Consolidated financial statements of

Mandalay Resources Corporation

December 31, 2017 and 2016

Mandalay Resources Corporation
December 31, 2017 and 2016

Table of contents

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Mandalay Resources Corporation

We have audited the accompanying consolidated financial statements of Mandalay Resources Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mandalay Resources Corporation as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 22, 2018

Mandalay Resources Corporation

Consolidated statements of loss and comprehensive loss

Years ended December 31, 2017 and 2016

(Expressed in U.S. dollars)

	Year ended December 31,	
	2017	2016
	($'000)	($'000)
Revenue	**162,997**	185,543
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note 14)	**107,111**	125,554
Depletion and depreciation	**40,258**	40,027
	147,369	165,581
Income from mining operations	**15,628**	19,962
Expenses		
Administration (Note 15)	**7,289**	9,124
Care and maintanance and other operating expenses (Note 25)	**12,815**	-
Write-off of assets (Note 5)	**21,813**	17,925
Share-based compensation (Note 12(b))	**1,000**	905
Loss on disposal of property, plant and equipment (Note 5)	**575**	635
	43,492	28,589
Loss from operations	**(27,864)**	(8,627)
Other income (expenses)		
Finance costs (Note 16)	**(8,176)**	(5,693)
Loss on financial instruments (Note 17)	**(2,608)**	(262)
Other income	**434**	337
Foreign exchange loss	**(1,717)**	(943)
	(12,067)	(6,561)
Loss before income taxes	**(39,931)**	(15,188)
Income tax expense (Note 13)		
Current	**2,948**	123
Deferred	**(173)**	4,922
Income tax expense	**2,775**	5,045
Net loss for the year	**(42,706)**	(20,233)
Other comprehensive income (loss), net of tax		
Item that may subsequently be reclassified to net loss		
Foreign currency translation	**8,875**	(4,735)
Comprehensive loss for the year	**(33,831)**	(24,968)
Net loss per share		
Basic	**(0.09)**	(0.05)
Diluted	**(0.09)**	(0.05)
Weighted average number of common shares outstanding (Note 18)		
Basic and Diluted ('000)	**451,247**	430,151

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of financial position

As at December 31, 2017 and 2016

(Expressed in U.S. dollars)

	December 31, 2017	December 31, 2016
	($'000)	($'000)
Assets		
Current assets		
Cash and cash equivalents	**16,935**	66,917
Trade receivables and other assets (Note 3)	**27,186**	26,226
Inventories (Note 4)	**24,249**	25,207
Prepaid expenses	**2,850**	3,713
Assets held for sale (Note 23)	**-**	31,382
	71,220	153,445
Non-current assets		
Reclamation and other deposits (Note 10)	**35,924**	5,146
Trade and other receivables (Note 3)	**3,324**	1,884
Property, plant and equipment (Note 5)	**194,564**	188,818
Intangible asset (Note 6)	**29**	305
Deferred tax asset (Note 13)	**-**	634
	233,841	196,787
	305,061	350,232
Liabilities		
Current liabilities		
Trade and other payables (Note 7)	**24,281**	23,133
Borrowings (Note 8)	**1,699**	1,303
Five-year exchangeable loan (Note 9)	**27,784**	56,424
Income taxes payable	**1,053**	3,570
Other provisions (Note 11)	**2,083**	2,603
Financial instruments (Note 17)	**3,567**	1,072
Liabilities associated with assets held for sale (Note 23)	**-**	21,554
	60,467	109,659
Non-current liabilities		
Borrowings (Note 8)	**16,161**	1,263
Reclamation and site closure costs provision (Note 10)	**49,886**	23,391
Other provisions (Note 11)	**1,590**	1,146
Deferred tax liability (Note 13)	**11,418**	11,736
	79,055	37,536
	139,522	147,195
Equity		
Share capital (Note 12)	**191,893**	191,819
Share option reserve (Note 12)	**9,816**	8,854
Foreign currency translation reserve	**(28,654)**	(37,529)
Retained earnings	**(7,516)**	39,893
	165,539	203,037
	305,061	350,232

Approved by the Board of Directors and authorized for issue on February 22, 2018.

(Signed) Mark Sander
Mark Sander, President and Chief Executive Officer

(Signed) Robert Doyle
Robert Doyle, Director

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of changes in equity

Year ended December 31, 2017 and 2016

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

	Number of shares issued ('000)	Share capital ($'000)	Share option reserve ($'000)	Foreign currency translation reserve ($'000)	Retained earnings ($'000)	Total equity ($'000)
Balance, December 31, 2015	**410,420**	**158,979**	**9,510**	**(32,794)**	**71,999**	**207,694**
Net loss	-	-	-	-	(20,233)	**(20,233)**
Other comprehensive loss for the year	-	-	-	(4,735)	-	**(4,735)**
Total comprehensive loss	-	-	-	(4,735)	(20,233)	**(24,968)**
Shares issued (Note 12(a))	36,415	29,378	-	-	-	**29,378**
Stock options exercised (Note 12(c))	4,123	3,314	(1,375)	-	-	**1,939**
Share-based compensation (Note 12(b))	-	-	867	-	-	**867**
Dividends paid (Note 12(e))	-	-	-	-	(11,873)	**(11,873)**
Redemption of RSU (Note 12(d))	216	148	(148)	-	-	**-**
Balance, December 31, 2016	**451,174**	**191,819**	**8,854**	**(37,529)**	**39,893**	**203,037**
Net loss	-	-	-	-	(42,706)	**(42,706)**
Other comprehensive income for the year	-	-	-	8,875	-	**8,875**
Total comprehensive income (loss)	-	-	-	8,875	(42,706)	**(33,831)**
Share-based compensation (Note 12(b))	-	-	1,036	-	-	**1,036**
Dividends paid (Note 12(e))	-	-	-	-	(4,703)	**(4,703)**
Redemption of RSU (Note 12(d))	106	74	(74)	-	-	**-**
Balance, December 31, 2017	**451,280**	**191,893**	**9,816**	**(28,654)**	**(7,516)**	**165,539**

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of cash flows

for the year ended December 31, 2017 and 2016

(Expressed in U.S. dollars)

	2017	Year ended December 31, 2016
	($'000)	($'000)
Operating activities		
Net loss	**(42,706)**	(20,233)
Adjustments to reconcile net income to net cash flows from operating activities		
Amortization of intangible asset	**276**	492
Depletion and depreciation	**40,258**	40,027
Share-based compensation	**1,000**	905
Loss on disposal of property, plant and equipment	**575**	635
Write-off of assets	**21,813**	17,925
Finance cost	**8,176**	5,693
Unrealized gain on derivative financial instruments	**2,608**	262
Other income	**(434)**	(337)
Foreign exchange gain (loss)	**2,677**	(450)
Income tax expense	**2,775**	5,045
Changes in non-cash operating working capital items		
Trade and other receivables	**(179)**	(2,860)
Inventories	**2,183**	1,589
Prepaid and other expenses (income)	**138**	(2,187)
Trade and other payables	**(4,303)**	6,076
Provisions	**1,329**	1,075
Cash generated from operations	**36,186**	53,657
Income taxes paid	**(2,860)**	(2,871)
Interest and other income	**434**	337
Interest and bank charges paid	**(6,271)**	(3,825)
Net cash flows from operating activities	**27,489**	47,298
Investing activities		
Payment on reclamation and other deposits	**(7,500)**	(294)
Reclamation spent	**(1,667)**	-
Payment for cancellation of royalty contract	**-**	(4,000)
Expenditure for property, plant and equipment	**(47,465)**	(42,348)
Proceeds on disposal of property, plant and equipment	**39**	1,082
Net cash flows used in investing activities	**(56,593)**	(45,560)
Financing activities		
Proceeds from borrowings	**16,243**	908
Repayments of borrowings and associated costs	**(30,465)**	(1,052)
Issuance of common shares for cash	**-**	31,459
Cost for issue of common shares	**-**	(1,859)
Dividends paid (Note 12 (e))	**(4,703)**	(11,873)
Net cash flows (used in) provided by financing activities	**(18,925)**	17,583
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(1,953)**	(1,603)
Increase (decrease) in cash and cash equivalents	**(49,982)**	17,718
Cash and cash equivalents, beginning of the year	**66,917**	49,199
Cash and cash equivalents, end of year	**16,935**	66,917
Cash and cash equivalents consist of		
Cash	**16,935**	66,917
Cash equivalents	**-**	-
	16,935	66,917

See accompanying notes to the consolidated financial statements

1. Description of business and nature of operations

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

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

2. Summary of significant accounting policies

These consolidated financial statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for the year ended December 31, 2017, using the significant accounting policies outlined below.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

(a) Basis of consolidation

The consolidated financial statements of the Company include the results of entities (including structured entities) controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

2. Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company have been eliminated in full on consolidation.

The principal subsidiaries of the Company as at December 31, 2017 and 2016 are as follows:

Subsidiary	**Interest 2017**	**Interest 2016**
	%	**%**
Mandalay Resources Australia Pty Ltd.[1]	**100**	100
Compania Minera Cerro Bayo Ltda[2]	**100**	100
Björkdalsgruvan AB.[3]	**100**	100
Mandalay Resources Finance Limited[4]	**100**	100

1 Mandalay Resources Australia Pty Ltd. (“MRA”) owns the Costerfield gold and antimony mine in Australia.

2 Compania Minera Cerro Bayo Ltda (“Cerro Bayo”) owns the Cerro Bayo silver and gold mine and exploration projects in Chile.

3 Bonito Capital Corp (“Bonito”) owns the Björkdal gold mine in Sweden through its subsidiary, Björkdalsgruvan AB (“Björkdal”), and exploration projects in Canada.

4 Mandalay Resources Finance Limited (“MND Finance”) was incorporated in the Cayman Islands, MND Finance borrowed $60 million from Gold Exchangeable Limited at an interest rate of 5.875 percent. During the year to December 31, 2017, MND Finance purchased part of this facility and also changed certain terms (see note 9 for detail).

(b) Functional currency and foreign currency transactions

The Company’s functional currency is the Canadian dollar as this is the principal currency of the economic environment in which it operates. The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in the countries that it operates in, and sources of debt and equity financing.

MRA, Cerro Bayo and Björkdal have functional currencies of the Australian dollar, U.S. dollar and Swedish krona, respectively.

Transactions in foreign currencies are initially recorded in the respective entity’s functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. The translation gain/loss is recognized in the consolidated statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. On consolidation, each respective entity’s financial statements are translated into the presentation currency as outlined below.

2. Summary of significant accounting policies (continued)

(b) Functional currency and foreign currency transactions (continued)

The consolidated financial statements are presented in U.S. dollars. For presentation purposes, the assets and liabilities of the Company and its subsidiaries, including fair value adjustments arising on acquisition, are translated into U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into U.S. dollars at the average exchange rate for the period in which the transaction arose. Exchange differences arising are recognized as a separate component of equity titled “foreign currency translation reserve”. The consolidated financial statements have been presented in a currency other than the parent’s functional currency as management has determined that the U.S. dollar is the common currency in which the Company’s peers, being multi-jurisdictional mining companies, present their financial statements.

(c) Business combinations

The consideration for each acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in income or loss as incurred (unless they related to issue of debt/equity instruments).

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant international financial reporting standards. Changes in the fair value of contingent consideration classified as equity are not recognized.

Goodwill, if any, arising in a business combination is recognized as an asset at the date that control is acquired (the “acquisition date”). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree, if any, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Company’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity interest in the acquiree, if any, the excess is recognized immediately in income or loss as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units or groups of cash-generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(d) Cash and cash equivalents

The Company considers all the closing balances at bank and of highly liquid investments with remaining maturities of three months or less at the date of acquisition to be cash equivalents.

2. Summary of significant accounting policies (continued)

(e) 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 labour, 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 inventories represent 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.

(f) Property, plant and equipment

(i) 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 paid, the value of share consideration and exploration costs incurred. The recoverable values are not always readily determinable and are dependent on the 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 for indicators of impairment at each reporting date. In the case of undeveloped projects, there may be only inferred resources 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 go into production when the current source of ore is 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.

(ii) Mining interests

Mining interests represent capitalized expenditures related to the development of mining properties, acquisition costs, capitalized borrowing costs (Note 2(h)), expenditures related to exploration and evaluation transferred in and estimated site closure and reclamation costs.

Capitalized costs are depleted over the estimated economic life of the mine using the method as explained in depletion and depreciation (Note 2(f)(iv)) below.

2. Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(iii) Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation, depletion 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. Any remaining book value associated with the component being replaced is derecognized upon its replacement. Directly attributable costs 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.

(iv) Depletion and depreciation

Depletion

Mining interests are depleted to estimated residual value using the unit-of-production method based on the estimated total saleable metal ounces contained in a life of mine plan that includes Proven and Probable Reserves as well as any Measured, Indicated and Inferred Resources that are not yet converted to Reserves but that Management believes are highly likely to be converted to Reserves and eventually mined.

Depreciation

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 over their estimated useful lives, if shorter than the mine life, otherwise they are depleted on the unit-of-production basis, as outlined above.

Plant and equipment include building, plant and equipment, vehicles, furniture and fixtures and computer equipment and their estimated useful lives range from 2.5 years to 10 years.

Assets under construction are not depreciated until their construction is substantially complete and they are available for their intended use. In the case of projects involving the development of mineral properties, this is when the property has achieved commercial production.

(g) Impairment of long-lived assets

The Company reviews and evaluates its property, plant and equipment for indicators of impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable or at least at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

2. Summary of significant accounting policies (continued)

(g) Impairment of long-lived assets (continued)

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in income or loss.

An impairment loss is reversed if there is an indication that there has been a change in the original conditions that resulted in the impairment being recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(h) Borrowing costs

Borrowing costs related to the costs of developing mining properties and constructing new facilities are capitalized and included in the carrying amounts of the related assets until mining properties reach commercial production and facilities are ready for their intended use.

The amount of borrowing costs capitalized (before effects of income tax) during the year is determined by applying the interest rate applicable to appropriate borrowings outstanding during the year to the average amount of capitalized expenditures for the qualifying assets during the year. Where any borrowing costs are incurred specifically in relation to a qualifying asset, they are allocated directly to the asset to which they relate and are excluded from the aforementioned calculation.

All other borrowing costs are recognized in income or loss in the period in which they are incurred.

(i) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with infinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(j) 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 the 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 or the discount rate. 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 site closure and reclamation 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 the mine.

2. Summary of significant accounting policies (continued)

(k) 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 consolidated financial statements and the corresponding tax bases used in the computation of taxable income and on the carry forward of tax losses and tax credits. Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that affects neither accounting nor taxable income at the time of the transaction. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

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 income 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 income 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 recognized as an expense or recovery in income or loss, except when they relate to items that are recognized outside of income or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside income 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.

Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the consolidated statements of financial position. Deferred tax assets, including those arising from unutilized tax losses, require the Company to assess the likelihood that the group will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Judgment is also required about the application of existing tax laws in each jurisdiction.

Assumptions about the generation of future taxable income depend on management’s estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditures, dividends and other capital management transactions).

To the extent that future cash flows and taxable income differ significantly from these estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

2. Summary of significant accounting policies (continued)

(l) Employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and it is capable of being measured reliably. Liabilities recognized in respect of employee benefits due to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not due to be settled within one year are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

2. Summary of significant accounting policies (continued)

(m) 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 predetermined 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.

(n) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 12(c).

The fair value determined using a valuation technique (e.g., Black-Scholes option pricing model) at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in income or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes option pricing model, further details of which are given in Note 12(c). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in share-based compensation.

2. Summary of significant accounting policies (continued)

(o) Financial assets

Financial assets are classified into one of four categories:

- fair value through profit or loss ("FVTPL");
- held-to-maturity ("HTM");
- available for sale ("AFS"); and
- loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in income or loss. Transaction costs are expensed when incurred. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

(ii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM.

(iii) AFS financial assets

AFS financial assets are initially recognized at fair value. Subsequently, gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in other comprehensive income. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is included in income or loss for the year. The fair value of AFS monetary assets denominated in a foreign currency is translated at the spot rate at the consolidated statement of financial position dates. The change in fair value attributable to translation differences on amortized cost of the asset is recognized in income or loss, while other changes are recognized in equity. The Company does not have any assets classified as AFS.

(iv) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at year end. Bad debts are written off during the period in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2. Summary of significant accounting policies (continued)

(v) Effective interest rate method

The effective interest rate method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for financial instruments other than those financial assets classified as FVTPL.

(vi) Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had the impairment not been recognized.

(vii) Derecognition of financial assets

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- if the Company transfers the financial asset and substantially all of the risks and rewards of ownership to another entity.

(p) Financial liabilities or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(i) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective interest basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. Summary of significant accounting policies (continued)

(p) Financial liabilities or equity (continued)

(ii) Financial Liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

(iii) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire.

(q) Loss per share

Basic loss per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options.

The number of additional shares is calculated by assuming that outstanding dilutive stock options were exercised and that the proceeds from such exercise (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting period.

(r) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(s) Fair value measures

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the group determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. Summary of significant accounting policies (continued)

(t) Critical judgments and accounting estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Following are the items involving significant judgments:

- determination of functional currency (Note 2(b));
- recoverability of deferred tax assets (Notes 2(k) and 13); and
- indicator of impairment (Notes 2(g) and 5).

Following are the items involving significant estimates:

- fair value of financial instruments (Notes 2(s) and 22);
- impairment of long-lived assets (Notes 2(g) and 5);
- reserve estimates (see below);
- the anticipated cost of reclamation and closure cost obligations (Notes 2(j) and 10); and
- unit-of-production depreciation (Notes 2(f)(iv) and 5).

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 depletion, 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 updated.

Estimated recoverable saleable metal ounces contained in the life of mine plan are used in determining the depreciation and/or amortization of mine-specific assets. This results in a depreciation charge proportional to the depletion of the anticipated remaining life-of-mine production. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the unit of production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on economically recoverable reserves, or if future capital expenditure estimates change. Changes to economically recoverable reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on economically recoverable reserves of differences between actual commodity prices and commodity price assumptions.
- Unforeseen operational issues.
- New exploration information.
- Sustained rise or fall in operating costs.

Changes in estimates are accounted for prospectively.

2. Summary of significant accounting policies (continued)

(u) New accounting pronouncements

(a) IFRS standards effective for annual periods beginning on or after January 1, 2017

Effective January 1, 2016, the Company adopted new and revised IFRS standards that were issued by the IASB. The application of the adopted standards has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

(b) Accounting standards issued but not yet effective

The Company has not early adopted these new and amended standards. The Company plans to adopt the new standards on the required effective dates. Of the other standards and interpretations that are issued, but not yet effective, they are not expected to impact the Company and have not been listed here. For avoidance of doubt, the following standards are expected to impact the Company.

(i) IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The Company continues to finalize the analysis of IFRS 9 on the statement of financial position or equity, however, given the limited financial instruments, the Company believes that the impact, if any, will not be significant. The Company plans to finalize the analysis and update the disclosures prior to March 31, 2018.

(ii) IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will follow the modified retrospective application for implementation of the standard.

The Company has assessed the impact of the adoption of the new revenue standard in 2017. Based on the review, the implementation of the new standard, effective January 1, 2018, will not have a significant financial statement impact in 2018. During 2017, the Company performed contract assessment and review for all revenue contracts and based on the nature of Company’s revenue, there is not expected to be a significant impact to revenue recognition after adoption of IFRS 15.

The one impact noted for the Company is the fact provisional pricing (see Note 2(m)), which is a derivative, does not meet the definition of revenue from customers under IFRS 15. The Company will therefore not assess of the impact of these provisional pricing features under this standard. The Company notes that there may be increased disclosure and/or income statement classification may be required.

2. Summary of significant accounting policies (continued)

(iii) IFRS 16, *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the *Substance of Transactions* Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after January 1 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Company is currently assessing the impact of adopting IFRS 16.

3. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	December 31, 2017	December 31, 2016
	($'000)	($'000)
Trade receivables	**22,576**	18,628
VAT and other indirect tax receivables	**4,399**	7,537
Other receivables	**3,376**	1,684
Marketable securities	**159**	261
	30,510	28,110
Less: non-current portion	**3,324**	1,884
Total current portion	**27,186**	26,226

There was no allowance for doubtful accounts as at December 31, 2017 and 2016.

4. Inventories

Inventories consist of the following:

	December 31, 2017	December 31, 2016
	($'000)	($'000)
Finished goods	**9,668**	8,722
Work in progress and stockpiled ore	**2,990**	5,533
Consumables	**11,591**	10,952
	24,249	25,207

The amount of inventories recognized in cost of operations for the year ended December 31, 2017 is $147,369,000 (2016 – $165,581,000).

The Company recognized a write-down of work in progress and stockpiled ore at the Costerfield mine of $655,000 as at December 31, 2017 (2016 – $nil).

5. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Cost												
As at January 1, 2016	59,576	68,640	51,408	29,120	47,802	16,044	2,928	7,544	3,278	13,917	43,486	**343,743**
Acquisition	-	-	-	-	-	-	-	-	-	-	-	**-**
Additions	-	14,390	11,818	3,389	3,296	4,879	206	4,551	2,626	1,947	4,370	**51,472**
Disposals	-	-	-	(3,124)	-	(50)	(232)	-	-	-	(186)	**(3,592)**
Reclassification to mining interest	5,763	1,024	-	-	-	-	-	(5,763)	(1,024)	-	-	**-**
Transferred to Asset held for sale	-	-	-	-	-	-	(2,644)	-	-	-	(6,726)	**(9,370)**
Write-off of assets	-	(14,179)	-	-	-	-	-	(491)	(3,066)	(189)	-	**(17,925)**
Foreign exchange	(571)	-	(4,184)	(235)	-	(1,377)	31	14	-	(639)	(64)	**(7,025)**
As at December 31, 2016	64,768	69,875	59,042	29,150	51,098	19,496	289	5,855	1,814	15,036	40,880	**357,303**
Additions	2,437	6,355	14,601	4,505	2,216	9,714	55	4,020	1,018	1,867	4,729	**51,517**
Disposals	-	-	-	(584)	(2,647)	-	-	-	-	-	-	**(3,231)**
Write-off of assets	-	(11,916)	-	-	(6,135)	-	-	(552)	(1,726)	-	(1,484)	**(21,813)**
Reclassification to mining interest	1,038	-	705	-	-	-	-	(1,038)	-	(705)	-	**-**
Transferred from Asset held for sale	-	-	-	-	-	-	2,644	-	-	-	6,726	**9,370**
Foreign exchange	4,421	-	4,250	2,486	-	2,323	(190)	536	-	143	286	**14,255**
As at December 31, 2017	**72,664**	**64,314**	**78,598**	**35,557**	**44,532**	**31,533**	**2,798**	**8,821**	**1,106**	**16,341**	**51,137**	**407,401**
Accumulated depreciation												
As at January 1, 2016	35,976	42,934	8,479	8,306	30,306	4,493	407	-	-	-	-	**130,901**
Expense	8,559	8,508	8,185	5,802	6,720	3,234	58	-	-	-	-	**41,066**
Disposals	-	-	-	(1,690)	-	-	-	-	-	-	-	**(1,690)**
Foreign exchange	(408)	-	(696)	(182)	-	(510)	4	-	-	-	-	**(1,792)**
As at December 31, 2016	44,127	51,442	15,968	12,236	37,026	7,217	469	-	-	-	-	**168,485**
Expense	8,123	4,402	12,735	6,309	5,223	3,437	31	-	-	-	-	**40,260**
Disposals	-	-	-	(395)	(2,223)	-	-	-	-	-	-	**(2,618)**
Foreign exchange	3,200	-	1,401	1,161	-	940	8	-	-	-	-	**6,710**
As at December 31, 2017	**55,450**	**55,844**	**30,104**	**19,311**	**40,026**	**11,594**	**508**	**-**	**-**	**-**	**-**	**212,837**
Carrying value												
As at January 1, 2016	23,600	25,706	42,929	20,814	17,496	11,551	2,521	7,544	3,278	13,917	43,486	**212,842**
As at December 31, 2016	20,641	18,433	43,074	16,914	14,072	12,279	(180)	5,855	1,814	15,036	40,880	**188,818**
As at December 31, 2017	**17,214**	**8,470**	**48,494**	**16,246**	**4,506**	**19,939**	**2,290**	**8,821**	**1,106**	**16,341**	**51,137**	**194,564**

5. Property, plant and equipment (continued)

For the year ended December 31, 2017, there was $379,000 plant and equipment depreciation capitalized to mining interests at Cerro Bayo (2016 – $796,000), $45,000 at Bjorkdal (2016- $240,000) and Nil at Costerfield (2016- Nil).

During the year ended December 31, 2017, also due to flooding at Cerro Bayo on June 9, 2017 discussed below, the Company has disposed of mining equipment having carrying value of $424,000; this amount has been recognised under the disposal of assets.

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

	December 31, 2017 ($'000)	December 31, 2016 ($'000)
Costerfield	**552**	491
Cerro Bayo	**19,777**	17,245
Bjorkdal	**-**	189
Ulu/Lupin	**1,484**	-
Total write off of assets	**21,813**	17,245

Cerro Bayo (2017)

On June 9, 2017, flooding occurred in the Delia NW mine at the Company's Cerro Bayo operations. Since that date, mining operations have been temporarily suspended pending investigation, risk assessment of restarting, and receipt of the several regulatory permits needed for the Life of Mine plan. As a result of this incident, the Company recognized $777,000 write-off of residual mining interests in the Delia NW mine and completed an impairment test as at June 30, 2017. As part of the review of indicators of impairment as at December 31, 2017, the Company determined that the extended delay in the ability to obtain the required permits to restate the mine was an indicator of impairment for the Cerro Bayo cash generating unit. The Company calculated the recoverable amount based on fair value less cost to sell and determined that the recoverable amount was below the carrying value and as a result impairment of $19,000,000 was booked to the consolidated statement of comprehensive income. The key assumptions in determining the recoverable amount were a long-term gold price of $1,300 per ounce and long-term silver price of $19.50 per ounce and a discount rate of 6.5% after tax.

Cerro Bayo (2016)

As part of our review of indicators of impairment, the Company determined that the reduction in reserves at Cerro Bayo as at December 31, 2016 was an indicator of impairment for the Cerro Bayo cash generating unit. The Company calculated the recoverable amount based on fair value less cost to sell and determined that the recoverable amount was in below the carrying value and as a result the Company recognized an impairment of $10,000,000 for the Cerro Bayo cash generating unit. This was a result of a review of impairment indicators after a reduction in reserves. The key assumptions in determining the recoverable amount were a long-term gold price of $1,275 per ounce and long term silver price of $18.50 per ounce and a discount rate of 7% after tax.

During the year ended December 31, 2016, the Company recognized a $4,179,000 write-off of residual mining interests in the Fabiola and Yasna veins at Cerro Bayo due to the fact there were no additional accessible reserves in those veins. Further, the Company decided not to pursue certain exploration projects and recorded a write-off of $3,066,000 for Cerro Bayo

5. Property, plant and equipment (continued)

Costerfield and Björkdal

For the year ended December 31, 2017, the Company decided not to pursue certain exploration projects and recorded a write-off of $522,000 (2016 - $491,000) at Costerfield and nil (2016 - $189,000) for Björkdal.

Exploration and evaluation – others

(i) *Challacollo*

As at December 31, 2017, the Company continues to develop a suitable source of water and to spend on exploration activities.

(ii) *La Quebrada*

La Quebrada is a non-core asset and therefore has suspended all exploration activities.

As at December 31, 2017, the Company concluded that there were no impairment indicators at this property. As part of the annual impairment review in 2016, the Company determined that the lower copper market price was considered an indicator of impairment for the La Quebrada asset. Based on the analysis of internal valuation models, the carrying value of La Quebrada was impaired by $2,264,000 which was recognized in the consolidated statements of loss and comprehensive loss. The key assumptions in the valuation of La Quebrada was a long-term copper price of $3.00/lb and a discount rate of 8.8% after tax.

(iii) *Ulu and Lupin*

The Ulu and Lupin gold projects in Nunavut, Canada are currently classified as non-core assets. The Company has decided to recognize a $1,484,000 impairment of the Ulu and Lupin assets for the year ended December 31, 2017 (2016 - $Nil).

(a) *Royalties*

(i) *Costerfield*

The Company is required to pay a 2.75% NSR to the government in Australia. During the year ended December 31, 2017, the Company paid NSR in the amount of $684,000 (2016 – $577,000) which is recorded as part of cost of sales.

(ii) *Cerro Bayo*

Until March 31, 2016, the Company was required to pay to the former owner a 2% NSR. The Company purchased the royalty from the former owner on March 31, 2016 for total consideration consisting of $4,000,000 and 2,500,000 common shares of the Company. The Company no longer has any royalty obligations with respect to Cerro Bayo. During the year ended December 31, 2017, the Company did not pay any NSR (2016 – $292,000) which was recorded as part of cost of sales.

(iii) *Björkdal*

The Company is required to pay NSR of 0.2% of the average gold price of the production, one fourth of that amount is to be paid to the government and the remainder to the owners of the land. During the year ended December 31, 2017, the Company paid NSR in the amount of $59,000 (2016 – $53,400) which is recorded as part of cost of sales.

6. Intangible asset

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

As at December 31, 2017, the carrying amount of the intangible asset is $29,000 (2016 – $305,000). In 2017, amortization of $276,000 (2016 – $492,000) was recorded as part of cost of sales.

7. Trade and other payables

	December 31, 2017	December 31, 2016
	($'000)	($'000)
Trade payables	**13,870**	13,069
Accrued liabilities	**6,499**	6,265
Payroll and other taxes payable	**3,820**	2,780
Cash election option (Note 12(c))	**1**	36
Mark-to-market adjustment	**91**	983
	24,281	23,133

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

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract.

As at December 31, 2017, there was $91,000 mark-to-market adjustment recorded in trade and other payables (2016 – $983,000).

8. Borrowings

	December 31, 2017	December 31, 2016
	($'000)	($'000)
Liability for the Revolver facility	**14,721**	-
Borrowings for loan/lease facility	**3,139**	2,566
	17,860	2,566
Less: Current portion of total borrowings	**1,699**	1,303
Non-current portion of total borrowings	**16,161**	1,263

8. Borrowings (continued)

Revolver facility

During the year ended December 31, 2017, the Company entered into a $40 million senior secured revolving credit facility (the "Revolver Facility") with HSBC Bank Canada. The Revolver Facility matures on July 24, 2020, three years after the agreement date.

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

The facility has the below mentioned financial covenents:

- Interest Coverage Ratio of not less than 3.00:1.00 at all times (consolidated basis, calculated on rolling four-quarter basis);
- Leverage Ratio of not more than 3.00:1.00 at all times;
- Tangible Net Worth of less than 75% of Adjusted Tangible Net Worth and Closing Date + 50% of net income (cumulative) earned after Closing Date; and
- Current Ratio of not less than 1.20:1.00.

As at December 31, 2017, the Company is in compliance with the Revolver Facility covenants.

During the year ended December 31, 2017, the Company had drawn down an initial $15.0 million from the Revolver Facility and it had capitalised $1,314,000 of related expenses. During the year ended December 31, 2017 $156,000 of these capitalised costs were expensed.

Equipment loans

As at December 31, 2017, the Company's Björkdal mine in Sweden had a balance of $372,000 (2016 – $1,176,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the three-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 9 months from the year ended December 31, 2017. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling $2,767,000 (2016 – $1,390,000). These leases financed 80% of the equipment purchase cost, bear interest at the one-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments. These leases are payable within 5 years of initial borrowing. Certain leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost.

As at December 31, 2017, the current portion of the above facilities is $1,699,000 (2016 – $1,303,000) and the non-current portion is $1,440,000 (2016 – $1,263,000).

Future minimum payments under the equipment loans as at December 31, 2017 and 2016 are as follows:

			2017
	Less than 1 year	**Between 1- 4 years**	**Total**
	($'000)	($'000)	($'000)
Principal repayments of equipment loans	372	-	**372**
Minimum future lease payments for equipment leases	1,327	1,440	**2,767**
	1,699	1,440	**3,139**
Interest portion on lease payments for equipment leases	27	29	56
Total borrowings, including interest portion	**1,726**	**1,469**	**3,195**

8. Borrowings (continued)

			2016
	Less than 1 year	Between 1- 4 years	Total
	($'000)	($'000)	($'000)
Principal repayments of equipment loans	588	588	**1,176**
Minimum future lease payments for equipment leases	715	675	**1,390**
	1,303	1,263	**2,566**
Interest portion on lease payments for equipment leases	38	28	**66**
Total borrowings, including interest portion	**1,341**	**1,291**	**2,632**

9. Five-year exchangeable loan

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

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

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares to the Bond holder.

The Issuer may redeem the Bonds at its option:

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

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

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the consolidated statements of financial position of the Company as at December 31, 2017 and 2016. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (Note 17).

Repurchase and Amendment of Bonds

On May 26, 2017, the Issuer repurchased $29,950,000 of the Bonds from the bond holders thereof at a premium of 105% of their principal amount resulting in a remaining principal amount of $30,050,000.

In connection with the partial repayment of the Bonds, the following amendments have been made to the terms of the remaining Bonds:

- extending the maturity date of the Bonds to May 13, 2022;
- deleting a condition of the Bonds which required that beginning on May 14, 2017, as additional security for the Bonds, the Issuer was required to start depositing the aggregate number of Gold Shares issuable upon exchange of the Bonds into a custody account;

9. Five-year exchangeable loan (continued)

- adding a new covenant to the Bonds pursuant to which the Issuer will be required to offer to repurchase a proportion of the Bonds outstanding at the relevant time if and to the extent that the contained gold equivalent Mineral Reserves (in ounces) at Mandalay's Costerfield mine falls below (initially) 232,000 gold equivalent ounces;

- increasing the interest rate payable on the Bonds from 5.875% per annum to 6.875% per annum effective as of May 13, 2017; and

- reducing the exchange price of the Bonds from US$149.99 to US$135.00 (which equates to gold prices of US$1,556 per ounce, and US$1,400 per ounce, respectively).

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

10. Reclamation and site closure costs

Site closure and reclamation cost obligations arise from the acquisition, development, construction and normal operation from mining property, plant and equipment, due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The Company has future obligations to retire its mining assets including dismantling, remediation and ongoing treatment and monitoring of sites. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future are subject to change, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

The Company's site closure reclamation obligations consist of costs for the mines at Costerfield, Cerro Bayo, Björkdal and Ulu/Lupin. Significant site closure and reclamation activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

Changes to the site closure and reclamation cost balance are as follows:

	($'000)
Balance at December 31, 2015	41,999
Expenditure for reclamations	-
Change in estimated cash outflows	2,109
Accretion (Note 16)	428
Liabilities associated with assets held for sale (Note 23)	(21,516)
Foreign exchange	371
Balance at December 31, 2016	23,391
Expenditure for reclamations	(1,575)
Change in estimated cash outflows	3,870
Accretion (Note 16)	663
Reclamation and Mine Closure Costs (Note 23)	21,516
Foreign exchange	2,022
Balance at December 31, 2017	**49,886**

10. Reclamation and site closure costs (continued)

At each reporting period the Company reviews cost estimates and other assumptions used in the valuation of reclamation and closure costs to reflect events, changes in circumstances and new information available. Changes in these cost estimates and assumptions have a corresponding impact on the best estimate of the site closure and reclamation obligation costs.

The best estimate of the site closure and reclamation costs is measured by discounting the expected cash flows using a discount factor that reflects a pre-tax rate specific to the liability. The Company prepares estimates of the timing and amount of expected cash flows when site closure and reclamation costs are incurred. Expected cash flows are updated to reflect changes in facts and circumstances. The principal factors that can cause expected cash flows to change are: the construction of new processing facilities; changes in the quantities of material in reserves and a corresponding change in the life-of-mine plan; changing ore characteristics that impact required environmental protection measures and related costs changes in water quality that impact the extent of water treatment required; and changes in laws and regulations governing the protection of the environment. The best estimate of the site closure and reclamation costs is recorded when it is incurred.

The total undiscounted amount of estimated cash flows required to settle the retirement obligations for the Company is $53,262,000 (2016 - $47,383,000). The deposit relating to these obligations amounted to $35,924,000 (2016 - $5,146,000) is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Costerfield mine at December 31, 2017 is $3,189,000 (2016 – $2,850,000), calculated using a discount rate of 2.25% (2016 – 2.3%). The obligations are expected to be settled by 2021. The regulatory body in Australia requires reclamation deposits from the Company. As at December 31, 2017, the deposit amounted to $2,997,000 (2016 - $2,776,000) and is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Cerro Bayo mine as at December 31, 2017 is $18,227,000 (2016 – $18,026,000), calculated using a discount rate of 1.3% (2016 – 1.3%). The obligations are expected to be settled by 2021.

The present value of the site closure and reclamation cost obligations for the Björkdal mine as at December 31, 2017 is $2,791,000 (2016 – $2,514,000) derived through an independent consultant. The deposit amounted to $3,398,000 (2016 - $2,370,000) and is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Ulu/Lupin mine as at December 31, 2017 is $25,679,000 (2016 – $21,516,000), calculated using a discount rate of 1.86% (2016 – 0.70%). The obligations are expected to be settled by the end of 2027. Restricted cash at December 31, 2017 amounting to $29,530,000 (2016 – $20,634,000) stands as a deposit against reclamation.

11. Other provisions

	Employee benefits ($'000)
Balance, December 31, 2015	2,964
Additions	2,722
Amounts paid	(1,947)
Foreign exchange	10
Balance, December 31, 2016	3,749
Additions	1,577
Amounts paid	(1,944)
Foreign exchange	291
Balance, December 31, 2017	3,673
Less: current portion	2,083
Total non-current portion	1,590

11. Other provisions (continued)

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

12. Share capital

As at December 31, 2017, the Company had an unlimited number of authorized common shares without par value and 451,279,731 common shares outstanding (2016 – 451,174,008 common shares). All outstanding common shares are fully paid.

(a) Shares issued

For the year ended December 31, 2017 the Company issued common shares upon exercise of RSUs and for 2016, in addition to common shares issued upon exercise of share options and RSUs, the Company issued 2,500,000 shares to Coeur Mining as part of the purchase of the 2% Net Smelter Return royalty at Cerro Bayo and on July 26, 2016, the Company closed a treasury offering (the "Offering") of 33,915,000 common shares at a price of C$1.15 per common share.

(b) Share-based compensation

For the year ended December 31, 2017, the Company recorded $1,000,000 (2016 – $905,000) as net share-based compensation expense.

	2017	2016
	($'000)	($'000)
Stock based compensation on options	**892**	772
Fair value for cash election option	**(54)**	24
RSU amortization	**162**	109
	1,000	905

The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C$0.60 (2016 – C$0.91) was calculated using the following weighted average assumptions. Expected stock price volatility and option life are based on the Company's historical share price volatility and option life.

	2017	2016
Risk free interest rate	**0.85%**	0.60%
Expected dividend yield	**5.33%**	4.48%
Expected life of options in years	**7.00**	5.00
Expected stock price volatility	**42.89%**	44.50%
Expected forfeiture rate	**5.00%**	5.00%

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over three years. Options issued until year ended December 31, 2016 had maximum term of five years, and from the year 2017, can have a maximum term of up to 7 years.

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

12. Share capital (continued)

(c) Stock options

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at December 31, 2017, the liability is $1,000 (2016 - $36,000).

The Company recognized a fair value measurement gain of $54,000 for the year ended December 31, 2017 (2016 – loss of $24,000), which is included in the share-based compensation expense.

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumptions as at December 31, 2017 and 2016. The fair value is determined based on Level 1 and 2 inputs as follows:

	2017	2016
Risk free interest rate	**1.66%**	0.75%
Expected dividend yield	**3.20%**	3.57%
Expected life of options in years	**1.23**	2.23
Expected stock price volatility	**49.88%**	42.18%
Expected forfeiture rate	**0.00%**	0.00%

As at December 31, 2017, 775,000 (2016 – 1,455,000) stock options with the cash election option are outstanding.

	Number of options	**Weighted average exercise price**
		C$
Balance, December 31, 2015	18,912,500	0.89
Granted	5,463,000	0.91
Exercised-equity issuance	(4,123,300)	0.63
Forfeited	(1,010,000)	0.93
Balance, December 31, 2016	19,242,200	0.95
Granted	4,800,000	0.60
Expired	(2,609,200)	0.78
Forfeited	(487,500)	0.96
Balance, December 31, 2017	**20,945,500**	**0.89**

There were no options exercised in 2017. The weighted average share price at the time when the stock options were exercised during the year ended December 31, 2016, was C$0.99.

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

12. Share capital (continued)

(c) Stock options

The following table summarizes information about the stock options outstanding as at December 31, 2017:

Options outstanding			Options exercisable	
Number of stock options outstanding	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number of options exercisable**	**Weighted average exercise price**
		C$		**C$**
3,407,500	0.47	1.13	3,407,500	1.13
3,730,000	1.48	0.98	3,730,000	0.98
4,200,000	2.48	0.91	4,200,000	0.91
4,808,000	3.48	0.91	-	-
4,800,000	6.75	0.60	-	-
20,945,500	**3.18**	**0.89**	**11,337,500**	**1.00**

(d) Restricted Share Units

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

The number of RSUs as at December 31, 2017, is as follows:

	RSU awards
Balance, December 31, 2015	419,472
Granted	78,435
Redeemed	(215,730)
Balance, December 31, 2016	282,177
Granted	511,890
Redeemed	(105,721)
Outstanding at December 31, 2017	**688,346**

For the year ended December 31, 2017, the Company recorded $162,000 (2016 – $109,000), respectively, as share based compensation relating to RSUs.

12. Share capital (continued)

(e) Dividends

The details of the dividends paid are as follows:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
2017				
	February 16, 2017	February 27, 2017	0.0057	1,922
	May 11, 2017	May 22, 2017	0.0083	2,781
				4,703
2016				
	February 18, 2016	February 29, 2016	0.0088	2,715
	May 11, 2016	May 24, 2016	0.0094	2,996
	August 11, 2016	August 22, 2016	0.0094	3,272
	November 02, 2016	November 24, 2016	0.0086	2,890
				11,873

The Company suspended dividend payments on its common shares as after declaring the dividend in May 2017.

13. Income taxes

Income tax expense consists of the following:

	2017	2016
	($'000)	($'000)
Current tax		
Adjustment in respect of prior periods	**(1,146)**	-
Income tax	**4,094**	123
	2,948	123
Deferred tax		
Origination and reversal of temporary differences	**(10,690)**	4,802
Change in tax rates	**(594)**	-
Increased in unrecognized losses	**11,111**	120
	(173)	4,922
Total incometax expense	**2,775**	5,045

13. Income taxes (continued)

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to income before income taxes. These differences result from the following items:

	2017	2016
	($'000)	($'000)
Loss before income taxes	(39,931)	(15,188)
Canadian federal and provincial income tax rates	26.5%	26.5%
Income tax expense based on above rates	(10,582)	(4,025)
Increase (decrease) due to		
Non-deductible (taxable) expenditures	(9)	430
Effect of different foreign tax rates on earnings of subsidiaries	2,885	2,395
Deferred income asset not recognised	-	2,650
Reduction in carrying amount of deferred income tax asset	764	4,774
Impact of higher tax rates on deferred income taxes	(594)	(140)
Increase (decrease) in unrecognized losses	11,111	(692)
Adjustment in respect of prior periods	(1,146)	-
Others	346	(347)
	2,775	5,045

The tax rates used for the 2017 and 2016 reconciliations above are the corporate tax rates applicable to Mandalay in Canadian jurisdictions. The applicable tax rate charged was 26.5% in 2017 and 2016.

The components of deferred income taxes are as follows:

	2017	2016
	($'000)	($'000)
Deferred tax assets		
Tax losses carried forward	784	4,760
Deductible temporary differences and other:		
Other	874	-
Provisions and accruals	1,994	(1,052)
Deferred tax assets	3,652	3,708
Deferred tax liabilities		
Property, plant and equipment	(14,772)	(14,810)
Finance leases	(150)	-
Foreign tax reserves	(148)	-
Deferred tax liability, net	(11,418)	(11,102)
Deferred tax asset	3,652	634
Deferred tax liability	(15,070)	(11,736)
Deferred tax liability, net	(11,418)	(11,102)

13. Income taxes (continued)

At December 31, 2017, the Company assessed the carrying amount of the deferred income tax assets to determine if sufficient taxable profit will be available against which they can be utilized. As a result of this assessment, the Company has reduced the carrying amount of the deferred income tax asset by $764,000 (2016 - $4,774,000).

Changes in the Company's net deferred income tax asset (liability) are as follows:

	2017	2016
	($'000)	($'000)
Opening net deferred tax liability	(11,102)	(6,944)
Income tax expense charged to earnings during the year	173	(4,922)
Foreign exchange	(489)	764
Ending net deferred tax liability	**(11,418)**	(11,102)

Deferred tax assets not recognized at the reporting date are summarized as follows:

	2017	2016
	($'000)	($'000)
Deferred tax assets		
Tax losses carried forward	23,401	16,276
Deductible temporary differences:		
Financing costs	588	393
Provisions and accruals	5,052	-
Property, plant and equipment	5,130	-
Other	1,485	35
Unrecognized deferred tax assets	**35,657**	16,704

As at December 31, 2017, the Company has unrecognized Canadian income tax losses of approximately $70,934,000 (2016 – $63,948,000) that expire from 2023 through 2036, as well as unrecognized Chilean tax losses of $17,049,000 (2016 - $Nil).

14. Cost of sales

The cost of sales for the year ended December 31, 2017 and 2016, consists of:

	2017	2016
	($'000)	($'000)
Raw materials and consumables	32,709	40,778
Salary and employee benefits	34,037	37,078
Contractors	28,052	30,871
Change in inventories	2,440	3,047
Royalty	764	990
Other	9,109	12,790
	107,111	125,554

15. Administration expenses

The administration expenses for the year ended December 31, 2017 and 2016 consists of the following:

	2017	2016
	($'000)	($'000)
Accounting and legal	**1,404**	1,664
Administrative and office	**2,002**	4,577
Salaries	**2,572**	1,477
Travel and entertainment	**674**	906
Other	**637**	500
Total	**7,289**	9,124

Included in cost of sales and administrative expenses and office are the employee salary and benefit expenses of $34,037,000 and $2,002,000 respectively (2016 - $37,078,000 and $4,577,000).

16. Finance costs

The finance expenses for the year ended December 31, 2017 and 2016 consists of the following:

	2017	2016
	($'000)	($'000)
Interest on five year exchangeable bonds (Note 9)	**3,788**	4,964
Expenses relating to part repayment of five year exchangeable bonds	**1,249**	-
Loss on part repayment of five year exchangeable bonds	**1,682**	-
Finance charges on revolver facility	**559**	-
Interest on borrowings	**235**	301
Accretion of reclamation and site closure costs (Note 10)	**663**	428
	8,176	5,693

17. Financial instruments

The changes to the fair values in financial instruments for the year ended December 31, 2017 and 2016 consists of the following:

	2017	2016
	($'000)	($'000)
Five-year exchangeable bonds (a)	**(2,495)**	(333)
Marketable securities (b)	**(113)**	71
Total fair value adjustment	**(2,608)**	(262)

17. Financial instruments

(a) Five-year exchangeable bonds

The Company has valued the conversion feature of the five-year exchangeable bonds (Note 9) using the Black-Scholes option pricing. For the year ended December 31, 2017, the derivative value of the conversion feature amounts to $3,567,000 (2016 – $1,072,000) and is recorded in current liabilities in the consolidated statements of financial position. The Company recorded a fair value measurement gain/(loss) of $ 2,495,000 (2016 – ($333,000)) for the year ended December 31, 2017. The value was estimated using the following Level 2 assumptions: risk free interest rate of 1.98% (2016 – 1.47%); volatility of 16% (2016 – 18%), gold forward curve adjustment of (-0.54%) (2016 – (-0.16%)).

(b) Marketable securities

The value of securities as at December 31, 2017, is $159,000 (2016 – $261,000), recorded in trade receivables and other assets on the consolidated 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 gain/(loss) of $113,000 (2016 – ($71,000)) for the year ended December 31, 2017, respectively, using Level 1 assumptions.

18. Income per share

As at December 31, 2017 and 2016, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	2017	2016
	('000)	('000)
Net loss for the year	**(42,706)**	(20,233)
Basic weighted average number of shares outstanding	**451,247**	430,151
Diluted weighted average number of shares outstanding	**451,247**	430,151

Since the Company has made a loss in 2017 and 2016, stock options and RSU's are anti-dilutive. Details for the options and RSU's are below:

	Year ended December 31,	
	2017	2016
	('000)	('000)
Stock options	**20,946**	19,242
RSU	**688**	282

19. Segmented information

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

					Year ended on December 31, 2017
	Australia	**Chile**	**Sweden**	**Canada**	**Total**
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**
Revenue	63,209	25,440	74,348	-	162,997
Cost of sales	(38,433)	(20,478)	(48,200)	-	(107,111)
Depletion and depreciation	(14,419)	(9,261)	(16,555)	(23)	(40,258)
Income from mine operations	10,357	(4,299)	9,593	(23)	15,628
Other operating expenses	(2,323)	(2,939)	(2,513)	(1,089)	(8,864)
Care and maintenance and other operating expenses (Note 25)	-	(12,815)	-	-	(12,815)
Write-off of assets (Note 5)	(552)	(19,777)	-	(1,484)	(21,813)
Income (loss) from operations	7,482	(39,830)	7,080	(2,596)	(27,864)
Other expense, except for fair value adjustment	(475)	(656)	(798)	(7,530)	(9,459)
Income (loss) for underlying operations	**7,007**	**(40,486)**	**6,282**	**(10,126)**	**(37,323)**
Loss from underlying operations per share					
Basic					($0.08)
Diluted					($0.08)
Fair value adjustments gain (loss) (Note 17)					
Five-year exchangeable bonds (Note 17(a))	-	-	-	(2,495)	(2,495)
Marketable Securities (Note 17(b))	-	-	-	(113)	(113)
Total fair value adjustment	-	-	-	(2,608)	**(2,608)**
Income (loss) before income taxes	7,007	(40,486)	6,282	(12,734)	(39,931)
Current tax recovery (expense)	(2,105)	850	(1,693)	-	(2,948)
Deferred tax recovery	477	4	409	(717)	173
Net income (loss)	**5,379**	**(39,632)**	**4,998**	**(13,451)**	**(42,706)**
Net Loss per share					
Basic					($0.09)
Diluted					($0.09)
Cash expenditure for property, plant and equipment	10,949	10,437	26,021	58	47,465
Total non-current assets as at December 31, 2017	45,296	56,375	89,078	43,092	233,841
Total assets as at December 31, 2017	65,571	70,293	122,505	46,692	305,061
Total liabilities as at December 31, 2017	13,489	21,366	31,499	73,168	139,522

19. Segmented information (continued)

	Year ended on December 31, 2016				
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	74,864	50,010	60,669	-	185,543
Cost of sales	(40,029)	(39,422)	(46,103)	-	(125,554)
Depletion and depreciation	(14,360)	(14,479)	(11,171)	(17)	(40,027)
Income from mine operations	20,475	(3,891)	3,395	(17)	19,962
Other operating expenses	(1,622)	(2,527)	(1,614)	(4,901)	(10,664)
Care and maintenance and other operating expenses (Note 25)	-	-	-	-	-
Write-off of assets (Note 5)	(491)	(17,245)	(189)	-	(17,925)
Income (loss) from operations	18,362	(23,663)	1,592	(4,918)	(8,627)
Other expense, except for fair value adjustment	156	(769)	66	(5,752)	(6,299)
Income (loss) for underlying operations	**18,518**	**(24,432)**	**1,658**	**(10,670)**	**(14,926)**
Income (loss) for underlying operations per share					
Basic					($0.03)
Diluted					($0.03)
Fair value adjustments gain (loss) (Note 17)					
Five-year exchangeable bonds (Note 17(a))	-	-	-	(333)	(333)
Marketable Securities (Note 17(b))	-	-	-	71	71
Total fair value adjustment	-	-	-	(262)	**(262)**
Income (loss) before income taxes	18,518	(24,432)	1,658	(10,932)	(15,188)
Current tax recovery (expense)	(2,678)	2,920	(365)	-	(123)
Deferred tax recovery (expense)	(874)	(4,493)	445	-	(4,922)
Net income (loss)	**14,966**	**(26,005)**	**1,738**	**(10,932)**	**(20,233)**
Net Loss per share					
Basic					($0.05)
Diluted					($0.05)
Cash expenditure for property, plant and equipment	7,944	16,027	18,355	22	42,348
Total non-current assets as at December 31, 2016	46,205	75,521	74,058	1,003	196,787
Total assets as at December 31, 2016	76,840	106,206	94,101	73,085	350,232
Total liabilities as at December 31, 2016	14,828	25,470	26,312	80,585	147,195

19. Segmented information (continued)

For the year ended December 31, 2017, the Company had two customers from whom it earned more than 10% of its total revenue (2016 – four customers).

Revenue from these customers is summarized as follows:

	December 31, 2017 ($'000)	December 31, 2016 ($'000)
Costerfield (gold and antimony)		
Customer 1	**44,917**	52,003
Customer 2	**-**	23,031
	44,917	75,034
Cerro Bayo (silver and gold)		
Customer 3	**-**	26,470
	-	26,470
Björkdal (gold)		
Customer 4	**63,208**	50,864
	63,208	50,864
Total	**108,125**	152,368

20. Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

In the management of capital, the Company includes the components of equity, long-term debt, net of cash and cash equivalents.

Capital, as defined above, as at December 31, 2017 and 2016 is summarized in the following table.

	2017 ($'000)	2016 ($'000)
Equity	**165,539**	203,037
Five-year exchangeable loan (Note 9)	**27,784**	56,424
Non - current borrowings	**16,161**	1,263
	209,484	260,724
Cash and cash equivalents	**(16,935)**	(66,917)
	192,549	193,807

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or purchase existing shares under Normal Course Issuer Bid arrangements, issue new debt or pay down existing debt, or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budget and quarterly updated forecasts are approved by the Board of Directors.

21. Financial risk management

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and commodity price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations.

The Company's financial assets are primarily composed of cash and cash equivalents, trade and other receivables, derivative financial instruments and reclamation and other deposits. Credit risk is primarily associated with trade receivables and investments; however, it also arises on cash and cash equivalents.

To mitigate exposure to credit risk, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable creditworthiness, and to ensure liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company sells its antimony, silver and gold exclusively to large international organizations with strong credit ratings.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold, silver and antimony trade receivables as at December 31, 2017 is not considered to be high.

The Company's maximum exposure to credit risk as at December 31, 2017 and December 31, 2016, is as follows:

	2017	2016
	($'000)	($'000)
Cash and cash equivalents	**16,935**	66,917
Trade and other receivables	**30,510**	28,110
Reclamation and other deposits	**35,924**	5,146
	83,369	100,173

A significant portion of the Company's cash and cash equivalents is held in large Canadian financial institutions.

(b) Aging of past due but not impaired receivables

The Company receives 90-95% of the estimated sales revenue of gold, silver, and antimony upon delivery. Final selling price is determined approximately 90-180 days after the delivery when smelting is complete. The remaining receivable balance is settled with an adjustment once the final selling price is determined, which may be after 180 days. The Company has financial risk management policies in place to ensure that all receivables are received within the pre-agreed credit terms.

21. Financial risk management (continued)

(b) Aging of past due but not impaired receivables (continued)

For the year ended December 31, 2017, substantially all of the Company's silver/gold/antimony production was sold to two customers (2016 – four) and there was no significant change in the credit quality of these customers over that time. Below is the information on the aging of the accounts receivable. There are neither past due amounts nor impaired trade receivables as at December 31, 2017 and 2016.

	2017	2016
	($'000)	($'000)
Less than 6 months	**22,576**	18,628
6 months or more	**-**	-
	22,576	18,628

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

The following are the contractual maturities of commitments. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not necessarily equate to the carrying amounts on the consolidated statements of financial position.

					2017	2016
	Less than 1 year	**1-3 years**	**4-5 years**	**After 5 years**	**Total**	Total
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**	($'000)
Trade and other payables	**24,281**	**-**	**-**	**-**	**24,281**	23,133
Five-year exchangeable loan	**30,050**	**-**	-	**-**	**30,050**	60,000
Borrowings	**1,699**	**16,440**	**-**	**-**	**18,139**	2,632
Income taxes payable	**1,053**	**-**	**-**	**-**	**1,053**	3,570
	57,083	**16,440**	**-**	**-**	**73,523**	89,335

In the opinion of management, the working capital of $10,753,000 as at December 31, 2017, which is the current assets, net of the current liabilities, together with expected positive cash flows from operations, are sufficient to support the Company's normal operating requirements through its current reporting period. However, taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations. In addition to the above, the Company also has access to $25 million from the Revolver Facility (see Note 8) which can be drawn on in case there is the need.

(d) Currency risk

The Company operates in Canada, Australia, Chile and Sweden. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars.

(i) <u>Exposure to currency risk</u>

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, trade and other receivables, reclamation and other deposits, trade and other payables and borrowings.

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

21. Financial risk management (continued)

(d) Currency risk (continued)

(ii) <u>Translation exposure</u>

The Company's presentation currency is U.S. dollars. The Company's foreign operations translate their operating results from their respective functional currency to U.S. dollars. Therefore, exchange rate movements in the Australian dollar, Canadian dollar, Chilean peso and Swedish krona can have a significant impact on the Company's consolidated financial position.

The following tables demonstrate the sensitivity to a reasonably possible change in AUD, SEK and CAD exchange rates, with all other variables held constant. The impact on the Company's profit is due to changes in the fair value of monetary assets and liabilities in place at the balance sheet data. The Company's exposure to foreign currency changes for all other currencies is not material.

			2017
	Change in USD rate	**Effect on profit before tax**	**Effect on Pre - tax equity**
Australia	±5%	(350)	(2,604)
Sweden	±5%	(314)	(4,550)
Canada	±5%	506	1,324

			2016
	Change in USD rate	**Effect on profit before tax**	**Effect on Pre - tax equity**
Australia	±5%	(926)	(3,101)
Sweden	±5%	(83)	(3,389)
Canada	±5%	534	375

(e) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate changes is limited for the majority of borrowings as at December 31, 2017 since interest to be paid on the five year exchangeable loan is fixed at 6.875% and the interest paid on the undrawn revolver facility portion is fixed at 1%. The variable interest rates are on the Equipment Facility of Björkdal bearing interest at the three-month STIBOR plus 2.16% per annum and equipment leases of Björkdal bearing interest at the one-month STIBOR plus between 2.05%-3.21% per annum. Revolver Facility bears interest at LIBOR plus 3.5%-4.5% per annum or at HSBC's "US base rate" plus 2.5%-3.5%, depending on the Company's leverage ratio.

(f) Commodity price risk

The Company's income and cash flows are subject to price risk due to fluctuations in the market price of gold, silver, and antimony. World metal prices have historically fluctuated widely. World gold prices are 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;

21. Financial risk management (continued)

(f) Commodity price risk (continued)

- purchases and sales of gold by central banks and other holders;
- demand for jewelry containing gold, and/or silver;
- changes in industrial demand for silver and/or antimony;
- changes in supply of gold, silver, and/or antimony due to new mines being commissioned and existing mines being exhausted; and
- investment activity, including speculation, in gold, silver, and antimony as commodities.

The Company is subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by the prices of materials it consumes or uses in its operations, such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control.

22. Fair value measurement

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

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

At December 31, 2017 and December 31, 2016, the Company's financial assets and liabilities are categorized as follows:

				2017
	FVTPL	**Loans and receivables**	**Other financial liabilities**	**Total**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Financial assets				
Cash and cash equivalents	**-**	**16,935**	**-**	**16,935**
Trade receivables	**-**	**22,576**	**-**	**22,576**
Other receivables	**-**	**7,775**	**-**	**7,775**
Reclamation and other deposits	**-**	**35,924**	**-**	**35,924**
Marketable securities	**159**	**-**	**-**	**159**
Financial liabilities				
Trade and other payables	**92**	**-**	**24,189**	**24,281**
Five-year exchangeable loan	**-**	**-**	**27,784**	**27,784**
Borrowings	**-**	**-**	**17,860**	**17,860**
Derivative financial instruments	**3,567**	**-**	**-**	**3,567**

				2016
	FVTPL	Loans and receivables	Other financial liabilities	Total
	($'000)	($'000)	($'000)	($'000)
Financial assets				
Cash and cash equivalents	-	66,917	-	66,917
Trade receivables	-	18,628	-	18,628
Other receivables	-	9,221	-	9,221
Reclamation and other deposits	-	25,780	-	25,780
Marketable securities	261	-	-	261
Financial liabilities				
Trade and other payables	1,019	-	22,114	23,133
Five-year exchangeable loan	-	-	56,424	56,424
Borrowings	-	-	2,566	2,566
Derivative financial instrument	1,072	-	-	1,072

22. Fair value measurement (continued)

At December 31, 2017 and 2016, the carrying values and the fair values of the Company's financial instruments are shown in the following table.

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

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
	($'000)	**($'000)**	($'000)	($'000)
Financial assets				
Cash and cash equivalents	**16,935**	**16,935**	66,917	66,917
Trade receivable	**22,576**	**22,576**	18,628	18,628
Other receivables	**7,775**	**7,775**	9,221	9,221
Reclamation and other deposits	**35,924**	**35,924**	25,780	25,780
Marketable securities	**159**	**159**	261	261
Financial liabilities				
Trade and other payables	**24,281**	**24,281**	23,133	23,133
Five-year exchangeable loan	**27,784**	**26,433**	56,424	58,928
Borrowings	**17,860**	**17,916**	2,566	2,632
Derivative financial instruments	**3,567**	**3,567**	1,072	1,072

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

As at December 31, 2017, other receivables and marketable securities are based on Level 1 inputs. Provisional pricing feature included in trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

23. Assets and liabilities held for sale

On October 31, 2016, Mandalay entered into a definitive agreement with WPC Resources Inc. (TSXV: WPC) ("WPC") pursuant to which WPC has agreed to purchase the Lupin gold mine ("Lupin") and the Ulu ("Ulu") gold project from Mandalay. Following the agreement, all the assets related to Lupin and Ulu amounting to $31,382,000 were classified as held for sale, and liabilities of $21,554,000 directly associated with Lupin and Ulu were classified as liabilities directly associated with assets held for sale for the year ending December 31, 2016. During the year ended December 31, 2017 the Company and WPC cancelled the 2016 definitive agreements and has signed two separate letters of intent for Ulu and Lupin with respect to option agreements and as a result of this, the Company has determined the assets no longer meet the criteria as held for sale and it has reclassified the items from assets and liablities held for sale, back to their respective individual asset and liablity accounts within the statement of financial position.

The following table presents the assets and liabilities of Lupin and Ulu, classified as Assets held for sale and Liabilities directly associated with the assets held for sale in the consolidated statement of financial position as at December 31, 2016:

	December 31, 2016
	($'000)
Assets	
Reclamation deposits and other	20,634
Property, plant and equipment	9,370
Current assets	1,378
Assets held for sale	31,382
Liabilities	
Reclamation and site closure costs	21,516
Other liabilities	38
Liabilities associated with Assets held for sale	21,554

24. Related party transactions

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

Bradford Mills (Executive Chairman of the Company), Mark Sander (Director and President and Chief Executive Officer of the Company) and Sanjay Swarup (Chief Financial Officer of the Company) are also Directors of Plinian Capital. Plinian Capital is a shareholder of the Company. The Company received one-off mining consultancy services from Plinian Capital during the year ended on December 31, 2017.

	Year ended December 31,	
	2017	2016
	($'000)	($'000)
Administration expenses, salaries and consultancy services		
SKS Business Services	**181**	180
Plinian Capital	-	7
Total	**181**	187

24. Related party transactions (continued)

	2017	2016
	($'000)	($'000)
Salaries and short-term benefits	**2,252**	2,275
Share-based payments	**752**	872
	3,004	3,147

25. Care and maintenance and other operating expenses

The Company has recognised $12,815,000 in expenses relating to certain care and maintenance and other costs, incurred and provided for, relating to the flooding that occurred at the Cerro Bayo mine on June 9, 2017, for the year ended December 31, 2017 (2016 – $nil).

26. Commitments and contingencies

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

The Company's Björkdal mine has entered into several equipment leases and the detailed future minimum payments relating to these leases are outlined in Note 8.

27. Subsequent events

On January 8, 2018, the Company signed a definitive agreement for the sale of the Ulu gold project to WPC.

28. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2017 consolidated financial statements.