

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2016
(Unaudited)

Mandalay Resources Corporation

June 30, 2016

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Mandalay Resources Corporation

Condensed consolidated interim statements of income and comprehensive income three and six months ended June 30, 2016 and 2015

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	\$'000	\$'000	(\$'000)	(\$'000)
		(Restated Note 19)		(Restated Note 19)
Revenue	54,166	50,793	104,608	107,572
Cost of operations				
Cost of sales, excluding depletion and depreciation (Note 13)	29,927	30,915	61,353	61,909
Depletion and depreciation	10,739	10,207	21,833	20,757
	40,666	41,122	83,186	82,666
Income from mine operations	13,500	9,671	21,422	24,906
Expenses				
Administration	2,112	1,636	3,854	3,038
Write-off of mining interest (Note 6)	-	-	3,441	-
Share-based compensation (Note 12(b))	373	294	570	577
Loss on disposal of property, plant and equipment	274	136	287	148
Business development costs	-	2	12	118
	2,759	2,068	8,164	3,881
Income from operations	10,741	7,603	13,258	21,025
Other income (expenses)				
Finance costs (Note 14)	(1,443)	(1,377)	(2,829)	(2,656)
Gain (Loss) on financial instruments (Note 15)	(1,020)	297	(1,951)	580
Interest and other income	121	196	199	367
Foreign exchange gain (loss)	(196)	(541)	(1,957)	1,930
	(2,538)	(1,425)	(6,538)	221
Income before income taxes	8,203	6,178	6,720	21,246
Income tax expense (Note 20)				
Current	1,836	355	2,676	1,581
Deferred	2,756	1,423	(716)	3,503
Income tax expense	4,592	1,778	1,960	5,084
Net income for the period	3,611	4,400	4,760	16,162
Other comprehensive income (loss), net of tax Item that may subsequently be reclassified to net income				
Foreign currency translation	(3,935)	2,368	1,725	(7,203)
Comprehensive income for the period	(324)	6,768	6,485	8,959
Net income per share				
Basic	0.01	0.01	0.01	0.04
Diluted	0.01	0.01	0.01	0.04
Weighted average number of common shares outstanding (Note 16)				
Basic ('000)	416,238	409,094	413,743	408,948
Diluted ('000)	418,651	411,649	415,204	411,470

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position as at June 30, 2016 and December 31, 2015

(Expressed in U.S. dollars)
(Unaudited)

	June 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
Assets		
Current assets		
Cash and cash equivalents	45,667	49,199
Trade and other receivables (Note 4)	30,165	21,956
Inventories (Note 5)	26,653	27,628
Prepaid expenses	4,077	1,983
	106,562	100,766
Non-current assets		
Reclamation and other deposits	26,605	25,423
Trade and other receivables (Note 4)	1,669	1,637
Property, plant and equipment (Note 6)	213,677	212,842
Intangible asset (Note 7)	552	799
Deferred tax asset	6,035	5,106
	248,538	245,807
	355,100	346,573
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	18,700	18,820
Borrowings (Note 9)	1,148	1,063
Five-year exchangeable loan (Note 10)	55,676	54,960
Income taxes payable	3,386	4,408
Other provisions (Note 11)	2,577	2,250
Financial instruments (Note 15)	2,799	740
	84,286	82,241
Non-current liabilities		
Borrowings (Note 9)	2,047	1,875
Reclamation and site closure costs provision	43,577	41,999
Other provisions (Note 11)	962	714
Deferred tax liability	12,124	12,050
	58,710	56,638
	142,996	138,879
Equity		
Share capital (Note 12)	163,464	158,979
Share option reserve (Note 12)	8,662	9,510
Foreign currency translation reserve	(31,069)	(32,794)
Retained earnings	71,047	71,999
	212,104	207,694
	355,100	346,573

Approved by the Board of Directors and authorized for issue on August 11, 2016.

(Signed) Mark Sander

Mark Sander, President and Chief Executive

(Signed) Robert Doyle

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity

six months ended June 30, 2016 and 2015

(Expressed in U.S. dollars, except number of shares)

(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2015	410,420	158,979	9,510	(32,794)	71,999	207,694
Net income	-	-	-	-	4760	4,760
Other comprehensive income for the period	-	-	-	1,725	-	1,725
Total comprehensive income	-	-	-	1,725	4,760	6,485
Shares issued (Note 12(a))	2,500	1,717	-	-	-	1,717
Share-based compensation (Note 12(b))	-	-	394	-	-	394
Stock options exercised (Note 12(c))	3,458	2,644	(1,118)	-	-	1,526
Redemption of RSU (Note 12(d))	179	124	(124)	-	-	-
Dividends paid (Note 12(e))	-	-	-	-	(5,712)	(5,712)
Balance, June 30, 2016	416,556	163,464	8,662	(31,069)	71,047	212,104

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2014	408,758	158,170	8,896	(17,253)	70,205	220,018
Net income	-	-	-	-	16,162	16,162
Other comprehensive loss for the period	-	-	-	(7,203)	-	(7,203)
Total comprehensive income	-	-	-	(7,203)	16,162	8,959
Share-based compensation (Note 12(b))	-	-	598	-	-	598
Stock options exercised (Note 12(c))	585	329	(133)	-	-	196
Redemption of RSU (Note 12(d))	73	18	(18)	-	-	-
Dividends paid (Note 12(e))	-	-	-	-	(7,284)	(7,284)
Balance, June 30, 2015	409,416	158,517	9,343	(24,456)	79,083	222,487

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows for the three and six months ended June 30, 2016 and 2015

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	2016	June 30, 2015	2016	June 30, 2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Operating activities				
Net income	3,611	4,400	4,760	16,162
Adjustments to reconcile net income to net cash flows from operating activities				
Amortization of intangible asset	123	125	246	250
Depletion and depreciation	10,739	10,213	21,833	20,770
Share-based compensation	373	294	570	577
Loss on disposal of property, plant and equipment	274	136	287	148
Write-off of mining interest	-	-	3,441	-
Finance cost	1,443	1,377	2,829	2,656
Unrealized gain on derivative financial instruments	1,020	(297)	1,951	(580)
Interest and other income	(121)	(196)	(199)	(367)
Foreign exchange gain	(608)	514	689	(1,855)
Income tax expense (income)	4,592	1,778	1,960	5,272
Changes in non-cash operating working capital items				
Trade and other receivables	3,356	569	(7,635)	1,194
Inventories	(1,040)	1,010	1,182	1,607
Prepaid and other expenses	(1,433)	288	(2,170)	(413)
Trade and other payables	(890)	1,638	(1,234)	1,341
Provisions	817	202	1,030	121
Cash generated from operations	22,256	22,051	29,540	46,883
Income taxes paid	(2,871)	(3,737)	(2,871)	(6,659)
Interest and other income received	121	196	199	367
Interest and bank charges paid	(918)	(966)	(1,855)	(1,847)
Net cash flows from operating activities	18,588	17,544	25,013	38,744
Investing activities				
Payment on deposits	(47)	(81)	(171)	(239)
Payment for cancellation of royalty contract (Note 6)	-	-	(4,000)	-
Expenditure for property, plant and equipment	(11,472)	(14,331)	(20,529)	(27,332)
Proceeds on disposal of property, plant and equipment	147	107	157	109
Net cash flows used in investing activities	(11,372)	(14,305)	(24,543)	(27,462)
Financing activities				
Proceeds from borrowings	908	737	908	972
Repayments of borrowings	(238)	(226)	(604)	(457)
Issuance of common shares for cash	245	110	1,526	196
Proceeds from Ulu option agreement	186	-	186	-
Dividends paid (Note 12 (e))	(2,996)	(3,308)	(5,712)	(7,284)
Net cash flows used in financing activities	(1,895)	(2,687)	(3,696)	(6,573)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(392)	(209)	(306)	(1,416)
Increase in cash and cash equivalents	4,929	343	(3,532)	3,293
Cash and cash equivalents, beginning of the period	40,738	51,954	49,199	49,004
Cash and cash equivalents, end of period	45,667	52,297	45,667	52,297
Cash and cash equivalents consist of				
Cash	45,667	52,297	45,667	52,297
	45,667	52,297	45,667	52,297

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2016 and December 31, 2015

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

(Unaudited)

1. Description of business and nature of operations

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

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

2. Basis of preparation

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

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

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

Judgments made by management in the application of International Financial Reporting Standards (“IFRS”) that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in the Company’s audited consolidated financial statements for the year ended December 31, 2015.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2015. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2015

Changes in accounting standards The accounting policies adopted in preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of amendments and interpretations effective January 1, 2016. The company has not assessed the impact of these amendments and interpretation on the consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2016 and December 31, 2015

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

(Unaudited)

4. Trade and other receivables

Trade and other receivables consist of the following:

	June 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
Trade receivables	22,858	16,045
Mark to market adjustment	3,375	-
VAT and other indirect tax receivables	3,965	5,394
Other receivables and marketable securities	1,636	2,154
	31,834	23,593
Less: non-current portion	1,669	1,637
Total current portion	30,165	21,956

There was no allowance for doubtful accounts as at June 30, 2016, or December 31, 2015.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at June 30, 2016, this mark-to-market adjustment is recorded as a \$3,375,000 adjustment to trade and other receivables (2015 – \$nil).

5. Inventories

Inventories consist of the following:

	June 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
Finished goods	8,903	11,552
Work in progress and stockpiled ore	5,803	5,779
Consumables	11,947	10,297
	26,653	27,628

The amount of inventories recognized in cost of operations for the three and six months ended June 30, 2016, is \$40,666,000 and \$83,186,000 (2015 – \$41,122,000 and \$82,666,000).

The Company did not recognised a write-down of consumables as at June 30, 2016 (2015 – \$nil).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2016 and December 31, 2015

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

(Unaudited)

6. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total	
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others		
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost													
As at January 1, 2015	55,515	55,414	43,490	27,062	42,637	13,091	3,071	7,256	4,300	14,047	41,830		307,712
Acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-
Additions	8,039	10,918	9,131	6,079	5,932	4,058	77	2,434	608	3,461	3,784		54,521
Disposals	-	-	-	(791)	-	-	(82)	-	-	-	-	-	(873)
Reclassification to mining interest	1,371	2,308	2,474	-	(767)	-	-	(1,371)	(1,541)	(2,474)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	-	-	(89)	(427)	(2,264)	-	(2,780)
Foreign exchange	(5,349)	-	(3,687)	(3,230)	-	(1,105)	(138)	(775)	-	(690)	136	-	(14,838)
As at December 31, 2015	59,576	68,640	51,408	29,120	47,802	16,044	2,928	7,544	3,278	13,917	43,486		343,742
Additions	-	9,620	4,885	1,594	2,458	2,757	146	2,112	1,306	1,491	759		27,129
Disposals	-	-	-	(378)	-	(50)	(232)	-	-	-	(186)		(846)
Reclassification to mining interest	1,032	-	-	-	-	-	-	(1,032)	-	-	-		-
Write-off of mining interest	-	(3,441)	-	-	-	-	-	-	-	-	-		(3,441)
Foreign exchange	1,011	-	(593)	614	-	(213)	48	163	-	(76)	(148)		805
As at June 30, 2016	61,619	74,818	55,700	30,951	50,260	18,536	2,891	8,787	4,584	15,332	43,911		367,388
Accumulated depreciation													
As at January 1, 2015	27,925	31,756	1,532	6,273	23,168	1,131	290	-	-	-	-		92,075
Expense	10,965	11,178	7,057	3,364	7,138	3,442	139	-	-	-	-		43,283
Disposals	-	-	-	(496)	-	-	-	-	-	-	-		(496)
Foreign exchange	(2,916)	-	(110)	(835)	-	(80)	(22)	-	-	-	-		(3,963)
As at December 31, 2015	35,974	42,934	8,479	8,306	30,306	4,493	407	-	-	-	-		130,899
Expense	4,899	5,168	4,331	2,792	3,354	1,732	30	-	-	-	-		22,306
Disposals	-	-	-	(217)	-	-	-	-	-	-	-		(217)
Foreign exchange	686	-	(112)	221	-	(80)	8	-	-	-	-		723
As at June 30, 2016	41,559	48,102	12,698	11,103	33,660	6,145	445	-	-	-	-		153,711
Carrying value													
As at January 1, 2015	27,590	23,658	41,958	20,789	19,469	11,960	2,781	7,256	4,300	14,047	41,830		215,637
As at December 31, 2015	23,602	25,706	42,928	20,814	17,496	11,550	2,521	7,544	3,278	13,917	43,486		212,842
As at June 30, 2016	20,060	26,716	43,001	19,848	16,600	12,392	2,446	8,787	4,584	15,332	43,911		213,677

For the three and six months ended June 30, 2016, plant and equipment depreciation for Cerro Bayo of \$257,000 and \$407,000 (2015 – \$252,000 and \$405,000), for Costerfield of \$nil and \$nil (2015 – \$17,000 and \$34,000) was capitalized in mining interest.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2016 and December 31, 2015

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

(Unaudited)

6. Property, plant and equipment (continued)

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

Also during the six months to June 30, 2016, the Company recognised a write-off of \$3,441,000 of residual mining interest in the Fabiola and Yasna veins at Cerro Bayo due to the fact there were no additional accessible reserves.

7. Intangible asset

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

In June, 2012, the Company reached an agreement with its union workers in Chile and paid a lump-sum cash payment of \$1,414,000 to secure the contract. This payment was amortized over the contractual life of the union agreement (three years), and therefore was fully amortized as at June 30, 2015. As at June 30, 2016, the carrying amount of the intangible asset is \$552,000, which relates to the 2015 agreement (2015 – \$799,000). Amortization expense for the three and six months ended June 30, 2016, of \$123,000 and \$246,000 (2015 - \$125,000 and \$250,000) is recorded as part of cost of sales.

8. Trade and other payables

	June 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
Trade payables	10,025	9,365
Accrued liabilities	5,403	5,986
Payroll and other taxes payable	3,092	3,227
Cash election option (Note 12(c))	180	12
Mark-to-market adjustment	-	230
	18,700	18,820

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

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at June 30, 2016, there was no mark-to-market adjustments recorded in trade and other payables (2015 - \$ 230,000).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

as at June 30, 2016 and December 31, 2015

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

(Unaudited)

9. Borrowings

Equipment loans

As at June 30, 2016, the Company's Björkdal mine in Sweden, has a balance of \$858,000 (December 31, 2015 – \$1,205,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the 3-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 24 months from the period ended June 30, 2016. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling \$2,337,000 (December 31, 2015 – \$1,734,000). These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments, with the final lease payment falling due 43 months from the period ended June 30, 2016. The leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost. During the three months ended June 30, 2016, the Company's Björkdal mine has taken out an additional interest-free equipment lease of \$875,000.

As at June 30, 2016, the current portion of the above facilities is \$1,148,000 (December 31, 2015 – \$1,063,000) and the non-current portion is \$2,047,000 (December 31, 2015 – \$1,875,000).

10. Five-year exchangeable loan

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

Each Bond holder 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 US\$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of US\$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 net asset value ("NAV") of the SPDR Gold Trust or Gold Shares is calculated.

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares (less the number of Gold Shares, if any, being released from the Custody Account in connection with the exchange) to the Bond holder.

Starting on May 14, 2017, the Company is required to start depositing, on a quarterly basis, Gold Shares into a depository account maintained by The Bank of New York Mellon, London Branch. The depository account serves as security for the Issuer's obligations to the Bond holders.

The number of Gold Shares that must be deposited on each quarterly instalment date is determined in accordance with the following formula:

$$DSI = (1 / A) \times ((B / C) - D)$$

Where:

"DSI" is the number of Gold Shares to be registered in the custody account on the relevant instalment date;

"A" is the number of instalment dates remaining (including the relevant instalment date);

"B" is the aggregate principal amount of the Bonds outstanding as at the relevant instalment date;

"C" is the then prevailing exchange price for the Bonds; and "D" is the number of Gold Shares that are held in the custody account immediately before the relevant instalment date.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements as at June 30, 2016 and December 31, 2015

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

10. Five-year exchangeable loan (continued)

The Issuer 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 US\$9 million or less in the principal amount of the Bonds remains outstanding.

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

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the consolidated statements of financial position of the Company as at June 30, 2016, and December 31, 2015. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (Note 15).

11. Other Provisions

	Employee benefits
	(\$'000)
Balance, December 31, 2015	2,964
Additions	1,403
Amounts paid	(927)
Foreign exchange	99
Balance, June 30, 2016	3,539
Less: current portion	2,577
Total non-current portion	962

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

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(Unaudited)

12. Share capital

As at June 30, 2016, the Company had an unlimited number of authorized common shares without par value and 416,556,192 common shares outstanding (December 31, 2015 – 410,419,979 common shares). All outstanding common shares are fully paid.

(a) Shares issued

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

(b) Share-based compensation

For the three months ended June 30, 2016, the Company recorded \$373,000 (2015 – \$294,000) as net share-based compensation expense and recorded this amount in share option reserve.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Stock based compensation on options	206	263	308	545
Fair value for cash election option	119	(26)	168	(40)
RSU amortization	48	57	94	72
	373	294	570	577

The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$0.22 (2015 – C\$0.30) was calculated using the following weighted average assumption. Expected stock price volatility and option life is based on the Company's historical share price volatility.

	2016	2015
Risk free interest rate	0.52%	0.74%
Expected dividend yield	3.76%	6.30%
Expected life of options in years	2.73	2.23
Expected stock price volatility	45.64%	44.46%
Expected forfeiture rate	0.00%	0.00%

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

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12. Share capital (continued)

(c) Stock options

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at June 30, 2016, the liability is \$180,000 (December 31, 2015 - \$12,000).

The Company recognized a fair value measurement losses of \$119,000 and \$168,000 for the three and six months ended June 30, 2016 (2015 – \$26,000 gain and \$40,000 gain), which is included in the share-based compensation expense.

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

	2016	2015
Risk free interest rate	0.52%	0.74%
Expected dividend yield	3.76%	6.30%
Expected life of options in years	2.73	2.23
Expected stock price volatility	45.64%	44.46%
Expected forfeiture rate	0.00%	0.00%

As at June 30, 2016, 1,455,000 (2015 – 2,020,000) stock options with the cash election option are outstanding.

	Number of options	Weighted average exercise price
		C\$
Balance, December 31, 2014	16,947,500	0.85
Granted	5,120,000	0.91
Forfeited	(1,595,000)	0.96
Expired	(7,693)	0.26
Exercised-equity issuance	(1,552,307)	0.39
Balance, December 31, 2015	18,912,500	0.89
Granted	5,463,000	0.91
Exercised-equity issuance	(3,457,500)	0.59
Balance, June 30, 2016	20,918,000	0.95

The weighted average share price at the time when the stock options were exercised during the three and six months ended June 30, 2016, was C\$1.03 and C\$0.97 (2015 – C\$0.90 and C\$0.91).

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12. Share capital (continued)

(c) Stock options (continued)

The following table summarizes information about the stock options outstanding as at June 30, 2016:

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
175,000	0.67	0.70	175,000	0.70
3,072,500	0.94	0.83	3,072,500	0.83
3,542,500	1.97	1.13	3,542,500	1.13
4,045,000	2.98	0.98	-	-
40,000	3.60	0.93	-	-
4,580,000	3.98	0.91	-	-
5,463,000	4.98	0.91	-	-
20,918,000	3.23	0.95	6,790,000	0.98

(d) Restricted Share Units

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

The number of RSUs as at June 30, 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	4,288
Redeemed	(109,153)
Outstanding at June 30, 2016	314,607

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12. Share capital (continued)

(d) Restricted Share Units (continued)

For the three and six months ended June 30, 2016, the company recorded \$48,000 and \$94,000 (2015 – \$57,000 and \$72,000) as share based compensation relating to RSUs.

(e) Dividends

On February 18, 2016, and May 11, 2016, the Board of Directors declared dividends in the amount of C\$0.0088 and C\$0.0094 per common shares, respectively, based on the Company's operating results for the three months period ended December 31, 2015, and March 31, 2016, respectively, payable to shareholders of record as of February 29, 2016 and May 24, 2016. Total payments of \$2,996,000 and \$5,712,000 were made during the three and six months ended June 30, 2016 (2015 – \$3,308,000 and \$7,284,000).

13. Cost of sales

The cost of sales for the three and six months ended June 30, 2016 and 2015, consists of:

	Three months ended		Six months ended	
	June 30,		June,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Raw materials and consumables	10,212	11,212	20,214	23,236
Salary and employee benefits	9,152	9,248	17,511	18,595
Contractors	8,069	4,031	14,823	8,042
Change in inventories	(254)	746	2,596	1,004
Royalty	182	544	622	1,126
Other	2,566	5,134	5,587	9,906
	29,927	30,915	61,353	61,909

14. Finance costs

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Interest on borrowings	117	94	187	153
Interest on five year exchangeable bonds (Note 10)	1,243	1,212	2,478	2,359
Accretion of reclamation and site closure costs	83	71	165	143
	1,443	1,377	2,829	2,656

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(Unaudited)

15. Financial instruments

(a) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (Note 10) using the Black-Scholes option pricing. For the three months ended June 30, 2016, the derivative value of the conversion feature amounts to \$2,799,000 (2015 – \$740,000) and is recorded in current liabilities in the consolidated statements of financial position. The Company recorded a fair value measurement gain/ (loss) of \$(1,067,000) and \$(2,060,000) (2015 – gain of \$290,000 and \$903,000) for the three and six months ended June 30, 2016 respectively. The value was estimated using the following Level 2 assumptions: risk free interest rate of 0.45% (2015 – 1.39%); volatility of 18% (2015 – 16.4%), gold forward curve adjustment of (0.28%) (2015 – (0.43%)).

(b) Oil derivative

On March 15, 2014, the Company entered into a crude oil call for a notional amount of 120,000 barrels of crude oil for the period from January 1, 2015, to December 31, 2015, at an exercise price of \$60.50 per barrel. As at June 30, 2016, the derivative has expired and therefore had no carrying value. During three and six months ended June 30, 2015, the Company has recorded fair value gain of \$12,000 and fair value measurement loss of \$305,000, respectively, on the oil call option.

(c) Marketable securities

The value of securities as at June 30, 2016, is \$307,000 (at December 31, 2015 – \$115,000), recorded in trade and other receivables on the consolidated statements of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain of \$47,000 and \$109,000 (2015 – \$5,000 and \$18,000) for three and six months ended June 30, 2016, respectively, using Level 1 assumptions.

16. Income per share

As at June 30, 2016 and 2015, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	('000)	('000)	('000)	('000)
Basic weighted average number of shares outstanding	416,238	409,094	413,743	408,948
Effect of diluted securities :				
Stock options	2,034	2,039	1,061	2,144
RSU	379	516	400	378
Diluted weighted average number of shares outstanding	418,651	411,649	415,204	411,470

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

16. Income per share (continued)

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the exercise price exceeded the daily weighted average market value of the common shares for the three and six months ended June 30, 2016, of C\$1.03 and C\$0.97 (three and six months ended June 30, 2015 – C\$0.90 and C\$0.91) respectively:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	('000)		('000)	
Stock options	3,518	13,458	7,563	8,368

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17. Segmented information

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

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

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17. Segmented information (continued)

	Three months ended on June 30, 2015				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	19,334	17,538	13,921	-	50,793
Cost of sales	(9,252)	(12,377)	(9,286)	-	(30,915)
Depletion and depreciation	(3,390)	(4,192)	(2,598)	(27)	(10,207)
Income from mine operations	6,692	969	2,037	(27)	9,671
Administrative expenses	(395)	(594)	-	(1,079)	(2,068)
Income (loss) from operations	6,297	375	2,037	(1,106)	7,603
Other expense, except for fair value adjustment	(401)	(96)	(62)	(1,163)	(1,722)
Income for underlying operations	5,896	279	1,975	(2,269)	5,881
Income for underlying operations per share					
Basic					\$0.02
Diluted					\$0.02
Fair value adjustments gain (loss) (Note 15)					
Oil derivative (Note 15 (b))	-	-	-	12	12
Marketable Securities (Note 15 (c))	-	-	-	(5)	(5)
Five year exchangeable bonds (Note 15 (a))	-	-	-	290	290
Total fair value adjustment	-	-	-	297	297
Net income before income taxes	5,896	279	1,975	(1,972)	6,178
Current tax expense	-	100	(455)	-	(355)
Deferred tax recovery (expense)	(1,917)	456	38	-	(1,423)
Net income	3,979	835	1,558	(1,972)	4,400
Income per share					
Basic					\$0.01
Diluted					\$0.01
Cash expenditures for property, plant and equipment	5,582	4,486	4,263	-	14,331
Total non-current assets as at December 31, 2015	54,756	90,232	71,324	29,495	245,807
Total assets as at December 31, 2015	75,551	129,605	88,213	53,204	346,573
Total liabilities as at December 31, 2015	13,199	23,566	26,161	75,953	138,879

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17. Segmented information (continued)

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

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17. Segmented information (continued)

	Six months ended on June 30, 2015				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	36,922	40,438	30,212	-	107,572
Cost of sales	(17,077)	(26,422)	(18,410)	-	(61,909)
Depletion and depreciation	(6,934)	(8,473)	(5,294)	(56)	(20,757)
Income from mine operations	12,911	5,543	6,508	(56)	24,906
Administrative expenses	(970)	(1,743)	(1)	(1,167)	(3,881)
Income (loss) from operations	11,941	3,800	6,507	(1,223)	21,025
Other expense, except for fair value adjustment	(494)	(361)	(30)	527	(358)
Income (loss) from underlying operations	11,447	3,439	6,477	(696)	20,667
Income from underlying operations per share					
Basic					\$0.06
Diluted					\$0.06
Fair value adjustments gain (loss) (Note 15)					
Oil derivative (Note 15 (b))	-	-	-	903	903
Marketable Securities (Note 15 (c))	-	-	-	(18)	(18)
Five year exchangeable bonds (Note 15 (a))	-	-	-	(305)	(305)
Total fair value adjustment	-	-	-	580	580
Income (loss) before income taxes	11,447	3,439	6,476	(116)	21,246
Current tax expense	-	(281)	(1,300)	-	(1,581)
Deferred tax expense	(3,251)	(212)	(40)	-	(3,503)
Net income (loss)	8,196	2,946	5,136	(116)	16,162
Income per share					
Basic					\$0.04
Diluted					\$0.04
Cash expenditure for property, plant and equipment	10,606	9,390	7,336	-	27,332
Total non-current assets as at December 31, 2015	54,756	90,232	71,324	29,495	245,807
Total assets as at December 31, 2015	75,551	129,605	88,213	53,204	346,573
Total liabilities as at December 31, 2015	13,199	23,566	26,161	75,953	138,879

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17. Segmented information (continued)

For the three months ended June 30, 2016, the Company had four customers from whom it earned more than 10% of its total revenue (2015 – four customers). For the six months ended June 30, 2016, the company had four (2015 – five) customers from which it earned more than 10% of its total revenue.

Revenue from these customers is summarized as follows:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Costerfield (gold and antimony)				
Customer 1	14,766	16,202	26,008	18,797
Customer 2	7,937	6,964	13,883	16,808
	22,703	23,166	39,891	35,605
Cerro Bayo (silver and gold)				
Customer 3	7,703	10,632	16,920	24,181
Customer 4	-	-	-	10,634
	7,703	10,632	16,920	34,815
Björkdal (gold)				
Customer 5	13,977	11,780	26,557	25,753
	13,977	11,780	26,557	25,753
Total	44,383	45,578	83,368	96,173

18. Fair value measurement

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

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

As at June 30, 2016, the provisional pricing feature of trade receivables, other receivables and marketable securities are based on Level 1 input. Provisional pricing feature of trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

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(Unaudited)

19. Restatement

In 2015, in accordance with IFRS 3 Business Combination, the purchase price allocation for the acquisition of Elgin Mining Inc. was finalized. Incremental depletion was then recorded as a result of higher mining interest allocation. Accordingly, the comparatives for the three and six months ended June 30, 2015, have been restated to reflect the impact of depletion and tax thereon as shown below:

	Three months ended June 30, 2015	Six months ended June 30, 2015
	\$'000	\$'000
Net income for the period	5,073	17,557
Less: Depletion on Björkdal PPA fair value	(863)	(1,789)
Add: Deferred tax recovery on fair value depletion	190	394
Net income restated for the period	4,400	16,162

20. Income tax

During the three and six months ended June 30, 2016, the Company had recognised current tax expense of \$1,836,000 and \$2,676,000 (2015 – \$355,000 and \$1,581,000) and deferred tax expense of \$2,756,000 and recovery of \$716,000 (2015 – \$1,423,000 and \$3,503,000), respectively.

21. Related party transactions

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

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 three months to June 30, 2016.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Administration expenses, salaries and consultancy services				
SKS Business Services	49	33	94	48
Plinian Capital	7	-	7	-
Total	56	33	101	48

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(Unaudited)

22. Commitments and contingencies

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

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

23. Subsequent events

- 1) On July 26, 2016, the Company closed its previously announced treasury offering (the "Offering") of 33,915,000 common shares (including 3,475,000 common shares issued and sold pursuant to the over-allotment option granted by the Company to the underwriter) at a price of C\$1.15 per common share for aggregate gross proceeds of C\$39,002,250. The Offering was completed on a bought deal basis and was underwritten by BMO Capital Markets. The net proceeds of the offering will be used for metallurgical improvement projects at Björkdal and Cerro Bayo, increased exploration activities across all the Company's mines, and general corporate purposes.
- 2) On August 11, 2016, the Board of Directors declared a quarterly dividend of \$3.25 million, or \$0.0072 per share (C\$ 0.0094 per share), payable on September 1, 2016 to shareholders of record as of August 22, 2016.