MANDALAY RESOURCES

Management's Discussion and Analysis

For the quarter ended June 30, 2016

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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 June 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.

SECOND QUARTER 2016 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Revenue in the quarter rose to $54.2 million (including favorable revenue adjustments of $0.3 million related to open sales contracts from prior quarters), compared with revenue in the prior year quarter of $50.8 million (including favorable revenue adjustments of $0.3 million related to open sales contracts from prior quarters). Year-to-date 2016 revenue was $104.6 million compared to $107.6 million in 2015.

- Adjusted EBITDA [1] in the second quarter of 2016 rose to $22.1 million from $18.2 million in the second quarter of 2015. Year-to-date 2016 adjusted EBITDA was $39.4 million versus $42.5 million in the corresponding period of 2015.

- Operating income from mine operations before tax increased in the second quarter of 2016 to $13.5 million from $9.7 million in the year-ago quarter, and consolidated pre-tax income rose to $8.2 million from $6.2 million.

[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 $3.6 million ($0.01/share) from $4.4 million ($0.01/share) in the year-ago period due to a combination of higher taxes and special items. On the tax side, current taxes rose to $1.8 million in the current quarter from $0.4 million a year ago now that Costerfield has exhausted its group tax loss carryforwards and is in an income tax payable position. As well, a special item was applied in the current quarter consisting of a recognition of a $1.5 million deferred tax expense related of the acquisition of the Cerro Bayo royalty in the first quarter of 2016. Year-to-date 2016, Consolidated after tax net income was $4.8 million ($0.01 per share) versus $16.2 million in the corresponding period of 2015.

- Income after tax from underlying operations[2] in the current quarter was $7.4 million ($0.02 per share) compared with income after tax from underlying operations of $5.5 million ($0.01 per share) in the second quarter of 2015.

- Dividends paid in the second quarter of 2016 were $3.0 million (C$0.0094 per share) compared to $3.3 million (C$0.0101 per share) in the corresponding quarter of 2015.

- Total cash capital expenditure during the second quarter of 2016 was $11.3 million compared to $14.6 million in the year-ago quarter.

- At June 30, 2016, the Company had $45.7 million of cash and cash equivalents as compared to $49.2 million as at December 31, 2015.

2. Operating Highlights

a. Consolidated Production and Sales

- In the second quarter of 2016, Mandalay produced a total of 39,653 ounces of gold equivalent, including 28,718 ounces gold, 462,462 ounces silver and 962 tonnes antimony. This compares to 40,717 ounces of gold equivalent produced in the second quarter of 2015, consisting of 26,418 ounces gold, 597,489 ounces silver and 842 tonnes antimony.

- Mandalay's consolidated average cash cost[3] of production in the second quarter of 2016 was $811 per ounce of gold equivalent versus $711 per ounce of gold equivalent in the second quarter of 2015. Consolidated all-in cost[2] in the current quarter was $1,095 per ounce of gold equivalent versus $1,044 per ounce of gold equivalent in the prior quarter.

- Improved operational exchange rates and lower petroleum prices were significant contributors to low U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 1.3407/US$ in

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[2] Income after tax from underlying operations is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

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

the second quarter of 2016 vs 1.2858/US$ in the prior year period. The Chilean Peso averaged 677 Peso/US$ vs 618/US$ in the prior period. The Swedish Krona averaged 8.2169 krona/US$ in the period vs 8.4158 krona/US$ in the prior period. Petroleum prices were approximately 12% lower than in the prior period.

- Mandalay's sales in the second quarter of 2016 totaled 40,740 ounces of gold equivalent versus 43,233 ounces of gold equivalent in the corresponding quarter of 2015. Year-to-date in 2016, sales have totaled 81,548 ounces of gold equivalent versus 87,944 ounces of gold equivalent in 2015.

- Quantities of metal sold during the quarter were 29,951 ounces gold, 439,993 ounces silver and 993 tonnes antimony compared to 27,308 ounces gold, 685,703 ounces silver and 899 tonnes antimony in the second quarter of 2015. Prices realized during the quarter were $1,306 per ounce for gold, $19.13 per ounce for silver and $6,681 per tonne for antimony versus $1,197 per ounce for gold, $15.69 per ounce for silver and $8,186 per tonne for antimony in the same period in 2015 (9% higher price for gold, 22% higher for silver and 18% lower for antimony).

- During the second quarter of 2016 at each of Mandalay's three producing mines:
    - Costerfield increased its gold and antimony production and lowered its cash and all-in production costs year-over-year by processing slightly more tonnes at higher gold and antimony grades than in the year previously;
    - Cerro Bayo produced less gold and silver at higher cash and all-in production costs than in the 2015 quarter. It mined and processed slightly more tonnes, but at significantly lower gold and silver head grades due to the transition from the exhausted Dagny, Fabiola and Yasna veins into the new Delia SE, Coyita and Trinidad veins; and
    - Björkdal produced a record amount of gold for any quarter under Mandalay ownership (starting in the third quarter 2014) as its grade control program led to record high average head grade in the plant (1.43 grams per tonne).

- Looking forward, the Company expects that:
    - Costerfield will continue its trend of excellent performance for the remainder of the year;
    - Cerro Bayo, the Company has mobilized an underground development contractor to the Coyita mine, where the goal is to accelerate capital development in order to increase the number of working faces in the short term and accelerate access to the high grade Coyita SE orebody in the longer term. These efforts are expected to result in improved production performance in the fourth quarter of this year and on into 2017; and
    - Björkdal, our carefully grade-controlled mining processes will continue to gradually increase the average mill feed grade and result in gradually increasing gold production. Refinements to these processes, now that they are proven to work, will also begin to lower costs. We also expect to successfully conclude our optical ore sorting pilot tests later in the third quarter of 2016 and install permanent machines in 2017 to further increase average feed grade to the plant.

Mandalay Saleable Production

Metal	Source	Three months to 30 June 2016	Three months to 30 June 2015	Six months to 30 June 2016	Six months to 30 June 2015
Gold (oz)	Costerfield	12,252	9,563	24,685	19,979
	Cerro Bayo	3,818	5,361	8,154	10,366
	Björkdal	12,648	11,494	24,833	23,813
	Total	**28,718**	**26,418**	**57,672**	**54,158**
Antimony (t)	Costerfield	**962**	**842**	**1,962**	**1,811**
Silver (oz)	Cerro Bayo	**462,462**	**597,489**	**977,678**	**1,188,243**
Average quarterly prices:					
Gold US$/oz		1,259	1,192		
Antimony US$/t		6,244	8,602		
Silver US$/oz		16.78	16.41		
Au Eq. (oz)[1]	Costerfield	17,023	15,638	33,989	32,505
	Cerro Bayo	9,982	13,585	20,796	26,675
	Björkdal	12,648	11,494	24,833	23,813
	Total	**39,653**	**40,717**	**79,618**	**82,993**

[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 June 2016	Three months to 30 June 2015	Six months ended 30 June 2016	Six months ended 30 June 2015
Gold (oz)	Costerfield	12,440	9,703	23,256	19,526
	Cerro Bayo	3,698	5,732	9,728	12,816
	Björkdal	13,813	11,873	26,150	23,623
	Total	**29,951**	**27,308**	**59,134**	**55,965**
Antimony (t)	Costerfield	**993**	**899**	**1,886**	**1,680**
Silver (oz)	Cerro Bayo	**439,993**	**685,703**	**1,042,614**	**1,478,500**
Average quarterly prices:					
Gold US$/oz		1,259	1,192		
Antimony US$/t		6,244	8,602		
Silver US$/oz		16.78	16.41		
Au Eq. (oz)[1]	Costerfield	17,365	16,190	32,229	31,216
	Cerro Bayo	9,562	15,170	23,169	33,105
	Björkdal	13,813	11,873	26,150	23,623
	Total	**40,740**	**43,233**	**81,548**	**87,944**

[1]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 second quarter of 2016 was 12,252 ounces versus 12,433 ounces in the previous quarter and 9,563 ounces in the second quarter of 2015. Saleable antimony production for the second quarter of 2016 was 962 tonnes versus 1,000 tonnes in the previous quarter and 842 tonnes in the second quarter of 2015. Increased gold production in the current quarter compared to the corresponding quarter of the previous year was mainly due to higher grades.

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the second quarter of 2016 was $530 versus $512 in the previous quarter and $578 in the second quarter of 2015. The low cash cost in the second quarter of 2016 was due to high grades of ore processed coupled with the mine operating at the maximum effective processing rate. The site all-in cost per ounce of gold equivalent produced in the second quarter of 2016 was $772, versus $724 in the previous quarter and $795 in the second quarter of 2015.

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

- *Production* — Cerro Bayo produced 462,462 ounces silver and 3,818 ounces gold in the second quarter of 2016 versus 515,216 ounces silver and 4,336 ounces gold in the previous quarter and 597,489 ounces silver and 5,361 ounces gold in the second quarter of 2015. Production at Cerro Bayo was lower than in the prior year corresponding quarter mainly due to lower mined grades. The lower grades were due to the exhaustion of ore in the now-closed Dagny, Fabiola and Yasna veins before the new Delia SE, Coyita and Trinidad veins were ready for sustainable

1,400 tonnes/day production rates. A contractor has been mobilized in the current quarter to accelerate capital development in the Coyita vein and regain an improved developed state capable of sustainably delivering reserve average grades to the plant.

- *Operating Costs* — Cash cost per saleable ounce silver produced net of gold credits was $8.45 in the second quarter of 2016 versus $9.76 in the previous quarter and $7.61 in the second quarter of 2015. Cash cost per ounce was higher in the second quarter of 2016 compared to the corresponding quarter of 2015, principally due to lower production arising from lower plant head grades. The site all-in cost per ounce silver produced net of gold by-product credit was $16.54 in the second quarter of 2016 versus $18.78 in the previous quarter and $14.84 in the second quarter of 2015.

d. Björkdal Gold Mine, Sweden

- *Production* — Björkdal produced 12,648 ounces gold in the second quarter of 2016 versus 12,185 ounces gold in the previous quarter and 11,494 ounces gold in second quarter of 2015. The current quarter's production was a record since Mandalay acquired the mine in the third quarter of 2014. Production was higher in the current quarter than in the previous quarters due to record high average mill-reconciled head grades during the quarter—1.43 grams per tonne gold.

- *Operating Costs* — Cash cost per saleable ounce gold produced at Björkdal in the second quarter of this year was $967 and the site all-in cost per saleable ounces gold produced was $1,212, as compared to $821 and $1,059 in the previous quarter and $884 and $1,110 respectively for the prior year quarter of 2015. The current quarter higher unit costs reflect increased stripping in the open pit and faster advance of underground development.

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. The highlights are summarized below.

- **Cerro Bayo**

  At Cerro Bayo, drilling under Laguna Verde has extended the Coyita vein all the way to the southeast and at depth to the graben-bounding Canadon Verde fault. As well, it has confirmed and partly infilled the nearby new Branca vein. Target testing drilling under Laguna Verde Norte has encountered elevated gold and silver grades in intercepts on Ramona, Ximena and Gaby veins. Initial wide-spaced drilling in the Brillantes area has defined <1-3 metres wide veins that are continuous for up to 1-3 km and that contain visible base metal sulfide mineralization without elevated gold or silver mineralization.

- **Costerfield**

  At Costerfield, drilling has discovered and infilled new mineralized shoots on N-lode north and the nearby New Lode. Drilling has begun infilling the Cuffley Deeps shoot just above the flat King Cobra fault and has confirmed and extended mineralization on the West, Central and East zones underlying the King Cobra fault. As well, initial drilling has extended the depth limits of mineralization on the Brunswick lode some 150 metres below previous intercepts.

- **Björkdal**

  At Björkdal, drilling continued to infill previously Inferred Resource in the Lake Zone just north of the Björkdal underground mine, encountering approximately the expected mineralized intercepts. Drilling also encountered elevated gold grades on the southeast margin of the open pit mine and in the gap between that margin and the Nylunds deposit a few hundred metres further to the southeast. As well, a target testing hole intersected a mineralized quartz vein about halfway between Nylunds and the Ronnberget deposit, which lies about 5 km southeast of the Björkdal open pit.

- **Challacollo**

  At Challacollo, Mandalay completed a geophysical survey which outlined several anomalies suggesting bodies mineralized with sulfides at shallow to moderate depths beneath alluvial cover and sand dunes. The possible content of base or precious metals in these bodies remains unknown until they are tested by drilling.

- **La Quebrada, Chile**

  La Quebrada is a non-core asset of the Company. Less than $0.1 million was spent on exploration activities in the second 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.

1.0 DATE

This MD&A is dated as of 11th August, 2016.

1.1 SUBSEQUENT EVENTS

Treasury offering of common shares

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 overallotment 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.

Quarterly Dividend

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.

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 405 tonnes per day in the second 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 m; 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 1400 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 to about five years today.

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/year over the next two years. The majority of the production growth is expected to come from mining higher grade with less dilution rather than from higher tonnages.

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 operation. 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.

1.3 SELECTED QUARTERLY INFORMATION

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

	Three months ended June 30, 2016 ($'000)	Three months ended June 30, 2015 ($'000)
Revenue	54,166	50,793
Cost of sales	29,927	30,915
Income from mine operations before depreciation and depletion	24,239	19,878
Depreciation and depletion	10,739	10,207
Income from mine operations	13,500	9,671
Administration	2,112	1,636
Business development costs	-	2
Adjusted EBITDA*	22,127	18,240
Finance costs, foreign exchange and others**	3,185	1,855
Consolidated Income before tax	8,203	6,178
Current tax expense	1,836	355
Deferred tax expense	2,756	1,423
Adjusted Net Income before special items after tax *	5,154	5,073
Consolidated Net Income after tax	3,611	4,400
Total assets	355,100	361,424
Total liabilities	142,996	139,537
Adjusted Income per share before special items	0.01	0.01
Consolidated Income per share	0.01	0.01

*Adjusted EBITDA and adjusted net income is a 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 six months ended June 30, 2016 and 2015:

	Six months ended June 30, 2016 ($'000)	Six months ended June 30, 2015 ($'000)
Revenue	104,608	107,572
Cost of sales	61,353	61,909
Income from mine operations before depreciation and depletion	43,255	45,663
Depreciation and depletion	21,833	20,757
Income from mine operations	21,422	24,906
Administration	3,854	3,038
Business development costs	12	118
Adjusted EBITDA*	39,389	42,507
Finance costs, foreign exchange and others**	10,836	504
Income before tax	6,720	21,246
Current tax expense	2,676	1,581
Deferred tax expense/(recovery)	(716)	3,503
Adjusted Net Income/(loss) before special items after tax *	7,781	17,557
Consolidated Net Income after tax	4,760	16,162
Adjusted Income per share before special items	0.02	0.04
Consolidated Income per share	0.01	0.04

* Adjusted EBITDA and adjusted net income is a 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
				5,712
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 six months ended June 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 June 30, 2016		Three months ended June 30, 2015	
	($'000)	($'000)	($'000)	($'000)
Consolidated Net Income		3,611		4,400
Special items				
Deferred tax impact on acquisition of Cerro Bayo royalty	1,543		-	
Additional DDA from PPA at Björkdal	-		863	
- tax impact of above	-		(190)	
		1,543		673
Adjusted Net Income before special items		5,154		5,073
Add: Non-cash and finance costs				
Depletion and depreciation	10,739		9,344	
Loss on disposal of property, plant and equipment	274		136	
Share based compensation	373		294	
Interest and finance charges	1,443		1,377	
Fair value adjustments	1,020		(297)	
Current tax	1,836		355	
Deferred tax	1,213		1,613	
Foreign exchange loss	196	17,094	541	13,363
		22,248		18,436
Less: Interest and other income	(121)	(121)	(196)	(196)
Adjusted EBITDA		22,127		18,240

	Six months ended June 30, 2016		Six months ended June 30, 2015	
	($'000)	($'000)	($'000)	($'000)
Consolidated Net Income		4,760		16,162
Special items				
Net tax impact on acquisition of Cerro Bayo royalty	171		-	
Additional DDA from PPA at Björkdal	-		1,789	
- tax impact of above	-		(394)	
Tax adjustment at Costerfield	(1,417)	3,021	-	1,395
Adjusted Net Income before special items		7,781		17,557
Add: Non-cash and finance costs				
Depletion and depreciation	21,833		18,968	
Loss on disposal of property, plant and equipment	287		148	
Share based compensation	570		577	
Interest and finance charges	2,829		2,656	
Fair value adjustments	1,951		(580)	
Current tax	2,676		1,581	
Deferred tax	(296)		3,897	
Foreign exchange (gain)/loss	1,957	31,807	(1,930)	25,317
		39,588		42,874
Less: Interest and other income	(199)	(199)	(367)	(367)
Adjusted EBITDA		39,389		42,507

Fair-value adjustments

As at June 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 June 30, 2016, the Company has recomputed the derivative portion of the Loan at $2.8 million. As a result, there is a mark-to-market adjustment loss of $1.1 million in the quarter.

Marketable securities - With the acquisition of Elgin, the Company indirectly acquired marketable securities with the fair market value of $0.3 million as at June 30, 2016, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement loss of less than $0.1 million for the quarter ended June 30, 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 June 30, 2016 [(a)]	As of December 31, 2015 [(a)]
			Q1 2016	Q2 2016		
	($'000)		($'000)	($'000)	($'000)	($'000)
Assets						
Deferred tax	5,319	(b)	3,472	(2,756)	6,035	5,106
Marketable Securities	199	(c)	62	47	307	115
Liabilities						
Derivative financial instrument (Five year exchangeable bonds)	4,859	(d)	(993)	(1,067)	2,799	740
Equity						
Retained earnings/(deficit)	72,282		2,541	(3,776)	71,047	71,999

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax expense of $2,756,000 for the three months ended June 30, 2016.

(c) The Company recorded fair value measurement gain of $47,000 relating to marketable securities for the three months ended June 30, 2016.

(d) The Company recorded fair value measurement loss of $1,067,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended June 30, 2016.

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

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

(a) The Company recorded fair value measurement gain of $47,000 relating to marketable securities for the three months ended June 30, 2016.

(b) The Company recorded fair value measurement loss of $1,067,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended June 30, 2016.

(c) The Company recorded a deferred tax expense of $2,756,000 for the three months ended June 30, 2016.

	As of June 30, 2015			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income (loss) from operations	7,603			7,603
Interest and other income	196			196
Finance (costs)/income	(1,377)			(1,080)
		(a)	(5)	
		(b)	290	
		(c)	12	
Foreign exchange gain (loss)	(541)			(541)
Net income/(loss) before tax	5,881		297	6,178
Current tax	(355)			(355)
Deferred tax		(d)	(1,423)	(1,423)
Net income/(loss)	5,526		(1,126)	4,400
Income (loss) per share				
Basic	$0.01			$0.01
Diluted	$0.01			$0.01

(a) The Company recorded fair value measurement loss of $5,000 relating to marketable securities for the three months ended June 30, 2015.

(b) The Company recorded fair value measurement gain of $290,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended June 30, 2015.

(c) The Company recorded fair value measurement gain of $12,000 relating to a crude oil call option for the three months ended June 30, 2015.

(d) The Company recorded a deferred tax expense of $1,423,000 for the three months ended June 30, 2015.

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

	As of June 30, 2016				As of June 30, 2015
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	($'000)		($'000)	($'000)	($'000)
Income (loss) from operations	13,258			13,258	21,025
Other items					
Interest and other income	199			199	367
Finance (costs)/income	(2,829)	(a)	109	(4,780)	(2,076)
		(b)	(2,060)		
Foreign exchange gain (loss)	(1,957)			(1,957)	1,930
Net income/(loss) before tax	8,671		(1,951)	6,720	21,246
Current tax	(2,676)			(2,676)	(1,581)
Deferred tax		(c)	716	716	(3,503)
Net income/(loss)	5,995		(1,235)	4,760	16,162
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 $109,000 relating to marketable securities for the six months ended June 30, 2016.

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

(c) The Company recorded a deferred tax recovery of $716,000 for the six months ended June 30, 2016.

1.4 RESULTS OF OPERATIONS

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

Revenue in the current quarter rose to $54.2 million (including favorable revenue adjustments of $0.3 million related to open sales contracts from prior quarters), compared with revenue in the prior year quarter of $50.8 million (including favorable revenue adjustments of $0.3 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 second quarter of 2016 to $22.1 million from $18.2 million in the second quarter of 2015. As well, operational income from mine operations before tax increased in the second quarter of 2016 to $13.5 million from $9.7 million in the year-ago quarter, and consolidated pre-tax income rose to $8.2 million from $6.2 million.

However, consolidated after tax net income decreased to $3.6 million ($0.01/share) from $4.4 million ($0.01/share) in the year-ago period due to a combination of higher taxes and special items. On the tax side, current taxes rose to $1.8 million in the current quarter from $0.4 million a year ago now that Costerfield has exhausted its tax loss carryforwards and is paying full tax. As well, a special item was applied in the current quarter consisting of a recognition of $1.5 million deferred tax expense related to the acquisition of the Cerro Bayo royalty in the first quarter of 2016.

Income after tax from underlying operations in the current quarter was $7.4 million ($0.02 per share) compared with income after tax from underlying operations of $5.5 million ($0.01 per share) in the second quarter of 2015.

Administrative expenses for the quarter ended June 30, 2016 were $2.1 million compared to $1.6 million during the quarter ended June 30, 2015. During the three months ended June 30, 2016, administration expenses of $0.81 million at Corporate included $0.15 million in management fees net of transfer pricing, $0.27 million in audit and internal review fees, $0.11 million in travel expense, $0.07 million legal and accounting fees, $0.14 million in investor relations, transfer agent and filing fees, $0.01 million for Lupin and Ulu care and maintenance and $0.06 million in general administrative expenses and computer maintenance.

Capital expenditures in the second quarter of 2016, including capitalized depreciation and exploration, were $12.1 million. Of this amount $4.3 million was spent at Cerro Bayo, $2.4 million at Costerfield, $4.9 million at Björkdal, $0.3 million at Challacollo and $0.02 million at other Corporate entities. By comparison, capital expenditures in the second quarter of 2015 were $14.6 million.

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

Costerfield generated revenue of $23.0 million for the quarter ended June 30, 2016. Income from mine operations before depreciation and depletion was $13.6 million, adjusted EBITDA was $13.5 million, operating net income was $7.3 million and net income after tax was $6.5 million during the period. These results are all higher than the results for the quarter ended June 30, 2015, in which revenue was $19.3 million, income from mine operations before depreciation and depletion was $10.1 million, adjusted EBITDA was $10.0 million, operating net income was $4.8 million and net income after tax was $4.0 million.

Operationally, Costerfield delivered another excellent quarter in terms of quantities produced and sold at low cash and all-in operating cost per ounce of gold equivalent produced. In the second quarter of 2016, Costerfield delivered it second highest total of 17,023 per ounce of gold equivalent at its second lowest cash costs and all-in costs of $530 and $772 per ounce of gold equivalent, respectively.

The Costerfield mine completed 1,382 metres of operating development in the second quarter of 2016 versus 1,193 metres in 2015. There was no capital development in the second quarter of 2016 compared to 738 metres in 2015 at a cost of $4,455 per metre.

36,818 tonnes of ore was mined in second quarter of 2016 as compared to 37,585 tonnes in the second quarter of 2015. Mining cost increased slightly to $146 per tonne from the previous year's quarter $142 per tonne. The mined gold grade in 2016 was 10.92 grams per tonne versus 10.17 grams per tonne in 2015, while the mined antimony grade was 3.49% in 2016 versus 4.06% in prior year quarter.

Costerfield financial results

	Three months ended June 30, 2016 ($'000)	Three months ended June 30, 2015 ($'000)
Revenue	22,993	19,334
Cost of sales	9,393	9,252
Income from mine operations before depreciation and depletion	13,600	10,082
Depreciation and depletion	3,954	3,390
Income from mine operations	9,646	6,692
Administration (1)	249	222
Adjusted EBITDA (2)(4)	13,509	9,948
Finance costs, foreign exchange and others (3)	198	574
Income before tax	9,199	5,896
Current tax expense	1,540	-
Deferred tax expense	1,150	1,917
Operating net income after tax(4)	7,276	4,837
Adjusted Net income after tax before special items(4)	6,509	3,979
Consolidated Net income after tax	6,509	3,979
Capital expenditure (5)	2,444	5,599

1Includes intercompany transfer pricing recharge costs of $88,000 in the three months ended in June 30, 2016 and $101,000 in the same period of 2015.

2Does not include intercompany transfer pricing recharge costs.

3Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/loss on disposals of properties.

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

5Includes capitalized depreciation on equipment.

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

	Three months ended June 30, 2016 ($'000)	Three months ended June 30, 2015 ($'000)
Net income/(loss) after tax	6,509	3,979
Add: Intercompany expenses		
Intercompany interest expense	124	327
Intercompany transfer pricing recharge costs	643	531
Operating net income/(loss) after tax	7,276	4,837

Costerfield operating statistics

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

	Unit	Six months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended March 31, 2016
Mining Production and Mining Cost						
Operating development	m	2,856	2,252	1,382	1,193	1,475
Mined ore	t	81,010	77,977	36,818	37,585	44,192
Ore mined Au grade	g/t	11.29	10.44	10.92	10.17	11.60
Ore mined Sb grade	%	3.73	3.96	3.49	4.06	3.93
Mined contained Au	oz	29,413	26,171	12,931	12,287	16,482
Mined contained Sb	t	3,020	3,091	1,285	1,524	1,735
Mining cost per tonne ore	$/t	135	143	146	142	125
Processing and Processing Cost						
Processed ore	t	79,183	76,585	39,548	37,984	39,635
Mill head grade Au	g/t	11.69	10.24	11.59	9.86	11.79
Mill head grade Sb	%	3.96	3.90	3.83	3.79	4.08
Recovery Au	%	90.65	89.47	90.73	88.98	90.58
Recovery Sb	%	95.23	94.99	95.11	94.99	95.35
Concentrate produced	dry t	5,527	5,220	2,668	2,517	2,859
Concentrate grade Au	g/t	86.54	78.89	85.71	81.45	87.31
Concentrate grade Sb	%	53.97	54.34	54.02	54.27	53.94
Au produced in gravity concentrate	oz	11,479	9,219	5,956	4,083	5,523
Au produced in sulfide concentrate	oz	13,206	10,760	6,296	5,480	6,910
Saleable Au produced	oz	24,685	19,979	12,252	9,563	12,433
Saleable Sb produced	t	1,962	1,811	962	842	1,000
Saleable Au equivalent produced	oz	33,989	32,505	17,023	15,638	16,966
Processing cost per tonne ore	$/t	35.40	38.80	37.44	40.91	33.36
Sales						
Concentrate sold	dry t	5,487	4,857	2,898	2,593	2,589
Concentrate Au grade	g/t	83.67	79.51	83.33	79.89	84.05
Concentrate Sb grade	%	54.11	54.35	53.92	54.35	54.32
Au sold in gravity concentrate	oz	11,184	9,450	6,075	4,219	5,109
Au sold in sulfide concentrate	oz	12,071	10,076	6,365	5,484	5,707
Au sold	oz	23,255	19,526	12,440	9,703	10,816
Sb sold	t	1,886	1,680	993	899	893
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	218	238	223	233	214
Site cash operating cost/tonne concentrate produced(1)	$/t	3,130	3,493	3,298	3,513	2,973
Adjusted EBITDA/tonne ore milled(1)	$/t	283	255	342	262	225
Adjusted EBITDA/tonne concentrate produced(1)	$/t	4,058	3,737	5,063	3,953	3,120
Cash cost per oz Au equivalent produced(1)(2)	$/oz	521	572	530	578	512
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	756	784	772	795	724
Capital Spending						
Capital development	m	-	1,480	-	738	-
Capital development cost	$000	-	6,461	-	3,288	-
Capital development cost/meter	$/m	NA	4,366	NA	4,455	NA
Capital purchases	$000	1,594	3,570	1,289	2,005	305
Capitalized exploration	$000	2,113	607	1,155	305	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.

Continuous improvements in processing allowed higher throughput in the 2016 quarter than in the year-ago quarter (39,548 tonnes vs 37,984 tonnes), accompanied by a reduction in unit cost from $40.91 per tonne in 2015 to $37.44 per tonne in 2016. While the rate of mining was intentionally limited to avoid building ore stockpiles, the rate of processing has reached bottlenecks of grinding capacity and grid power supply. Therefore, the slight increase in processing throughput and decrease in cost are due mostly to decrease in plant downtime and increase in power efficiencies.

Plant gold head grade in 2016 was 11.59 grams per tonne versus 9.86 grams per tonne in the year-ago quarter, while the antimony head grade was 3.83% in 2016 versus 3.79% in 2015. The plant achieved recoveries of 90.73% for gold and 95.11% for antimony versus 88.98% for gold and 94.99% for antimony in second quarter of 2015.

Concentrate production was 2,668 dry metric tonnes during the second quarter of 2016 versus 2,517 dry metric tonnes during the second quarter of 2015. Total saleable metal production in the second quarter of 2016 was 962 tonnes antimony and 12,252 ounces gold versus 842 tonnes antimony and 9,563 ounces gold in the second quarter of 2015.

During the second quarter of 2016, Costerfield sold 2,898 dry metric tonnes of concentrate compared to 2,593 dry metric tonnes in the prior year period. A total of 12,440 ounces gold and 993 tonnes antimony were sold in the second quarter of 2016 versus a total of 9,703 ounces gold and 899 tonnes antimony sold in the second quarter of 2015.

During the second quarter of 2016, Costerfield invested no spend on capital development, $1.2 million in exploration and $1.3 million in property, plant and equipment. The corresponding amounts for the prior year quarter were $3.3 million, $0.3 million and $2.0 million, respectively.

Costerfield Financial and Operating Results for the Six Months Ended June 30, 2016 and June 30, 2015

Operationally, Costerfield delivered an excellent first half of 2016 in terms of high quantities produced and sold and low cash and all-in operating cost per ounce of gold equivalent produced. In the first half of 2016, Costerfield delivered 33,989 per ounce of gold equivalent at low cash costs and all-in costs of $521 and $756 per ounce of gold equivalent, respectively.

The Costerfield mine completed 2,856 metres of operating development in the first half of 2016 versus 2,252 metres in 2015. There was no capital development in the first half of 2016 compared to 1,480 metres in 2015 at a cost of $4,366 per metre.

Ore mined in the first half of 2016 rose to 81,010 tonnes from 77,977 tonnes in 2015 as the blast hole stoping with cemented rock fill mining method was continually refined. As a result, mining costs declined to $135 per tonne from $143 per tonne in the prior year. The mined gold grade in 2016 was 11.29 grams per tonne versus 10.44 grams per tonne in 2015, while the mined antimony grade was 3.73 % in 2016 versus 3.96%.

Similarly, continuous improvements in processing allowed slightly higher throughput in the first half to 79,183 tonnes from 76,585 tonnes reducing costs from $38.80 per tonne in 2015 to $35.40 per tonne in 2016.

Plant gold head grade in 2016 was 11.69 grams per tonne versus 10.24 grams per tonne gold a year ago, while the antimony head grade was 3.96% in 2016 versus 3.90% in 2015. The plant achieved recoveries of 90.65% for gold and 95.23% for antimony versus 89.47% for gold and 94.99% for antimony in first half of 2015.

Concentrate production was 5,527 dry metric tonnes during the first half of 2016 versus 5,220 dry metric tonnes during the second quarter of 2015. Total saleable metal production in the second quarter of 2016 was 1,962 tonnes antimony and 24,685 ounces gold versus 1,811 tonnes antimony and 19,979 ounces gold in the first half of 2015.

During the first half of 2016, Costerfield sold 5,487 dry metric tonnes of concentrate compared to 4,857 dry metric tonnes in the prior year period. A total of 23,255 ounces gold and 1,886 tonnes antimony were sold in the second quarter of 2016 versus a total of 19,526 ounces gold and 1,680 tonnes antimony sold in the first half of 2015.

During the first six months of 2016, the Company had no capital development spending, $2.1 million in exploration and $1.6 million in property, plant and equipment at Costerfield. The corresponding amounts for the prior year were $6.5 million, $0.6 million and $3.6 million, respectively.

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

Cerro Bayo generated revenue of $13.3 million for the quarter ended June 30, 2016. Income from mine operations before depreciation and depletion was $5.3 million. Adjusted EBITDA was $4.9 million, operating net loss was $0.6 million, and net loss after tax was $1.1 million. For the quarter ended June 30, 2015, revenue was $17.5 million, income from mine operations before depreciation and depletion was $5.2 million. Adjusted EBITDA was $4.8 million, operating net income was $1.4 million, and net income after tax was $0.8 million.

During the second quarter of 2016, the Cerro Bayo mine produced 111,327 tonnes of ore versus 104,396 tonnes in the corresponding prior year period. However, in the current quarter Cerro Bayo delivered lower grades than in the year-ago quarter (150.73 grams per tonne silver and 1.27 grams per tonne gold versus 200.33 grams per tonne silver and 1.89 grams per tonne gold). This is because the lowest levels of the Dagny, Yasna and Fabiola veins proved to have about 100,000 tonnes less high grade ore than planned as they were mined out and abandoned, while high grade production from the new mines on Delia SE vein and Coyita vein were delayed. Delay on Delia SE was due to poorer ground conditions than expected, with bolting and meshing required for on-vein development. Installation of this ground support slowed the rate of development. We have now mined through this poor ground, and development rates have rebounded. Delay on the Coyita vein was due to delays in receiving the mining permit that allowed us to proceed to on-vein development from previously completed capital development. The permit is now received, and mining is proceeding. In addition, the Company has brought in a contract development crew to accelerate capital development in the Coyita vein, bringing on new faces as the ramp declines in the northwest end of the vein and drifting under the lake to access the high grade Coyita SE orebody as quickly as possible.

Despite the mining issues during the current quarter, excellent cost control caused mining cost to decrease to $42.54 per tonne from $55.07 in the year-ago quarter.

During the second quarter of 2016, the Cerro Bayo concentrator processed 116,690 tonnes of ore with grades of 145.55 grams per tonne silver and 1.24 grams per tonne gold, compared to 104,802 tonnes of ore with grades of 204.82 grams per tonne silver and 1.90 grams per tonne gold during the second quarter of 2015. The lower year-on-year plant head grades were in line with lower produced mine grades. Metallurgical recoveries during the second quarter of 2016 were 84.00% for gold and 87.62% for silver in 2016 versus 85.93% for gold and 89.59% for silver in the prior year period. Lower recoveries in the current quarter were due to the lower head grades. Processing cost per tonne ore in the current quarter declined to $18.63 per tonne from $22.30 per tonne in 2015.

Excellent control of mining and milling costs combined with favorable exchange rate movement limited the rise in unit costs expected due to the lower processed grades and production. Cash cost per ounce of silver net of gold credit was $8.45 and all-in costs was $16.54 per ounce in the second quarter of 2016, compared to $7.61 and $14.84, respectively for the corresponding 2015 period.

Cerro Bayo produced 1,507 dry metric tonnes of concentrate containing 462,462 ounces saleable silver and 3,818 ounces saleable gold in the second quarter of 2016, as compared to 1,761 dry metric tonnes of concentrate containing 597,489 ounces saleable silver and 5,361 ounces saleable gold in the comparable 2015 period.

During the second quarter of 2016, Cerro Bayo sold 1,356 dry metric tonnes of concentrate containing 3,699 ounces of saleable gold and 439,993 ounces of saleable silver. Sales during the comparable quarter of 2015 were 1,974 dry metric tonnes of concentrate 5,732 ounces of gold and 685,703 ounces of silver.

During the second quarter of 2016, Cerro Bayo invested $2.5 million in mine development which was consistent with the amount invested in the same period in 2015. The mine spent $1.0 million for the purchase of property, plant and equipment in 2016 versus $0.8 million in 2015. The mine spent $0.8 million on exploration, at par with the amount invested in the second quarter of 2015.

Cerro Bayo Financial and Operating Results for the Six Months Ended June 30, 2016 and June 30, 2015

During the first half of 2016, the Cerro Bayo mine produced 216,834 tonnes of ore versus 209,563 tonnes in the corresponding prior year period. Mining costs decreased to $44.98 per tonne from $54.53 per tonne in the year-ago period. During 2016, 2,756 metres of operating development was completed versus 3,191 metres in the 2015 comparative period.

In the first half of 2016 Cerro Bayo delivered lower grades compared to the previous year (161.32 grams per tonne silver and 1.38 grams per tonne gold versus 199.98 grams per tonne silver and 1.78 grams per tonne gold), for the same reasons as explained above.

During the first half of 2016, the Cerro Bayo concentrator processed 222,036 tonnes of ore with grades of 158.18 grams per tonne silver and 1.36 grams per tonne gold, compared to 216,633 tonnes of ore with grades of 196.26 grams per tonne silver and 1.77 grams per tonne gold during the first half of 2015. The lower year-on-year plant head grades were in line with lower produced mine grades. Metallurgical recoveries during the first half of 2016 were 86.03% for gold and 89.60% for silver in 2016 versus 86.21% for gold and 89.99% for silver in the prior year period. Processing cost per tonne ore was $19.70 per tonne in 2016 versus $23.10 per tonne in 2015.

Cerro Bayo financial results

	Three months ended June 30, 2016 ($'000)	**Three months ended June 30, 2015 ($'000)**
Revenue	13,309	17,538
Cost of sales	7,994	12,377
Income from mine operations before depreciation and depletion	5,315	5,161
Depreciation and depletion	3,686	4,192
Income from mine operations	1,629	969
Administration (1)	646	532
Adjusted EBITDA (2)(4)	4,870	4,752
Finance costs, foreign exchange and others (3)	425	158
Income/(loss) before tax	558	279
Current tax expense	(44)	(100)
Deferred tax expense/(recovery)	1,653	(456)
Operating net income/(loss) after tax(4)	(569)	1,371
Adjusted Net income after tax before special items(4)	492	835
Net income/(loss) after tax	(1,052)	835
Capital expenditure (5)	4,322	4,056

[1]Includes intercompany transfer pricing recharge costs of $201,000 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 June 30, 2016 ($'000)	Three months ended June 30, 2015 ($'000)
Net income/(loss) after tax	(1,052)	835
Add: Intercompany expenses		
Intercompany transfer pricing recharge costs	483	536
Operating net income/(loss) after tax	(569)	1,371

Cerro Bayo operating statistics

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

	Unit	Six months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended March 31, 2016
Mining Production and Mining Cost						
Operating development	m	2,756	3,191	1,601	1,583	1,155
Mined ore	t	216,834	209,563	111,327	104,396	105,507
Ore mined Au grade	g/t	1.38	1.78	1.27	1.89	1.50
Ore mined Ag grade	g/t	161.32	199.98	150.73	200.33	172.50
Mined contained Au	oz	9,629	11,973	4,548	6,339	5,081
Mined contained Ag	oz	1,124,655	1,347,379	539,501	672,401	585,154
Mining cost per tonne ore	$/t	44.98	54.53	42.54	55.07	47.56
Processing and Processing Cost						
Processed ore	t	222,036	216,633	116,690	104,802	105,347
Mill head grade Au	g/t	1.36	1.77	1.24	1.90	1.49
Mill head grade Ag	g/t	158.18	196.26	145.55	204.82	172.18
Recovery Au	%	86.03	86.21	84.00	85.93	87.89
Recovery Ag	%	89.60	89.99	87.62	89.59	91.46
Concentrate produced	dry t	3,008	3,482	1,507	1,761	1,500
Concentrate grade Au	g/t	86.25	94.82	80.59	96.91	91.94
Concentrate grade Ag	g/t	10,463	10,988	9,873	10,919	11,056
Saleable Au produced	oz	8,154	10,366	3,818	5,361	4,336
Saleable Ag produced	oz	977,678	1,188,244	462,462	597,489	515,216
Saleable Au equivalent produced	oz	20,796	26,675	9,982	13,585	10,814
Processing cost per tonne ore	$/t	19.70	23.10	18.63	22.30	20.89
Sales						
Concentrate sold	dry t	3,140	4,249	1,356	1,974	1,785
Concentrate Au grade	g/t	98.53	96.03	86.83	92.45	107.42
Concentrate Ag grade	g/t	10,687	11,204	10,447	11,187	10,868
Au sold	oz	9,728	12,816	3,699	5,732	6,030
Ag sold	oz	1,042,614	1,478,500	439,993	685,703	602,621
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	73.67	87.40	67.38	88.29	80.64
Site cash operating cost/tonne concentrate produced(1)	$/t	5,439	5,437	5,217	5,253	5,661
Adjusted EBITDA/tonne ore milled(1)	$/t	43	60	44	45	43
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,184	3,718	3,408	2,698	3,017
Cash cost per oz Ag produced net of Au byproduct credit(1)(2	$/oz	9.26	8.63	8.45	7.61	9.76
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	17.84	16.00	16.54	14.84	18.78
Capital Spending						
Capital development	m	1,358	1,203	885	754	473
Capital development cost	$000	3,903	4,005	2,505	2,526	1,399
Capital development cost/meter	$/m	2,874	3,329	2,829	3,352	2,959
Capital purchases	$000	2,458	2,684	1,031	768	1,427
Capitalized exploration	$000	1,306	1,279	787	761	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.

Cash cost per ounce of silver net of gold credit in the first six months of 2016 was $9.26 and all-in cost was $17.84; both numbers are higher than in the first six months of 2015 ($8.63/ounce and $16.00/ounce respectively).

Cerro Bayo produced 3,008 dry metric tonnes of concentrate containing 977,678 ounces saleable silver and 8,154 ounces saleable gold in the first half of 2016, as compared to 3,482 dry metric tonnes of concentrate containing 1,188,244 ounces saleable silver and 10,366 ounces saleable gold in the comparable 2015 period.

During the first half of 2016, Cerro Bayo sold 3,140 dry metric tonnes of concentrate containing 9,728 ounces of saleable gold and 1,042,614 ounces saleable silver. Sales during the comparable quarter of 2015 were 4,249 dry metric tonnes of concentrate 12,816 ounces of gold and 1,478,500 ounces of silver.

During the first half of 2016, Cerro Bayo invested $3.9 million in mine development versus $4.0 million in the corresponding 2015 period. The mine spent $2.5 million for the purchase of property, plant and equipment, versus $2.7 million the corresponding 2015 period. The mine spent $1.3 million on exploration, the same as the amount invested in the first half of 2015.

Björkdal Financial and Operating Results for the three months ended on June 30, 2016 and June 30, 2015

Björkdal generated revenue of $17.9 million for the quarter ended June 30, 2016, versus $13.9 million in the year-ago quarter. Income from mine operations before depreciation and depletion was $5.3 million versus $4.6 million in the year ago quarter, and Adjusted EBITDA was $5.3 million versus $4.6 million a year ago. Net income after tax was $1.5 million and operating net income was $2.2 million in 2016 versus $1.6 million and $1.6 million in 2015.

During the second quarter of 2016, Björkdal produced a combined 302,397 tonnes of ore from the open pit and underground operations, with an average grade of 1.37 grams per tonne gold as compared to 320,258 tonnes for second quarter of 2015 with average grade of 1.39 grams per tonne. During the second quarter of 2016, 1,349 metres of operating development was completed against 1,084 metres in second quarter of 2015. The weighted average mining cost from the open pit and underground was $25.51 per tonne in the second quarter of 2016 against $19.13 per tonne in the corresponding period of 2015. The increase was due to costs of adopting a selective mining approach, plus increase in operating development spending and open pit stripping ratio.

During the second quarter of 2016, the Björkdal concentrator processed 317,951 tonnes of ore with record head grade averaging 1.43 grams per tonne gold. In the year-ago quarter, 318,088 tonnes of ore were processed with an average grade of 1.30 grams per tonne gold. Metallurgical recoveries during the second quarter of 2016 were 88.40%, nearly identical to the 88.27% for the second quarter of 2015. Processing cost was $7.72 per tonne in 2016 as compared to $6.55 per tonne in 2015.

During the second quarter of 2016, Björkdal produced a record 12,648 saleable gold ounces and sold 13,813 salable gold ounces. In the second quarter of 2015, Björkdal produced 11,494 saleable gold ounces and sold 11,873 saleable gold ounces. Cash cost per gold ounce was $967 and all-in cost was $1,212 in 2016 against $884 and $1,110 respectively in 2015.

Björkdal financial results

	Three months ended June 30, 2016 ($'000)	Three months ended June 30, 2015 ($'000)
Revenue	17,864	13,921
Cost of sales	12,540	9,286
Income from mine operations before depreciation and depletion	5,324	4,635
Depreciation and depletion	3,094	2,598
Income from mine operations	2,230	2,037
Administration	405	-
Adjusted EBITDA (1)	5,325	4,635
Finance costs, foreign exchange and others	72	62
Income before tax	1,753	1,975
Current tax expense	340	455
Deferred tax recovery	(47)	(38)
Operating net income after tax(1)	2,216	1,558
Adjusted Net income after tax before special items(1)	1,460	2,231
Net income after tax	1,460	1,558
Capital expenditure (2)	4,907	4,263

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.
2Includes capitalized depreciation on equipment.

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

	Three months ended June 30, 2016 ($'000)	Three months ended June 30, 2015 ($'000)
Net income/(loss) after tax	1,460	1,558
Add: Intercompany expenses		
Intercompany transfer pricing recharge costs	756	-
Operating net income/(loss) after tax	2,216	1,558

Björkdal operating statistics

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

	Unit	Six months ended June 30, 2016	Six months ended June 30, 2015	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended March 31, 2016
Mining Production and Mining Cost						
Operating development	m	2,488	2,540	1,349	1,084	1,140
Mined ore	t	554,665	623,952	302,397	320,258	252,268
Ore mined Au grade	g/t	1.35	1.39	1.37	1.39	1.32
Mined contained Au	oz	24,089	27,845	13,352	14,294	10,736
Mining cost per tonne ore	$/t	25.08	19.53	25.51	19.13	24.57
Processing and Processing Cost						
Processed ore	t	641,880	636,435	317,951	318,088	323,929
Mill head grade Au	g/t	1.39	1.33	1.43	1.30	1.35
Recovery Au	%	88.45	89.05	88.40	88.27	88.44
Concentrate produced	dry t	1,691	1,669	864	724	826
Concentrate grade Au	g/t	457	444	455	493	459
Saleable Au produced	oz	24,833	23,813	12,648	11,494	12,185
Processing cost per tonne ore	$/t	7.10	6.67	7.72	6.55	6.48
Sales						
Concentrate sold	dry t	1,794	1,644	814	732	979
Concentrate Au grade	g/t	453	447	528	504	392
Au sold	oz	26,150	23,623	13,813	11,873	12,337
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	33.55	30.48	37.37	30.91	29.95
Site cash operating cost/tonne concentrate produced(1)	$/t	12,738	11,624	13,746	13,573	11,740
Adjusted EBITDA/tonne ore milled(1)	$/t	15.98	18.54	16.75	14.57	15.22
Adjusted EBITDA/tonne concentrate produced(1)	$/t	6,065	7,071	6,161	6,397	5,965
Cash cost per oz Au equivalent produced(1)(2)	$/oz	897	840	967	884	821
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,138	1,061	1,212	1,110	1,059
Capital Spending						
Capital development (Underground)	m	1,174	460	563	300	611
Capital development (Open pit)	t	1,055,231	1,400,910	434,758	576,564	620,473
Capital development cost	$000	4,904	3,669	2,138	1,886	2,767
Capital purchases	$000	2,743	2,275	1,752	1,503	992
Capitalized exploration	$000	1,502	1,392	1,017	874	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 second quarter of 2016, the Company invested $2.1 million in mine development, $1.8 million in property, plant and equipment and $1.0 million in exploration. During the second quarter of 2015, the Company invested $1.9 million in mine development, $1.5 million in property, plant and equipment and $0.9 million in exploration.

Björkdal Financial and Operating Results for the six months ended on June 30, 2016 and June 30, 2015

During the first half of 2016, Björkdal produced a combined 554,665 tonnes of ore from the open pit and underground operations, with an average grade of 1.35 grams per tonne gold as compared to 623,952 tonnes for first half of 2015 with average grade of 1.39 grams per tonne. During the first half of 2016, 2,488 metres of operating development was completed against 2,540 metres in first half of 2015. The weighted average mining cost from the open pit and underground was $25.08 per tonne in the first half of 2016 against $19.53 per tonne in the corresponding period of 2015.

In the first half 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 high grade material rather than low grade, resulting in increased gold production.

During the first half of 2016, the Björkdal concentrator processed 641,880 tonnes of ore with grades of 1.39 grams per tonne gold against 636,435 tonnes of ore with average grade of 1.33 grams per tonne gold in 2015. Metallurgical recoveries during the first half of 2016 were 88.45% compared with 89.05% for the first half of 2015. Processing cost was $7.10 per tonne in 2016 as compared to $6.67 per tonne in 2015.

During the first half of 2016, Björkdal produced 24,833 saleable gold ounces and sold 26,150 saleable gold ounces. In the first half of 2015, Björkdal produced 23,813 saleable gold ounces and sold 23,623 saleable gold ounces. Cash cost per gold ounce was $897 and all-in cost was $1,138 in 2016 against $840 and $1,061 respectively in 2015.

During the first half of 2016, the Company invested $4.9 million in mine development, $2.7 million in property, plant and equipment and $1.5 million in exploration. During the first half of 2015, the Company invested $3.7 million in mine development, $2.3 million in property, plant and equipment and $1.4 million in exploration.

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During the second quarter of 2016, the Company spent $0.3 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 June 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.

La Quebrada and Lupin

Spending on care and maintenance at La Quebrada and Lupin, both held for sale, was $0.1 million during the second quarter of 2016. The corresponding amount for the prior year quarter was $0.1 million.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate April 1, 2016 June 30, 2016	Average rate April 1, 2015 June 30, 2015	Average rate January 1, 2016 June 30, 2016	Average rate January 1, 2015 June 30, 2015
1A$ = C$	0.9610	0.9562	0.9756	0.9657
1A$ = US$	0.7459	0.7777	0.7343	0.7820
1 US$ = C$	1.2883	1.2297	1.3280	1.2354
1 US$ = Chilean Peso	677	618	689	622
1 SEK = US$	0.1217	0.1188	0.1200	0.1193

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of gold and silver were higher in the second quarter of 2016 compared to the second quarter of 2015 while prices for antimony was lower in second quarter of 2016 as compared to second 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 second quarter of 2016 being marginally higher than relative average market prices.

COMMODITY	Average rate April 1, 2016 June 30, 2016	Average rate April 1, 2015 June 30, 2015	Average rate January 1, 2016 June 30, 2016	Average rate January 1, 2015 June 30, 2015
Realized gold US$/oz[1]	1,306	1,197	1,274	1,235
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,259	1,192	1,220	1,205
Realized antimony US$/tonne[1]	6,681	8,186	6,023	8,168
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	6,244	8,602	5,798	8,360
Realized silver price US$/oz[1]	19.13	15.69	17.18	16.74
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	16.78	16.41	15.81	16.54

[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 2, 2016 ($'000)	Quarter 1, 2016 ($'000)	Quarter 4, 2015 ($'000)	Quarter 3*, 2015 ($'000)
Revenue	54,166	50,442	43,646	43,282
Income/(loss)	3,611	1,149	(3,105)	1,608
Income/(loss) per share - Basic	0.01	0.00	(0.01)	0.00
Income/(loss) per share - Diluted	0.01	0.00	(0.01)	0.00

Particulars	Quarter 2*, 2015 ($'000)	Quarter 1*, 2015 ($'000)	Quarter 4, 2014 ($'000)	Quarter 3, 2014 ($'000)
Revenue	50,793	56,779	66,973	34,676
Income/(loss)	4,400	11,762	7,588	(692)
Income/(loss) per share - Basic	0.01	0.03	0.02	(0.00)
Income/(loss) per share - Diluted	0.01	0.03	0.02	(0.00)

**Income from prior quarters has been updated to reflect the updated depletion and depreciation as a result of the finalization of the PPA 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 June 30, 2016, the Company had working capital of $22.3 million compared to $18.5 million at December 31, 2015. Had the five-year exchangeable loan been classified as long term debt, working capital would have been $78.0 million as of June 30, 2016. The Company had cash and cash equivalents of $45.7 million at June 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 June 30, 2016, the Company would realize a gain of $8.4 million and the holders of the debt would realize a loss of $9.1 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 June 30, 2016, assuming a gold price of $1,321/oz (which is equivalent to US$126.52 per Gold Share), then the repayment cost to the Company would be approximately $50.9 million.

   $60 million ÷ $1,556/oz × $1,321 = $50.9 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 $1,700/oz (which is equivalent to US$ 162.85 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 three months to June 30, 2016.

	Three months ended June 30,		Six months ended 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

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 June 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:

Internal control weakness	**Potential impact of the weakness on the issuer's financial reporting and its ICFR**	**Current plan or actions being undertaken for remediating the potential material weakness**
Review of process and activities	Inaccuracy and possible fraud	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.
Documentation	Audit trail and completeness	

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 450,689,008 common shares issued and outstanding. The weighted average number of shares outstanding during the second quarter used for the calculation of per share results was 416,238,000.

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

Exercise Price CND$	As of June 30, 2016	As of Aug 11, 2016	Expiry Date
0.91	5,463,000	5,263,000	23 March, 2021
0.91	4,580,000	4,380,000	24 March, 2020
0.93	40,000	40,000	06 November, 2019
0.98	4,045,000	3,845,000	24 March, 2019
1.13	3,542,500	3,542,500	18 March, 2018
0.83	3,072,500	2,966,700	09 March, 2017
0.70	175,000	100,000	02 December, 2016
Total	**20,918,000**	**20,137,200**	

During the quarter ended June 30, 2016, 420,000 options were exercised. There were 20,918,000 options outstanding as of June 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 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

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. *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. *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.