletion	11,806	10,739	22,338	21,833
Income from mine operations	2,288	13,500	5,141	21,422
Administration costs	1,915	2,112	3,876	3,854
Business development costs	49	-	61	12
Adjusted EBITDA*	12,130	22,127	23,542	39,389
Finance costs, foreign exchange and others**	10,121	3,185	13,594	10,836
Consolidated (loss) income before tax	(9,797)	8,203	(12,390)	6,720
Current tax (income) expense	870	1,836	690	2,676
Deferred tax expense	(562)	2,756	(624)	(716)
Adjusted net (loss) income before special items after tax *	(6,933)	5,154	(9,284)	7,781
Consolidated net (loss) income after tax	(10,105)	3,611	(12,456)	4,760
Total assets	320,062	355,100	320,062	355,100
Total liabilities	126,811	142,996	126,811	142,996
Adjusted (loss) income per share before special items*	(0.02)	0.01	(0.02)	0.02
Consolidated (loss) income per share	(0.02)	0.01	(0.03)	0.01

* 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 June 30, 2017	As at December 31, 2016
Cash and cash equivalents	18,359	66,917
Inventories, accounts receivables and other current assets	58,469	55,146
Assets held for sale	38,886	31,382
Non current assets	204,348	196,787
Total assets	**320,062**	**350,232**
Five year exchangeable loan*	27,489	56,424
Current liabilities	32,528	31,681
Liabilities held for sale	29,115	21,554
Non current liabilities	37,679	37,536
Equity attributable to common share holders	193,251	203,037
Total equity and liability	**320,062**	**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 and six months ended June 30, 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 June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Net cash flows from operating activities	**5,351**	**18,588**	**11,424**	**25,013**
Capital expenditures	(12,998)	(11,472)	(25,090)	(24,529)
Free cash flow	**(7,647)**	**7,116**	**(13,666)**	**484**
Other investing activity	(44)	100	(115)	(14)
Repayment of/Proceeds from borrowings	(29,622)	856	(29,914)	490
Shares issued for cash, net of cost	-	245	-	1,526
Dividend paid	(2,781)	(2,996)	(4,703)	(5,712)
Effects of exchange rate changes	(404)	(392)	(160)	(306)
Net cash flow	**(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 the period	**18,359**	**45,667**	**18,359**	**45,667**

Dividend

Mandalay's policy from 2012 through the first quarter of 2017 was to pay a quarterly dividend equal to an aggregate of 6% of the trailing quarter's gross revenue. As previously announced on July 25, 2017, to comply with terms of the new $40 million revolving credit facility, the Company has suspended dividends going forward. The following table summarizes dividends paid by Mandalay in 2017 and 2016:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
2017				
		February 27, 2017	0.0057	2,572
		May 22, 2017	0.0083	2,781
				5,353
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 and six months ended June 30, 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 June 30, 2017		Three months ended June 30, 2016		Six months ended June 30, 2017		Six months ended June 30, 2016	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Consolidated Net Income/(loss)		(10,105)		3,611		(12,456)		4,760
Special items								
Mining interest write off and impairment	777		-		777		3,441	
- tax impact of above	-		-		-		826	
Deferred tax impact on Royalty	-		1,543		-		171	
Available Fraction tax adjustment at Costerfield	-		-		-		(1,417)	
Cerro Bayo incident-related expenses	2,395		-		2,395		-	
		3,172		1,543		3,172		3,021
Adjusted Net Income/(loss) before special items		(6,933)		5,154		(9,284)		7,781
Add: Non-cash and finance costs								
Depletion and depreciation	11,806		10,739		19,943		21,833	
Loss (gain) on disposal of property, plant and equipment	503		274		512		287	
Share based compensation	237		373		474		570	
Interest and finance charges	4,234		1,443		5,648		2,829	
Fair value adjustments	1,740		1,020		2,571		1,951	
Current tax	870		1,836		690		2,676	
Deferred tax	(562)		1,213		(624)		(296)	
Foreign exchange (gain)/loss	166	18,994	196	17,094	1,245	30,459	1,957	31,807
		12,061		22,248		21,175		39,588
Less: Interest and other income	69	69	(121)	(121)	2,367	2,367	(199)	(199)
Adjusted EBITDA		12,130		22,127		23,542		39,389

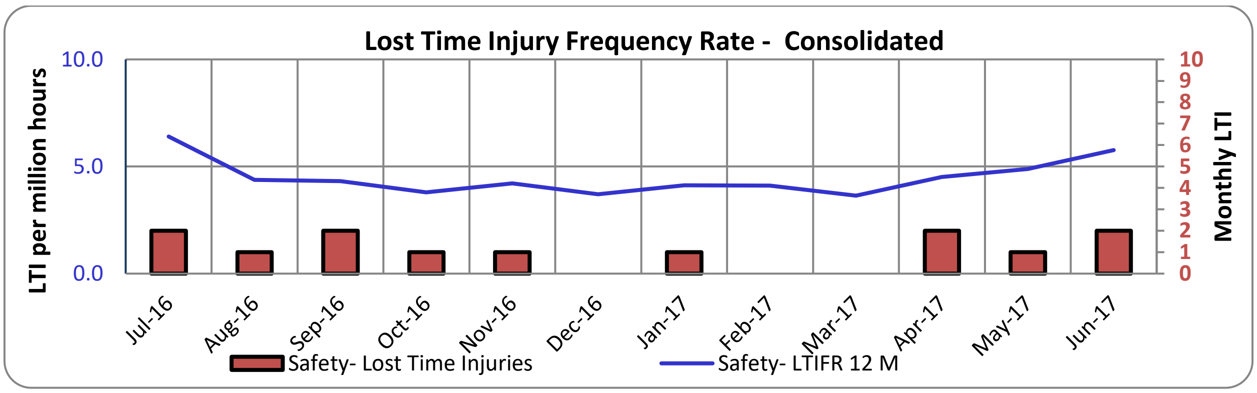
1.3 RESULTS OF OPERATIONS

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 June 30, 2017.

Safety table for year end June 2017

Incident category	Costerfield	Cerro Bayo	Björkdal	Challacollo	Total
Fatality	-	3	-	-	**3**
Lost time injury (LTI)	2	8	3	-	**13**
Total man hours	440,435	1,268,820	545,200	10,800	**2,265,255**
LTIFR	4.54	6.31	5.50		**5.77**



The Lost Time Injury Frequency Rate (LTIFR, defined as lost time injuries per million hours worked) rate stands at 5.77 as on June 30, 2017, slightly lower than the rate of a year ago.

Mandalay operations (Consolidated)

Three Months Ended June 30, 2017 compared to Three Months Ended June 30, 2016

Revenue in the current quarter declined to $44.1 million (including $0.4 million adverse revenue adjustments related to open sales contracts from prior quarters) compared with revenue in the prior year quarter of $54.2 million (including favorable revenue adjustments of $0.3 million related to open sales contracts from prior quarters). This lower revenue was due mostly to lower volumes of metal produced and sold.

Cost of sales in the current quarter was $30.0 million (similar in amount to the year-ago quarter) leaving adjusted EBITDA in the second quarter of 2017 of $12.1 million, down from $22.1 million in the second quarter of 2016, with the difference primarily due to lower revenue arising from the production suspension at Cerro Bayo.

Consolidated pre-tax loss was $9.8 million, down from consolidated pre-tax income of $8.2 million in the year-ago quarter, mainly due to lower revenue in the current quarter.

Consolidated after tax net loss was $10.1 million ($0.02 loss per share) compared to net profit of $3.6 million ($0.01 profit per share) in the year-ago period. Current tax expense was $0.9 million in the current quarter versus $1.8 million a year ago.

Capital expenditures in the second quarter of 2017, including capitalized depreciation and exploration, were $13.2 million. Of this amount $3.6 million was spent at Cerro Bayo, $3.9 million at Costerfield, $5.2 million at Björkdal and $0.5 million at Challacollo. By comparison, total capital expenditures, including capitalized depreciation and exploration, in the second quarter of 2016 were $12.1 million.

Costerfield

Costerfield Financial and Operating Results for the Three Months Ended June 30, 2017 and 2016

Operationally, Costerfield delivered a sound quarter in terms of tonnes mined and processed, showing an improvement on the previous quarter, although production and financial outcomes were affected by 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 the Company mined out the heart of the very high grade Cuffley lode.

In the second quarter of 2017, Costerfield delivered a total of 14,300 ounces of gold equivalent at cash costs and all-in costs of $648 and $962 per ounce of gold equivalent, respectively. This is compared to the prior-year quarter production of 17,023 ounces of gold equivalent at $530 cash costs and $772 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 the Company mined out the core of the Cuffley lode.

Costerfield generated revenue of $18.1 million for the quarter ended June 30, 2017. Income from mine operations before depreciation and depletion was $7.8 million, adjusted EBITDA was $7.8 million, operating net income was $2.9 million and net income after tax was $2.5 million. Comparable results for the quarter ended June 30, 2016 were revenue of $23.0 million, income from mine operations before depreciation and depletion of $13.6 million, adjusted EBITDA of $13.5 million, operating net income of $7.3 million and net income after tax of $6.5 million.

The Costerfield mine completed 1,341 metres of operating development in the second quarter of 2017 versus 1,382 metres in 2016.

35,565 tonnes of ore were mined in second quarter of 2017 as compared to 36,818 tonnes in the second quarter of 2016. Mining cost increased to $173 per tonne from the previous year's quarter of $146 per tonne due to less favorable mining geometries. The mined gold grade in the second quarter of 2017 was

9.39 grams per tonne versus 10.92 grams per tonne in 2016, while the mined antimony grade was 3.57% in 2017 versus 3.49% in the prior year quarter.

Costerfield financial results

	Three months ended June 30, 2017 ($'000)	Three months ended June 30, 2016 ($'000)	Six months ended June 30, 2017 ($'000)	Six months ended June 30, 2016 ($'000)
Revenue	18,105	22,993	33,725	40,860
Cost of sales	10,332	9,393	20,132	18,210
Income from mine operations before depreciation and depletion	7,773	13,600	13,593	22,650
Depreciation and depletion	4,280	3,954	8,166	7,692
Income from mine operations	3,493	9,646	5,427	14,958
Administration (1)	187	249	447	614
Adjusted EBITDA (2)(4)	7,753	13,509	13,497	22,429
Finance costs, foreign exchange and others (3)	(49)	198	1,269	1,023
Income before tax	3,355	9,199	3,711	13,321
Current tax expense	1,421	1,540	1,332	2,125
Deferred tax expense/(recovery)	(544)	1,150	(453)	300
Operating net income after tax (4)	2,939	7,276	3,812	12,472
Adjusted net income after tax before special items (4)	2,478	6,509	6,004	9,480
Consolidated net income after tax	2,478	6,509	2,832	10,896
Capital expenditure (5)	3,951	2,444	6,740	3,740

[1]Includes intercompany transfer pricing recharge costs of $167,000 in the three months ended in June 30, 2016 and $88,000 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 second quarter of 2017, Costerfield processed slightly less ore than in the year-ago quarter (36,878 tonnes vs 39,548 tonnes), accompanied by a slight decrease in processing cost from $37.44 per tonne in 2016 to $36.35 per tonne in 2017.

Plant gold head grade in 2017 was 9.39 grams per tonne versus 11.59 grams per tonne in the year-ago quarter, while the antimony head grade was 3.55% in 2017 versus 3.83% in 2016. These grade declines were expected and account for the reduced metal output despite more tonnes being processed. The plant achieved recoveries of 90.15% for gold and 95.56% for antimony versus 90.73% for gold and 95.11% for antimony in second quarter of 2016.

Total saleable metal production in the second quarter of 2017 was 765 tonnes of antimony and 8,933 ounces of gold versus 962 tonnes of antimony and 12,252 ounces of gold in the second quarter of 2016. A total of 8,912 ounces of gold and 806 tonnes of antimony were sold in the second quarter of 2017 versus a total of 12,440 ounces of gold and 993 tonnes of antimony sold in the second quarter of 2016.

During the second quarter of 2017, Costerfield incurred capital development costs of $1.1 million, spent $1.4 million in exploration and $1.5 million in property, plant and equipment. The corresponding amounts for the prior year quarter were nil, $1.2 million and $1.3 million, respectively.

Costerfield operating statistics

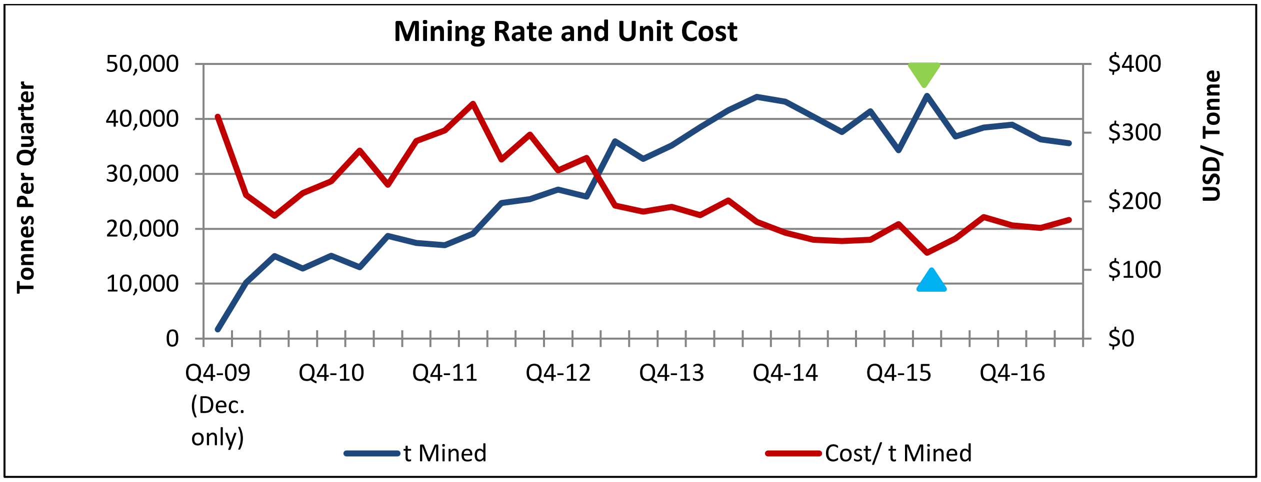
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield.

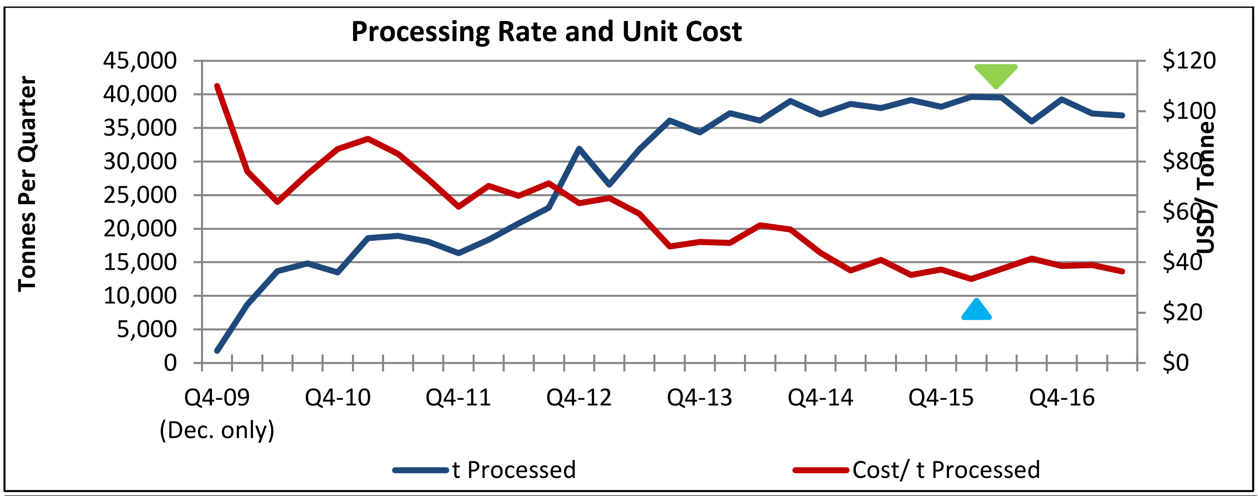
	Unit	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended March 31, 2017
Mining Production and Mining Cost						
Operating development	m	1,341	1,382	2,791	2,856	1,451
Mined ore	t	35,565	36,818	71,827	81,010	36,262
Ore mined Au grade	g/t	9.39	10.92	8.79	11.29	8.19
Ore mined Sb grade	%	3.57	3.49	3.43	3.73	3.28
Mined contained Au	oz	10,741	12,931	20,290	29,413	9,549
Mined contained Sb	t	1,271	1,285	2,461	3,020	1,190
Mining cost per tonne ore	$/t	173	146	167	135	161
Processing and Processing Cost						
Processed ore	t	36,878	39,548	74,038	79,183	37,160
Mill head grade Au	g/t	9.39	11.59	8.86	11.69	8.33
Mill head grade Sb	%	3.55	3.83	3.45	3.96	3.36
Recovery Au	%	90.15	90.73	90.04	90.65	89.91
Recovery Sb	%	95.56	95.11	96.09	95.23	96.65
Concentrate produced	dry t	2,404	2,668	4,667	5,527	2,262
Concentrate grade Au	g/t	67.90	85.71	68.73	86.54	69.61
Concentrate grade Sb	%	51.93	54.02	52.58	53.97	53.28
Au produced in gravity concentrate	oz	4,737	5,956	8,587	11,479	3,850
Au produced in sulfide concentrate	oz	4,196	6,296	8,333	13,206	4,137
Saleable Au produced	oz	8,933	12,252	16,920	24,685	7,987
Saleable Sb produced	t	765	962	1,506	1,962	741
Saleable Au equivalent produced	oz	14,300	17,023	27,191	33,989	12,891
Processing cost per tonne ore	$/t	36.35	37.44	37.61	35.40	38.86
Sales						
Concentrate sold	dry t	2,470	2,898	4,603	5,487	2,133
Concentrate Au grade	g/t	65.98	83.33	68.25	83.67	70.88
Concentrate Sb grade	%	52.23	53.92	52.64	54.11	53.12
Au sold in gravity concentrate	oz	4,825	6,075	8,550	11,184	3,725
Au sold in sulfide concentrate	oz	4,087	6,365	7,909	12,071	3,822
Au sold	oz	8,912	12,440	16,459	23,255	7,547
Sb sold	t	806	993	1,514	1,886	708
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	248	223	247	218	246
Site cash operating cost/tonne concentrate produced(1)	$/t	3,799	3,298	3,916	3,130	4,040
Adjusted EBITDA/tonne ore milled(1)	$/t	210	342	182	283	155
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,225	5,063	2,894	4,058	2,542
Cash cost per oz Au equivalent produced(1)(2)	$/oz	648	530	682	521	719
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	962	772	996	756	1,033
Capital Spending						
Capital development	m	238	-	408	-	170
Capital development cost	$000	1,098	-	1,875	33	777
Capital development cost/meter	$/m	4,614	NA	4,596	NA	4,571
Capital purchases	$000	1,455	1,289	2,480	1,594	1,024
Capitalized exploration	$000	1,397	1,155	2,386	2,113	988

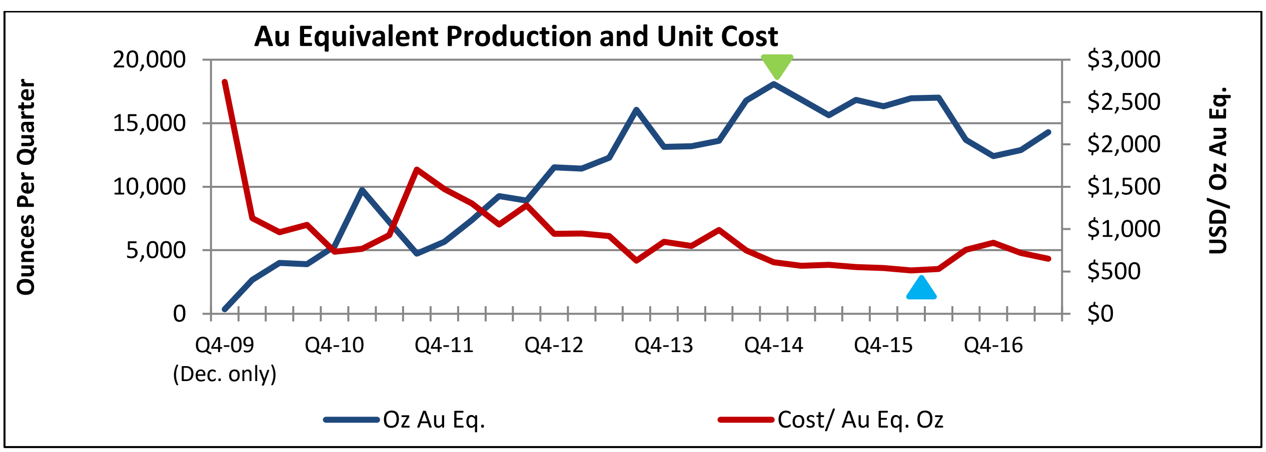
[1] Does not include intercompany transfer pricing recharge costs and business development costs.

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

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


Mining Rate and Unit Cost
Tonnes Per Quarter
USD/ Tonne
50,000
40,000
30,000
20,000
10,000
0
$400
$300
$200
$100
$0
Q4-09 (Dec. only)
Q4-10
Q4-11
Q4-12
Q4-13
Q4-14
Q4-15
Q4-16
t Mined
Cost/ t Mined


Processing Rate and Unit Cost
Tonnes Per Quarter
USD/ Tonne
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
$120
$100
$80
$60
$40
$20
$0
Q4-09 (Dec. only)
Q4-10
Q4-11
Q4-12
Q4-13
Q4-14
Q4-15
Q4-16
t Processed
Cost/ t Processed


Au Equivalent Production and Unit Cost
Ounces Per Quarter
USD/ Oz Au Eq.
20,000
15,000
10,000
5,000
0
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
Q4-09 (Dec. only)
Q4-10
Q4-11
Q4-12
Q4-13
Q4-14
Q4-15
Q4-16
Oz Au Eq.
Cost/ Au Eq. Oz


Record high rate
Record low cost

Costerfield Financial and Operating Results for the Six Months Ended June 30, 2017 and June 30, 2016

Operationally, Costerfield delivered another excellent first half year in terms of production and sales and low cash and all-in operating cost per ounce of gold equivalent produced. For the first half year 2017, Costerfield delivered 27,191 ounces of gold equivalent at cash costs and all-in costs of $682 and $996 per ounce of gold equivalent, respectively.

The Costerfield mine completed 2,791 meters of operating development in the first half year ended June 30, 2017 versus 2,856 meters in 2016. There was no capital development in the first half of 2016, while there was 408 m completed in 2017.

The operation mined less ore in 2017 than in 2016—71,827 tonnes this year versus 81,010 tonnes in 2016. Mining costs increased to $167 per tonne from $135 per tonne in the prior year. The mined gold grade in 2017 decreased to 8.79 grams per tonne from 11.29 grams per tonne in 2016, while the mined antimony grade declined to 3.43% in 2017 from 3.73%.

Plant throughput in first half of 2017 was less (74,038 tonnes) than in 2016 (79,183 tonnes) and unit costs were: $35.40 per tonne in 2016 versus $37.61 per tonne in 2017.

Plant gold head grade in the first half of 2017 was 8.86 grams per tonne versus 11.69 grams per tonne gold a year ago, while the antimony head grade was 3.45% in 2017 versus 3.96% in 2016. The plant achieved recoveries of 90.04% for gold and 96.09% for antimony versus 90.65% for gold and 95.23% for antimony in the first half of 2016.

Total saleable metal production in the first half of 2017 was 1,506 tonnes antimony and 16,920 ounces gold versus 1,962 tonnes antimony and 24,685 ounces gold in 2016. A total of 16,459 ounces gold and 1,514 tonnes antimony were sold in the first half of 2017 versus a total of 23,255 ounces gold and 1,886 tonnes antimony sold in the first half of 2016.

In the first half of 2017, the Company spent $1.9 million on capital development, $2.4 million on exploration and $2.5 million on property, plant and equipment at Costerfield. The corresponding amounts for the prior year period were nil, $2.1 million and $1.6 million, respectively.

Cerro Bayo

Cerro Bayo Financial and Operating Results for the Three Months Ended June 30, 2017 and 2016

During the second quarter of 2017, the Cerro Bayo mine produced 77,220 tonnes of ore versus 111,327 tonnes in the corresponding prior year period. In the current quarter, Cerro Bayo delivered higher grades of silver and gold than in the year-ago quarter (160.50 grams per tonne silver and 1.42 grams per tonne gold versus 150.73 grams per tonne silver and 1.27 grams per tonne gold). Due to the reduced volume of mined ore, mining cost increased to $60.32 per tonne from $42.54 in the year-ago quarter, although the total operating cost in the mine remained approximately constant. The lower volume of ore was mainly due to production being suspended on June 9 after the flooding incident in the Delia NW mine.

During the second quarter of 2017, the Cerro Bayo concentrator processed 82,683 tonnes of ore with grades of 157.92 grams per tonne silver and 1.41 grams per tonne gold, compared to 116,690 tonnes of ore with grades of 145.55 grams per tonne silver and 1.24 grams per tonne gold during the second quarter of 2016. Metallurgical recoveries during the second quarter of 2017 were 88.24% for gold and 89.07% for silver in 2017 versus 84.00% for gold and 87.62% for silver in the prior year period as flotation issues in 2016 were resolved in 2017. Processing cost per tonne ore in the current quarter was higher than in the year-ago quarter due to the reduced throughput.

Cerro Bayo produced 359,457 ounces saleable silver and 3,174 ounces saleable gold in the second quarter of 2017, as compared to 462,462 ounces saleable silver and 3,818 ounces saleable gold in the comparable 2016 period. During the second quarter of 2017, Cerro Bayo sold 3,232 ounces of gold and 377,916 ounces of silver. Sales during the comparable quarter of 2016 were 3,699 ounces of gold and 439,993 ounces of silver.

Cash cost per ounce of silver net of gold credit was $12.31 and all-in cost was $24.05 per ounce in the second quarter of 2017, compared to $8.45 and $16.54, respectively for the corresponding 2016 period. The higher unit costs are a consequence of lower metal production.

Cerro Bayo generated revenue of $9.8 million for the quarter ended June 30, 2017. Income from mine operations before depreciation and depletion was $0.6 million. Cost of sales at Cerro Bayo in the second quarter, increased by $1.2 million, from $8.0 million to $9.2 million. Administrative expenses for the quarter ended June 30, 2017 were $0.5 million compared to $0.6 million during the quarter ended June 30, 2016. Adjusted EBITDA was $0.4 million, net loss before tax was $7.5 million and consolidated net loss after tax was $6.6 million. During the second quarter of 2017, Cerro Bayo invested $2.4 million in mine development versus $2.5 million in the same period in 2016. The mine spent $0.9 million for the purchase of property, plant and equipment in 2017 versus $1.0 million in 2016. The mine spent $0.2 million on exploration, against $0.8 million in the second quarter of 2016.

Cerro Bayo Financial and Operating Results for the Six Months Ended June 30, 2017 and 2016

During the first half of 2017, the Cerro Bayo mine produced 154,542 tonnes of ore versus 216,834 tonnes in the prior year period of 2016. Mining costs increased to $60.43 per tonne from $44.98 per tonne in the prior year due to the flooding incident which occurred in June. During the first half of 2017, 3,252 metres of operating development was completed versus 2,756 metres in the first half of 2016.

In the first half of 2017, Cerro Bayo delivered higher grades of silver compared to the previous year period (182.82 grams per tonne silver and 1.38 grams per tonne gold versus 161.32 grams per tonne silver and 1.38 grams per tonne gold).

During the first half of 2017, the Cerro Bayo concentrator processed 156,727 tonnes of ore with grades of 182.47 grams per tonne silver and 1.38 grams per tonne gold, compared to more ore and lower grades (222,036 tonnes of ore with grades of 158.18 grams per tonne silver and 1.36 grams per tonne gold) during the prior year period of 2016. Metallurgical recoveries during the first half year of 2017 were 88.16% for gold and 90.36% for silver in 2017, higher than the 86.03% for gold and 89.60% for silver in the prior year period as flotation issues were resolved .

Processing cost per tonne ore increased to $22.67 per tonne in 2017 versus $19.70 per tonne in 2016 due to the impact of lower throughput due to the operating suspension. Cash cost per ounce of silver net of gold credit in the first half of 2017 was $13.29 and all-in cost was $23.25; both numbers are higher than in the prior year period of 2016 ($9.26 per ounce and $17.84 per ounce respectively) due to lower production.

Cerro Bayo produced 794,533 ounces saleable silver and 5,909 ounces saleable gold in the first half of 2017, as compared to 977,678 ounces saleable silver and 8,154 ounces saleable gold in the comparable 2016 period

During the first half of 2017, Cerro Bayo sold 6,232 ounces gold and 829,693 ounces silver. Sales during the comparable period of 2016 were 9,728 ounces of gold and 1,042,614 ounces of silver.

During the first half of 2017, Cerro Bayo invested $5.6 million in mine development versus $3.9 million in 2016. The mine spent $1.4 million for the purchase of property, plant and equipment in the first half of 2017, versus $2.5 million in 2016. The mine spent $0.7 million on exploration, versus $1.3 million in 2016.

Cerro Bayo financial results

	Three months ended June 30, 2017 ($'000)	**Three months ended June 30, 2016 ($'000)**	**Six months ended June 30, 2017 ($'000)**	**Six months ended June 30, 2016 ($'000)**
Revenue	9,773	13,309	22,706	30,707
Cost of sales	9,156	7,994	17,881	20,356
Income (loss) from mine operations before depreciation and depletion	617	5,315	4,825	10,351
Depreciation and depletion	3,376	3,686	7,029	8,138
Income (loss) from mine operations	(2,759)	1,629	(2,204)	2,213
Administration (1)	549	646	1,385	1,413
Adjusted EBITDA (2)(4)	385	4,870	3,993	9,397
Finance costs, foreign exchange and others (3)	4,175	425	4,584	3,817
Income (loss) before tax	(7,483)	558	(8,173)	(3,017)
Current tax (recovery) expense	(850)	(44)	(850)	(44)
Deferred tax expense (recovery)	(2)	1,653	(4)	(888)
Operating net income loss after tax(4)	(6,104)	(569)	(6,271)	(984)
Adjusted net loss after tax before special items(4)	(5,854)	492	(6,542)	702
Consolidated net loss after tax	(6,631)	(1,052)	(7,319)	(2,085)
Capital expenditure (5)	3,569	4,322	7,733	7,667

[1] Includes intercompany transfer pricing recharge costs of $317,000 in the three months ended in June 30, 2017 and $201,000 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

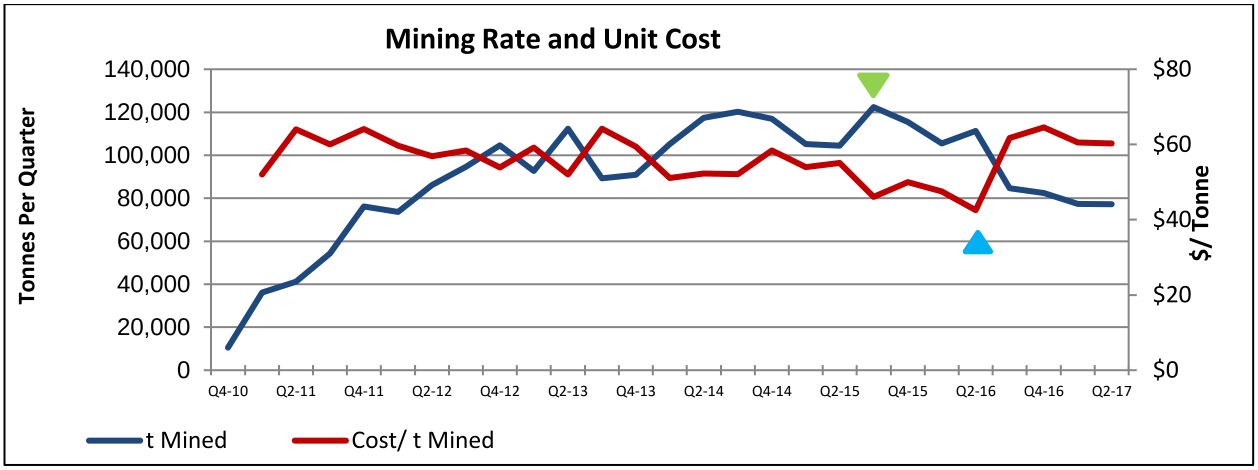
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Cerro Bayo.

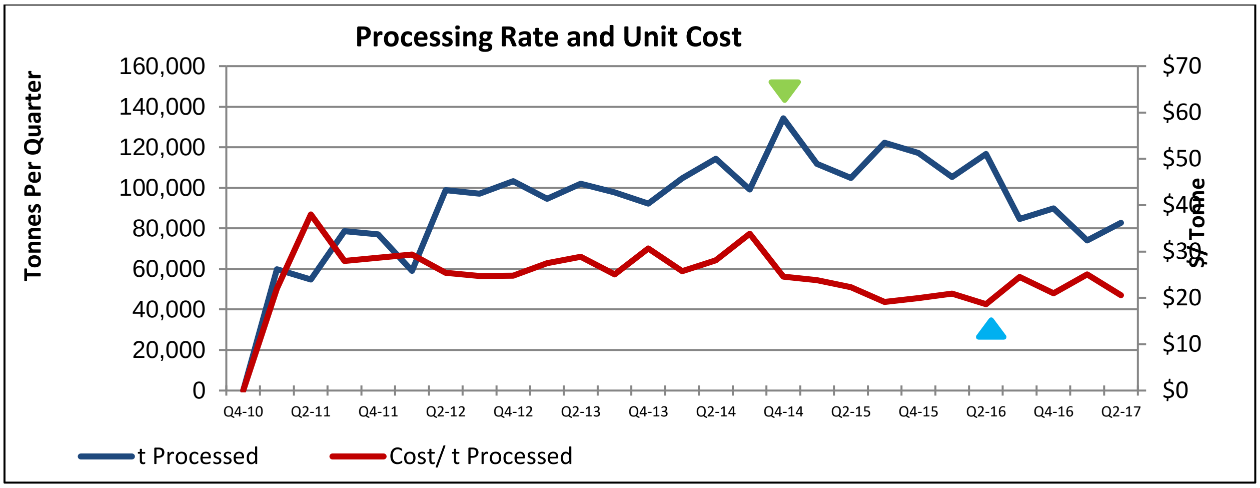
	Unit	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended March 31, 2017
Mining Production and Mining Cost						
Operating development	m	1,633	1,601	3,252	2,756	1,619
Mined ore	t	77,220	111,327	154,542	216,834	77,322
Ore mined Au grade	g/t	1.42	1.27	1.38	1.38	1.34
Ore mined Ag grade	g/t	160.50	150.73	182.82	161.32	205.12
Mined contained Au	oz	3,532	4,548	6,868	9,629	3,336
Mined contained Ag	oz	398,474	539,501	908,386	1,124,655	509,912
Mining cost per tonne ore	$/t	60.32	42.54	60.43	44.98	60.55
Processing and Processing Cost						
Processed ore	t	82,683	116,690	156,727	222,036	74,044
Mill head grade Au	g/t	1.41	1.24	1.38	1.36	1.34
Mill head grade Ag	g/t	157.92	145.55	182.47	158.18	209.87
Recovery Au	%	88.24	84.00	88.16	86.03	88.06
Recovery Ag	%	89.07	87.62	90.36	89.60	91.44
Concentrate produced	dry t	1,377	1,507	2,916	3,008	1,538
Concentrate grade Au	g/t	73.70	80.59	64.81	86.25	56.86
Concentrate grade Ag	g/t	8,535	9,873	8,905	10,463	9,237
Saleable Au produced	oz	3,174	3,818	5,909	8,154	2,735
Saleable Ag produced	oz	359,457	462,462	794,533	977,678	435,076
Saleable Au equivalent produced	oz	8,079	9,982	17,021	20,796	8,942
Processing cost per tonne ore	$/t	20.55	18.63	22.67	19.70	25.03
Sales						
Concentrate sold	dry t	1,362	1,356	3,019	3,140	1,657
Concentrate Au grade	g/t	75.85	86.83	65.99	98.53	57.89
Concentrate Ag grade	g/t	9,046	10,447	8,963	10,687	8,894
Au sold	oz	3,232	3,699	6,232	9,728	3,000
Ag sold	oz	377,916	439,993	829,693	1,042,614	451,777
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	88.70	67.38	96.87	73.67	105.99
Site cash operating cost/tonne concentrate produced(1)	$/t	5,325	5,217	5,207	5,439	5,101
Adjusted EBITDA/tonne ore milled(1)	$/t	6	44	27	43	51
Adjusted EBITDA/tonne concentrate produced(1)	$/t	360	3,408	1,471	3,184	2,466
Cash cost per oz Ag produced net of Au byproduct credit(1)(2	$/oz	12.31	8.45	13.29	9.26	14.04
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	24.05	16.54	23.25	17.84	22.54
Capital Spending						
Capital development	m	750	885	1,923	1,358	1,173
Capital development cost	$000	2,403	2,505	5,631	3,903	3,228
Capital development cost/meter	$/m	3,205	2,829	2,928	2,874	2,751
Capital purchases	$000	937	1,031	1,354	2,458	417
Capitalized exploration	$000	228	787	748	1,306	519

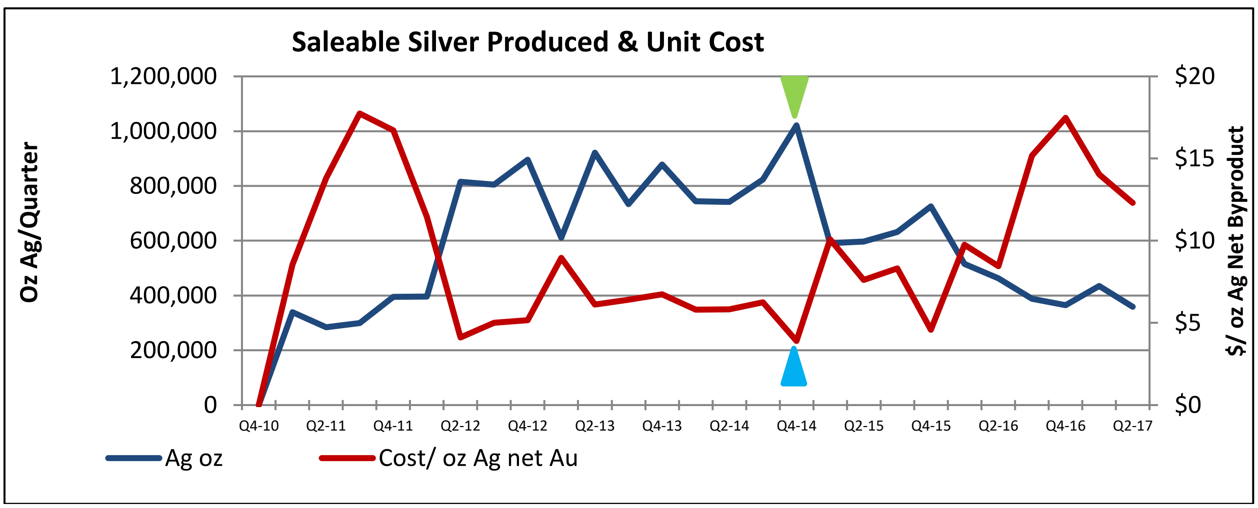
[1]Does not include intercompany transfer pricing recharge costs and business development costs.

[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.







Following the flooding event at the Delia NW mine at Cerro Bayo on June 9, 2017 and suspension of the mining operation, risk assessment of the inundation event is currently being undertaken. The result of risk assessment will take another month or two and it is unlikely that the Company will be in a position to restart mine development and production during the course of this year, as the Chilean mining regulator has issued a requirement that the Company apply for their permission to restart, which will likely mean a delay between the completion of the risk assessment and any restart.

Björkdal

Björkdal Financial and Operating Results for the Three Months Ended June 30, 2017 and 2016

During the second quarter of 2017, Björkdal produced a combined 284,007 tonnes of ore from the open pit and underground operations, with an average grade of 1.57 grams per tonne gold as compared to 302,397 tonnes for second quarter of 2016 with average grade of 1.37 grams per tonne. The higher grades represent successful implementation of the grade control program. The tonnage production during the second quarter recovered from the first quarter lower amounts due to several improvements that relieved bottlenecks to mine production that emerged as we completed the move to more selective mining (discarding low grade material):

- In the underground mine, 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 drilling rate was a bottleneck to ore production: the drilling contractor was replaced; and a new contractor is drilling at the targeted rate.

During the second quarter of 2017, 1,197 metres of operating development was completed against 1,349 metres in second quarter of 2016. The weighted average mining cost from the open pit and underground was $29.76 per tonne in the second quarter of 2017 against $25.51 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 second quarter of 2017, the Björkdal concentrator processed 306,917 tonnes of ore against 317,951 tonnes of ore in the previous year. The head grade in the current period was significantly higher (1.87 grams per tonne gold) compared to the year-ago quarter (1.43 grams per tonne gold) due to the higher grade underground and open pit ore processed this quarter. Metallurgical recoveries during the second quarter of 2017 were 89.19%, against 88.40% for the second quarter of 2016. Processing cost was $7.48 per tonne in the second quarter of 2017, a decrease from the previous year quarter cost of $7.72 per tonne in 2016.

During the second quarter of 2017, Björkdal produced 16,112 saleable gold ounces (a record under Mandalay ownership) and sold 12,752 ounces. In the second quarter of 2016, Björkdal produced 12,648 saleable gold ounces and sold 13,813 ounces. Cash cost per gold ounce was $824 and all-in cost was $1,081 in 2017, signficantly lower than the costs of $967 cash and $1,212 all-in, respectively, in 2016. The lower cash cost in the current quarter resulted from increased gold production that more than offset the increased cost of selective mining and debottlenecking to reduce cost per ounce.

Björkdal generated revenue of $16.2 million for the quarter ended June 30, 2017, versus $17.9 million in the year-ago quarter. The reason revenue was lower in the current quarter is that a portion of the record June production remained unsold in inventory at the end of the quarter. The Company expects to realize sales, EBITDA and income in the third quarter as this inventory is sold. Income from mine operations before depreciation and depletion was $5.7 million versus income of $5.3 million in the year ago quarter, and adjusted EBITDA was $5.7 million versus $5.3 million in the year ago quarter. Net income before tax was $0.8 million and net profit after tax was $0.5 million in 2017 versus profit of $1.8 million and $1.5 million, respectively, in 2016.

During the second quarter of 2017, Björkdal invested $3.2 million in mine development, $1.3 million in property, plant and equipment and $0.7 million in exploration. During the second quarter of 2016, Björkdal invested $2.1 million in mine development, $1.8 million in property, plant and equipment and $1.0 million in exploration.

Björkdal financial results

	Three months ended June 30, 2017 ($'000)	Three months ended June 30, 2016 ($'000)	Six months ended June 30, 2017 ($'000)	Six months ended June 30, 2016 ($'000)
Revenue	16,246	17,864	33,066	33,041
Cost of sales	10,542	12,540	24,005	22,787
Income (loss) from mine operations before depreciation and depletion	5,704	5,324	9,061	10,254
Depreciation and depletion	4,146	3,094	7,134	5,994
Income (loss) from mine operations	1,558	2,230	1,927	4,260
Administration(1)	214	405	565	875
Adjusted EBITDA(2)(4)	5,702	5,325	9,061	10,255
Finance costs, foreign exchange and others(2)	499	72	1,073	78
Income (loss) before tax	845	1,753	289	3,307
Current tax expense (recovery)	299	340	208	595
Deferred tax recovery	(16)	(47)	(167)	(128)
Operating net profit (loss) after tax(4)	1,262	2,216	2,987	3,856
Adjusted net profit (loss) after tax before special items(4)	562	1,460	248	2,840
Consolidated net profit (loss) after tax	562	1,460	248	2,840
Capital expenditure (5)	5,187	4,907	10,284	9,149

1Includes intercompany transfer pricing recharge costs of $212,000 in the three months ended in June 30, 2017 and $406,000 in the same period of 2016;

2Does not include intercompany transfer pricing recharge costs.

3Others 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

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

5Includes capitalized depreciation on equipment.

Björkdal Financial and Operating Results for the Six Months Ended June 30, 2017 and 2016

During the first half of 2017, Björkdal produced a combined 522,130 tonnes of ore from the open pit and underground operations, with an average grade of 1.47 grams per tonne gold as compared to 554,665 tonnes in the prior year period of 2016 with average grade of 1.35 grams per tonne. During the first half of 2017, 2,654 metres of operating development was completed against 2,488 metres in the corresponding period of 2016. The weighted average mining cost from the open pit and underground was $31.00 per tonne in the first half year of 2017 against $25.08 per tonne in 2016. The cost increase was due to the increased rate of operating development and waste removal in the open pit mines to maximize delivery of high grade ore to the plant and to the discarding of previously low-grade material sent directly to the mill.

Björkdal operating statistics

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

	Unit	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016	Three months ended March 31, 2017
Mining Production and Mining Cost						
Operating development	m	1,197	1,349	2,654	2,488	1,457
Mined ore	t	284,007	302,397	522,130	554,665	238,123
Ore mined Au grade	g/t	1.57	1.37	1.47	1.35	1.38
Mined contained Au	oz	14,352	13,352	24,702	24,089	10,596
Mining cost per tonne ore	$/t	29.76	25.51	31.00	25.08	32.48
Processing and Processing Cost						
Processed ore	t	306,917	317,951	626,009	641,880	319,091
Mill head grade Au	g/t	1.87	1.43	1.53	1.39	1.20
Recovery Au	%	89.19	88.40	88.47	88.45	88.33
Concentrate produced	dry t	1,034	864	2,052	1,691	1,018
Concentrate grade Au	g/t	485	455	406	457	325
Saleable Au produced	oz	16,112	12,648	26,760	24,833	10,648
Processing cost per tonne ore	$/t	7.48	7.72	7.80	7.10	8.12
Sales						
Concentrate sold	dry t	1,010	814	2,230	1,794	1,221
Concentrate Au grade	g/t	393	528	361	453	334
Au sold	oz	12,752	13,813	25,873	26,150	13,121
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	43.25	37.37	40.77	33.55	38.39
Site cash operating cost/tonne concentrate produced(1)	$/t	12,838	13,746	12,439	12,738	12,033
Adjusted EBITDA/tonne ore milled(1)	$/t	18.58	16.75	14.49	15.98	10.55
Adjusted EBITDA/tonne concentrate produced(1)	$/t	5,515	6,161	4,420	6,065	3,308
Cash cost per oz Au equivalent produced(1)(2)	$/oz	824	967	954	897	1,150
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,081	1,212	1,220	1,138	1,431
Capital Spending						
Capital development (Underground)	m	482	563	958	1,174	475
Capital development (Open pit)	t	527,172	434,758	1,035,059	1,055,231	507,887
Capital development cost	$000	3,162	2,138	6,085	4,904	2,923
Capital purchases	$000	1,313	1,752	3,077	2,743	1,764
Capitalized exploration	$000	712	1,017	1,122	1,502	411

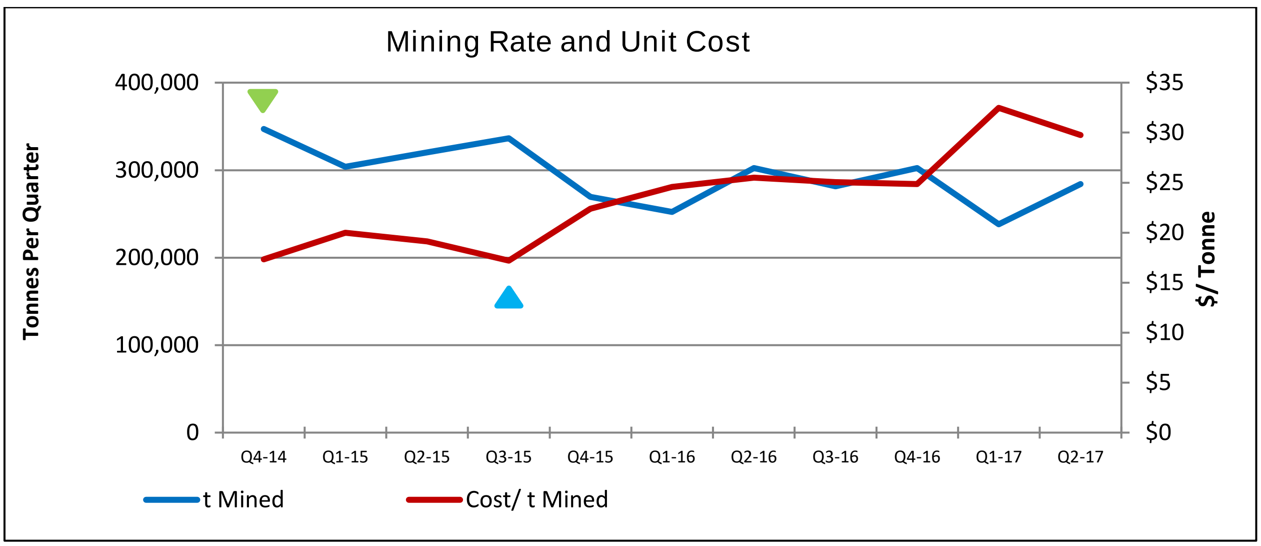
1 Does not include intercompany transfer pricing recharge costs and business development costs.

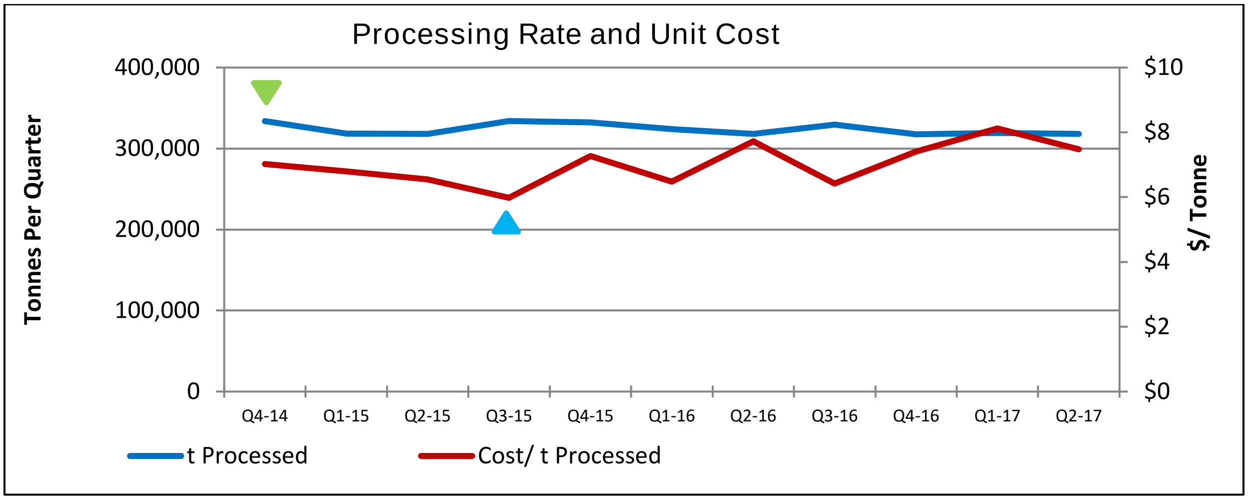
2 The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.16"Non-IFRS Measures" for further information.
3 Site all-in cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measure. Refer to Section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

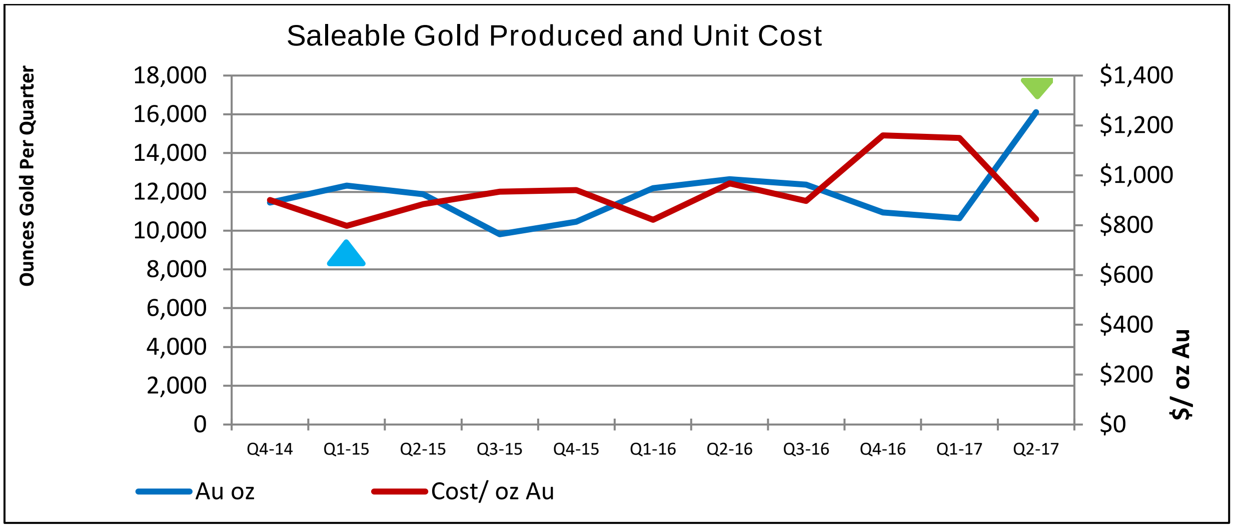
During the first half year of 2017, the Björkdal concentrator processed 626,009 tonnes of ore with grades of 1.53 grams per tonne gold against 641,880 tonnes of ore with average grade of 1.39 grams per tonne gold in 2016. Metallurgical recoveries during the first half of 2017 were 88.47% compared with 88.45% for the year 2016. Processing cost was $7.80 per tonne in the first half of 2017 as compared to $7.10 per tonne in 2016.

During the first half of 2017, Björkdal produced 26,760 saleable gold ounces and sold 25,873 ounces. In the first half of 2016, Björkdal produced 24,833 saleable gold ounces and sold 26,150 ounces. Cash cost per gold ounce was $954 and all-in cost was $1,220 in 2017 against $897 and $1,138 respectively in 2016.

During the first half of 2017, the Company invested $6.1 million in mine development, $3.1 million in property, plant and equipment and $1.1 million in exploration. During the first half of 2016, the Company invested $4.9 million in mine development, $2.7 million in property, plant and equipment and $1.5 million in exploration.







Record high rate Record low cost

Challacollo

During the second quarter of 2017, the Company spent $0.5 million on property maintenance, exploration and activities related to project development. During the quarter, Mandalay completed its water exploration program on concessions it controls about 30 kilometers from the from the deposit, finding sufficient water to supply the 12 litres per second needed for eventual mine operations. The Company has applied for surface rights needed to construct a production well, after receipt of which, anticipated to take several months, it plans to construct the well and apply for transfer of its currently held water rights elsewhere in the goundwater basin to the new well.

La Quebrada

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

Lupin and Ulu

Spending on care and maintenance at Lupin and Ulu was $0.3 million during the second quarter of 2017. The corresponding amounts for the prior year quarter was $0.1 million. This spending was for permanent reclamation work, in respect of which the Company expects to apply for reduced reclamation bonding requirements. During the quarter, the regulatory authorities required an additional approximately C$9 million in reclamation bonding. The Company is currently discussing with the authorities the form in which this additional bonding will be providing. The additional bonding requirement has caused the Company to begin permitting and implementing a final closure and reclamation plan for Lupin, which it expects can be completed for the amount of the previous C$25.5 million bond or less (before the additional amount).

Markets - Currency Exchange Rates

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

CURRENCY	Average rate April 1, 2017 June 30, 2017	Average rate April 1, 2016 June 30, 2016	Average rate January 1, 2017 June 30, 2017	Average rate January 1, 2016 June 30, 2016
1A$ = C$	1.0095	0.9610	1.0067	0.9756
1A$ = US$	0.7507	0.7459	0.7545	0.7343
1 US$ = C$	1.3446	1.2883	1.3342	1.3280
1 US$ = Chilean Peso	664	677	660	689
1 US$= SEK	8.8039	8.2169	8.8620	0.1200

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of silver and antimony were higher in the second quarter of 2017 than in the second quarter of 2016 and were lower for gold. 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 second quarter of 2017 being marginally lower than relative average market prices.

COMMODITY	Average rate April 1, 2017 June 30, 2017	Average rate April 1, 2016 June 30, 2016	Average rate January 1, 2017 June 30, 2017	Average rate January 1, 2016 June 30, 2016
Realized gold US$/oz[1]	1,267	1,306	1,273	1,274
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,256	1,259	1,236	1,220
Realized antimony US$/tonne[1]	8,464	6,681	8,519	6,023
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	8,816	6,244	8,417	5,798
Realized silver price US$/oz[1]	15.21	19.13	17.80	17.18
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	17.15	16.78	17.26	15.81

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

1.4 SUMMARY OF QUARTERLY RESULTS

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

Particulars	Quarter 2, 2017 ($'000)	Quarter 1, 2017 ($'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)
Revenue	44,124	45,373	32,391	48,544	54,166	50,442	43,646	43,282
Income/(loss)	(10,105)	(2,349)	(25,542)	549	3,611	1,149	(3,105)	1,608
Income/(loss) per share - Basic	(0.02)	(0.01)	(0.06)	0.00	0.01	0.00	(0.01)	0.00
Income/(loss) per share - Diluted	(0.02)	(0.01)	(0.06)	0.00	0.01	0.00	(0.01)	0.00

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

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

1.5 LIQUIDITY, SOLVENCY AND USES OF CASH

At June 30, 2017, the Company had working capital of $26.6 million compared to $43.8 million at December 31, 2016. Working capital would have been $54.1 million as of June 30, 2017, had the exchangeable loan been classified as long-term debt. The Company had cash and cash equivalents of $18.4 million at June 30, 2017, as compared to $66.9 million at December 31, 2016. On July 25, 2017, the Company entered into a new senior secured revolving credit facility with HSBC Bank Canada for up to US$40 million further details is provided in section 1.15 below.

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

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

1.6 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Gold bonds loan

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

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

The Issuer may redeem the Bonds at its option:

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

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

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares to the Bond holder. As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the consolidated statements of financial position of the Company as at 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

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 Bonds:

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

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

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

i) If all the bondholders exercised their right to redeem on June 30, 2017, assuming a gold price of $1,245/oz (which is equivalent to US$118.32 per Gold Share), then the repayment cost to the Company would be approximately $26.7 million.

   $30 million ÷ $1,400/oz × $1,245 = $26.7 million

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

iii) If the price of gold during the loan term reaches $1,700/oz (which is equivalent to US$ 161.6 per Gold Share) and the Bondholder elect to redeem the Gold Shares prior to maturity date, then the repayment cost to the Company will be $36.4 million.

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

US$40 million revolving credit facility

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

Amounts drawn on the Facility will bear interest at LIBOR plus 3.5%-4.5% per annum or at HSBC's "base rate" plus 2.5%-3.5%, depending on the Company's leverage ratio. The undrawn portion of the Facility is subject to a standby fee of 1.0% per annum. The Facility is secured by a first ranking security interest over substantially all of the Company's assets, excluding the Company's Australian subsidiaries and its Costerfield mine and subject to permitted liens.

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

Fair-value adjustments

As at June 30, 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 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 June 30, 2017, the Company has recomputed the derivative portion of the Loan at $3.6 million. As a result, there is a mark-to-market adjustment gain of less than $0.4 million in the quarter.

Marketable securities - The Company holds marketable securities with a fair market value of $0.2 million as at June 30, 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 loss of less than $0.1 million for the quarter ended June 30, 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		As of June 30, 2017 [(a)]	As of June 30, 2016 (a)
			Q1 2017	Q2 2017		
	($'000)		($'000)	($'000)	($'000)	($'000)
Assets						
Marketable Securities	266	(c)	(37)	(37)	192	188
Liabilities						
Deferred tax	10,171	(b)	62	562	10,795	6,035
Derivative financial instruments	6,065	(d)	(793)	(1,703)	3,569	2,799
Equity						
Retained earnings/(deficit)	24,681		(768)	(1,178)	22,735	71,047

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax recovery of $562,000 for the three months ended June 30, 2017.

(c) The Company recorded fair value measurement loss of $37,000 relating to marketable securities for the three months ended June 30, 2017.

(d) The Company recorded fair value measurement loss of $1,703,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended June 30, 2017.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended June 30, 2017 and 2016

	As of June 30, 2017			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Loss from operations	(1,193)			(1,193)
Interest and other income	(2,464)			(2,464)
Finance costs	(4,234)			(5,974)
		(a)	(37)	
		(b)	(1,703)	
Foreign exchange gain	(166)			(166)
Net loss before tax	(8,057)		(1,740)	(9,797)
Current tax expense	(870)			(870)
Deferred tax income		(c)	562	562
Net income/(loss)	(8,927)		(1,178)	(10,105)
Loss per share				
Basic	($0.02)			($0.02)
Diluted	($0.02)			($0.02)

(a) The Company recorded fair value measurement loss of $37,000 relating to marketable securities for the three months ended June 30, 2017.

(b) The Company recorded fair value measurement loss of $1,703,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended June 30, 2017.

(c) The Company recorded a deferred tax recovery of $562,000 for the three months ended June 30, 2017.

	Before fair value and deferred tax adjustments [a]	Note	Fair value and deferred tax adjustments		As of June 30, 2016 [a]
			Q1 2016	Q2 2016	
	($'000)		($'000)	($'000)	($'000)
Assets					
Deferred tax	5,319	(b)	3,472	(2,756)	6,035
Marketable Securities	199	(c)	62	47	307
Liabilities					
Derivative financial instrument (Five year exchangeable bonds)	4,859	(d)	(993)	(1,067)	2,799
Equity					
Retained earnings/(deficit)	72,282		2,541	(3,776)	71,047

(a) Values are net of foreign exchange translation.
(b) The Company recorded a deferred tax expense of $2,756,000 for the three months ended June 30, 2016.
(c) The Company recorded fair value measurement gain of $47,000 relating to marketable securities for the three months ended June 30, 2016.
(d) The Company recorded fair value measurement loss of $1,067,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended June 30, 2016.

	As of June 30, 2016			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Loss from operations	10,741			10,741
Interest and other income	121			121
Finance costs	(1,443)			(2,463)
		(a)	47	
		(b)	(1,067)	
Foreign exchange gain	(196)			(196)
Net income/(loss) before tax	9,223		(1,020)	8,203
Current tax	(1,836)			(1,836)
Deferred tax		(d)	(2,756)	(2,756)
Net loss	7,387		(3,776)	3,611
Income (loss) per share				
Basic	$0.02			$0.01
Diluted	$0.02			$0.01

(a) The Company recorded fair value measurement gain of $47,000 relating to marketable securities for the three months ended June 30, 2016.
(b) The Company recorded fair value measurement loss of $1,067,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended June 30, 2016.
(c) The Company recorded a deferred tax expense of $2,756,000 for the three months ended June 30, 2016

Fair value and deferred tax adjustments impact on items in the income statement for six months ended June 30, 2017 and 2016

	As of June 30, 2017			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income from operations	(559)			(559)
Other items				
Interest and other income	(2,367)			(2,367)
Finance (costs)/income	(5,648)	(a)	(75)	(8,219)
		(b)	(2,496)	
Foreign exchange gain (loss)	(1,245)			(1,245)
Net income/(loss) before tax	(9,819)		(2,571)	(12,390)
Current tax	(690)			(690)
Deferred tax		(c)	624	624
Net income/(loss)	(10,509)		(1,947)	(12,456)
Income (loss) per share				
Basic	($0.02)			($0.03)
Diluted	($0.02)			($0.03)

(a) The Company recorded fair value measurement loss of $75,000 relating to marketable securities for the six months ended June 30, 2017.

(b) The Company recorded fair value measurement loss of $2,496,000 relating to the derivative portion of the five-year exchangeable loan for the six months ended June 30, 2017.

(c) The Company recorded a deferred tax recovery of $624,000 for the six months ended June 30, 2017.

	As of June 30, 2016			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income (loss) from operations	13,258			13,258
Other items				
Interest and other income	199			199
Finance (costs)/income	(2,829)	(a)	109	(4,780)
		(b)	(2,060)	
Foreign exchange gain (loss)	(1,957)			(1,957)
Net income/(loss) before tax	8,671		(1,951)	6,720
Current tax	(2,676)			(2,676)
Deferred tax		(c)	716	716
Net income/(loss)	5,995		(1,235)	4,760
Income (loss) per share				
Basic	$0.01			$0.01
Diluted	$0.01			$0.01

(a) The Company recorded fair value measurement gain of $109,000 relating to marketable securities for the six months ended June 30, 2016.

(b) The Company recorded fair value measurement loss of $2,060,000 relating to the derivative portion of the five-year exchangeable loan for the six months ended June 30, 2016.

(c) The Company recorded a deferred tax recovery of $716,000 for the six months ended June 30, 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 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

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 June 30, 2017, 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 uses Sage AccPac Enterprise Resource Planning (ERP) software 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 evaluates the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 on a regular basis. The Company's controls include policies and procedures that:

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

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

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

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

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. During 2016, the following internal audit activities were completed: • Contracts compliance; • Tech Services; and • Expenses testing. 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 451,279,731 common shares issued and outstanding. The weighted average number of shares outstanding during the second quarter used for the calculation of per share results was 451,279,731.

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 June 30, 2017	As of August 10, 2017	Expiry Date
0.60	4,800,000	4,800,000	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	**21,328,000**	**21,328,000**	

During the quarter ended June 30, 2017, no options were exercised. There were 21,328,000 options outstanding as of June 30, 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 June 30, 2017, is as follows:

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

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

On July 25, 2017, the Company entered into a new senior secured revolving credit facility with HSBC Bank Canada for up to US$40 million, proceeds of which will be used for working capital, capital expenditures, permitted acquisitions and other general corporate purposes. As required by this credit facility, the Company has suspended its dividend. See Item 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 equals gold ounces.
    d. For consolidated Mandalay, total equivalent gold ounces equals the sum of equivalent gold ounces produced at all the operations.

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

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

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

9. *Site all-in cost per ounce of saleable silver produced net of gold byproduct credit (Cerro Bayo only)*- The site all-in cost per saleable silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, accretion, depletion, depreciation and amortization to cash cost net of gold byproduct credit as calculated in 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 expenditures is defined as cash spent on mining interests, property, plant and equipment, and exploration as per the cash flow statement of the financial statements.

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