Management's Discussion and Analysis

For the quarter ended September 30, 2016

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated financial statements and notes to the condensed consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended September 30, 2016, and the Company's annual information form dated March 30, 2016 (the "AIF"), Management's Discussion and Analysis for year ended December 31, 2015, 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.

THIRD QUARTER 2016 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Revenue in the quarter rose to $48.5 million (including favorable revenue adjustments of $0.4 million related to open sales contracts from prior quarters), compared with revenue in the prior-year quarter of $43.3 million (including favorable revenue adjustments of $0.5 million related to open sales contracts from prior quarters). Year-to-date 2016 revenue was $153.2 million compared to $150.9 million in 2015.

- Adjusted EBITDA[1] in the third quarter of 2016 rose to $13.8 million from $11.5 million in the third quarter of 2015. Year-to-date 2016 adjusted EBITDA was $53.2 million versus $54.0 million in the corresponding period of 2015.

- Operating income from mine operations before tax increased in the third quarter of 2016 to $17.2 million from $14.3 million in the year-ago quarter. Year-to-date 2016 operating income from mine operations before tax was $60.4 million versus $60.0 million in the corresponding period of 2015.

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

- Consolidated after tax net income decreased to $0.5 million ($0.00/share) from $1.6 million ($0.00/share), mainly due to the write-off of mining interests and exploration in the current quarter of $1.2 million (nil in the prior-year quarter). Income tax payable rose to $1.0 million in the current quarter from near nil in the prior year quarter now that Costerfield has exhausted its group tax loss carryforwards and is in an income tax payable position. Year-to-date 2016, consolidated after tax net income was $5.3 million ($0.01 per share) versus $17.8 million in the corresponding period of 2015.

- Dividends paid in the third quarter of 2016 were $3.3 million (C$0.0094 per share) compared to $3.0 million (C$0.0098 per share) in the corresponding quarter of 2015.

- Total cash capital expenditure during the third quarter of 2016 was $10.4 million compared to $11.0 million in the year-ago quarter.

- At September 30, 2016, the Company had $74.6 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. Operating Highlights

a. Consolidated Production and Sales

- In the third quarter of 2016, Mandalay produced a total of 34,586 ounces of gold equivalent, including 24,310 ounces gold, 388,139 ounces silver and 844 tonnes antimony. This compares to 40,293 ounces of gold equivalent produced in the third quarter of 2015, consisting of 25,996 ounces gold, 632,498 ounces silver and 964 tonnes antimony. The decline in performance from 2015 to 2016 was due to temporary suspension of operations at Cerro Bayo in September and October of 2016 following the contractor fatality in early September. Operations have now fully resumed.

- Mandalay's Corporate average cash cost[2] of production in the third quarter of 2016 was $970 per ounce of gold equivalent versus $783 per ounce of gold equivalent in the third quarter of 2015. Corporate all-in cost[3] in the current quarter was $1,266 per ounce of gold equivalent versus $1,032 per ounce of gold equivalent in the prior quarter.

- Operational exchange rates slightly impacted U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 1.3182/US$ in the third quarter of 2016 vs 1.3787/US$ in the prior year period. The Chilean Peso averaged 661 Peso/US$ vs 677/US$ in the prior period. The Swedish

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

Krona averaged 8.5251 krona/US$ in the period vs 8.4849 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 24,888 ounces gold, 439,993 ounces silver and 804 tonnes antimony compared to 25,392 ounces gold, 685,703 ounces silver and 916 tonnes antimony in the third quarter of 2015.

- Prices realized during the quarter were $1,349 per ounce for gold, $20.29 per ounce for silver and $7,674 per tonne for antimony versus $1,109 per ounce for gold, $14.16 per ounce for silver and $6,053 per tonne for antimony in the same period in 2015 (21.6% higher price for gold, 43.3% higher for silver and 26.8% higher for antimony).

Mandalay's sales totaled 35,617 ounces of gold equivalent versus 39,987 ounces of gold equivalent in the corresponding quarter of 2015. Year-to-date in 2016, sales have totaled 117,165 ounces of gold equivalent versus 127,932 ounces of gold equivalent in 2015.

- 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 fewer tonnes at lower gold and antimony 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 sharply reduced mine output, mill throughput, and metal production while the operation continued to incur ongoing fixed costs; and

- Björkdal delivered the second-best production quarter ever under Mandalay ownership and only slightly below production during the record second quarter of 2016, even in the Swedish summer months with typically high proportions of the workforce on vacation.

- Looking forward, the Company expects that:

  - Costerfield production will continue its trend of solid performance for the remainder of the year;

  - Cerro Bayo will continue to recover from the safety-related temporary shutdown, but previous expectations of achieving the advanced developed state of the mine to support an upturn in mined grades has been delayed into 2017; and

  - Björkdal will continue to refine the grade control and mining processes in the open pit and underground to gradually increase the average mined grade and lower unit cash costs. Meanwhile, capital for the expansion of the flotation section of the plant has been approved and is expected to deliver a recovery increase of about 1.7% beginning in the second half of 2017. Detailed planning for the ore sorting installation to upgrade mined low grade material as well as stockpiled material is underway and the Company expects a 12 to 15 month construction period after approval.

Mandalay Saleable Production

Metal	Source	Three months to 30 September 2016	Three months to 30 September 2015	Period ended 30 September 2016	Period ended 30 September 2015
Gold (oz)	Costerfield	9,102	10,930	33,787	30,909
	Cerro Bayo	2,831	5,305	10,985	15,671
	Björkdal	12,376	9,761	37,209	33,574
	Total	**24,310**	**25,996**	**81,981**	**80,154**
Antimony (t)	Costerfield	**844**	**964**	**2,806**	**2,775**
Silver (oz)	Cerro Bayo	**388,139**	**632,498**	**1,365,817**	**1,820,741**
Average quarterly prices:					
Gold US$/oz		1,334	1,125	-	-
Antimony US$/tonne		7,244	6,894	-	-
Silver US$/oz		19.58	14.93	-	-
Au Eq. (oz)1	Costerfield	13,684	16,835	47,673	49,340
	Cerro Bayo	8,526	13,697	29,322	40,373
	Björkdal	12,376	9,761	37,209	33,574
	Total	**34,586**	**40,293**	**114,204**	**123,286**

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

Mandalay Sales

Metal	Source	Three months to 30 September 2016	Three months to 30 September 2015	Period ended 30 September 2016	Period ended 30 September 2015
Gold (oz)	Costerfield	8,865	9,758	32,121	29,284
	Cerro Bayo	3,265	5,819	12,993	18,635
	Bjorkdal	12,758	9,815	38,908	33,438
	Total	**24,888**	**25,392**	**84,022**	**81,357**
Antimony (t)	Costerfield	**804**	**916**	**2,690**	**2,596**
Silver (oz)	Cerro Bayo	**439,993**	**685,703**	**1,476,518**	**2,155,652**
Average quarterly prices:					
Gold US$/oz		1,334	1,125	-	-
Antimony US$/tonne		7,244	6,894	-	-
Silver US$/oz		19.58	14.93	-	-
Au Eq. (oz)2	Costerfield	13,228	15,369	45,457	46,585
	Cerro Bayo	9,631	14,803	32,800	47,909
	Bjorkdal	12,758	9,815	38,908	33,438
	Total	**35,617**	**39,987**	**117,165**	**127,932**

[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.

b. Costerfield Gold-Antimony Mine, Victoria, Australia

- *Production* — Saleable gold production for the third quarter of 2016 was 9,102 ounces versus 12,252 ounces in the previous quarter and 10,930 ounces in the third quarter of 2015. Saleable antimony production for the third quarter of 2016 was 844 tonnes versus 962 tonnes in the previous quarter and 964 tonnes in the third quarter of 2015. Decreased gold production in the current quarter compared to the corresponding quarter of the previous year was mainly due to lower grades, as expected.

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the third quarter of 2016 was $755 versus $530 in the previous quarter and $553 in the third quarter of 2015. The higher cash cost in the third 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 third quarter of 2016 was $1,064, versus $772 in the previous quarter and $763 in the third quarter of 2015.

c. Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production* — Cerro Bayo produced 388,139 ounces silver and 2,831 ounces gold in the third quarter of 2016 versus 462,462 ounces silver and 3,818 ounces gold in the previous quarter and 632,498 ounces silver and 5,305 ounces gold in the third quarter of 2015. Production at Cerro Bayo was lower than in the prior year corresponding quarter mainly due to lower mined grades and lower tonnes mined and processed due to the temporary shutdown of operations after safety-related incident in September and delayed production in the Coyita vein.

- *Operating Costs* — Cash cost per saleable ounce silver produced net of gold credits was $15.18 in the third quarter of 2016 versus $8.45 in the previous quarter and $8.31 in the third quarter of 2015. Cash cost per ounce was higher in the third quarter of 2016 compared to the corresponding quarter of 2015. Higher cash costs are due to lower production arising from lower plant head grades and lower ore processed and the temporary shutdown of the mine and resultant downtime after the safety-related incident in September. The site all-in cost per ounce silver produced net of gold by-product credit was $25.70 in the third quarter of 2016 versus $16.54 in the previous quarter and $15.18 in the third quarter of 2015.

d. Björkdal Gold Mine, Sweden

- *Production — Björkdal produced 12,376 ounces gold in the third quarter of 2016 versus 12,648 ounces gold in the previous quarter and 9,761 ounces gold in third 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 slightly lower than in the previous quarter but higher than in the year-ago quarter.*

- *Operating Costs* — Cash cost per saleable ounce gold produced at Björkdal in the third quarter of this year was $897 and the site all-in cost per saleable ounces gold produced was $1,135, as compared to $967 and $1,212 in the previous quarter and $934 and $1,185 respectively for the prior year quarter of 2015.

e. Exploration

A detailed update of exploration activity at all four of Mandalay's material properties in the first half of 2016 was released on July 25, 2016. Activities during the third quarter of 2016 include:

- **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 in a program to convert the resources there into probable reserves by the end of the year. 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 announced earlier this year is underway, with only incomplete assays available as of the end of the quarter.

- **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 third 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. See Section 1.1 – Subsequent Events below.

1.0 DATE

This MD&A is dated as of November 2, 2016.

1.1 SUBSEQUENT EVENTS

1) Quarterly Dividend

On November 2, 2016, the Board of Directors declared a quarterly dividend of $2.9 million, or $0.0065 per share (C$0.0086 per share), payable on November 24, 2016 to shareholders of record as of November 14, 2016.

2) Sale of Lupin and Ulu Gold Projects

On October 31, 2016, Mandalay entered into a definitive agreement with WPC Resources Inc. (TSXV: WPC) ("WPC") pursuant to which WPC has agreed to purchase the Lupin gold mine and the Ulu gold project from Mandalay for consideration payable on closing consisting of (i) C$3 million cash, (ii) 15 million common shares of WPC and (iii) a $1.6 million promissory note that is convertible at Mandalay's election into common shares of WPC at a price of C$0.10 per share. In addition:

(a) WPC has agreed to make an aggregate cash payment to Mandalay based on the value of 10,000 ounces of refined gold, payable in 12 quarterly installments with each installment equal to the cash equivalent of 833 1/3 ounces of refined gold, based on the average gold price for each such quarter, beginning with the second quarter immediately following the full quarter after the commencement of commercial production; and

(b) beginning in the quarter after the completion of the payments described above, WPC will pay to Mandalay 1% net smelter returns royalty on gold production mined from the Lupin property.

The transaction, which is expected to be completed prior to December 31, 2016, is subject to the satisfaction or waiver of certain conditions, including WPC completing a private placement or other financing for gross proceeds of not less than C$5 million and the receipt of all necessary regulatory approvals, including the approval of the TSX Venture Exchange.

1.2 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. It currently produces gold, silver and antimony in Australia, Chile and Sweden. 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 third 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 five 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.

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: completing a new, independent estimation of Mineral Resources and Reserves; 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; and completing fundamental metallurgical surveys and ore sorting studies to improve plant performance on higher head grades. The Company's primary objective at Björkdal is to increase production from the current annual run rate of 45,000-50,000 ounces per year over the next two years. The majority of the production growth is expected to come from mining higher grade with less ore dilution, rather than from more tonnage.

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 additional water source options and is pursuing permitting for these alternative sources. 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 and 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. See Section 1.1 – Subsequent Events above.

1.3 SELECTED QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended September 30, 2016 and 2015:

	Three months ended September 30, 2016 ($'000)	Three months ended September 30, 2015 ($'000)
Revenue	48,544	43,282
Cost of sales	31,389	28,946
Income from mine operations before depreciation and depletion	17,155	14,336
Depreciation and depletion	9,850	10,205
Income from mine operations	7,305	4,131
Administration	3,313	2,787
Business development costs	45	64
Adjusted EBITDA*	13,797	11,485
Finance costs, foreign exchange and others/(income)**	2,724	(955)
Consolidated Income/(loss) before tax	1,223	2,235
Current tax expense	1,045	(85)
Deferred tax expense	(371)	712
Adjusted Net Income/(loss) before special items after tax *	1,110	2,169
Consolidated Net Income/(loss) after tax	549	1,608
Total assets	384,875	346,877
Total liabilities	145,734	132,349
Adjusted Income/(loss) per share before special items	0.00	0.01
Consolidated Income/(loss) per share	0.00	0.00

*Adjusted EBITDA and adjusted net income 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.

The following table sets forth the summary of financial results for the nine months ended September 30, 2016 and 2015:

	Nine months ended September 30, 2016 ($'000)	Nine months ended September 30, 2015 ($'000)
Revenue	153,152	150,854
Cost of sales	92,742	90,855
Income from mine operations before depreciation and depletion	60,410	59,999
Depreciation and depletion	31,683	30,962
Income from mine operations	28,727	29,037
Administration	7,167	5,825
Business development costs	57	182
Adjusted EBITDA*	53,186	53,992
Finance costs, foreign exchange and others**	13,560	(451)
Income/(loss) before tax	7,943	23,481
Current tax expense	3,721	1,496
Deferred tax expense/(recovery)	(1,087)	4,215
Adjusted Net Income/(loss) before special items after tax *	7,239	19,737
Consolidated Net Income/(loss) after tax	5,309	17,770
Adjusted Income/(loss) per share before special items	0.02	0.04
Consolidated Income/(loss) per share	0.01	0.04

* Adjusted EBITDA and adjusted net income 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.

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	2,997
	August 11, 2016	August 22, 2016	0.0094	3,272
				8,984
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 and nine months ended September 30, 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 September 30, 2016		Three months ended September 30, 2015	
	($'000)	**($'000)**	**($'000)**	**($'000)**
Consolidated Net Income/(loss)		549		1,608
Special items				
Mining interest write off	738		-	
- tax impact of above	(177)		-	
Deferred tax impact on Royalty	-		-	
Additional DDA from PPA at Björkdal	-		733	
- tax impact of above	-		(161)	
		561		572
Adjusted Net Income/(loss) before special items		1,110		2,180
Add: Non-cash and finance costs				
Depletion and depreciation	9,850		9,472	
Loss (gain) on disposal of property, plant and equipment	(19)		29	
Write-off of exploration and evaluation	412		-	
Share based compensation	162		135	
Interest and finance charges	1,390		1,344	
Fair value adjustments	(245)		(438)	
Current tax	1,045		(85)	
Deferred tax	(194)		873	
Foreign exchange (gain)/loss	349	12,750	(1,947)	9,383
		13,860		11,563
Less: Interest and other income	(63)	(63)	(78)	(78)
Adjusted EBITDA		13,797		11,485

	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	($'000)	($'000)	($'000)	($'000)
Consolidated Net Income/(loss)		5,309		17,770
Special items				
Mining interest write off	4,179		-	
- tax impact of above	(1,003)		-	
Net tax impact on Royalty	171		-	
Additional DDA from PPA at Björkdal	-		2,522	
- tax impact of above	-		(555)	
Tax adjustment at Costerfield	(1,417)	1,930	-	1,967
Adjusted Net Income/(loss) before special items		7,239		19,737
Add: Non-cash and finance costs				
Depletion and depreciation	31,683		28,440	
Loss (gain) on disposal of property, plant and equipment	268		177	
Write-off of exploration and evaluation	412		-	
Share based compensation	732		712	
Interest and finance charges	4,219		4,000	
Fair value adjustments	1,706		(1,018)	
Current tax	3,721		1,496	
Deferred tax	1,162		4,770	
Foreign exchange (gain)/loss	2,306	46,209	(3,877)	34,700
		53,448		54,437
Less: Interest and other income	(262)	(262)	(445)	(445)
Adjusted EBITDA		53,186		53,992

Fair-value adjustments

As at September 30, 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% 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.

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 exercise its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

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 September 30, 2016, the Company has recomputed the derivative portion of the Loan at $2.6 million. As a result, there is a mark-to-market adjustment gain of $0.2 million in the quarter.

Marketable securities - The Company holds marketable securities with the fair market value of $0.3 million as at September 30, 2016, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement loss of less than $0.1 million for the quarter ended September 30, 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 September 30, 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	5,477	(b)	3,472	(2,756)	371		6,564	5,106
Marketable Securities	200	(c)	62	47	(1)		307	115
Impairment		(e)	-					
Liabilities								
Derivative financial instrument (Five year exchangeable bonds)	4,366	(d)	(993)	(1,067)	246		2,552	740
Equity								
Retained earnings/(deficit)	68,943		2,541	(3,776)	616		68,324	71,999

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax income of $371,000 for the three months ended September 30, 2016.

(c) The Company recorded fair value measurement loss of $1,000 relating to marketable securities for the three months ended September 30, 2016.

(d) The Company recorded fair value measurement gain of $246,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended September30, 2016.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended September 30, 2016 and 2015

	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income (loss) from operations	2,654			2,654
Interest and other income	63			63
Finance (costs)/income	(1,390)			(1,145)
		(a)	(1)	
		(b)	246	
		(c)	-	
Foreign exchange gain (loss)	(349)			(349)
Net income/(loss) before tax	978		245	1,223
Current tax	(1,045)			(1,045)
Deferred tax		(c)	371	371
Net income/(loss)	(67)		616	549
Income (loss) per share				
Basic	($0.00)			$0.00
Diluted	($0.00)			$0.00

(a) The Company recorded fair value measurement loss of $1,000 relating to marketable securities for the three months ended September 30, 2016.

(b) The Company recorded fair value measurement gain of $246,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended September 30, 2016.

(c) The Company recorded a deferred tax income of $371,000 for the three months ended September 30, 2016.

	As of September 30, 2015			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income (loss) from operations	1,116			1,116
Interest and other income	78			78
Finance (costs)/income	(1,344)			(906)
		(a)	(29)	
		(b)	667	
		(c)	(200)	
Foreign exchange gain (loss)	1,947			1,947
Net income/(loss) before tax	1,797		438	2,235
Current tax	85			85
Deferred tax		(d)	(712)	(712)
Net income/(loss)	1,882		(274)	1,608
Income (loss) per share				
Basic	$0.00			$0.00
Diluted	$0.00			$0.00

(a) The Company recorded fair value measurement loss of $29,000 relating to marketable securities for the three months ended September 30, 2015.

(b) The Company recorded fair value measurement gain of $667,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended September 30, 2015.

(c) The Company recorded fair value measurement loss of $200,000 relating to a crude oil call option for the three months ended September 30, 2015.

(d) The Company recorded a deferred tax expense of $712,000 for the three months ended September 30, 2015.

Fair value and deferred tax adjustments impact on items in the income statement for nine months ended September 30, 2016 and 2015

	As of September 30, 2016				As of September 30, 2015
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	($'000)		($'000)	($'000)	($'000)
Income (loss) from operations	15,912			15,912	22,141
Other items					
Interest and other income	262			262	445
Finance (costs)/income	(4,219)	(a)	108	(5,925)	(2,982)
		(b)	(1,814)		
Foreign exchange gain (loss)	(2,306)			(2,306)	3,877
Net income/(loss) before tax	9,649		(1,706)	7,943	23,481
Current tax	(3,721)			(3,721)	(1,496)
Deferred tax		(c)	1,087	1,087	(4,215)
Net income/(loss)	5,928		(619)	5,309	17,770
Income (loss) per share					
Basic	$0.01			$0.01	$0.04
Diluted	$0.01			$0.01	$0.04

(a) The Company recorded fair value measurement gain of $108,000 relating to marketable securities for the nine months ended September 30, 2016.

(b) The Company recorded fair value measurement loss of $1,814,000 relating to derivative portion of the five-year exchangeable loan for the nine months ended September 30, 2016.

(c) The Company recorded a deferred tax recovery of $1,087,000 for the nine months ended September 30, 2016.

1.4 RESULTS OF OPERATIONS

Three Months Ended September 30, 2016, compared to Three Months Ended September 30, 2015

Revenue in the current quarter rose to $48.5 million (including favorable revenue adjustments of $0.4 million related to open sales contracts from prior quarters), compared with revenue in the prior year quarter of $43.3 million (including favorable revenue adjustments of $0.5 million related to open sales contracts from prior quarters). This higher revenue, due mostly to higher metal prices, resulted in Adjusted EBITDA rising in the third quarter of 2016 to $13.8 million from $11.5 million in the third quarter of 2015. As well, income from mine operations before tax increased in the third quarter of 2016 to $7.3 million from $4.1 million in the year-ago quarter. Consolidated pre-tax income declined to $1.2 million from $2.2 million, mainly due to $1.2 million from the write off of mineral properties and exploration spend in the current quarter.

Consolidated after tax net income decreased to $0.5 million ($0.00/share) from $1.6 million ($0.00/share) in the year-ago period due to the above mentioned factors. On the tax side, current taxes rose to $1.0 million in the current quarter from less than $0.1 million a year ago now that Costerfield has exhausted its tax loss carryforwards and is paying full tax.

Income after tax from underlying operations in the current quarter was $0.1 million ($0.00 per share) compared with income after tax from underlying operations of $1.9 million ($0.00 per share) in the third quarter of 2015.

Administrative expenses for the quarter ended September 30, 2016 were $3.3 million compared to $2.8 million during the quarter ended September 30, 2015.

Capital expenditures in the third quarter of 2016, including capitalized depreciation and exploration, were $10.4 million. Of this amount $3.7 million was spent at Cerro Bayo, $2.2 million at Costerfield, $4.3 million at Björkdal and $0.2 million at Challacollo. By comparison, total capital expenditures in the third quarter of 2015 were $11.0 million.

Costerfield Financial and Operating Results for the Three Months Ended September 30, 2016, and September 30, 2015

Costerfield generated revenue of $18.2 million for the quarter ended September 30, 2016. Income from mine operations before depreciation and depletion was $8.7 million, Adjusted EBITDA was $8.6 million, operating net income was $4.1 million and net income after tax was $3.4 million during the period. Comparable results for the quarter ended September 30, 2015 were, revenue of $16.4 million, income from mine operations before depreciation and depletion of $8.4 million, Adjusted EBITDA of $8.2 million, operating net income of $4.6 million and net income after tax of $3.6 million.

Operationally, Costerfield delivered another solid quarter in terms of quantities produced and sold at low cash and all-in operating cost per ounce of gold equivalent produced. In the third quarter of 2016, Costerfield delivered total of 13,684 ounces of gold equivalent at cash costs and all-in costs of $755 and $1,064 per ounce of gold equivalent, respectively. This is compared to the prior-year quarter production of 16,835 ounces of gold equivalent at $553 per ounce gold equivalent. The differences in production and cost are almost entirely due to the lower grades processed in the current quarter. These lower grades were expected according to the long term mine plan.

The Costerfield mine completed 1,505 metres of operating development in the third quarter of 2016 versus 1,346 metres in 2015. There was no capital development in the third quarter of 2016 compared to 322 metres in 2015.

38,407 tonnes of ore were mined in third quarter of 2016 as compared to 41,373 tonnes in the third quarter of 2015. Mining cost increased to $177 per tonne from the previous year's quarter of $144 per tonne. The mined gold grade in 2016 was 9.16 grams per tonne versus 10.89 grams per tonne in 2015, while the mined antimony grade was 3.21% in 2016 versus 4.20% in the prior year quarter.

Costerfield financial results

	Three months ended September 30, 2016 ($'000)	Three months ended September 30, 2015 ($'000)
Revenue	18,196	16,363
Cost of sales	9,482	7,954
Income from mine operations before depreciation and depletion	8,714	8,409
Depreciation and depletion	3,635	3,618
Income from mine operations	5,079	4,791
Administration (1)	199	321
Adjusted EBITDA (2)(4)	8,648	8,212
Finance costs, foreign exchange and others (3)	750	(136)
Income/(loss) before tax	4,130	4,607
Current tax expense	591	-
Deferred tax expense	185	1,013
Operating net income/(loss) after tax(4)	3,874	4,357
Adjusted Net income/(loss) after tax before special items	3,354	3,594
Consolidated Net income/(loss) after tax	3,354	3,594
Capital expenditure (5)	2,208	5,599

[1]Includes intercompany transfer pricing recharge costs of $132,000 in the three months ended in September 30, 2016 and $124,000 in the same period of 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.

Costerfield operating net income after tax reconciliation to net income after tax

	Three months ended September 30, 2016 ($'000)	Three months ended September 30, 2015 ($'000)
Net income/(loss) after tax	3,354	3,594
Add: Intercompany expenses		
Intercompany interest expense	-	277
Intercompany transfer pricing recharge costs	520	485
Operating net income/(loss) after tax	3,874	4,357

Costerfield operating statistics

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

	Unit	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015	Three months ended June 30, 2016	Three months ended March 31, 2016
Mining Production and Mining Cost							
Operating development	m	4,362	3,599	1,505	1,346	1,382	1,475
Mined ore	t	119,418	119,350	38,407	41,373	36,818	44,192
Ore mined Au grade	g/t	10.61	10.60	9.16	10.89	10.92	11.60
Ore mined Sb grade	%	3.56	4.04	3.21	4.20	3.49	3.93
Mined contained Au	oz	40,730	40,655	11,317	14,484	12,931	16,482
Mined contained Sb	t	4,253	4,827	1,234	1,736	1,285	1,735
Mining cost per tonne ore	$/t	148	143	177	144	146	125
Processing and Processing Cost							
Processed ore	t	115,164	115,725	35,981	39,140	39,548	39,635
Mill head grade Au	g/t	11.14	10.48	9.94	10.94	11.59	11.79
Mill head grade Sb	%	3.89	3.95	3.75	4.05	3.83	4.08
Recovery Au	%	90.50	89.59	90.13	89.83	90.73	90.58
Recovery Sb	%	95.37	95.11	95.69	95.33	95.11	95.35
Concentrate produced	dry t	7,862	8,015	2,335	2,795	2,668	2,859
Concentrate grade Au	g/t	86.07	82.79	84.97	90.07	85.71	87.31
Concentrate grade Sb	%	54.31	54.23	55.09	54.03	54.02	53.94
Au produced in gravity concentrate	oz	15,427	13,450	3,948	4,231	5,956	5,523
Au produced in sulfide concentrate	oz	18,360	17,459	5,154	6,699	6,296	6,910
Saleable Au produced	oz	33,787	30,909	9,102	10,930	12,252	12,433
Saleable Sb produced	t	2,805	2,775	843	964	962	1,000
Saleable Au equivalent produced	oz	47,673	49,340	13,684	16,835	17,023	16,966
Processing cost per tonne ore	$/t	37.31	37.49	41.50	34.91	37.44	33.36
Sales							
Concentrate sold	dry t	7,812	7,530	2,325	2,673	2,898	2,589
Concentrate Au grade	g/t	83.11	79.13	81.79	78.43	83.33	84.05
Concentrate Sb grade	%	54.21	54.21	54.44	53.96	53.92	54.32
Au sold in gravity concentrate	oz	15,151	13,664	3,967	4,214	6,075	5,109
Au sold in sulfide concentrate	oz	16,970	15,620	4,899	5,544	6,365	5,707
Au sold	oz	32,121	29,284	8,865	9,758	12,440	10,816
Sb sold	t	2,690	2,596	804	916	993	893
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed(1)	$/t	239	237	284	233	223	214
Site cash operating cost/tonne concentrate produced(1)	$/t	3,499	3,415	4,373	3,269	3,298	2,973
Adjusted EBITDA/tonne ore milled(1)	$/t	270	240	240	210	342	225
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,953	3,459	3,704	2,938	5,063	3,120
Cash cost per oz Au equivalent produced(1)(2)	$/oz	588	566	755	553	530	512
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	845	777	1,064	763	772	724
Capital Spending							
Capital development	m	-	1,802	-	322	-	-
Capital development cost	$000	-	7,657	-	1,196	-	-
Capital development cost/meter	$/m	NA	4,249	NA	3,711	NA	NA
Capital purchases	$000	2,374	4,736	779	1,166	1,289	305
Capitalized exploration	$000	3,541	1,434	1,429	827	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.

During the third quarter of 2016, Costerfield processed lower throughput than in the year-ago quarter (35,981 tonnes vs 39,140 tonnes), accompanied by an increase in processing cost from $34.91 per tonne in 2015 to $41.50 per tonne in 2016.

Plant gold head grade in 2016 was 9.94 grams per tonne versus 10.94 grams per tonne in the year-ago quarter, while the antimony head grade was 3.75% in 2016 versus 4.05% in 2015. These grade declines were expected. The plant achieved recoveries of 90.13% for gold and 95.69% for antimony versus 89.83% for gold and 95.33% for antimony in third quarter of 2015.

Concentrate production was 2,335 dry metric tonnes during the third quarter of 2016 versus 2,795 dry metric tonnes during the third quarter of 2015. Total saleable metal production in the third quarter of 2016 was 843 tonnes antimony and 9,102 ounces gold versus 964 tonnes antimony and 10,930 ounces gold in the third quarter of 2015.

During the third quarter of 2016, Costerfield sold 2,325 dry metric tonnes of concentrate compared to 2,673 dry metric tonnes in the prior year period. A total of 8,865 ounces gold and 804 tonnes antimony were sold in the third quarter of 2016 versus a total of 9,758 ounces gold and 916 tonnes antimony sold in the third quarter of 2015.

During the third quarter of 2016, Costerfield did not incur any capital development costs, spent $1.4 million in exploration and $0.8 million in property, plant and equipment. The corresponding amounts for the prior year quarter were $1.2 million, $0.8 million and $1.2 million, respectively.

Costerfield Financial and Operating Results for the Nine Months Ended September 30, 2016 and September 30, 2015

Operationally, Costerfield delivered an excellent first nine months of 2016 in terms of quantities produced and sold and low cash and all-in operating cost per ounce of gold equivalent produced. In the first nine months of 2016, Costerfield delivered 47,673 ounces of gold equivalent at cash costs and all-in costs of $588 and $845 per ounce of gold equivalent, respectively. While production of gold and antimony metal increased from 2015 to 2016, gold equivalent production declined slightly due to year-to-year variation in the metal prices used in the calculation of gold equivalent.

The Costerfield mine completed 4,362 metres of operating development in the first nine months of 2016 versus 3,599 metres in 2015. There was no capital development in the first nine months of 2016 compared to 1,802 metres in 2015 at a cost of $4,249 per metre.

Ore mined in the first nine months of 2016 was consistent with the prior year period 119,418 tonnes this year versus 119,350 tonnes in 2015. Mining costs increased slightly to $148 per tonne from $143 per tonne in the prior year. The mined gold grade in 2016 was 10.61 grams per tonne versus 10.60 grams per tonne in 2015, while the mined antimony grade was 3.56% in 2016 versus 4.04%.

Plant throughput was almost identical in 2016 (115,164) versus 2015 (115,725) while costs reduced slightly from $37.49 per tonne in 2015 to $37.31 per tonne in 2016.

Plant gold head grade in 2016 was 11.14 grams per tonne versus 10.48 grams per tonne gold a year ago, while the antimony head grade was 3.89% in 2016 versus 3.95% in 2015. The plant achieved recoveries of 90.50% for gold and 95.37% for antimony versus 89.59% for gold and 95.11% for antimony in the first nine months of 2015.

Concentrate production was 7,862 dry metric tonnes during the first nine months of 2016 versus 8,015 dry metric tonnes during the first nine months of 2015. Total saleable metal production in the first nine months of 2016 was 2,805 tonnes antimony and 33,787 ounces gold versus 2,775 tonnes antimony and 30,909 ounces gold in the first nine months of 2015.

During the first nine months of 2016, Costerfield sold 7,812 dry metric tonnes of concentrate compared to 7,530 dry metric tonnes in the prior year period. A total of 32,121 ounces gold and 2,690 tonnes antimony were sold in the first nine months of 2016 versus a total of 29,284 ounces gold and 2,596 tonnes antimony sold in the first nine months of 2015.

During the nine months of 2016, the Company had no capital development spending, $3.5 million in exploration and $2.4 million in property, plant and equipment at Costerfield. The corresponding amounts for the prior year were $7.7 million, $1.4 million and $4.7 million, respectively.

Cerro Bayo Financial and Operating Results for the Three Months Ended September 30, 2016 and September 30, 2015

Cerro Bayo generated revenue of $13.1 million for the quarter ended September 30, 2016. Income from mine operations before depreciation and depletion was $2.8 million. Adjusted EBITDA was $2.1 million, operating net loss was $2.3 million, and net loss after tax was $1.8 million. For the quarter ended September 30, 2015, revenue was $16.0 million, income from mine operations before depreciation and depletion was $4.3 million. Adjusted EBITDA was $3.6 million, operating net loss before tax was $1.1 million, and Consolidated net loss after tax was $1.0 million. The decline in performance from 2015 to 2016 was due to temporary suspension of operations in September after the safety-related incident.

During the third quarter of 2016, the Cerro Bayo mine produced 84,594 tonnes of ore versus 122,405 tonnes in the corresponding prior year period. In the current quarter Cerro Bayo delivered slightly higher grade of silver and lower grade for gold than in the year-ago quarter (182.42 grams per tonne silver and 1.30 grams per tonne gold versus 181.00 grams per tonne silver and 1.57 grams per tonne gold).

Due to the comparative lower mined ore tonnes, mining cost increased to $61.76 per tonne from $46.06 in the year-ago quarter.

During the third quarter of 2016, the Cerro Bayo concentrator processed 84,660 tonnes of ore with grades of 180.34 grams per tonne silver and 1.30 grams per tonne gold, compared to 122,289 tonnes of ore with grades of 182.85 grams per tonne silver and 1.58 grams per tonne gold during the third quarter of 2015. Mill throughput in 2016 was limited by curtailed supply of ore during the operating suspension. The lower year-on-year plant head grades were in line with lower produced mine grades. Metallurgical recoveries during the third quarter of 2016 were 82.32% for gold and 82.93% for silver in 2016 versus 87.07% for gold and 91.03% 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 is being investigated. Processing cost per tonne ore in the current quarter increased to $24.53 per tonne from $19.12 per tonne in 2015 due almost entirely to the lower throughput while largely fixed operating costs continued to be incurred.

Cash cost per ounce of silver net of gold credit was $15.18 and all-in costs was $25.70 per ounce in the third quarter of 2016, compared to $8.31 and $15.18, respectively for the corresponding 2015 period. The higher costs in the current period are directly related to the temporary operating curtailment.

Cerro Bayo produced 1,589 dry metric tonnes of concentrate containing 388,139 ounces saleable silver and 2,831 ounces saleable gold in the third quarter of 2016, as compared to 1,761 dry metric tonnes of concentrate containing 632,498 ounces saleable silver and 5,305 ounces saleable gold in the comparable 2015 period.

During the third quarter of 2016, Cerro Bayo sold 1,702 dry metric tonnes of concentrate containing 3,265 ounces of saleable gold and 433,904 ounces of saleable silver. Sales during the comparable quarter of 2015 were 1,921 dry metric tonnes of concentrate 5,819 ounces of gold and 677,152 ounces of silver.

During the third quarter of 2016, Cerro Bayo invested $2.3 million in mine development versus $2.4 million in the same period in 2015. The mine spent $0.6 million for the purchase of property, plant and equipment in 2016 versus $1.0 million in 2015. The mine spent $1.0 million on exploration, versus $0.8 million in the third quarter of 2015.

Cerro Bayo financial results

	Three months ended September 30, 2016 ($'000)	Three months ended September 30, 2015 ($'000)
Revenue	13,121	15,956
Cost of sales	10,344	11,705
Income from mine operations before depreciation and depletion	2,777	4,251
Depreciation and depletion	3,290	4,132
Income from mine operations	(513)	119
Administration (1)	895	828
Adjusted EBITDA (2)(4)	2,081	3,547
Finance costs, foreign exchange and others (3)	917	450
Income/(loss) before tax	(2,325)	(1,158)
Current tax expense	-	(65)
Deferred tax expense/(recovery)	(534)	(133)
Operating net income/(loss) after tax(4)	(1,317)	(505)
Adjusted Net income/(loss) after tax before special items	(1,230)	(960)
Consolidated Net income/(loss) after tax	(1,791)	(960)
Capital expenditure (5)	3,889	4,056

[1]Includes intercompany transfer pricing recharge costs of $199,000 in 2016 and $123,000 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 operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended September 30, 2016 ($'000)	Three months ended September 30, 2015 ($'000)
Net income/(loss) after tax	(1,791)	(960)
Add: Intercompany expenses		
Intercompany transfer pricing recharge costs	474	455
Operating net income/(loss) after tax	(1,317)	(505)

Cerro Bayo operating statistics

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

	Unit	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015	Three months ended June 30, 2016	Three months ended March 31, 2016
Mining Production and Mining Cost							
Operating development	m	4,316	4,545	1,560	1,354	1,601	1,155
Mined ore	t	301,428	331,968	84,594	122,405	111,327	105,507
Ore mined Au grade	g/t	1.36	1.70	1.30	1.57	1.27	1.50
Ore mined Ag grade	g/t	167.24	192.98	182.42	181.00	150.73	172.50
Mined contained Au	oz	13,173	18,165	3,545	6,192	4,548	5,081
Mined contained Ag	oz	1,620,780	2,059,695	496,125	712,316	539,501	585,154
Mining cost per tonne ore	$/t	49.69	51.41	61.76	46.06	42.54	47.56
Processing and Processing Cost							
Processed ore	t	306,697	338,922	84,660	122,289	116,690	105,347
Mill head grade Au	g/t	1.34	1.70	1.30	1.58	1.24	1.49
Mill head grade Ag	g/t	164.30	191.42	180.34	182.85	145.55	172.18
Recovery Au	%	85.03	86.50	82.32	87.07	84.00	87.89
Recovery Ag	%	87.58	90.35	82.93	91.03	87.62	91.46
Concentrate produced	dry t	4,596	5,243	1,589	1,761	1,507	1,500
Concentrate grade Au	g/t	76.14	95.16	56.99	95.84	80.59	91.94
Concentrate grade Ag	g/t	9,602	11,180	7,971	11,561	9,873	11,056
Saleable Au produced	oz	10,985	15,671	2,831	5,305	3,818	4,336
Saleable Ag produced	oz	1,365,817	1,820,741	388,139	632,498	462,462	515,216
Saleable Au equivalent produced	oz	29,322	40,372	8,526	13,697	9,982	10,814
Processing cost per tonne ore	$/t	21.03	21.66	24.53	19.12	18.63	20.89
Sales							
Concentrate sold	dry t	4,842	6,170	1,702	1,921	1,356	1,785
Concentrate Au grade	g/t	85.45	96.14	61.30	96.39	86.83	107.42
Concentrate Ag grade	g/t	9,850	11,248	8,307	11,347	10,447	10,868
Au sold	oz	12,993	18,635	3,265	5,819	3,699	6,030
Ag sold	oz	1,476,519	2,155,652	433,904	677,152	439,993	602,621
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed(1)	$/t	81.43	83.62	101.77	76.93	67.38	80.64
Site cash operating cost/tonne concentrate produced(1)	$/t	5,433	5,406	5,424	5,343	5,217	5,661
Adjusted EBITDA/tonne ore milled(1)	$/t	39	49	28	29	44	43
Adjusted EBITDA/tonne concentrate produced(1)	$/t	2,592	3,158	1,469	2,049	3,408	3,017
Cash cost per oz Ag produced net of Au byproduct credit(1)(2)	$/oz	10.95	8.66	15.18	8.31	8.45	9.76
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	20.08	15.85	25.70	15.18	16.54	18.78
Capital Spending							
Capital development	m	2,124	2,084	767	881	885	473
Capital development cost	$000	6,245	6,372	2,342	2,367	2,505	1,399
Capital development cost/meter	$/m	2,940	3,058	3,055	2,687	2,829	2,959
Capital purchases	$000	3,032	3,719	574	1,035	1,031	1,427
Capitalized exploration	$000	2,278	2,121	972	842	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.

Cerro Bayo Financial and Operating Results for the Nine Months Ended September 30, 2016 and September 30, 2015

During the first nine months of 2016, the Cerro Bayo mine produced 301,428 tonnes of ore versus 331,968 tonnes in the corresponding prior year period. Mining costs decreased to $49.69 per tonne from $51.41 per tonne in the year-ago period despite the impact of the safety-related operating curtailment in the third quarter. During 2016, 4,316 metres of operating development was completed versus 4,545 metres in the 2015 comparative period.

In the first nine months of 2016 Cerro Bayo delivered lower grades compared to the previous year (167.24 grams per tonne silver and 1.36 grams per tonne gold versus 192.98 grams per tonne silver and 1.70 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. The Company has brought in a contractor to accelerate capital development in Coyita and support improved production.

During the first nine months of 2016, the Cerro Bayo concentrator processed 306,697 tonnes of ore with grades of 164.30 grams per tonne silver and 1.34 grams per tonne gold, compared to 338,922 tonnes of ore with grades of 191.42 grams per tonne silver and 1.70 grams per tonne gold during the first nine months of 2015. The lower year-on-year plant head grades were in line with lower produced mine grades. Metallurgical recoveries during the first nine months of 2016 were 85.03% for gold and 87.58% for silver in 2016 versus 86.50% for gold and 90.35% for silver in the prior year period. The decreases in recovery were due to the frothing issue described above. Processing cost per tonne ore declined to $21.03 per tonne in 2016 versus $21.66 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 first nine months of 2016 was $10.95 and all-in cost was $20.08; both numbers are higher than in the first nine months of 2015 ($8.66/ounce and $15.85/ounce respectively) due to the operating curtailment in the third quarter, the lower head grades in the plant, and the lower recoveries in the plant.

Cerro Bayo produced 4,596 dry metric tonnes of concentrate containing 1,365,817 ounces saleable silver and 10,985 ounces saleable gold in the first nine months of 2016, as compared to 5,243 dry metric tonnes of concentrate containing 1,820,741 ounces saleable silver and 15,671 ounces saleable gold in the comparable 2015 period.

During the first nine months of 2016, Cerro Bayo sold 4,842 dry metric tonnes of concentrate containing 12,993 ounces of saleable gold and 1,476,519 ounces saleable silver. Sales during the comparable quarter of 2015 were 6,170 dry metric tonnes of concentrate containing 18,635 ounces of gold and 2,155,652 ounces of silver.

During the first nine months of 2016, Cerro Bayo invested $6.2 million in mine development versus $6.4 million in the corresponding 2015 period. The mine spent $3.0 million for the purchase of property, plant and equipment, versus $3.7 million the corresponding 2015 period. The mine spent $2.3 million on exploration, versus $2.1 million in the comparable 2015 period.

Björkdal Financial and Operating Results for the Three Months Ended September 30, 2016 and September 30, 2015

Björkdal generated revenue of $17.2 million for the quarter ended September 30, 2016, versus $11.0 million in the year-ago quarter. Income from mine operations before depreciation and depletion was $5.7 million versus $1.4 million in the year ago quarter, and Adjusted EBITDA was $5.7 million versus $1.4 million a year ago. Net income before tax was $2.4 million and operating net income after tax was $2.7 million in 2016 versus a loss of $1.4 million and $0.8 million, respectively, in 2015.

During the third quarter of 2016, Björkdal produced a combined 281,714 tonnes of ore from the open pit and underground operations, with an average grade of 1.26 grams per tonne gold as compared to 336,546 tonnes for third quarter of 2015 with average grade of 1.26 grams per tonne. Of note is that not all mined tonnes are processed due to discarding low grade development ore which is replaced by higher grade stockpile ore when processed. This results in differing processed head grade relative to mined grade. During the third quarter of 2016, 1,292 metres of operating development was completed against 1,051 metres in third quarter of 2015. The weighted average mining cost from the open pit and underground was $25.04 per tonne in the third quarter of 2016 against $17.20 per tonne in the corresponding period of 2015. The increase was due to costs of selective mining and the impact of reduced tonnage from discarding low grade material.

During the third quarter of 2016, the Björkdal concentrator processed 329,494 tonnes of ore, just about the same amount as processed the previous year period. The impact of the grade control program is evidenced by the higher head grade in the current period (1.35 grams per tonne gold) compared to the year-ago quarter (1.07 grams per tonne gold). Metallurgical recoveries during the third quarter of 2016 were 88.08%, against 86.59% for the third quarter of 2015, purely due to the higher head grades. Processing cost was $6.42 per tonne in 2016 as compared to $5.98 per tonne in 2015.

During the third quarter of 2016, Björkdal produced 12,376 saleable gold ounces and sold 12,758 salable gold ounces. In the third quarter of 2015, Björkdal produced 9,761 saleable gold ounces and sold 9,815 saleable gold ounces. Cash cost per gold ounce was $897 and all-in cost was $1,135 in 2016 against $934 and $1,185 respectively in 2015. The higher production and lower cost in the current period is due solely to the higher head grade of mill feed.

Björkdal financial results

	Three months ended September 30, 2016 ($'000)	Three months ended September 30, 2015 ($'000)
Revenue	17,227	10,963
Cost of sales	11,563	9,542
Income from mine operations before depreciation and depletion	5,664	1,421
Depreciation and depletion	2,920	2,454
Income from mine operations	2,744	(1,033)
Administration	309	250
Adjusted EBITDA (1)	5,665	1,421
Finance costs, foreign exchange and others	32	94
Income/(loss) before tax	2,403	(1,377)
Current tax expense	454	(20)
Deferred tax expense/(recovery)	(22)	(168)
Operating net income/(loss) after tax(1)	2,674	(715)
Adjusted Net income/(loss) after tax before special items	1,971	(617)
Consolidated Net income/(loss) after tax	1,971	(1,189)
Capital expenditure (2)	4,267	3,432

[1] Adjusted EBITDA and 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.
[2]Includes capitalized depreciation on equipment.

Björkdal operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended September 30, 2016 ($'000)	Three months ended September 30, 2015 ($'000)
Net income/(loss) after tax	1,971	(1,189)
<u>Add: Intercompany expenses</u>		
Intercompany interest expense	51	-
Intercompany transfer pricing recharge costs	652	474
Operating net income/(loss) after tax	2,674	(715)

Björkdal operating statistics

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

	Unit	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Three months ended September 30, 2016	Three months ended September 30, 2015	Three months ended June 30, 2016	Three months ended March 31, 2016
Mining Production and Mining Cost							
Operating development	m	3,780	3,591	1,292	1,051	1,349	1,140
Mined ore	t	836,379	960,498	281,714	336,546	302,397	252,268
Ore mined Au grade	g/t	1.32	1.35	1.26	1.29	1.37	1.32
Mined contained Au	oz	35,504	41,762	11,415	13,917	13,352	10,736
Mining cost per tonne ore	$/t	25.14	18.71	25.04	17.20	25.51	24.57
Processing and Processing Cost							
Processed ore	t	971,374	970,407	329,494	333,972	317,951	323,929
Mill head grade Au	g/t	1.38	1.25	1.35	1.07	1.43	1.35
Recovery Au	%	88.31	88.22	88.08	86.59	88.40	88.44
Concentrate produced	dry t	2,533	2,325	842	656	864	826
Concentrate grade Au	g/t	457	449	457	463	455	459
Saleable Au produced	oz	37,209	33,574	12,376	9,761	12,648	12,185
Processing cost per tonne ore	$/t	6.89	6.43	6.42	5.98	7.72	6.48
Sales							
Concentrate sold	dry t	2,683	2,302	889	659	814	979
Concentrate Au grade	g/t	451	452	446	463	528	392
Au sold	oz	38,908	33,438	12,758	9,815	13,813	12,337
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed(1)	$/t	22.17	29.17	36.06	26.67	37.37	29.95
Site cash operating cost/tonne concentrate produced(1)	$/t	8,503	12,175	14,109	13,577	13,746	11,740
Adjusted EBITDA/tonne ore milled(1)	$/t	16.39	13.89	17.19	5.01	16.75	15.22
Adjusted EBITDA/tonne concentrate produced(1)	$/t	6,285	5,796	6,727	2,553	6,161	5,965
Cash cost per oz Au equivalent produced(1)(2)	$/oz	896	866	897	934	967	821
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,136	1,097	1,135	1,185	1,212	1,059
Capital Spending							
Capital development (Underground)	m	1,693	656	519	196	563	611
Capital development (Open pit)	t	1,711,911	1,671,464	656,680	270,554	434,758	620,473
Capital development cost	$000	7,468	4,934	2,564	1,265	2,138	2,767
Capital purchases	$000	2,917	3,430	174	1,155	1,752	992
Capitalized exploration	$000	3,032	2,405	1,530	1,012	1,017	485

1Does not include intercompany transfer pricing recharge costs and business development costs.
2The 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.
3Site 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 third quarter of 2016, the Company invested $2.6 million in mine development, $0.2 million in property, plant and equipment and $1.5 million in exploration. During the third quarter of 2015, the Company invested $1.3 million in mine development, $1.2 million in property, plant and equipment and $1.0 million in exploration.

Björkdal Financial and Operating Results for the Nine Months Ended September 30, 2016 and September 30, 2015

During the first nine months of 2016, Björkdal produced a combined 836,379 tonnes of ore from the open pit and underground operations, with an average grade of 1.32 grams per tonne gold as compared to 960,498 tonnes for first nine months of 2015 with average grade of 1.35 grams per tonne. During the first nine months of 2016, 3,780 metres of operating development was completed against 3,591 metres in the first nine months of 2015. The weighted average mining cost from the open pit and underground was $25.14 per tonne in the first nine months of 2016 against $18.71 per tonne in the corresponding period of 2015.

In the first nine months of 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.

During the first nine months of 2016, the Björkdal concentrator processed 971,374 tonnes of ore with grades of 1.38 grams per tonne gold against 970,407 tonnes of ore with average grade of 1.25 grams per tonne gold in 2015. Metallurgical recoveries during the first nine months of 2016 were 88.31% compared with 88.22% for the first nine months of 2015. Processing cost was $6.89 per tonne in 2016 as compared to $6.43 per tonne in 2015.

During the first nine months of 2016, Björkdal produced 37,209 saleable gold ounces and sold 38,908 saleable gold ounces. In the first nine months of 2015, Björkdal produced 33,574 saleable gold ounces and sold 33,438 saleable gold ounces. Cash cost per gold ounce was $896 and all-in cost was $1,136 in 2016 against $866 and $1,097 respectively in 2015.

During the first nine months of 2016, the Company invested $7.5 million in mine development, $2.9 million in property, plant and equipment and $3.0 million in exploration. During the first nine months of 2015, the Company invested $4.9 million in mine development, $3.4 million in property, plant and equipment and $2.4 million in exploration.

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During the third quarter of 2016, the Company spent $0.2 million on property maintenance, exploration and activities related to project development.

The earlier feasibility study indicated that water supply of 12 litres per second is required for the operation, and as of September 30, 2016, a suitable source of water has yet to be developed. Alternatives being evaluated include a well field on the property and off-site water sources. The Company has identified additional water source options and is pursuing permitting for these alternative sources. The overall operations permit application has been postponed until an adequate water supply can be secured and incorporated into the project design. In the meantime, the Company is continuing with key project optimization studies and exploration and began a diamond drilling program to test geophysical (self-potential) anomalies generated in a program completed earlier this year. As of the date of this MD&A no assays from this drilling had been received.

La Quebrada and Lupin/Ulu

Spending on care and maintenance at La Quebrada and Lupin/Ulu, both held for sale, was less than $0.1 million during the third quarter of 2016. The corresponding amount for the prior year quarter was less than $0.1 million. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects. See Section 1.1 – Subsequent Events above.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate July 1, 2016 September 30, 2016	Average rate July 1, 2015 September 30, 2015	Average rate January 1, 2016 September 30, 2016	Average rate January 1, 2015 September 30, 2015
1A$ = C$	0.9899	0.9490	0.9804	0.9601
1A$ = US$	0.7586	0.7253	0.7424	0.7630
1 US$ = C$	1.3050	1.3089	1.3203	1.2600
1 US$ = Chilean Peso	661	677	680	640
1 US$= SEK	8.5223	8.4849	8.3959	8.4146

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 third quarter of 2016 than in the third 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 third quarter of 2016 being marginally higher than relative average market prices.

COMMODITY	Average rate July 1, 2016 September 30, 2016	Average rate July 1, 2015 September 30, 2015	Average rate January 1, 2016 September 30, 2016	Average rate January 1, 2015 September 30, 2015
Realized gold US$/oz[1]	1,349	1,109	1,296	1,195
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,334	1,125	1,258	1,178
Realized antimony US$/tonne[1]	7,674	6,053	6,516	7,422
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	7,244	6,894	6,284	7,866
Realized silver price US$/oz[1]	20.29	14.16	18.09	15.93
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	19.58	14.93	17.08	16.00

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

1.5 SUMMARY OF QUARTERLY RESULTS

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

Particulars	Quarter 3, 2016 ($'000)	Quarter 2, 2016 ($'000)	Quarter 1, 2016 ($'000)	Quarter 4, 2015 ($'000)
Revenue	48,544	54,166	50,442	43,646
Income/(loss)	549	3,611	1,149	(3,105)
Income/(loss) per share - Basic	0.00	0.01	0.00	(0.01)
Income/(loss) per share - Diluted	0.00	0.01	0.00	(0.01)

Particulars	Quarter 3*, 2015 ($'000)	Quarter 2*, 2015 ($'000)	Quarter 1*, 2015 ($'000)	Quarter 4, 2014 ($'000)
Revenue	43,282	50,793	56,779	66,973
Income/(loss)	1,608	4,400	11,762	7,588
Income/(loss) per share - Basic	0.00	0.01	0.03	0.02
Income/(loss) per share - Diluted	0.00	0.01	0.03	0.02

**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 volumes, fluctuations in metal prices and timing of concentrate shipments.

1.6 LIQUIDITY, SOLVENCY AND USES OF CASH

At September 30, 2016, the Company had working capital of $48.7 million compared to $18.5 million at December 31, 2015. Working capital would have been $104.7 million as of September 30, 2016, had the five-year exchangeable loan been classified as long term debt. The Company had cash and cash equivalents of $74.6 million at September 30, 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.

1.7 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 September 30, 2016, assuming a gold price of $1,323/oz (which is equivalent to US$125.64 per Gold Share), then the repayment cost to the Company would be approximately $51.0 million.

   $60 million ÷ $1,556/oz × $1,323 = $51.0 million

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

iii) If the average price of gold during the escrow period is $1,700/oz (which is equivalent to US$ 161.44 per Gold Share) then repayment cost to the Company will be $65.6 million.

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

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

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

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 nine months to September 30, 2016.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	**2016**	2015
	($'000)	($'000)	**($'000)**	($'000)
Administration expenses, salaries and consultancy services				
SKS Business Services	**44**	46	**138**	95
Plinian Capital	**-**	-	**7**	-
Total	**44**	46	**145**	95

1.10 CRITICAL ACCOUNTING POLICIES

The preparation of condensed 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 condensed 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.

1.11 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 September 30, 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.

1.12 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. During the fourth quarter of 2011, the Company finished implementing Sage AccPac Enterprise Resource Planning (ERP) software 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 for the quarter ended June 30, 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.

The Company appointed KPMG to conduct an internal audit review in 2011. 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 proposed to be covered during 2016 internal audit are related to the following broad categories:
• Contracts compliance; and
• Mine disaster plans.</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.

1.13 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 third quarter used for the calculation of per share results was 441,585,891.

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 September 30, 2016	As of November 02, 2016	Expiry Date
0.91	4,968,000	4,968,000	23 March, 2021
0.91	4,315,000	4,315,000	24 March, 2020
0.93	20,000	20,000	06 November, 2019
0.98	3,815,000	3,815,000	24 March, 2019
1.13	3,502,500	3,502,500	18 March, 2018
0.83	2,621,700	2,621,700	09 March, 2017
Total	**19,242,200**	**19,242,200**	

During the quarter ended September 30, 2016, 665,800 options were exercised. There were 19,242,200 options outstanding as of September 30, 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 September 30, 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	6,527
Redeemed	(146,260)
Outstanding at September 30, 2016	279,739

1.14 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

1.15 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.

1.16 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. 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 earnings before interest, taxes, non-cash charges/ (income) and finance costs. Refer to page 13-15 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 17-18 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 20, 25 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. *Site cash cost per ounce of saleable gold equivalent produced* - 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. The total cash operating cost associated with the production of these saleable equivalent ounces produced in the period is then divided by the saleable equivalent gold ounces produced to yield the cash cost per saleable equivalent ounce produced. The cash cost excludes royalty expenses.

6. *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. Saleable 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. The site all-in cost is then divided by the saleable equivalent gold ounces produced to yield the site all-in cost per saleable equivalent ounce produced.

7. *Cash cost per ounce of saleable silver produced net of gold byproduct credit* - 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.

8. *Site all-in cost per ounce of saleable silver produced net of gold byproduct credit* - 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.

9. *Corporate average cash cost per ounce of gold equivalent produced* – 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. The corporate average cash cost associated with the production of these saleable equivalent ounces produced in the period, which includes the corporate overhead amount, is then divided by the saleable equivalent gold ounces produced to yield the cash cost per saleable equivalent ounce produced. The cash cost excludes royalty expenses.

10. *Corporate average all-in cost per ounce of gold equivalent produced* – Corporate average all-in costs include total corporate average cash costs, royalty expense, accretion, depletion, depreciation and amortization. Saleable 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. The site all-in cost is then divided by the saleable equivalent gold ounces produced to yield the site all-in cost per saleable equivalent ounce produced.

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