MANDALAY RESOURCES

Management's Discussion and Analysis

For the year ended December 31, 2016

As of February 15, 2017

CONTENTS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the year ended December 31, 2016 and the Company's annual information form dated March 30, 2016 (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.

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1.0 FOURTH QUARTER 2016 FINANCIAL AND OPERATING SUMMARY

1. Financial Summary

- Revenue in the quarter declined to $32.4 million (including adverse revenue adjustments of $1.2 million related to open sales contracts from prior quarters) from $43.6 million in the prior year quarter (including favorable revenue adjustments of $0.1 million related to open sales contracts from prior quarters). For the full year 2016, revenue totaled $185.5 million compared to $194.5 million in 2015. The decline in quarterly and annual revenue was due primarily to fewer ounces of gold and silver and fewer tonnes of antimony sold in the 2016 periods than in the 2015 periods. The average market prices for all three metals were higher in the fourth quarter of 2016 than in the fourth quarter of 2015, while the average market prices of gold and silver were higher and of antimony were lower for the full year.

- Adjusted EBITDA[1] in the fourth quarter of 2016 declined to negative $2.3 million from $14.0 million in the fourth quarter of 2015. For the full year 2016, adjusted EBITDA totalled $50.9 million versus $68.0 million in 2015. Lower adjusted EBITDA was due to both lower revenue in the 2016 year periods than in the 2015 periods and higher cash cost of production as explained below.

- Operating loss from mine operations before tax in the fourth quarter of 2016 was $0.4 million versus income of $17.4 million in the year-ago quarter. Full-year 2016 operating income from mine operations before tax was $60.0 million versus $77.4 million in 2015.

- As previously disclosed (see press release of January 27, 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. This finding is being investigated as part of the updated Mineral Resources and Reserves estimate for year-end 2016, expected to be released later in the first quarter of 2017. Whilst this exercise still a work-in-progress, Management considers it prudent to impair Cerro Bayo's mineral property by $10.0 million to meet the expected decline in reserves. This write off has been treated been treated as a special item in the fourth quarter.

- Due to the recent change in Chilean tax rules prohibiting carrying back of tax losses to offset against profits of prior years, the Company thinks it is prudent to write off the Cerro Bayo deferred income tax asset of $4.8 million related to the rehabilitation provision at the mine. Should the rehabilitation spend be incurred in the year the mine is profitable (generally majority of the rehabilitation spend is incurred after the end of the mine life), then the Company would be able to deduct these expenses against the taxable profits from operations or capital gains of those years. This write off has been treated as a special item in the fourth quarter.

- Consolidated after tax net loss in the fourth quarter of 2016 was $25.5 million ($0.06 loss per share) compared to a consolidated net loss of $3.1 million ($0.01 loss per share) in the fourth quarter of 2015. Lower revenue and higher cost of sales contribute to the poor performance in this quarter. Also contributing to this loss are the $10.0 million of impairment and $4.8 million deferred tax asset write-off at Cerro Bayo, as mentioned above. Full-year 2016 consolidated after tax net loss was $20.2 million ($0.05 loss per share) versus net income of $14.7 million ($0.04 per share) for full-year 2015. Larger losses in the current year flowed primarily from lower EBITDA; also contributing to the consolidated loss was a write-off of a total of $3.7 million in unsuccessful mine site exploration expenses ($3.7 million, primarily at Costerfield and Cerro Bayo) and $17.7 million in special items ($14.2 million of mining interest write-off, $4.8 million

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

deferred tax asset write-off at Cerro Bayo, $1.4 million tax recovery adjustment at Costerfield and $0.1 million for tax expense impact on royalty purchase capitalization).

- Dividends paid in the fourth quarter of 2016 were $2.9 million (C$0.0086 per share) compared to $2.6 million (C$0.0083 per share) in the corresponding quarter of 2015.

- Total cash capital expenditure[1] during the fourth quarter of 2016 was $11.6 million compared to $12.2 million in the year-ago quarter.

- At December 31, 2016, the Company had $66.9 million of cash and cash equivalents, including net proceeds from the bought deal financing of $28.1 million that closed on July 26, 2016. This is compared to $49.2 million as at December 31, 2015.

2. Operational Summary

Consolidated Production and Sales

- In the fourth quarter of 2016, Mandalay produced a total of 31,293 ounces of gold equivalent, including 21,264 ounces gold, 365,214 ounces silver and 792 tonnes antimony. This compares to 43,393 ounces of gold equivalent produced in the fourth quarter of 2015, consisting of 28,948 ounces gold, 725,243 ounces silver and 937 tonnes antimony. The decline in production from 2015 to 2016 was due mostly to temporary suspension of operations at Cerro Bayo in September and October of 2016 following the contractor fatality in early September. Operations fully resumed in mid-October and development rates have rebounded to expected levels. However, ore grades in the Delia SE vein did not meet block model expectations in deeper levels of the vein, leading to significantly reduced production of gold and silver. Further details on this subject and its potential future impacts is set out under "Results of Operations – Cerro Bayo" below. As well, while Björkdal produced the most gold in December, 2016 of any month since 2003, the months of September, October, and November saw poor production due to low mill head grades. The Company's grade control program anticipated the low-grade months as well as the high-grade month of December, and the Company believes that the developed state of the mine is now much improved so as to support planned 2017 performance. This issue is discussed in more detail below under "Results of Operations – Björkdal".

- Mandalay's consolidated average cash cost[2] of production in the fourth quarter of 2016 was $1,101 per ounce of gold equivalent versus $751 per ounce of gold equivalent in the fourth quarter of 2015. Consolidated all-in cost[3] in the current quarter was $1,385 per ounce of gold equivalent versus $1,034 per ounce of gold equivalent in the prior quarter. The higher costs in the

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

current quarter flow directly from the curtailment at Cerro Bayo, the lower grades than expected in the Delia SE vein at Cerro Bayo, and the lower average grade of mill feed at Björkdal.

- Operational exchange rates slightly impacted U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 0.7498/US$ in the fourth quarter of 2016 vs 0.7199/US$ in the prior year period. The Chilean Peso averaged 665 peso/US$ vs 698 peso/US$ in the prior period. The Swedish Krona averaged 9.0562 krona/US$ in the period vs 8.5051 krona/US$ in the prior period. Petroleum prices were approximately 2.7% higher than in the prior period.

- Quantities of metal sold during the quarter were 19,445 ounces gold, 320,175 ounces silver and 883 tonnes antimony compared to 26,641 ounces gold, 623,184 ounces silver and 967 tonnes antimony in the fourth quarter of 2015. These sales totaled 29,399 ounces of gold equivalent versus 39,877 ounces of gold equivalent in the corresponding quarter of 2015. For the full year 2016, sales have totaled 146,564 ounces of gold equivalent versus 167,808 ounces of gold equivalent in 2015.

- Prices realized during the quarter were $1,138 per ounce for gold, $12.36 per ounce for silver and $7,130 per tonne for antimony versus $1,118 per ounce for gold, $14.21 per ounce for silver and $5,187 per tonne for antimony in the same period in 2015 (1.8% higher price for gold, 13.0% lower for silver and 37.4% higher for antimony).

- Costerfield produced less gold and antimony at slightly higher cash and all-in production costs than in the previous year by mining and processing slightly more tonnes, but at lower grades.

- Cerro Bayo produced less gold and silver at higher cash and all-in production costs than in the 2015 quarter. The safety-related suspension of operations in September and October sharply reduced mine output, mill throughput, and metal production for the year, while the operation continued to incur ongoing fixed costs. Since operations resumed, lower grades than expected have been encountered in Delia SE vein which have led to ongoing poor production results and high costs. Follow-on expectations for future performance of Cerro Bayo are discussed below.

- Björkdal delivered the second-best production quarter ever under Mandalay ownership and only slightly below production during the record second quarter of 2016.

Looking forward, the Company expects that:

- Costerfield production will continue its trend of solid performance as planned through 2017;

- Cerro Bayo production in 2017 will be substantially lower and costs higher than previously planned, and guidance was revised accordingly in the Company's press release of February 16, 2017; and

- Björkdal performance will continue to improve in 2017 as previously indicated due to improvements in grade control, the introduction in January of a crushing and screening program to increase the grade of low-grade ore previously fed directly to the plant and commissioning of the flotation expansion project which is on track for later in 2017.

Mandalay Saleable Production

Metal	Source	Three months ended 31 December 2016	Three months ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Gold (oz)	Costerfield	7,523	11,582	41,310	42,492
	Cerro Bayo	2,807	6,901	13,792	22,572
	Björkdal	10,934	10,465	48,143	44,039
	Total	**21,265**	**28,949**	**103,245**	**109,102**
Antimony (t)	Costerfield	**792**	**937**	**3,598**	**3,711**
Silver (oz)	Cerro Bayo	**365,214**	**725,243**	**1,731,031**	**2,545,984**
Average quarterly prices:					
Gold US$/oz		1,218	1,104	1,248	1,160
Antimony US$/tonne		7,498	5,604	6,589	7,296
Silver US$/oz		17.17	14.76	17.10	15.68
Au Eq. (oz)1	Costerfield	12,403	16,335	60,076	65,675
	Cerro Bayo	7,956	16,593	37,278	56,965
	Björkdal	10,934	10,465	48,143	44,039
	Total	**31,294**	**43,393**	**145,497**	**166,679**

[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 31 December 2016	Three months ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Gold (oz)	Costerfield	8,040	11,402	40,161	40,686
	Cerro Bayo	2,426	5,854	15,419	24,489
	Björkdal	8,979	9,385	47,887	42,823
	Total	**19,446**	**26,641**	**103,467**	**107,998**
Antimony (t)	Costerfield	**883**	**967**	**3,573**	**3,564**
Silver (oz)	Cerro Bayo	**320,175**	**623,184**	**1,796,693**	**2,778,837**
Average quarterly prices:					
Gold US$/oz		1,218	1,104	1,248	1,160
Antimony US$/tonne		7,498	5,604	6,589	7,296
Silver US$/oz		17.17	14.76	17.10	15.68
Au Eq. (oz)2	Costerfield	13,480	16,310	58,937	62,895
	Cerro Bayo	6,940	14,182	39,740	62,090
	Björkdal	8,979	9,385	47,887	42,823
	Total	**29,400**	**39,877**	**146,564**	**167,808**

[2]Gold equivalent ounces (or "Au Eq. oz") sold is calculated by multiplying the quantities of gold, silver, and antimony sold in the period by the respective average market prices of the commodities in the period, adding the three amounts to get a "total contained value based on market price", and then dividing that total contained value by the average market price of gold in the period. The source for all prices is www.metalbulletin.com, with price on weekend days and holidays taken from the last business day.

Costerfield Gold-Antimony Mine, Victoria, Australia

- *Production* — Saleable gold production for the fourth quarter of 2016 was 7,523 ounces versus 9,102 ounces in the previous quarter and 11,582 ounces in the fourth quarter of 2015. Saleable antimony production for the fourth quarter of 2016 was 792 tonnes versus 843 tonnes in the previous quarter and 937 tonnes in the fourth quarter of 2015. Decreased gold production in the current quarter compared to the corresponding quarter of the previous year was mainly due to expected lower grades.

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the fourth quarter of 2016 was $837 versus $755 in the previous quarter and $540 in the fourth quarter of 2015. The higher cash cost in the fourth quarter of 2016 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 fourth quarter of 2016 was $1,096 versus $1,064 in the previous quarter and $760 in the fourth quarter of 2015.

Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production* — Cerro Bayo produced 365,214 ounces silver and 2,807 ounces gold in the fourth quarter of 2016 versus 388,139 ounces silver and 2,831 ounces gold in the previous quarter and 725,243 ounces silver and 6,901 ounces gold in the fourth quarter of 2015. Production at Cerro Bayo was lower than in the prior year corresponding quarter mainly due to the temporary suspension of operations at the start of the quarter and from lower mined grades and lower tonnes mined and processed.

- *Operating Costs* — Cash cost per saleable ounce silver produced net of gold credits was $17.48 in the fourth quarter of 2016 versus $15.18 in the previous quarter and $4.58 in the fourth quarter of 2015. Cash cost per ounce was higher in the fourth quarter of 2016 compared to the corresponding quarter of 2015. Higher cash costs are due to lower production for the reasons noted above. The site all-in cost per ounce silver produced net of gold by-product credit was $25.99 in the fourth quarter of 2016 versus $25.70 in the previous quarter and $11.75 in the fourth quarter of 2015.

Björkdal Gold Mine, Sweden

Production — Björkdal produced 10,934 ounces gold in the fourth quarter of 2016 versus 12,376 ounces gold in the previous quarter and 10,465 ounces gold in fourth quarter of 2015. Production is directly related to grade of mill feed as the mill runs at an almost constant throughput rate. Grades in the current quarter were lower than the previous quarter but higher than the year-ago quarter.

- *Operating Costs* — Cash cost per saleable ounce gold produced at Björkdal in the fourth quarter of this year was $1,160 and the site all-in cost per saleable ounces gold produced was $1,374, as compared to $897 and $1,135 in the previous quarter and $940 and $1,224 respectively for the prior year quarter of 2015. The increase in costs in the current period was mainly due to a comparative increase in mined tonnes.

Exploration

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

Cerro Bayo

Infill and extensional drilling continued on the Branca vein and to a minor extent, the Delia SE vein. New target testing drilling continued in the Brillantes sector of the concession, about 15 kilometers from the Laguna Verde operational area.

Costerfield

Infill and extensional drilling was performed on Cuffley Deeps and on the Brunswick lode. Drilling also continued to test the potential for mineralization under the King Cobra fault beneath Cuffley Deeps.

Björkdal

Surface infill drilling was completed in the gap between the Björkdal Open Pit and the shallow Nylunds resource; drilling will continue to infill and extend the Nylunds deposit until the end of the year. Surface infill drilling was also completed in the shallow Ronnberget deposit some five kilometers to the southeast of the Björkdal pit. Surface drilling was begun to test the continuity of mineralization between the main Björkdal deposit and the Storheden deposit approximately 1-2 kilometers to the northeast. Also during the quarter, underground drilling continued, aimed at extending mineralization to the north of current mining in the Lake Zone and to the northeast toward Storheden.

Challacollo

At Challacollo, drilling to test geophysical anomalies was completed. Disseminated sulfides unrelated to high grade silver-gold mineralization were encountered in the drill holes.

La Quebrada, Chile

La Quebrada is a non-core asset of the Company. Less than $0.1 million was spent on care and maintenance activities in the fourth quarter of 2016.

Lupin and Ulu, Canada

The Lupin and Ulu gold projects in Nunavut, Canada were acquired as part of the Company's acquisition of Elgin Mining and are currently held for sale as non-core assets. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects.

1.1 PORTFOLIO AND OPERATIONAL OVERVIEW

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

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

Costerfield

Costerfield is a 100%-owned underground gold-antimony mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Acquired while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day in 2009 to 427 tonnes per day in the fourth quarter of 2016. 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 have been: 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. Exploration has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life from a nominal three years at the time of purchase to about four years today, despite nearly six years of continuous production. 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 release of January 27, 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. This finding is being investigated as part of the updated Mineral Resources and Reserves estimate for year-end 2016, expected to be released later in the first quarter of 2017.

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 has resulted in increased head grade through the mill and consequent increased gold production; updated ore reserves adding some 200,000 ounces of Probable Reserves (more than three years of mine life; see press release of December 15, 2016); introduction of low-grade ore crushing and screening to upgrade < 50 millimetre-sized mill feed and launch of detailed engineering for a follow-on optical ore sorting plant for coarser, 50 to 150 millimetre sized material; and beginning construction of a flotation expansion project.

Challacollo

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

La Quebrada

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

Lupin/Ulu

The Lupin and Ulu gold projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects.

1.2 SELECTED QUARTERLY INFORMATION

Summary Financial Information

The following table sets forth a summary of the Company's financial results for the three months and full year ended December 31, 2016 and 2015:

	Three months ended December 31, 2016 ($'000)	Three months ended December 31, 2015 ($'000)	Year ended December 31, 2016 ($'000)	Year ended December 31, 2015 ($'000)
Revenue	32,391	43,646	185,543	194,500
Cost of sales	32,812	26,237	125,554	117,092
Income from mine operations before depreciation and depletion	(421)	17,409	59,989	77,408
Depreciation and depletion	8,344	11,157	40,027	42,119
Income from mine operations	(8,765)	6,252	19,962	35,289
Administration costs	1,888	3,407	9,055	9,232
Business development costs	12	5	69	187
Adjusted EBITDA*	(2,321)	13,997	50,865	67,989
Finance costs, foreign exchange and others**	12,466	3,918	26,026	3,467
Consolidated (loss) income before tax	(23,131)	(1,078)	(15,188)	22,403
Current tax (income) expense	(3,598)	(1,293)	123	4,677
Deferred tax expense	6,009	3,320	4,922	3,061
Adjusted net (loss) income before special items after tax *	(10,768)	343	(2,526)	18,985
Consolidated net (loss) income after tax	(25,542)	(3,105)	(20,233)	14,665
Total assets	350,232	346,573	350,232	346,573
Total liabilities	147,195	138,879	147,195	138,879
Adjusted (loss) income per share before special items*	(0.02)	0.00	(0.01)	0.05
Consolidated (loss) income per share	(0.06)	(0.01)	(0.05)	0.04

* 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 December 31, 2016	As at December 31, 2015
Cash and cash equivalents	66,917	49,199
Inventories, accounts receivables and other current assets	55,146	51,567
Assets held for sale	31,382	-
Non current assets	196,787	245,807
Total assets	**350,232**	**346,573**
Five year exchangeable loan*	56,424	54,960
Current liabilities	31,681	27,281
Liabilities held for sale	21,554	-
Non current liabilities	37,536	56,638
Equity attributable to common share holders	203,037	207,694
Total equity and liability	**350,232**	**346,573**

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

Summary Free Cash Flow

The table below reconciles net cash flow from operating activities, to free cash flow, then to net cash flow (increase in cash and cash equivalents) for the three months and year ended December 31, 2016 and 2015. Free cash flow is a non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

	Three months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
Net cash flows from operating activities	**7,691**	**14,453**	**47,298**	**66,355**
Royalty purchase	-	-	(4,000)	-
Capital expenditures	(11,637)	(12,186)	(42,348)	(50,552)
Free cash flow	**(3,946)**	**2,267**	**950**	**15,803**
Other investing activity	821	10	788	(1,663)
Repayment of/Proceeds from borrowings	(217)	270	(144)	375
Shares issued for cash, net of cost	(8)	11	29,600	464
Dividend paid	(2,890)	(2,550)	(11,873)	(12,871)
Effects of exchange rate changes	(1,413)	(461)	(1,603)	(1,913)
Net cash flow	**(7,653)**	**(453)**	**17,718**	**195**
Cash and cash equivalents, beginning of the period	74,570	49,652	49,199	49,004
Cash and cash equivalents, end of the period	**66,917**	**49,199**	**66,917**	**49,199**

Dividend

Mandalay's current policy is to pay a quarterly dividend equal to an aggregate of 6% of the trailing quarter's gross revenue. The following table summarizes dividends paid by Mandalay in 2016 and 2015:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
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
2015				
	February 17, 2015	February 27, 2015	0.0121	3,976
	May 12, 2015	May 22, 2015	0.0101	3,308
	August 05, 2015	August 17, 2015	0.0098	3,037
	November 05, 2015	November 16, 2015	0.0083	2,550
				12,871

Adjusted EBITDA and Adjusted Net Income Reconciliation to Net Income

The tables below reconcile Adjusted EBITDA and Adjusted Net Income to reported net income for the three months and year ended December 31, 2016 and 2015. 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 December 31, 2016		Three months ended December 31, 2015		Year ended December 31, 2016		Year ended December 31, 2015	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Consolidated Net Income/(loss)		(25,542)		(3,105)		(20,233)		14,665
Special items								
Impairment of La Quebrada	-		2,265		-		2,265	
- tax impact of above	-		(476)		-		(476)	
Mining interest write off and impairment	10,000		-		14,179		-	
Cerro Bayo deferred tax asset write-off	4,774		-		4,774		-	
Deferred tax impact on Royalty	-		-		171		-	
Additional DDA from PPA at Björkdal	-		349		-		1,467	
- tax impact of above	-		(77)		-		(323)	
Tax adjustment at Costerfield	-		1,387		(1,417)		1,387	
		14,774		3,448		17,707		4,320
Adjusted Net Income/(loss) before special items		(10,768)		343		(2,526)		18,985
Add: Non-cash and finance costs								
Depletion and depreciation	8,344		10,808		40,027		40,652	
Loss (gain) on disposal of property, plant and equipment	367		44		635		221	
Write-off of exploration and evaluation	3,334		576		3,746		576	
Share based compensation	173		164		905		876	
Interest and finance charges	1,474		1,539		5,693		5,539	
Fair value adjustments	(1,444)		(513)		262		(1,531)	
Current tax	(3,598)		(1,293)		123		4,677	
Deferred tax	1,235		2,486		1,394		2,473	
Foreign exchange (gain)/loss	(1,363)	8,522	(83)	13,728	943	53,728	(3,960)	49,523
		(2,246)		14,071		51,202		68,508
Less: Interest and other income	(75)	(75)	(74)	(74)	(337)	(337)	(519)	(519)
Adjusted EBITDA		(2,321)		13,997		50,865		67,989

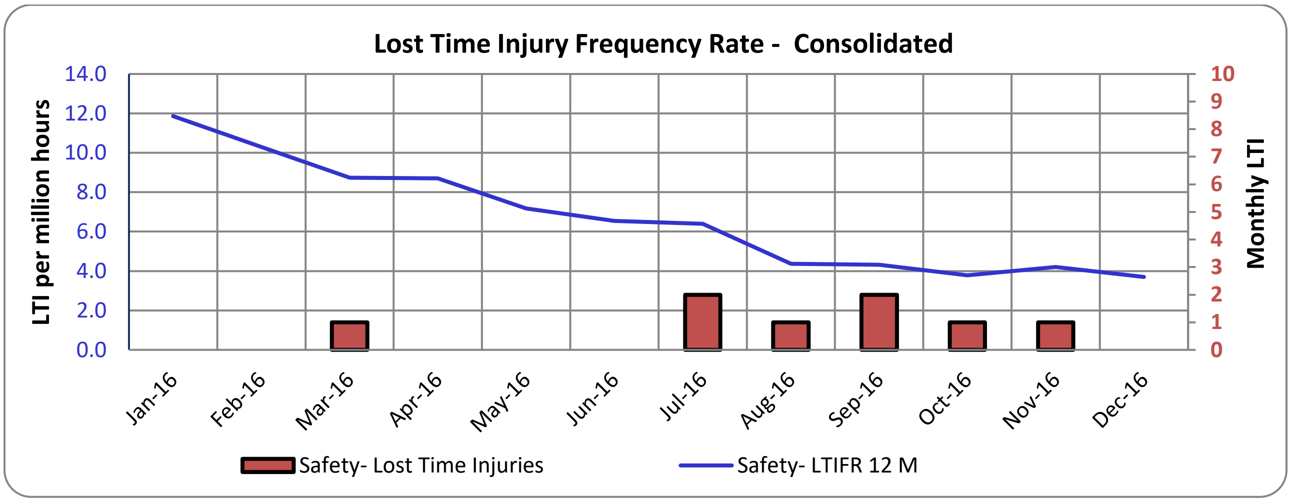
1.3 RESULTS OF OPERATIONS

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 December 31, 2016.

Safety table for year end December 2016

Incident category	Costerfield	Cerro Bayo	Björkdal	Challacollo	Total
Fatality	-	1	-	-	**1**
Lost time injury (LTI)	-	8	-	-	**8**
Total man hours	420,361	1,243,440	488,675	12,600	**2,165,076**
LTIFR	-	6.57	-		**3.70**



The Company made significant improvements in the Lost Time Injury Frequency Rate (LTIFR, defined as lost time injuries per million hours worked) in 2016. The year began with a rate of nearly 12 and ended with a rate below 4. Two of the three operations (Costerfield and Björkdal) had no lost time incidents at all through the year. Despite this improvement, the Company did incur one fatality, a contractor at Cerro Bayo.

Mandalay operations (Consolidated)

Three Months Ended December 31, 2016 compared to Three Months Ended December 31, 2015

Revenue in the current quarter declined to $32.4 million (including adverse revenue adjustments of $1.2 million related to open sales contracts from prior quarters) compared with revenue in the prior year quarter of $43.6 million (including favorable revenue adjustments of $0.5 million related to open sales contracts from prior quarters). This lower revenue was due mostly to lower volumes of metal sold.

When the lower revenue was combined with $6.5 million increased total cost of sales, the result is an adjusted EBITDA in the fourth quarter of 2016 of $(2.3) million, down from $14.0 million in the fourth quarter of 2015. About $4 million of this increased cost of sales were incurred at Costerfield, where more tonnes at lower grade were mined and processed to produce fewer gold equivalent ounces than in the year-ago period. Per tonne mining and milling costs at Costerfield remained nearly constant. About $2.5 million of the increased cost of sales were incurred at Björkdal, where both operating capital development and operating open pit waste removal were increased in order to increase the rate of gold feed to the plant as we discarded below cutoff grade material in our grade control program. Despite the operational issues at Cerro Bayo in the fourth quarter, cost of sales there was virtually constant. Administrative expenses for the quarter ended December 31, 2016 were $1.9 million compared to $3.4 million during the quarter ended December 31, 2015.

Consolidated pre-tax loss increased to $23.1 million from $1.1 million in the year-ago quarter, mainly due to lower revenue, higher cost of sales in the current quarter and write-off of $10.0 million in mining interest at Cerro Bayo, and $4.8 million relating to the write off of deferred income tax asset, also at Cerro Bayo.

Consolidated after tax net loss increased to $25.5 million ($0.06 loss per share) from net loss of $3.1 million ($0.01 loss per share) in the year-ago period due to the above mentioned factors. Current tax recovery rose to $3.6 million in the current quarter from $1.3 million a year ago.

Capital expenditures in the fourth quarter of 2016, including capitalized depreciation and exploration, were $11.6 million. Of this amount $2.9 million was spent at Cerro Bayo, $2.0 million at Costerfield, $5.2 million at Björkdal and $1.5 million at Challacollo. By comparison, total capital expenditures in the fourth quarter of 2015 were $12.6 million.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

During the year ended December 31, 2016, the Company recorded adjusted net loss before special items of $2.5 million and consolidated net loss of $20.2 million. This compares to adjusted net income before special items of $19.0 million and consolidated net income of $14.7 million during the year ended December 31, 2015. Lower adjusted EBITDA was due to both lower revenue in the 2016 year periods than in the 2015 periods and higher cash cost of production.

During 2016, revenue was $185.5 million versus $194.5 million in 2015. The decline in quarterly and annual revenue was due primarily to fewer ounces of gold and silver and fewer tonnes of antimony sold in the 2016 periods than in the 2015 periods. Profit from mine operations during 2016 was $20.0 million compared to $35.3 million in 2015, with the difference caused by the lower revenue, explained above. In 2016, mine operating expenses were $125.5 million versus $117.1 million in 2015. Depletion and depreciation expense were $40.0 million versus $42.1 million in 2015. Administration expense during 2016 was $9.1 million, versus $9.2 million in 2015.

In Q4 2015, there was an adjustment to the depletion at Björkdal due to a review subsequent to the finalization of the Purchase Price Allocation ("PPA") which occurred during the year. The impact on depletion, depreciation and amortization was an increase of $3.3 million which was recognized in line with 2015 production, of this, $1.5 million related to amortization of reclassified mineral properties and has been reported in special items.

Due to Australian tax legislation, a portion of the 2015 bought forward losses at Costerfield have been deferred to future years in line with the Available Fraction rule[3]. This adjustment was partially offset by a current year tax benefit, again at Costerfield, arising from the deductibility treatment of exploration costs. As at December 31, 2016, the net adjustment to the current tax liability as a result of the above items is $1.9 million. There was also a one-off non-cash tax expense adjustment relating to the above, of $1.4 million, which has been treated as a special item in the fourth quarter of 2015. This tax expense will be written back in full in future periods.

During 2016, the Company invested $17.8 million in capital development, $13.1 million in exploration, and $11.8 million in property, plant and equipment. The corresponding amounts for 2015 were $25.3 million for capital development, $11.1 million for exploration and $15.3 million for property, plant and equipment.

Costerfield

Costerfield Financial and Operating Results for the Three Months Ended December 31, 2016 and 2015

Operationally, Costerfield delivered another solid quarter in terms of production and sales. In the fourth quarter of 2016, Costerfield delivered a total of 12,403 ounces of gold equivalent at cash costs and all-in costs of $837 and $1,096 per ounce of gold equivalent, respectively. This is compared to the prior-year quarter production of 16,335 ounces of gold equivalent at $540 cash costs and $760 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 and processing costs being quite well-controlled. These lower grades were expected according to the long term mine plan.

Costerfield generated revenue of $15.8 million for the quarter ended December 31, 2016. Income from mine operations before depreciation and depletion was $3.5 million, adjusted EBITDA was $3.5 million, operating net income was $1.2 million and net income after tax was $0.7 million. Comparable results for the quarter ended December 31, 2015 were revenue of $18.2 million, income from mine operations

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[3] The Available Fraction rule allows a fraction of the taxable income to be offset against transferred losses, which date back to the losses on formation of the Australian tax group in 2002. The Company is utilizing these losses for the first time in 2015, and the revision has resulted in A$4.3 million, of the total A$15.6 million losses, claimed in 2015. The remaining losses are deferred or derecognized due mainly to capital injection events (e.g. share issues, option exercises) that have occurred between 2002 and 2009, pre-Mandalay ownership.

before depreciation and depletion of $10.0 million, adjusted EBITDA of $10.2 million, operating net income of $3.8 million and net income after tax of $2.9 million.

The Costerfield mine completed 1,340 metres of operating development in the fourth quarter of 2016 versus 1,338 metres in 2015. There was no capital development in the fourth quarter of 2016 and 2015.

38,934 tonnes of ore were mined in fourth quarter of 2016 as compared to 34,298 tonnes in the fourth quarter of 2015. Mining cost decreased to $165 per tonne from the previous year's quarter of $167 per tonne. The mined gold grade in 2016 was 6.62 grams per tonne versus 11.81 grams per tonne in 2015, while the mined antimony grade was 2.96% in 2016 versus 4.22% in the prior year quarter.

Costerfield financial results

	Three months ended December 31, 2016 ($'000)	Three months ended December 31, 2015 ($'000)	Year ended December 31, 2016 ($'000)	Year ended December 31, 2015 ($'000)
Revenue	15,808	18,186	74,864	71,471
Cost of sales	12,337	8,175	40,029	33,099
Income from mine operations before depreciation and depletion	3,471	10,011	34,835	38,372
Depreciation and depletion	3,033	3,734	14,360	14,286
Income from mine operations	438	6,277	20,475	24,086
Administration (1)	110	45	922	1,051
Adjusted EBITDA (2)(4)	3,505	10,195	34,582	37,915
Finance costs, foreign exchange and others (3)	(741)	870	1,035	1,255
Income before tax	1,069	5,362	18,518	21,780
Current tax recovery	(39)	(1,438)	2,678	3,036
Deferred tax expense	389	3,889	874	3,679
Operating net income after tax(4)	1,203	3,776	17,191	17,147
Adjusted net income after tax before special items(4)	719	4,298	13,549	16,453
Consolidated net income after tax	719	2,912	14,966	15,066
Capital expenditure (5)	2,043	2,382	7,958	16,209

[1]Includes intercompany transfer pricing recharge costs of $145,000 in the three months ended in December 31, 2016 and $228,000 in the same period of 2015; and $670,000 in 2016 and $594,000 in 2015.

[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 fourth quarter of 2016, Costerfield processed more ore than in the year-ago quarter (39,245 tonnes vs 38,144 tonnes), accompanied by a slight increase in processing cost from $37.17 per tonne in 2015 to $38.47 per tonne in 2016.

Plant gold head grade in 2016 was 7.71 grams per tonne versus 11.24 grams per tonne in the year-ago quarter, while the antimony head grade was 3.31% in 2016 versus 3.99% in 2015. These grade declines were expected and account for the reduced metal output despite more tonnes being processed. The plant achieved excellent recoveries of 88.63% for gold and 95.91% for antimony versus 90.25% for gold and 95.24% for antimony in fourth quarter of 2015.

Total saleable metal production in the fourth quarter of 2016 was 792 tonnes antimony and 7,523 ounces gold versus 937 tonnes antimony and 16,335 ounces gold in the fourth quarter of 2015. A total of 8,040 ounces gold and 883 tonnes antimony were sold in the fourth quarter of 2016 versus a total of 11,402 ounces gold and 967 tonnes antimony sold in the fourth quarter of 2015.

During the fourth quarter of 2016, Costerfield did not incur any capital development costs, spent $1.0 million in exploration and $1.0 million in property, plant and equipment. The corresponding amounts for the prior year quarter were $1.0 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	Year ended December 31, 2016	Year ended December 31, 2015	Three months ended December 31, 2016	Three months ended December 31, 2015	Three months ended September 30, 2016	Three months ended June 30, 2016	Three months ended March 31, 2016
Mining Production and Mining Cost								
Operating development	m	5,701	4,936	1,340	1,338	1,505	1,382	1,475
Mined ore	t	158,351	153,649	38,934	34,298	38,407	36,818	44,192
Ore mined Au grade	g/t	9.63	10.87	6.62	11.81	9.16	10.92	11.60
Ore mined Sb grade	%	3.41	4.08	2.96	4.22	3.21	3.49	3.93
Mined contained Au	oz	49,013	53,677	8,284	13,021	11,317	12,931	16,482
Mined contained Sb	t	5,407	6,276	1,153	1,449	1,234	1,285	1,735
Mining cost per tonne ore	$/t	152	148	165	167	177	146	125
Processing and Processing Cost								
Processed ore	t	154,409	153,869	39,245	38,144	35,981	39,548	39,635
Mill head grade Au	g/t	10.27	10.66	7.71	11.24	9.94	11.59	11.79
Mill head grade Sb	%	3.74	3.96	3.31	3.99	3.75	3.83	4.08
Recovery Au	%	90.15	89.77	88.63	90.25	90.13	90.73	90.58
Recovery Sb	%	95.40	95.14	95.91	95.24	95.69	95.11	95.35
Concentrate produced	dry t	10,188	10,731	2,326	2,716	2,335	2,668	2,859
Concentrate grade Au	g/t	83.83	85.30	76.24	92.72	84.97	85.71	87.31
Concentrate grade Sb	%	54.15	54.03	53.61	53.43	55.09	54.02	53.94
Au produced in gravity concentrate	oz	18,316	17,747	2,889	4,298	3,948	5,956	5,523
Au produced in sulfide concentrate	oz	22,994	24,743	4,634	7,284	5,154	6,296	6,910
Saleable Au produced	oz	41,310	42,491	7,523	11,582	9,102	12,252	12,433
Saleable Sb produced	t	3,597	3,712	792	937	843	962	1,000
Saleable Au equivalent produced	oz	60,076	65,675	12,403	16,335	13,684	17,023	16,966
Processing cost per tonne ore	$/t	37.60	37.41	38.47	37.17	41.50	37.44	33.36
Sales								
Concentrate sold	dry t	10,365	10,380	2,553	2,850	2,325	2,898	2,589
Concentrate Au grade	g/t	81.22	82.01	75.45	89.61	81.79	83.33	84.05
Concentrate Sb grade	%	54.27	54.00	54.48	53.45	54.44	53.92	54.32
Au sold in gravity concentrate	oz	18,339	18,199	3,188	4,535	3,967	6,075	5,109
Au sold in sulfide concentrate	oz	21,822	22,487	4,852	6,867	4,899	6,365	5,707
Au sold	oz	40,161	40,686	8,040	11,402	8,865	12,440	10,816
Sb sold	t	3,573	3,563	883	967	804	993	893
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed(1)	$/t	245	234	262	226	284	223	214
Site cash operating cost/tonne concentrate produced(1)	$/t	3,709	3,353	4,417	3,172	4,373	3,298	2,973
Adjusted EBITDA/tonne ore milled(1)	$/t	224	246	89	267	240	342	225
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,395	3,533	1,507	3,753	3,704	5,063	3,120
Cash cost per oz Au equivalent produced(1)(2)	$/oz	640	559	837	540	755	530	512
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	890	773	1,096	760	1,064	772	724
Capital Spending								
Capital development	m	-	1,802	-	-	-	-	-
Capital development cost	$000	-	7,699	-	42	-	-	-
Capital development cost/meter	$/m	NA	4,272	NA	NA	NA	NA	NA
Capital purchases	$000	3,407	6,075	1,033	1,339	779	1,290	305
Capitalized exploration	$000	4,551	2,434	1,010	1,000	1,429	1,155	958

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

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

Costerfield Financial and Operating Results for the Years Ended December 31, 2016 and 2015

Operationally, Costerfield delivered another excellent year in terms of production and sales and low cash and all-in operating cost per ounce of gold equivalent produced. For the year 2016, Costerfield delivered 60,076 ounces of gold equivalent at cash costs and all-in costs of $640 and $890 per ounce of gold equivalent, respectively.

The Costerfield mine completed 5,701 metres of operating development in the year ended December 31, 2016 versus 4,936 metres in 2015. There was no capital development in the year ended December 31, 2016 compared to 1,802 metres in 2015, at a cost of $4,272 per metre.

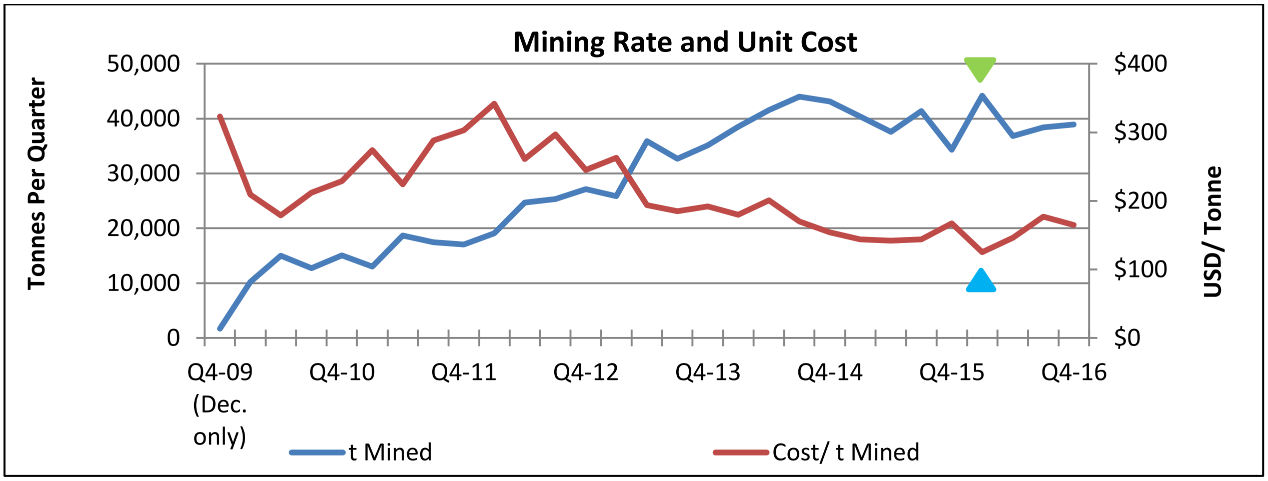
The operation mined more ore in 2016 than in 2015-- 158,351 tonnes this year versus 153,649 tonnes in 2015. Mining costs increased slightly to $152 per tonne from $148 per tonne in the prior year. The mined gold grade in 2016 decreased to 9.63 grams per tonne from 10.87 grams per tonne in 2015, while the mined antimony grade declined to 3.41% in 2016 from 4.08%.

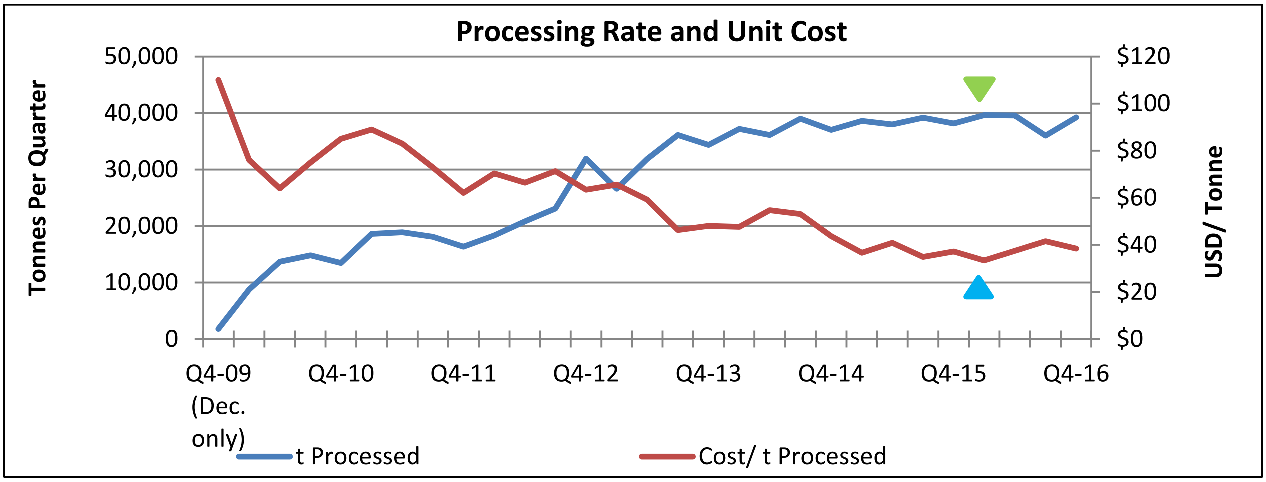
Plant throughput was almost identical in 2016 (154,409 tonnes) as in 2015 (153,869 tonnes) while unit costs were nearly unchanged: $37.41 per tonne in 2015 versus $37.60 per tonne in 2016.

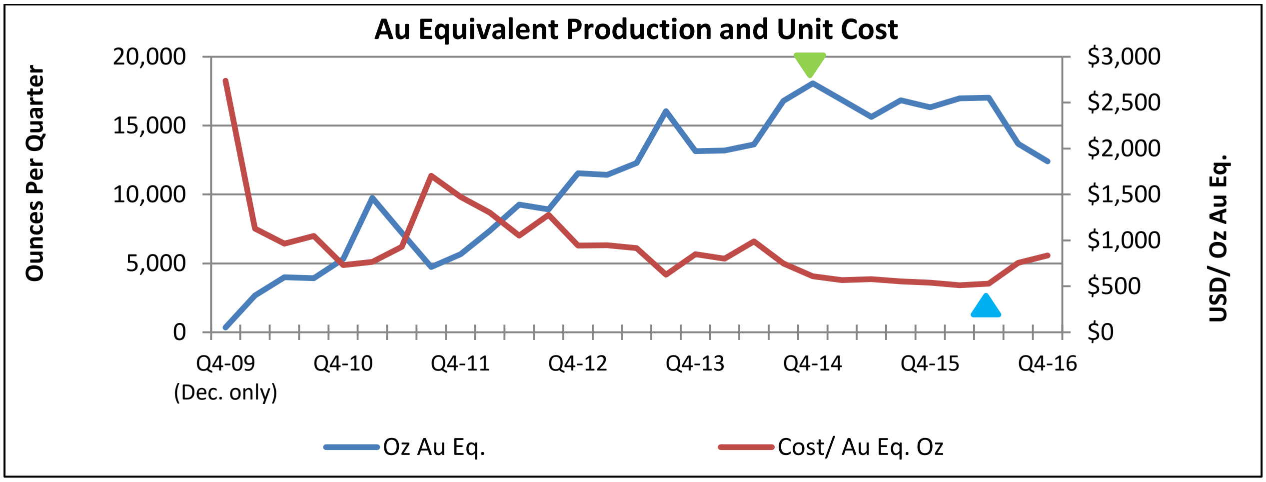
Plant gold head grade in 2016 was 10.27 grams per tonne versus 10.66 grams per tonne gold a year ago, while the antimony head grade was 3.74% in 2016 versus 3.96% in 2015. The plant achieved recoveries of 90.15% for gold and 95.40% for antimony versus 89.77% for gold and 95.14% for antimony in the twelve months ended December 31, 2015.

Total saleable metal production in 2016 was 3,597 tonnes antimony and 41,310 ounces gold versus 3,712 tonnes antimony and 42,491 ounces gold in 2015. A total of 40,161 ounces gold and 3,573 tonnes antimony were sold in 2016 versus a total of 40,686 ounces gold and 3,563 tonnes antimony sold in 2015.

In the twelve months ended December 31, 2016, the Company spent nothing on capital development, $4.6 million on exploration and $3.4 million on property, plant and equipment at Costerfield. The corresponding amounts for the prior year were $7.7 million, $2.4 million and $6.1 million, respectively.







Record high rate   Record low cost

Cerro Bayo

Cerro Bayo Financial and Operating Results for the Three Months Ended December 31, 2016 and 2015

Cerro Bayo generated revenue of $6.2 million for the quarter ended December 31, 2016. Loss from mine operations before depreciation and depletion was $2.5 million. Adjusted EBITDA was $(2.6) million, net loss before tax was $19.1 million and consolidated net loss after tax was $22.1 million. For the quarter ended December 31, 2015, revenue was $14.9 million, income from mine operations before depreciation and depletion was $6.2 million. Adjusted EBITDA was $5.8 million, operating net loss before tax was $(0.1) million, and net loss after tax was $1.1 million. The decline in performance from 2015 to 2016 was due to temporary suspension of operations in September and October after the contractor fatality and to lower than anticipated metal grades from the Delia SE vein.

During the fourth quarter of 2016, the Cerro Bayo mine produced 82,432 tonnes of ore versus 115,513 tonnes in the corresponding prior year period. In the current quarter, Cerro Bayo delivered lower grade of silver and gold than in the year-ago quarter (163 grams per tonne silver and 1.24 grams per tonne gold versus 217 grams per tonne silver and 2.12 grams per tonne gold).

Due to the reduced volume of mined ore, mining cost increased to $64.55 per tonne from $46.96 in the year-ago quarter, although the total operating cost in the mine remained approximately constant.

During the fourth quarter of 2016, the Cerro Bayo concentrator processed 89,811 tonnes of ore with grades of 153 grams per tonne silver and 1.18 grams per tonne gold, compared to 117,205 tonnes of ore with grades of 216 grams per tonne silver and 2.11 grams per tonne gold during the fourth quarter of 2015. Mill throughput in 2016 was limited by curtailed supply of ore during the operating suspension and by reduced volumes of ore delivered from the Delia SE mine due to low metal endowment than planned. Metallurgical recoveries during the fourth quarter of 2016 were 84.54% for gold and 86.74% for silver in 2016 versus 89.16% for gold and 92.39% for silver in the prior year period. Lower recoveries in the current quarter were due to excess frothing in the flotation cells, the cause of which has been resolved. Metal recoveries have resumed their normal correlation with mill head grade. Processing cost per tonne ore in the current quarter was marginally higher than in the year-ago quarter.

Cash cost per ounce of silver net of gold credit was $17.48 and all-in cost was $25.99 per ounce in the fourth quarter of 2016, compared to $4.58 and $11.75, respectively for the corresponding 2015 period. The higher unit costs are a consequence of lower metal production in the face of relatively constant total operating cost.

Cerro Bayo produced 365,214 ounces saleable silver and 2,807 ounces saleable gold in the fourth quarter of 2016, as compared to 725,243 ounces saleable silver and 6,901 ounces saleable gold in the comparable 2015 period. During the fourth quarter of 2016, Cerro Bayo sold 2,426 ounces of gold and 320,175 ounces of silver. Sales during the comparable quarter of 2015 were e 5,854 ounces of gold and 623,184 ounces of silver.

During the fourth quarter of 2016, Cerro Bayo invested $2.0 million in mine development versus $2.2 million in the same period in 2015. The mine spent $0.3 million for the purchase of property, plant and equipment in 2016 versus $1.3 million in 2015. The mine spent $0.8 million on exploration, versus $0.9 million in the fourth quarter of 2015.

Cerro Bayo financial results

	Three months ended December 31, 2016 ($'000)	Three months ended December 31, 2015 ($'000)	Year ended December 31, 2016 ($'000)	Year ended December 31, 2015 ($'000)
Revenue	6,182	14,933	50,010	71,417
Cost of sales	8,716	8,779	39,416	46,320
Income (loss) from mine operations before depreciation and depletion	(2,534)	6,154	10,594	25,097
Depreciation and depletion	3,051	4,888	14,479	17,493
Income (loss) from mine operations	(5,585)	1,266	(3,885)	7,604
Administration (1)	271	634	2,579	3,588
Adjusted EBITDA (2)(4)	(2,587)	5,758	8,892	22,267
Finance costs, foreign exchange and others (3)	13,234	1,121	17,968	1,927
Income (loss) before tax	(19,091)	(490)	(24,432)	2,089
Current tax (recovery) expense	(2,876)	596	(2,920)	812
Deferred tax expense (recovery)	5,914	(34)	4,493	44
Operating net income loss after tax (4)	(21,775)	(502)	(4,952)	5,528
Adjusted net loss after tax before special items (4)	(7,354)	(1,052)	(6,881)	3,022
Consolidated net loss after tax	(22,128)	(1,052)	(26,005)	1,233
Capital expenditure (5)	3,036	4,341	14,592	16,554

1 Includes intercompany transfer pricing recharge costs of $218,000 in the three months ended in December 31, 2016 and $239,000 in the same period of 2015; and $877,000 in 2016 and $769,000 in 2015.

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 Financial and Operating Results for the Years Ended December 31, 2016 and 2015

During the year 2016, the Cerro Bayo mine produced 383,860 tonnes of ore versus 447,481 tonnes in 2015. Mining costs increased to $52.88 per tonne from $50.37 per tonne in the prior year due to the impact of the safety-related operating curtailment impact in the fourth quarter. During 2016, 6,090 metres of operating development was completed versus 5,652 metres in 2015.

In 2016, Cerro Bayo delivered lower grades compared to the previous year (166 grams per tonne silver and 1.33 grams per tonne gold versus 199 grams per tonne silver and 1.81 grams per tonne gold). The lower grades were a result of delayed ramp-up of production in the new Delia SE and Coyita mines as mining in the exhausted Yasna, Fabiola, and Dagny veins ramped down. Ramp-up issues in Delia SE have largely been solved and sustaining production has been achieved, but the metal endowment of Delia SE has proved significantly less than predicted by the block model as previously discussed. The Company has brought in a contractor to accelerate capital development in Coyita and support improved production.

Cerro Bayo operating statistics

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

	Unit	Year ended December 31, 2016	Year ended December 31, 2015	Three months ended December 31, 2016	Three months ended December 31, 2015	Three months ended September 30, 2016	Three months ended June 30, 2016	Three months ended March 31, 2016
Mining Production and Mining Cost								
Operating development	m	6,090	5,652	1,774	1,107	1,560	1,601	1,155
Mined ore	t	383,860	447,481	82,432	115,513	84,594	111,327	105,507
Ore mined Au grade	g/t	1.33	1.81	1.24	2.12	1.30	1.27	1.50
Ore mined Ag grade	g/t	166.39	199.22	163.27	217.16	182.42	150.73	172.50
Mined contained Au	oz	16,473	26,028	3,299	7,863	3,545	4,548	5,081
Mined contained Ag	oz	2,053,485	2,866,178	432,705	806,483	496,125	539,501	585,154
Mining cost per tonne ore	$/t	52.88	50.37	64.55	46.96	61.76	42.54	47.56
Processing and Processing Cost								
Processed ore	t	396,508	456,128	89,811	117,205	84,660	116,690	105,347
Mill head grade Au	g/t	1.31	1.81	1.18	2.11	1.30	1.24	1.49
Mill head grade Ag	g/t	161.74	197.66	153.00	215.70	180.34	145.55	172.18
Recovery Au	%	84.93	87.30	84.54	89.16	82.32	84.00	87.89
Recovery Ag	%	87.40	90.92	86.74	92.39	82.93	87.62	91.46
Concentrate produced	dry t	6,093	7,300	1,497	2,057	1,589	1,507	1,500
Concentrate grade Au	g/t	72.16	98.50	59.93	107.01	56.99	80.59	91.94
Concentrate grade Ag	g/t	9,199	11,229	7,963	11,354	7,971	9,873	11,056
Saleable Au produced	oz	13,792	22,572	2,807	6,901	2,831	3,818	4,336
Saleable Ag produced	oz	1,731,031	2,545,984	365,214	725,243	388,139	462,462	515,216
Saleable Au equivalent produced	oz	37,279	56,965	7,956	16,593	8,526	9,982	10,814
Processing cost per tonne ore	$/t	21.01	21.24	20.95	19.94	24.53	18.63	20.89
Sales								
Concentrate sold	dry t	6,206	7,924	1,364	1,754	1,702	1,356	1,785
Concentrate Au grade	g/t	79.16	98.41	56.83	106.37	61.30	86.83	107.42
Concentrate Ag grade	g/t	9,368	11,291	7,657	11,441	8,307	10,447	10,868
Au sold	oz	15,419	24,489	2,426	5,854	3,265	3,699	6,030
Ag sold	oz	1,796,693	2,778,837	320,175	623,184	433,904	439,993	602,621
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed(1)	$/t	84.44	81.89	94.71	75.21	101.77	67.38	80.64
Site cash operating cost/tonne concentrate produced(1)	$/t	5,495	5,117	5,683	4,285	5,424	5,217	5,661
Adjusted EBITDA/tonne ore milled(1)	$/t	22	49	(36)	50	28	44	43
Adjusted EBITDA/tonne concentrate produced(1)	$/t	1,431	3,057	(2,134)	2,855	1,469	3,408	3,017
Cash cost per oz Ag produced net of Au byproduct credit(1)(2	$/oz	12.29	7.50	17.48	4.58	15.18	8.45	9.76
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	20.87	14.69	25.99	11.75	25.70	16.54	18.78
Capital Spending								
Capital development	m	2,884	3,014	759	930	767	885	473
Capital development cost	$000	8,260	8,575	2,014	2,203	2,342	2,505	1,399
Capital development cost/meter	$/m	2,864	2,845	2,654	2,368	3,055	2,829	2,959
Capital purchases	$000	3,292	4,992	260	1,272	574	1,031	1,427
Capitalized exploration	$000	3,040	2,987	762	866	972	787	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.

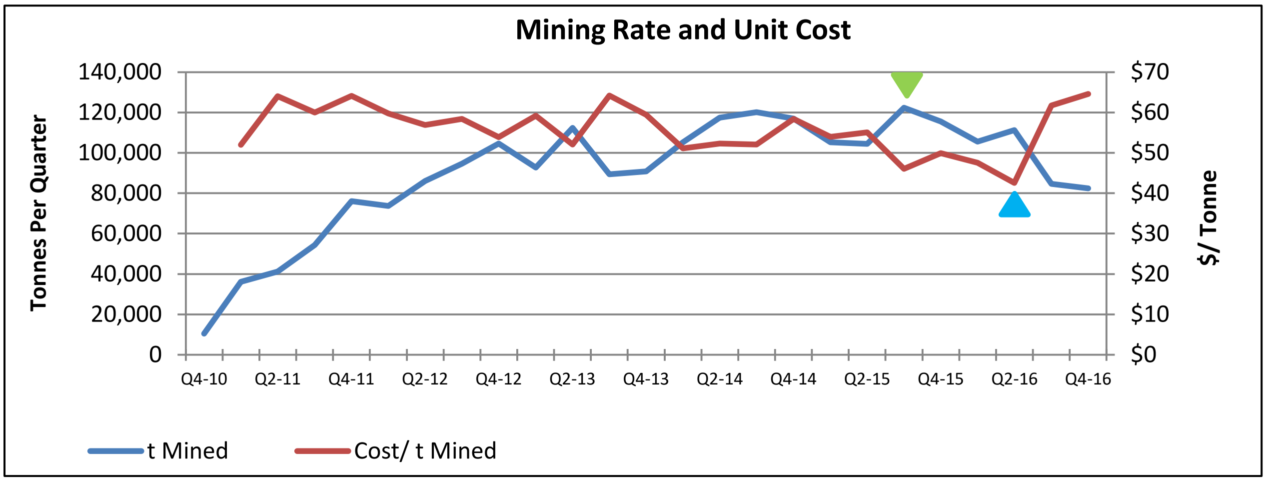
[3]Site all-in cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measure. Refer to Section 1.16"Non-IFRS Measures" for further information.

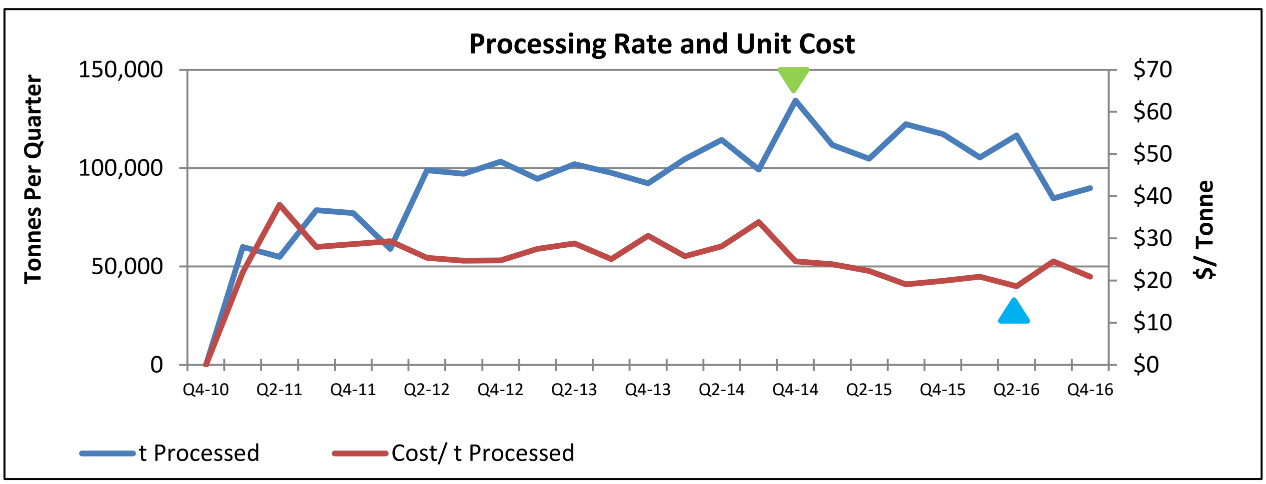
During the year 2016, the Cerro Bayo concentrator processed 396,508 tonnes of ore with grades of 162 grams per tonne silver and 1.31 grams per tonne gold, compared to 456,128 tonnes of ore with grades of 198 grams per tonne silver and 1.81 grams per tonne gold during the year 2015. The lower year-on-year plant head grades were in line with lower produced mine grades. Metallurgical recoveries during the year 2016 were 84.93% for gold and 87.40% for silver in 2016 versus 87.30% for gold and 90.92% for silver in the prior year period. Processing cost per tonne ore declined to $21.01 per tonne in 2016 versus $21.24 per tonne in 2015 despite the impact of lower throughput due to the operating curtailment. Cash cost per ounce of silver net of gold credit in the year 2016 was $12.29 and all-in cost was $20.87; both numbers are higher than in the year 2015 ($7.50 per ounce and $14.69 per ounce respectively) due to the operating curtailment in the fourth quarter, the lower head grades in the plant, and the lower recoveries in the plant.

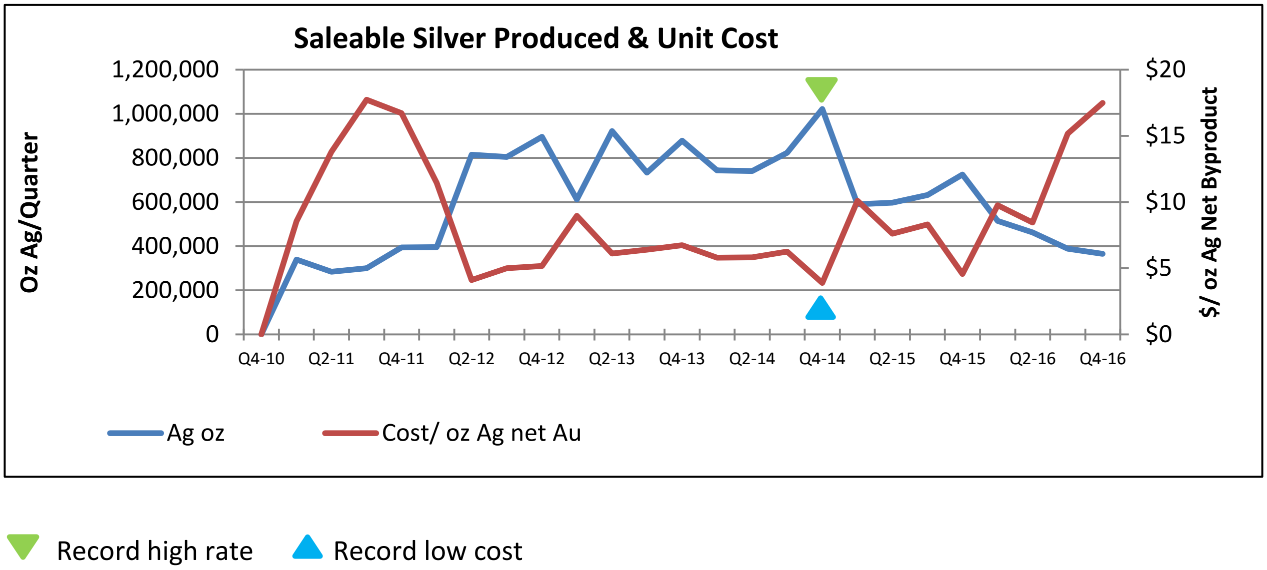
Cerro Bayo produced 1,731,031 ounces saleable silver and 13,792 ounces saleable gold in the year 2016, as compared to 2,545,984 ounces saleable silver and 22,572 ounces saleable gold in the comparable 2015 period.

During the year 2016, Cerro Bayo sold 15,419 ounces gold and 1,796,693 ounces silver. Sales during the comparable period of 2015 were 24,489 ounces of gold and 2,778,837 ounces of silver.

During the year 2016, Cerro Bayo invested $8.3 million in mine development versus $8.6 million in 2015. The mine spent $3.3 million for the purchase of property, plant and equipment in 2016, versus $5.0 million in 2015. The mine spent $3.0 million on exploration, versus $3.0 million in 2015.







Björkdal

Björkdal Financial and Operating Results for the Three Months Ended December 31, 2016 and 2015

Björkdal generated revenue of $10.4 million for the quarter ended December 31, 2016, versus $10.5 million in the year-ago quarter. Loss from mine operations before depreciation and depletion was $(1.3) million versus income of $1.2 million in the year ago quarter, and adjusted EBITDA was $(1.3) million versus $1.2 million a year ago. Net loss before tax was $(4.1) million and net loss after tax was $(2.5) million in 2016 versus losses of $(2.3) million and $(1.3) million, respectively, in 2015.

During the fourth quarter of 2016, Björkdal produced a combined 302,363 tonnes of ore from the open pit and underground operations, with an average grade of 1.57 grams per tonne gold as compared to 269,536 tonnes for fourth quarter of 2015 with average grade of 1.41 grams per tonne. During the fourth quarter of 2016, 1,604 metres of operating development was completed against 892 metres in fourth quarter of 2015. The weighted average mining cost from the open pit and underground was $24.86 per tonne in the fourth quarter of 2016 against $22.40 per tonne in the corresponding period of 2015. The increase was due to costs of selective mining, the impact of reduced tonnage from 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 fourth quarter of 2016, the Björkdal concentrator processed 317,553 tonnes of ore against 332,317 tonnes of ore in the previous year. The impact of the grade control program is evidenced by the higher head grade in the current period (1.28 grams per tonne gold) compared to the year-ago quarter (1.14 grams per tonne gold). Metallurgical recoveries during the fourth quarter of 2016 were 86.02%, against 88.04% for the fourth quarter of 2015. Processing cost was $7.41 per tonne in the fourth quarter of 2016, nearly unchanged from $7.27 per tonne in 2015.

During the fourth quarter of 2016, Björkdal produced 10,934 saleable gold ounces and sold 8,980 ounces. In the fourth quarter of 2015, Björkdal produced 10,465 saleable gold ounces and sold 9,385 ounces. Cash cost per gold ounce was $1,160 and all-in cost was $1,374 in 2016 against $940 and $1,224 respectively in 2015.

During the fourth quarter of 2016, Björkdal invested $2.1 million in mine development, $2.0 million in property, plant and equipment and $0.9 million in exploration. During the fourth quarter of 2015, Björkdal invested $3.0 million in mine development, $0.8 million in property, plant and equipment and $1.1 million in exploration.

Björkdal financial results

	Three months ended December 31, 2016 ($'000)	Three months ended December 31, 2015 ($'000)	Year ended December 31, 2016 ($'000)	Year ended December 31, 2015 ($'000)
Revenue	10,401	10,527	60,669	51,702
Cost of sales	11,718	9,283	46,069	36,983
Income (loss) from mine operations before depreciation and depletion	(1,317)	1,244	14,600	14,719
Depreciation and depletion	2,257	2,522	11,171	10,270
Income (loss) from mine operations	(3,574)	(1,278)	3,429	4,449
Administration(1)	346	328	1,532	1,061
Adjusted EBITDA(2)(4)	(1,317)	1,244	14,600	14,719
Finance costs, foreign exchange and others(2)	133	724	240	(64)
Income (loss) before tax	(4,054)	(2,330)	1,657	3,452
Current tax expense (recovery)	(683)	(451)	365	829
Deferred tax recovery	(295)	(535)	(445)	(662)
Operating net profit (loss) after tax(4)	(2,491)	(803)	4,476	5,445
Adjusted net profit (loss) after tax before special items(4)	(3,076)	(1,073)	1,737	4,429
Consolidated net profit (loss) after tax	(3,076)	(1,345)	1,737	3,285
Capital expenditure (5)	5,091	5,650	18,508	15,600

1Includes intercompany transfer pricing recharge costs of $346,000 in the three months ended in December 31, 2016 and $328,000 in the same period of 2015; and $1,532,000 in 2016 and $578,000 in 2015.

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 Years Ended December 31, 2016 and 2015

During 2016, Björkdal produced a combined 1,138,742 tonnes of ore from the open pit and underground operations, with an average grade of 1.39 grams per tonne gold as compared to 1,230,034 tonnes in the year 2015 with average grade of 1.36 grams per tonne. During 2016, 5,384 metres of operating development was completed against 4,483 metres in the year 2015. The weighted average mining cost from the open pit and underground was $25.07 per tonne in the year 2016 against $19.52 per tonne in

2015. 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.

In the year 2016, Björkdal established an underground and open pit grade control program as standard practice. The underground grade control process results in discarding 30-50% of low grade material previously sent to the mill. Due to the limited developed state of the mine, new capacity created in the plant has been filled with low grade stockpile material averaging only 0.6-0.7 grams per tonne for gold. As the vein development program proceeds, capacity in the plant will be filled with higher grade material rather than low grade, resulting in increased gold production. As well, in 2017, we have begun crushing and screening all low grade material, sending only the fine fraction to the plant. Early results suggest that the screening increases the gold grade in the processed fine fraction to 0.85 to 0.95 grams per tonne.

Björkdal operating statistics

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

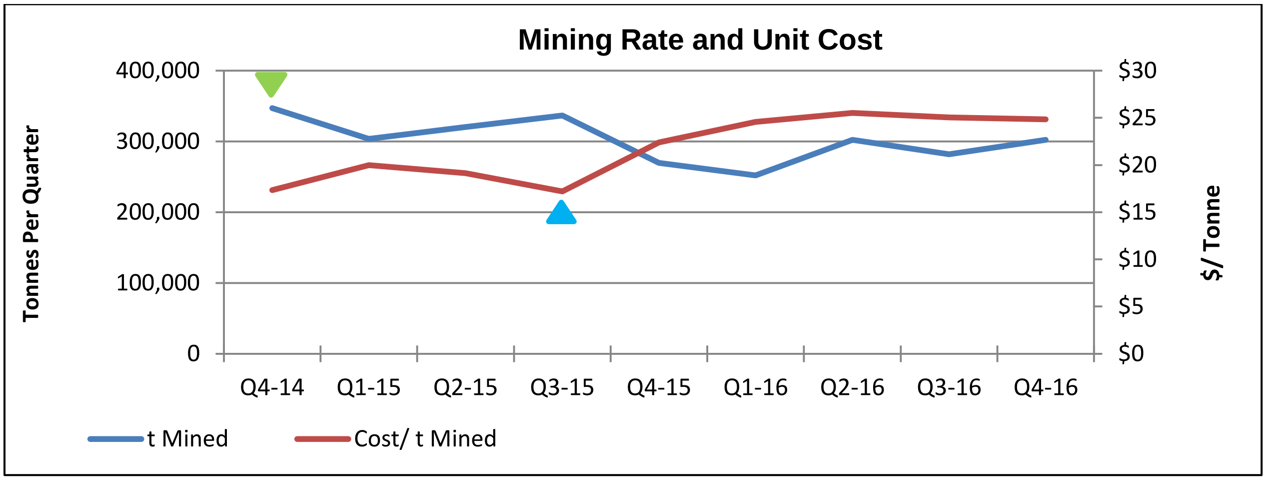
	Unit	Year ended December 31, 2016	Year ended December 31, 2015	Three months ended December 31, 2016	Three months ended December 31, 2015	Three months ended September 30, 2016	Three months ended June 30, 2016	Three months ended March 31, 2016
Mining Production and Mining Cost								
Operating development	m	5,384	4,483	1,604	892	1,292	1,349	1,140
Mined ore	t	1,138,742	1,230,034	302,363	269,536	281,714	302,397	252,268
Ore mined Au grade	g/t	1.39	1.36	1.57	1.41	1.26	1.37	1.32
Mined contained Au	oz	50,771	53,965	15,266	12,203	11,415	13,352	10,736
Mining cost per tonne ore	$/t	25.07	19.52	24.86	22.40	25.04	25.51	24.57
Processing and Processing Cost								
Processed ore	t	1,288,927	1,302,724	317,553	332,317	329,494	317,951	323,929
Mill head grade Au	g/t	1.35	1.22	1.28	1.14	1.35	1.43	1.35
Recovery Au	%	87.80	88.25	86.02	88.04	88.08	88.40	88.44
Concentrate produced	dry t	3,557	3,180	1,024	855	842	864	826
Concentrate grade Au	g/t	421	431	332	381	457	455	459
Saleable Au produced	oz	48,143	44,039	10,934	10,465	12,376	12,648	12,185
Processing cost per tonne ore	$/t	7.03	6.65	7.41	7.27	6.42	7.72	6.48
Sales								
Concentrate sold	dry t	3,498	3,006	815	704	889	814	979
Concentrate Au grade	g/t	426	443	343	415	446	528	392
Au sold	oz	47,888	42,823	8,980	9,385	12,758	13,813	12,337
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed(1)	$/t	35.71	30.78	40.0	33.13	36.06	37.37	29.95
Site cash operating cost/tonne concentrate produced(1)	$/t	12,940	12,612	12,393	12,879	14,109	13,746	11,740
Adjusted EBITDA/tonne ore milled(1)	$/t	11.33	11.30	(4.15)	3.74	17.19	16.75	15.22
Adjusted EBITDA/tonne concentrate produced(1)	$/t	4,106	4,629	(1,286)	1,455	6,727	6,161	5,965
Cash cost per oz Au equivalent produced(1)(2)	$/oz	956	884	1,160	940	897	967	821
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,190	1,128	1,374	1,224	1,135	1,212	1,059
Capital Spending								
Capital development (Underground)	m	2,044	1,086	351	430	519	563	611
Capital development (Open pit)	t	2,490,385	2,439,086	778,474	767,622	656,680	434,758	620,473
Capital development cost	$000	9,611	7,948	2,144	3,014	2,564	2,138	2,767
Capital purchases	$000	4,917	4,188	2,000	758	174	1,752	992
Capitalized exploration	$000	3,980	3,464	948	1,060	1,530	1,017	485

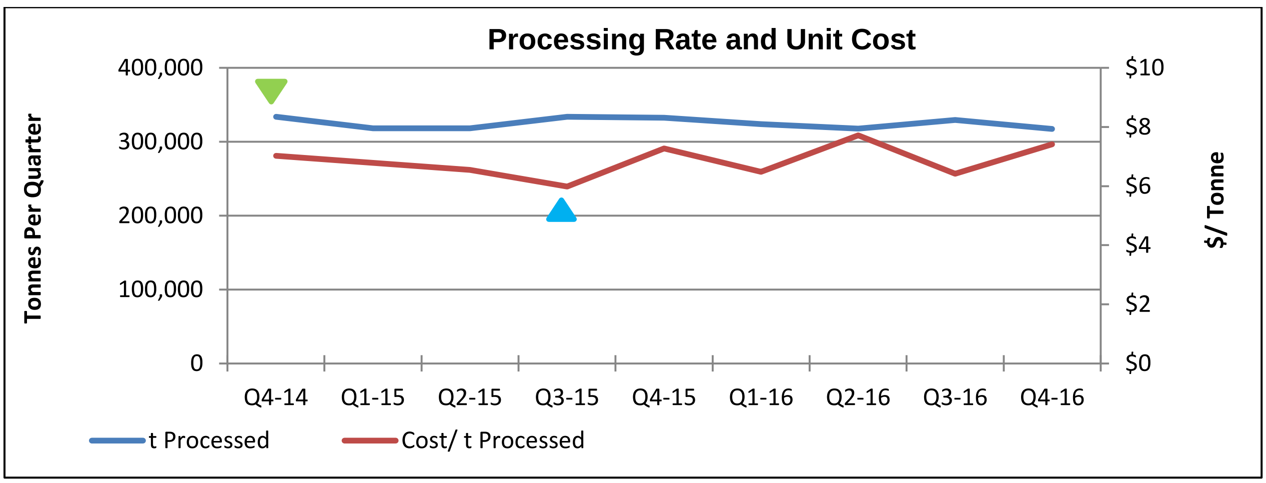
1 Does not include intercompany transfer pricing recharge costs and business development costs.
2 The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.16"Non-IFRS Measures" for further information.
3 Site all-in cost per ounce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

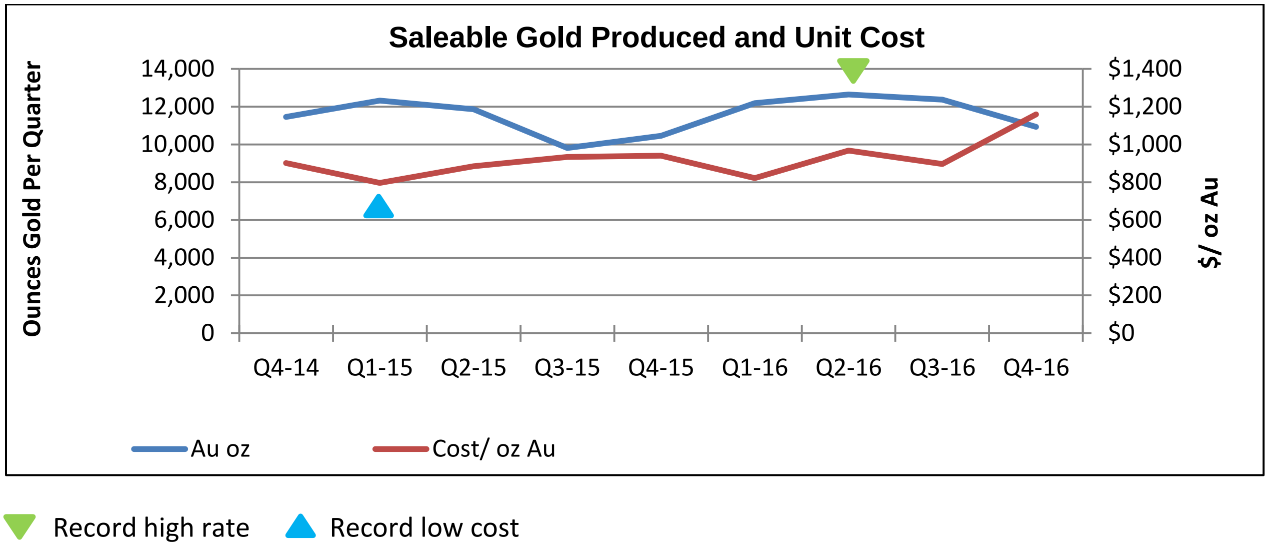
During the year 2016, the Björkdal concentrator processed 1,288,927 tonnes of ore with grades of 1.35 grams per tonne gold against 1,302,724 tonnes of ore with average grade of 1.22 grams per tonne gold in 2015. Metallurgical recoveries during the year 2016 were 87.80% compared with 88.25% for the year 2015. Processing cost was $7.03 per tonne in 2016 as compared to $6.65 per tonne in 2015.

During the year 2016, Björkdal produced 48,143 saleable gold ounces and sold 47,888 ounces. In the year 2015, Björkdal produced 44,039 saleable gold ounces and sold 42,823 ounces. Cash cost per gold ounce was $956 and all-in cost was $1,190 in 2016 against $884 and $1,128 respectively in 2015.

During the year 2016, the Company invested $9.6 million in mine development, $4.9 million in property, plant and equipment and $4.0 million in exploration. During the year 2015, the Company invested $8.8 million in mine development, $4.2 million in property, plant and equipment and $3.5 million in exploration.







Challacollo

During the fourth quarter of 2016, the Company spent $1.5 million on property maintenance, exploration and activities related to project development. Exploration results were reported in the press release of January 27, 2017.

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

La Quebrada

Spending on care and maintenance at La Quebrada was less than $0.1 million during the fourth quarter of 2016 and less than $0.1 million during the full-year 2016. The corresponding amounts for the prior year quarter and full year was less than $0.1 million and less than $0.1 million, respectively.

Lupin and Ulu

Spending on care and maintenance at Lupin and Ulu was $0.7 million during the fourth quarter of 2016 and $1.7 million during the full-year 2016. The corresponding amounts for the prior year quarter and full year were $0.9 million and $1.5 million, respectively. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects to WPC Resources. On February 6, 2017, WPC Resources announced a private placement intended to finance the acquisition and advance the project. Mandalay currently expects the transaction to close in the first quarter of 2017.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate October 1, 2016 December 31, 2016	Average rate October 1, 2015 December 31, 2015	Average rate January 1, 2016 December 31, 2016	Average rate January 1, 2015 December 31, 2015
1A$ = C$	1.0002	0.9614	0.9852	0.9604
1A$ = US$	0.7498	0.7199	0.7442	0.7523
1 US$ = C$	1.3340	1.3354	1.3236	1.2787
1 US$ = Chilean Peso	665	698	676	654
1 US$= SEK	9.0562	8.5051	8.5570	8.4370

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of gold, silver and antimony were higher in the fourth quarter of 2016 than in the fourth quarter of 2015. 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 fourth quarter of 2016 being marginally higher than relative average market prices.

COMMODITY	Average price October 1, 2016 December 31, 2016	Average price October 1, 2015 December 31, 2015	Average price January 1, 2016 December 31, 2016	Average price January 1, 2015 December 31, 2015
Realized gold US$/oz [1]	1,138	1,118	1,266	1,176
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,218	1,104	1,248	1,160
Realized antimony US$/tonne [1]	7,130	5,187	6,668	6,815
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	7,498	5,604	6,589	7,296
Realized silver price US$/oz [1]	12.36	14.21	17.07	15.54
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	17.17	14.76	17.10	15.68

[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 4, 2016 ($'000)	Quarter 3, 2016 ($'000)	Quarter 2, 2016 ($'000)	Quarter 1, 2016 ($'000)	Quarter 4, 2015 ($'000)	Quarter 3*, 2015 ($'000)	Quarter 2*, 2015 ($'000)	Quarter 1*, 2015 ($'000)
Revenue	32,391	48,544	54,166	50,442	43,646	43,282	50,793	56,779
Income/(loss)	(25,542)	549	3,611	1,149	(3,105)	1,608	4,400	11,762
Income/(loss) per share - Basic	(0.06)	0.00	0.01	0.00	(0.01)	0.00	0.01	0.03
Income/(loss) per share - Diluted	(0.06)	0.00	0.01	0.00	(0.01)	0.00	0.01	0.03

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

Since the acquisition of the Costerfield mine in December, 2009, of the Cerro Bayo mine in August, 2010, and the Björkdal mine in September, 2015, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield, Cerro Bayo and Björkdal mines.

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

The general trend of increasing metal sales volumes with time represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine and the acquisition of the Björkdal mine. Volatility in revenue and earnings over the past two years is due to the combined impact of changes in production volumes, fluctuations in metal prices and timing of concentrate shipments.

1.5 LIQUIDITY, SOLVENCY AND USES OF CASH

At December 31, 2016, the Company had working capital of $43.8 million compared to $18.5 million at December 31, 2015 mainly due to the equity raising in July, 2016 and also a classification of certain assets and liabilities being shown as net assets held for sale of $9.8 million shown as current. Working capital would have been $100.2 million as of December 31, 2016, had the five-year exchangeable loan been classified as long term debt. The Company had cash and cash equivalents of $66.9 million at December 31, 2016, as compared to $49.2 million at December 31, 2015.

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

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

1.6 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five year 5.875% debt financing

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

GEL raised the financing proceeds by way of a concurrent offering of five-year senior exchangeable bonds (the "Bonds") issued by Gold Exchangeable Limited (the "Issuer"), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary, Mandalay Resources Finance Limited (the "Borrower"), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the "Loan") which together mirror the principal terms of the Bonds.

Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then-applicable exchange price. The initial exchange price is $149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of $1,556 per ounce.

The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which NAV of the SPDR Gold Trust or Gold Shares is calculated.

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

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

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

GEL may redeem the Bonds at its option:

- any time after June 13, 2017, if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30 consecutive trading day period; or
- any time, if $9 million or less principal amount of the Bonds remains outstanding.

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

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

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

i) If all the bondholders exercised their right to redeem on December 31, 2016, assuming a gold price of $1,146/oz (which is equivalent to US$112.58 per Gold Share), then the repayment cost to the Company would be approximately $44.2 million.

   $60 million ÷ $1,556/oz × $1,146 = $44.2 million

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

iii) If the average price of gold during the escrow period is $1,700/oz (which is equivalent to US$ 167.0 per Gold Share) then repayment cost to the Company will be $65.6 million.

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

Fair-value adjustments

As at December 31, 2016, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Conversion feature under debt financing – In May, 2014, the Company borrowed $60 million in a five-year debt financing at an interest rate of 5.875% as described above

In May, 2014, the Company computed and initially allocated $4.6 million to the value of derivative financial instruments associated with the Loan. As at December 31, 2016, the Company has recomputed the derivative portion of the Loan at $1.1 million. As a result, there is a mark-to-market adjustment gain of $1.5 million in the quarter.

Marketable securities - The Company holds marketable securities with a fair market value of $0.3 million as at December 31, 2016, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement loss of less than $0.1 million for the quarter ended December 31, 2016.

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 December 31, 2016 [a]	As of December 31, 2015 [a]
			Q1 2016	Q2 2016	Q3 2016	Q4 2016		
	($'000)		($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Assets								
Deferred tax	5,556	(b)	3,472	(2,756)	371	(6,009)	634	5,106
Marketable Securities	191	(c)	62	47	(1)	(37)	261	115
Liabilities								
	1,405	(d)	(993)	(1,067)	246	1,481	1,072	740
Equity								
Retained earnings/(deficit)	45,077		2,541	(3,776)	616	(4,565)	39,893	71,999

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax expense of $4,922,000 for the three months ended December 31, 2016.

(c) The Company recorded fair value measurement loss of $37,000 relating to marketable securities for the three months ended December 31, 2016.

(d) The Company recorded fair value measurement gain of $1,481,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended December 31, 2016.

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

	As of December 31, 2016				As of December 31, 2015
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	
	($'000)		($'000)	($'000)	
Loss from operations	(24,539)			(24,539)	
Interest and other income	75			75	
Finance costs	(1,474)			(30)	
		(a)	(37)		
		(b)	1,481		
		(c)	-		
Foreign exchange gain	1,363			1,363	
Net loss before tax	(24,575)		1,444	(23,131)	
Current tax expense	3,598			3,598	
Deferred tax expense (income)		(c)	(6,009)	(6,009)	
Net income/(loss)	(20,977)		(4,565)	(25,542)	
Loss per share					
Basic	($0.05)			($0.06)	
Diluted	($0.05)			($0.06)	

(a) The Company recorded fair value measurement loss of $37,000 relating to marketable securities for the three months ended December 31, 2016.

(b) The Company recorded fair value measurement gain of $1,481,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended December 31, 2016.

(c) The Company recorded a deferred tax expense of $6,009,000 for the three months ended December 31, 2016.

	As of December 31, 2015			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income (loss) from operations	(209)			(209)
Interest and other income	74			74
Finance (costs)/income	(1,539)			(1,026)
		(a)	(27)	
		(b)	543	
		(c)	(3)	
Foreign exchange gain (loss)	83			83
Net income/(loss) before tax	(1,591)		513	(1,078)
Current tax	1,293			1,293
Deferred tax		(d)	(3,320)	(3,320)
Net income/(loss)	(298)		(2,807)	(3,105)
Income (loss) per share				
Basic	($0.00)			($0.01)
Diluted	($0.00)			($0.01)

(a) The Company recorded fair value measurement loss of $27,000 relating to marketable securities for the three months ended December 31, 2015.

(b) The Company recorded fair value measurement gain of $543,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended December 31, 2015.

(c) The Company recorded fair value measurement loss of $3,000 relating to a crude oil call option for the three months ended December 31, 2015.

(d) The Company recorded a deferred tax expense of $3,320,000 for the three months ended December 31, 2015.

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

	As of December 31, 2016				As of December 31, 2015
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	($'000)		($'000)	($'000)	($'000)
Income from operations	(8,627)			(8,627)	21,932
Other items					
Interest and other income	337			337	519
Finance (costs)/income	(5,693)	(a)	71	(5,955)	(4,008)
		(b)	(333)		
Foreign exchange gain (loss)	(943)			(943)	3,960
Net income/(loss) before tax	(14,926)		(262)	(15,188)	22,403
Current tax	(123)			(123)	(4,677)
Deferred tax		(c)	(4,922)	(4,922)	(3,061)
Net income/(loss)	(15,049)		(5,184)	(20,233)	14,665
Income (loss) per share					
Basic	($0.03)			($0.05)	$0.04
Diluted	($0.03)			($0.05)	$0.04

(a) The Company recorded fair value measurement gain of $71,000 relating to marketable securities for the year ended December 31, 2016.

(b) The Company recorded fair value measurement loss of $333,000 relating to derivative portion of the five-year exchangeable loan for the year ended December 31, 2016.

(c) The Company recorded a deferred tax expense of $4,922,000 for the year ended December 31, 2016.

1.7 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.8 TRANSACTIONS WITH RELATED PARTIES

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

Bradford Mills (Executive Chairman of the Company), Mark Sander (Director and President and Chief Executive Officer of the Company) and Sanjay Swarup (Chief Financial Officer of the Company) are also Directors of Plinian Capital. Plinian Capital is also a shareholder of the Company. The Company received one-off mining consultancy services from Plinian Capital during the year ended December 31, 2016.

	Year ended December 31,	
	2016	2015
	($'000)	($'000)
Administration expenses, salaries and consultancy services		
SKS Business Services	**180**	139
Plinian Capital	**7**	-
Total	**187**	139

	2016	2015
	($'000)	($'000)
Salaries and short-term benefits	**2,275**	2,433
Share-based payments	**872**	1,129
	3,147	3,562

1.9 CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

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

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

Inventories

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

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

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

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

Property, plant and equipment

Exploration and Evaluation

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

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

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

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

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

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

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

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

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

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

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

Site closure and reclamation cost obligations

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

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.10 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, reclamation and other deposits, derivative financial instruments, trade and other payables. The Company also periodically uses financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and antimony and against currency exchange rate fluctuations. See "Hedging Activities" below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at December 31, 2016, the Company had no past overdue trade receivables.

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

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

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

Hedging Activities

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

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

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

1.11 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

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

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 during the quarter ended December 31, 2016. The Company's controls include policies and procedures that:

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

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

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

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

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

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

<table>
<tr><th>Internal control weakness</th><th>Potential impact of the weakness on the issuer's financial reporting and its ICFR</th><th>Current plan or actions being undertaken for remediating the potential material weakness</th></tr>
<tr><td>Review of process and activities</td><td>Inaccuracy and possible fraud</td><td rowspan="2">Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year. During 2015, the following internal audit activities were completed:
• Health and safety management system;
• Marketing of concentrates (compliance);
• Preventative maintenance system;
• Cost management and core financial controls; and
• Environmental management

The areas covered during 2016 internal audit are related to the following broad categories:
• Contracts compliance; and
• Mine disaster plans.

The findings and consequent actions of the above audits are intended to mitigate the internal control weaknesses identified.</td></tr>
<tr><td>Documentation</td><td>Audit trail and completeness</td></tr>
</table>

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 451,174,008 common shares issued and outstanding. The weighted average number of shares outstanding during the fourth quarter used for the calculation of per share results was 451,174,008.

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

Exercise Price CND$	As of December 31, 2016	As of February 16, 2017	Expiry Date
0.91	4,968,000	4,953,000	23 March, 2021
0.91	4,315,000	4,300,000	24 March, 2020
0.93	20,000	20,000	06 November, 2019
0.98	3,815,000	3,800,000	24 March, 2019
1.13	3,502,500	3,490,000	18 March, 2018
0.83	2,621,700	2,609,200	09 March, 2017
Total	**19,242,200**	**19,172,200**	

During the quarter ended December 31, 2016, no options were exercised. There were 19,242,200 options outstanding as of December 31, 2016, which could result in issuance of shares.

During 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs receive the Company's common shares at no cost at the end of vesting periods. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The number of RSUs as at December 31, 2016, is as follows:

	Number of RSU awards
Balance, December 31, 2014	211,004
Granted	318,045
Redeemed	(109,577)
Balance, December 31, 2015	419,472
Granted	78,435
Redeemed	(215,730)
Outstanding at December 31, 2016	282,177

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

1) Quarterly Dividend

On February 15, 2017, the Board of Directors declared a quarterly dividend of $1.9 million, or $0.0043 per share (C$0.0057 per share), payable on March 9, 2017 to shareholders of record as of February 27, 2017.

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.