MANDALAY RESOURCES

Management's Discussion and Analysis

For the Quarter and Year ended December 31, 2017

As of February 22, 2018

CONTENTS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the year ended December 31, 2017, and the Company's annual information form dated March 31, 2017 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States ("U.S.") dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

This MD&A contains forward-looking statements. Please refer to "Cautionary Statement Regarding Forward Looking Statements" at the end of this MD&A for a discussion of some of the risks and uncertainties associated with forward-looking statements.

This MD&A contains reference to non-IFRS measures. Please refer to Section 1.16 "Non-IFRS Measures" at the end of this MD&A for the list of these measures and their definitions.

1.0 FOURTH QUARTER 2017 FINANCIAL AND OPERATING SUMMARY

Mandalay's performance in 2017 was negatively affected by the operating suspension at Cerro Bayo in response to the June 9, 2017, flooding of the Delia NW mine that resulted in no production at Cerro Bayo for the remainder of 2017, after that date. This reduction was partially offset by excellent performance at Björkdal as the operation continued to improve its performance to levels targeted for the turnaround at the time of acquisition. Costerfield continued its dependable performance in which ore tonnage and costs per tonne are well-controlled, with gold equivalent production and cost per ounce dependent on predictably variable grades.

Operations at Cerro Bayo remain suspended. As of September 29, 2017, the mine was moved to care and maintenance pending completion of the investigation of the root cause of the event, the risk assessment of restarting mining in the vicinity of Laguna Verde and delivery of all permits required for the Life of Mine plan. During the quarter, the Company recognized an impairment at Cerro Bayo as a result of the uncertainty in timing of the receipt of permits for restarting the operation.

Financial Summary

- Revenue in the quarter was $38.1 million (including $0.2 million in adverse revenue adjustments related to open sales contracts from prior quarters) compared to $32.4 million in the prior year quarter (including adverse revenue adjustments of $1.2 million related to open sales contracts from prior quarters). The increase in quarterly revenue was due to record sales at Björkdal and higher prices for both gold and antimony. Full year 2017 revenue was $163.0 million compared to $185.5 million in 2016.

- Adjusted EBITDA[1] in the fourth quarter of 2017 was $14.4 million versus negative $2.3 million in the fourth quarter of 2016. Higher adjusted EBITDA in 2017 was due to lower cost of sales and overheads in the 2017 period than in the corresponding 2016 period. Full year 2017 adjusted EBITDA was $48.6 million, only marginally lower than the $50.9 million in 2016 despite suspended operations at Cerro Bayo for almost seven months in 2017.

- Income from mine operations before depreciation and depletion in the fourth quarter of 2017 was $15.4 million versus loss of $0.4 million in the year-ago quarter, and consolidated pre-tax loss was $21.0 million compared to loss of $23.1 million in the year-ago quarter. Year ended 2017 income from mine operations before depreciation and depletion was $55.9 million versus $60.0 million in 2016.

- Consolidated after tax net loss in the fourth quarter of 2017 was $23.1 million ($0.05 loss per share) compared to consolidated net loss of $25.5 million ($0.06/share) in the fourth quarter of 2016. For full year 2017, consolidated after tax net loss was $42.7 million ($0.09 per share) versus $20.2 million ($ 0.05 per share) in 2016.

    - Contributing to the larger 2017 net loss was a $19.8 million impairment of the Cerro Bayo mine. The impairment amount was based on a conservative valuation based on the following assumptions: a long-term gold price of $1,300 per ounce; a long-term silver price of $19.50 per ounce and a discount rate of 6.5% after tax.

    - Also contributing to the loss in 2017 was $12.8 million in expenses incurred primarily for Cerro Bayo inundation-related costs, the cost of placing the operation on care and maintenance, and the cost of continuing on care and maintenance for the fourth quarter.

- There were several items one-time items contributing to the Company's net cash outflow in 2017 that Mandalay expects will not recur going forward. In 2017, free cash flow[1] for the Company was a $20.0 million outflow. However, this amount includes $12.8 million of expenses

[1] Adjusted EBITDA and free cashflow are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

related to the search and recovery effort after the June, 2017 inundation at Cerro Bayo and follow-on redundancy and care and maintenance costs. The Company expects that, from 2018 onwards, care and maintenance costs at Cerro Bayo will be about $6 million per year. The other items the Company incurred which it does not expect to recur in 2018 include $26.4 million of cash outflows, including:

  - Net repayment of borrowings of $14.2 million (mainly consisting of part repayment of the Gold Loan, and drawdown of the Revolver Facility);
  - Increase in reclamation deposit required at the Lupin mine of $7.5 million (which the Company is working to recover); and
  - Dividends of $4.7 million (the Company has suspended its dividend policies on its common shares during 2017).

The Company also spent $1.7 million on reclamation on the Ulu and Lupin sites in 2017, which it expects will reduce the estimate of final closure costs there and possibly be reimbursed through reduction of required reclamation deposits.

Mandalay also expects the benefit of the cash inflow from the record fourth quarter production at Björkdal to be reflected in the first quarter 2018, financial results.

- Total cash capital expenditure during the fourth quarter of 2017 was $12.5 million compared to $11.6 million in the year ago quarter. For year ended 2017 cash capital expenditure was $47.5 million versus $42.3 million in 2016.

- At December 31, 2017, the Company had $16.9 million of cash and cash equivalents compared to $66.9 million as at December 31, 2016.

1. Operational Summary

Consolidated Production and Sales

- In the fourth quarter of 2017, Mandalay produced a total of 34,395 ounces of gold equivalent, including 29,257 ounces of gold and 805 tonnes of antimony. This compares to 31,293 ounces of gold equivalent produced in the fourth quarter of 2016, consisting of 21,264 ounces of gold, 365,214 ounces of silver and 792 tonnes of antimony. For the year ended December 31, 2017, Mandalay produced a total of 131,186 ounces of gold equivalent, including 99,449 ounces of gold, 3,115 tonnes of antimony and 794,533 ounces of silver. This compares to 145,497 ounces of gold equivalent produced in 2016, consisting of 103,245 ounces of gold, 1,731,031 ounces of silver and 3,598 tonnes of antimony.

- Björkdal production in the fourth quarter was a record at the mine under Mandalay ownership. The mine produced a total 62,028 ounces for the full year, the highest production from the mine since 1998. More discussion of this performance is included below under "Results of Operations – Björkdal".

- At Costerfield, gold and antimony production in the current quarter was similar to the corresponding 2016 quarter. It remains consistent with the previous three quarters of this year and also with the current grade profile of the mine. Tonnage mine output and costs as well as plant throughput and costs are very stable. Therefore, metal production and unit costs are closely correlated with head grade.

- There was no production in the current quarter at Cerro Bayo due to the ongoing suspension of operations following the June 9, 2017, flooding in the Delia NW mine. More details on this subject are set out under "Results of Operations – Cerro Bayo" below. The Company expects ongoing care and maintenance costs to decline to a rate of approximately $1.5 million per quarter going forward.

- Mandalay's consolidated average cash cost[2] of production in the fourth quarter of 2017 was $680 per ounce of gold equivalent versus $1,101 per ounce of gold equivalent in the fourth quarter of 2016. Consolidated average cash cost[3] of production for the year ended December 31, 2017 was $851 per ounce of gold equivalent versus $899 per ounce of gold equivalent for the year ended December 31, 2016. Consolidated all-in cost[3] in the current quarter was $945 per ounce of gold equivalent versus $1,385 per ounce of gold equivalent in the prior-year quarter. Consolidated all-in cost[3] in the current year was $1,175 per ounce of gold equivalent versus $1,189 per ounce of gold equivalent in the prior-year. The special item of $12.8 million relating to the Cerro Bayo incident-related expenses has been excluded in the cash cost and all-in cost calculations.

- Operational exchange rates slightly impacted U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 1.3007/US$ in the fourth quarter of 2017 vs 1.3337/US$ in the prior year period. The Chilean Peso averaged 633 peso/US$ vs 665 peso/US$ in the prior year period. The Swedish Krona averaged 8.3160 krona/US$ in the period vs 9.0562 krona/US$ in the prior year period. Petroleum prices were approximately 11% higher than in the prior period.

- Quantities of metal sold during the quarter were 25,044 ounces of gold, 18,334 ounces of silver and 668 tonnes of antimony compared to 19,445 ounces of gold, 320,175 ounces of silver and 883 tonnes of antimony in the fourth quarter of 2016. These sales totaled 29,547 ounces of gold equivalent versus 29,399 ounces of gold equivalent in the corresponding quarter of 2016. For full-year 2017, sales totaled 127,367 ounces of gold equivalent including 95,215 ounces of gold, 926,832 ounces of silver and 2,879 tonnes of antimony versus 146,564 ounces of gold equivalent including 103,467 ounces of gold, 1,796,693 ounces of silver and 3,573 tonnes of antimony in 2016.

- Prices realized during the quarter were $1,276 per ounce for gold, $18.99 per ounce for silver and $8,688 per tonne for antimony versus $1,138 per ounce for gold, $12.36 per ounce for silver and $7,130 per tonne for antimony in the same period in 2016 (12.11% higher price for gold, 53.67% higher for silver and 21.86% higher for antimony).

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

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

Mandalay Saleable Production

Metal	Source	Three months to 31 December 2017	Three months to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
Gold (oz)	Costerfield	7,222	7,523	31,512	41,310
	Cerro Bayo	-	2,807	5,909	13,792
	Björkdal	22,035	10,934	62,028	48,143
	Total	**29,257**	**21,264**	**99,449**	**103,245**
Antimony (t)	Costerfield	**805**	**792**	**3,115**	**3,598**
Silver (oz)	Cerro Bayo	**-**	**365,214**	**794,533**	**1,731,031**
Average quarterly prices:					
Gold US$/oz		1,275	1,218	-	-
Antimony US$/tonne		8,137	7,498	-	-
Silver US$/oz		16.71	17.17	-	-
Au Eq. (oz)[1]	Costerfield	12,360	12,403	52,137	60,076
	Cerro Bayo	-	7,956	17,021	37,278
	Björkdal	22,035	10,934	62,028	48,143
	Total	**34,395**	**31,293**	**131,186**	**145,497**

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

Mandalay Sales

Metal	Source	Three months to 31 December 2017	Three months to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
Gold (oz)	Costerfield	6,337	8,040	30,296	40,161
	Cerro Bayo	142	2,426	7,003	15,419
	Bjorkdal	18,565	8,979	58,058	47,887
	Total	**25,044**	**19,445**	**95,357**	**103,467**
Antimony (t)	Costerfield	**668**	**883**	**2,879**	**3,573**
Silver (oz)	Cerro Bayo	**18,334**	**320,175**	**926,832**	**1,796,693**
Average quarterly prices:					
Gold US$/oz		1,275	1,218	-	-
Antimony US$/tonne		8,137	7,498	-	-
Silver US$/oz		16.71	17.17	-	-
Au Eq. (oz)[2]	Costerfield	10,599	13,480	49,425	58,937
	Cerro Bayo	383	6,940	19,884	39,740
	Bjorkdal	18,565	8,979	58,058	47,887
	Total	**29,547**	**29,399**	**127,367**	**146,564**

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

Björkdal Gold Mine, Sweden

- *Production* — Björkdal produced 22,035 ounces of gold in the fourth quarter of 2017 versus 13,233 ounces of gold in the previous quarter and 10,934 ounces of gold in fourth quarter of 2016. Production is directly related to grade of mill feed as the mill runs at an almost constant throughput rate. In 2017 the mine produced 62,028 ounces versus 48,144 ounces in 2016. The increase in production was due to the effective elimination of several bottlenecks from the open pit and underground mines while maintaining grade control discipline.

- *Operating Costs* — Cash cost per saleable ounce of gold produced at Björkdal in the fourth quarter of this year was $617 and the site all-in cost per saleable ounce of gold produced was $848, as compared to $871 and $1,199 respectively in the previous quarter and $1,160 and $1,374 respectively for the prior-year quarter of 2016. For year ended 2017 cash cost and all-in cost were $816 and $1,083 respectively versus $956 and $1,190 respectively in 2016. The lower cost per ounce in the current period compared to previous year period was due to comparatively higher gold production this quarter with relatively minor increases in cash operating cost.

Costerfield Gold-Antimony Mine, Victoria, Australia

- *Production* — Saleable gold production for the fourth quarter of 2017 was 7,222 ounces versus 7,370 ounces in the previous quarter and 7,523 ounces in the fourth quarter of 2016. Saleable antimony production for the fourth quarter of 2017 was 805 tonnes versus 804 tonnes in the previous quarter and 792 tonnes in the fourth quarter of 2016. In 2017 gold production was 31,512 ounces versus 41,310 ounces in 2016 and antimony production was 3,115 tonnes versus 3,598 tonnes in 2016. Although production of gold in the current quarter was lower than in the year-ago quarter (when the highest-grade part of the Cuffley lode was being extracted), it is in line with the current expected grade profile of the mine.

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the fourth quarter of 2017 was $707 versus $736 in the previous quarter and $837 in the fourth quarter of 2016. The site all-in cost per ounce of gold equivalent produced in the fourth quarter of 2017 was $902 versus $1,068 in the previous quarter and $1,096 in the fourth quarter of 2016. For year ended 2017 cash cost and all-in cost were $701 and $991 versus $660 and $890 in 2016 respectively.

Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production* — Cerro Bayo had no production in the current quarter due to the suspension of operations following the June flooding.

- *Operating Costs* — There was no cash cost or all-in cost calculated in the current quarter, as there was no production at the mine this quarter.

Exploration

A detailed update on exploration activity at all of Mandalay's material properties in 2017 was released on February 20, 2018. Ongoing activities during the fourth quarter of 2017 included:

Björkdal

Drilling continued, focused during the fourth quarter on extending open pit resources in the West Pit, Nylunds, and Norrberget areas. Exploration results obtained for the second half of 2017 are incorporated in the end-of-year Mineral Resources and Reserves update (released on February 20, 2018).

Costerfield

Infill and extensional drilling was performed on Brunswick lode to support a development decision for the lode that was made in the fourth quarter of 2017. The impact of the addition of Brunswick reserves was announced in the end-of-year Mineral Resources and Reserves update (released on February 20, 2018).

1.1 PORTFOLIO AND OPERATIONAL OVERVIEW

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

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

Björkdal

Björkdal is a 100% owned underground and open pit gold mine located in northern Sweden. It was acquired through the Company's acquisition of Elgin Mining on September 9, 2014. The concentrator currently processes 3,500 tonnes per day and has been permitted to expand to 4,300 tonnes per day. Activities since the acquisition have been focused on: augmenting the geologic and sampling staff to provide for best-practice core logging, face mapping, and production sampling; establishing an on-site assay lab for fast grade control sample turnaround; formulating an optimized life-of-mine plan balancing production from open pit and underground while reducing dilution in both; accelerating exploration; and completing fundamental metallurgical surveys and ore sorting studies to improve plant performance on higher head grades, and installing expanded flotation capacity to improve recoveries. This work resulted in the highest delivered ore grades from open pit and underground for many years in the fourth quarter of 2016. However, in that quarter and the first quarter of 2017, emerging bottlenecks limited the tonnes of high grade ore delivered from both the underground and open pit mines and thus the full production impact of successful grade control. Most of these bottlenecks have since been resolved, and in the second through fourth quarters of 2017, performance has been excellent. Quarterly production records and low cash cost of production were achieved in the fourth quarter.

Costerfield

Costerfield is a 100%-owned underground gold-antimony mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Acquired while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day in 2009 to over 400 tonnes per day currently. The production increases (and associated unit cost reductions) are due principally to: a change in mining method from cut-and-fill to blast-hole stoping with cemented rock fill; increasing sub-level spacing from 5 metres to 10 metres; replacing the underground mobile mining fleet; introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput) and construction of a new gold room which has increased the proportion of gold recovered to gravity concentrate. In addition, rigorous improvements in maintenance and production processes in the mine and plant have led to increases in equipment availability and utilization as well as in labor productivities. Exploration (funded by mine operating cash flow) has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life from nil upon acquisition to about a four year mine life today. The most recent reserves addition is the Brunswick lode, which is being developed for production later this year.

Cerro Bayo

Cerro Bayo is a 100%-owned underground silver-gold mine located in the Aysen Province of southern Chile, purchased while on care and maintenance in August, 2010.

Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. Key to the high production and low operating cost of the restarted operation were: shifting the mining method from shrinkage stoping to completely mechanized blast-hole open stoping; ramping up the operation to a total rate of 1,400 tonnes per day from three mines; and developing four highly competitive concentrate customers. With the repurchase of the Coeur Mining royalty interest in the first quarter of 2016, Cerro Bayo is now royalty-free.

Since June 9, 2017, operations have been suspended due to safety concerns arising from inundation of the Delia NW vein. None of the two other operating mines (Delia SE and Coyita) were impacted by the flooding and they remain in operating condition ready to resume when risk assessment of restarting mining around Laguna Verde is completed and all regulatory permits needed for the full life of mine are granted.

Challacollo

Challacollo is a 100% owned silver-gold deposit located in Region I, Northern Chile. Mandalay completed an independent NI 43-101 Mineral Resource estimate for this development property in conjunction with its acquisition of the property on February 7, 2014. Since then, the Company has completed: infill drilling to upgrade previously Inferred Mineral Resource to Indicated; metallurgical studies; mine, plant and infrastructure design; and capital and operating costing. A key outstanding feasibility issue is securing an adequate water supply to support operations. During the second quarter of 2017, the Company discovered adequate water supply in four water exploration holes drilled on concessions about 30 km down-gradient of the deposit. It is currently in the process of perfecting its water rights and permitting additional exploration drilling sites.

La Quebrada

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

Lupin/Ulu

The Lupin and Ulu gold projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project. On October 31, 2016, the Company entered into a definitive agreement for the sale of the Lupin and Ulu gold projects to WPC Resources Inc. ("WPC"), but the transaction was not completed due to an increase in the reclamation bonding requirements for the Lupin project that was imposed shortly before the planned closing date. In the fourth quarter of 2017, Mandalay achieved compliance with the new bonding requirements and subsequently entered into two separate non-binding letters of intent with WPC that contemplate the acquisition of these properties by WPC on substantially the same terms, in the aggregate, as the earlier definitive agreement. Mandalay has subsequently entered into a definitive agreement with WPC with respect to the Ulu property and is negotiating and definitive agreement with WPC with respect to the Lupin property.

During the fourth quarter of 2017, the Company decided to recognize a $1.5 million write off of the book value of Lupin/Ulu based on a fair value analysis of the assets.

1.2 SELECTED QUARTERLY INFORMATION

Summary Financial Information

The following table sets forth a summary of the Company's financial results for the three months and years ended December 31, 2017 and 2016:

	Three months ended December 31, 2017 ($'000)	Three months ended December 31, 2016 ($'000)	Year ended December 31, 2017 ($'000)	Year ended December 31, 2016 ($'000)
Revenue	38,093	32,391	162,997	185,543
Cost of sales	22,690	32,812	107,111	125,554
Income (loss) from mining operations before depreciation and depletion	15,403	(421)	55,886	59,989
Depreciation and depletion	8,335	8,344	40,258	40,027
Income (loss) from mining operations	7,068	(8,765)	15,628	19,962
Administration costs	998	1,900	7,289	9,124
Adjusted EBITDA*	14,405	(2,321)	48,597	50,865
Finance costs, foreign exchange and others**	27,059	12,466	48,270	26,026
Consolidated loss before tax	(20,989)	(23,131)	(39,931)	(15,188)
Current tax expense (recovery)	1,489	(3,598)	2,948	123
Deferred tax expense	595	6,009	(173)	4,922
Adjusted net income (loss) before special items after tax *	839	(10,768)	(10,114)	(2,526)
Consolidated net loss after tax	(23,073)	(25,542)	(42,706)	(20,233)
Total assets	305,061	350,232	305,061	350,232
Total liabilities	139,522	147,195	139,522	147,195
Adjusted income (loss) per share before special items*	0.00	(0.02)	(0.02)	(0.01)
Consolidated (loss) income per share	(0.05)	(0.06)	(0.09)	(0.05)

* Adjusted EBITDA and adjusted net income (loss) and adjusted income (loss) per share before special items are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

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

Summary Balance Sheet

	As at December 31, 2017 ($'000)	As at December 31, 2016 ($'000)
Cash and cash equivalents	16,935	66,917
Inventories, accounts receivables and other current assets	54,285	55,146
Assets held for sale	-	31,382
Non current assets	233,841	196,787
Total assets	**305,061**	**350,232**
Five year exchangeable loan*	27,784	56,424
Current liabilities	32,683	31,681
Liabilities held for sale	-	21,554
Non current liabilities	79,055	37,536
Equity attributable to common share holders	165,539	203,037
Total equity and liability	**305,061**	**350,232**

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

Summary Free Cash Flow

The table below reconciles net cash flow from operating activities, to free cash flow, then to net cash flow (increase in cash and cash equivalents) for the three months and year ended December 31, 2017, and 2016. Free cash flow is a non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
	($'000)	($'000)	**($'000)**	($'000)
Net cash flows from operating activities	**6,847**	**7,691**	**27,489**	**47,298**
Capital expenditures	(12,485)	(11,637)	(47,465)	(46,348)
Free cash flow	**(5,638)**	**(3,946)**	**(19,976)**	**950**
Reclamation deposits	-	(52)	(7,500)	(294)
Reclamation spent	(1,667)	-	(1,667)	-
Other investing activity	2	873	39	1,082
Proceeds from/(Repayment) of borrowings	726	(217)	(14,222)	(144)
Shares issued for cash, net of cost	-	(8)	-	29,600
Dividend paid	-	(2,890)	(4,703)	(11,873)
Effects of exchange rate changes	(1,337)	(1,413)	(1,953)	(1,603)
Net cash flow	**(7,914)**	**(7,653)**	**(49,982)**	**17,718**
Cash and cash equivalents, beginning of the period	24,849	74,570	66,917	49,199
Cash and cash equivalents, end of the period	**16,935**	**66,917**	**16,935**	**66,917**

Dividend

Mandalay's policy from 2012 through the first quarter of 2017 was to pay a quarterly dividend equal to an aggregate of 6% of the trailing quarter's gross revenue. As previously announced on July 25, 2017, to comply with terms of the new $40 million revolving credit facility, the Company has suspended dividends going forward. The following table summarizes dividends paid by Mandalay in 2017 and 2016:

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

Adjusted EBITDA and Adjusted Net Income Reconciliation to Net Income

The tables below reconcile Adjusted EBITDA and Adjusted Net Income to reported net income for the three months and year ended December 31, 2017 and 2016. Adjusted EBITDA and Adjusted Net Income are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

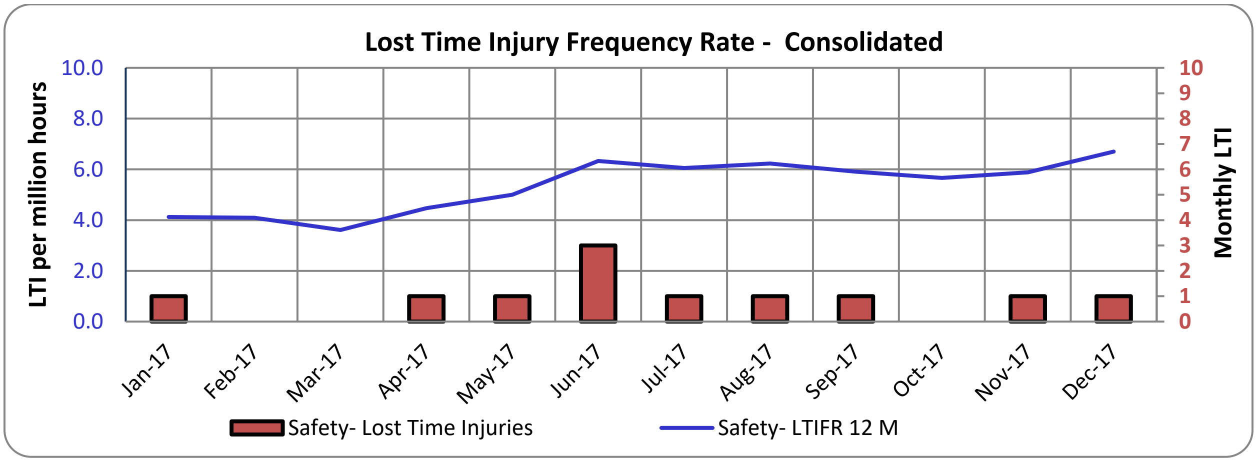
	Three months ended December 31, 2017		Three months ended December 31, 2016		Year ended December 31, 2017		Year ended December 31, 2016	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Consolidated Net Income/(loss)		(23,073)		(25,542)		(42,706)		(20,233)
Special items								
Cerro Bayo write-off of assets	19,000		10,000		19,777		14,179	
Cerro Bayo deferred tax asset write-off	-		4,774		-		4,774	
Deferred tax impact on Royalty	-		-		-		171	
Available Fraction tax adjustment at Costerfield	-		-		-		(1,417)	
Cerro Bayo incident-related expenses	4,912		-		12,815		-	
		23,912		14,774		32,592		17,707
Adjusted Net Income/(loss) before special items		839		(10,768)		(10,114)		(2,526)
Add: Non-cash and finance costs								
Depletion and depreciation	8,335		8,344		40,258		40,027	
Loss (gain) on disposal of property, plant and equipment	57		367		575		635	
Write-off of assets	2,036		3,334		2,036		3,746	
Share based compensation	261		173		1,000		905	
Interest and finance charges	1,507		1,474		8,176		5,693	
Fair value adjustments	(390)		(1,444)		2,608		262	
Current tax	1,489		(3,598)		2,948		123	
Deferred tax	595		1,235		(173)		1,394	
Foreign exchange (gain)/loss	(57)	13,833	(1,363)	8,522	1,717	59,145	943	53,728
		14,672		(2,246)		49,031		51,202
Less: Interest and other income	(267)	(267)	(75)	(75)	(434)	(434)	(337)	(337)
Adjusted EBITDA		14,405		(2,321)		48,597		50,865

1.3 RESULTS OF OPERATIONS

Safety Performance

The Company has a zero-harm policy which is applied at all sites and continuous efforts are made to improve safety and reduce the lost time injury frequency rate ("LTIFR") at all operations. The following table shows the Company's safety statistics for the year ended December 31, 2017.

Incident category	Costerfield	Cerro Bayo	Björkdal	Challacollo	Total
Fatality	-	2	-	-	**2**
Lost time injury (LTI)	4	1	6	-	**11**
Total man hours	429,635	743,400	616,787	10,800	**1,800,622**
LTIFR	9.31	1.35	9.73		**6.70**



The Lost Time Injury Frequency Rate (LTIFR, defined as lost time injuries per million hours worked) rate stands at 6.7 as on December 31, 2017, higher than the rate of a year ago but lower than in earlier years.

Mandalay (Consolidated)

Three Months Ended December 31, 2017, compared to Three Months Ended December 31, 2016

Revenue in the current quarter was $38.1 million (including $0.2 million adverse revenue adjustments related to open sales contracts from prior quarters) compared with revenue in the prior year quarter of $32.4 million (including adverse revenue adjustments of $1.2 million related to open sales contracts from prior quarters). This higher revenue was due mostly to strong volume of gold and antimony sold in the quarter, at higher prices than the year-ago quarter.

Cost of sales in the current quarter was $22.7 million compared with $32.8 million in the year ago quarter leaving adjusted EBITDA in the fourth quarter of 2017 of $14.4 million, compared to negative $2.3 million in the fourth quarter of 2016. The difference is primarily due to having nearly zero cost of sales at Cerro Bayo, where production was suspended for the entire quarter.

Consolidated pre-tax loss was $20.9 million, better than the consolidated pre-tax loss of $23.1 million in the year-ago quarter, mainly due to higher revenue and lower costs in the current quarter.

Consolidated after tax net loss was $23.1 million ($0.05 loss per share) compared to net loss of $25.5 million ($0.06/share) in the year-ago period. Current tax expense was $1.5 million in the current quarter versus recovery of $3.6 million in the year-ago period.

Capital expenditures in the fourth quarter of 2017, including capitalized depreciation and exploration, were $12.5 million. Of this amount $1.3 million was spent at Cerro Bayo, $2.3 million at Costerfield, $8.5 million at Björkdal and $0.3 million at Challacollo. By comparison, total capital expenditures, including capitalized depreciation and exploration, in the fourth quarter of 2016 were $11.6 million.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

During 2017, revenue was $163.0 million versus $185.5 million in 2016. The decline in quarterly and annual revenue was due primarily to fewer ounces of gold and silver and fewer tonnes of antimony sold in the 2017 periods than in the 2016 periods. Cerro Bayo operations were suspended for nearly half the year. Profit from mine operations during 2017 was $15.6 million compared to $20.0 million in 2016, with the difference caused by the lower revenue, explained above. In 2017, cost of sales were $107.1 million versus $125.5 million in 2016. Depletion and depreciation expense were $40.3 million versus $40.0 million in 2016. Administration expense during 2017 was $7.3 million, versus $9.1 million in 2016.

During the year ended December 31, 2017, the Company recorded adjusted net loss before special items of $10.1 million and consolidated net loss of $42.7 million. This compares to adjusted net loss before special items of $2.5 million and consolidated net loss of $20.2 million during the year ended December 31, 2016. Lower adjusted EBITDA was due to both lower revenue in the 2017 year periods than in the 2016 periods and higher cash cost of production.

During 2017, the Company invested $22.9 million in capital development, $8.1 million in exploration, and $16.4 million in property, plant and equipment. The corresponding amounts for 2016 were $17.8 million for capital development, $13.1 million for exploration and $11.8 million for property, plant and equipment.

Björkdal

Björkdal Financial and Operating Results for the Three Months Ended December 31, 2017 and 2016

During the fourth quarter of 2017, Björkdal produced a total 323,526 tonnes of ore from the open pit and underground operations, with an average grade of 1.76 grams per tonne gold as compared to 302,363 tonnes for fourth quarter of 2016 with average grade of 1.57 grams per tonne. The higher grades represent successful implementation of the ongoing grade control program and are expected to continue. The higher tonnage production during the 2017 quarter continued the improvements due to relieving bottlenecks to mine production that emerged as we completed the move to more selective mining that discards low grade material:

- In the underground mine, contractor ore haulage was relieved for no capital expense by adding a loader and trucks, improving contractor vehicle maintenance, and adding contractor haulage shifts.
- In the open pit, the contractor blast hole drilling rate was a bottleneck to ore production. The drilling contractor was replaced and for no capital expense, blast hole drilling has caught up the previous deficit.

These production rate improvements are expected to continue. The weighted average mining cost from the open pit and underground was $22.52 per tonne in the fourth quarter of 2017, slightly lower than the $24.86 per tonne in the corresponding period of 2016 due to increased volumes and efficiencies.

During the fourth quarter of 2017, the Björkdal concentrator processed 304,046 tonnes of ore against 317,553 tonnes of ore in the previous year. The head grade in the current period was higher (2.53 grams per tonne gold) compared to the year-ago quarter (1.28 grams per tonne gold). Metallurgical recoveries during the fourth quarter of 2017 were 90.65%, against 86.02% for the fourth quarter of 2016. Processing cost was $9.20 per tonne in the fourth quarter of 2017, an increase from the previous year cost of $7.41.

During the fourth quarter of 2017, Björkdal produced 22,035 saleable gold ounces (a record under Mandalay ownership for any fourth quarter production) and sold 18,565 ounces. For comparison, in the fourth quarter of 2016, Björkdal produced 10,934 saleable gold ounces and sold 8,980 ounces. Cash cost per gold ounce was $617 and all-in cost was $848 in 2017, lower than the costs of $1,160 cash and $1,374 all-in, respectively, in 2016. The lower cash cost in the current quarter resulted from increased gold production that more than offset the increased cost of selective mining and debottlenecking to reduce cost per ounce.

Björkdal generated revenue of $23.5 million for the quarter ended December 31, 2017, versus $10.4 million in the year-ago quarter. Income from mine operations before depreciation and depletion was $10.7 million versus loss of $1.3 million in the year ago quarter. Adjusted EBITDA was $10.7 million versus negative $1.3 million in the year ago quarter. Net income before tax was $4.9 million and net profit after tax was $3.7 million in 2017 versus loss of $4.1 million and $3.1 million, respectively, in 2016.

Björkdal generated revenue of $74.3 million for the year ended December 31, 2017, versus $60.7 million in 2016. Income from mine operations before depreciation and depletion was $26.1 million versus $14.6 million in 2016, and adjusted EBITDA was $26.2 million versus $14.6 million in 2016. Net income before tax was $6.3 million and net profit after tax was $5.0 million in 2017 versus of $1.7 million and $1.7 million, respectively, in 2016.

During the fourth quarter of 2017, Björkdal invested $4.5 million in mine development, $3.9 million in property, plant and equipment and $0.1 million in exploration. During the fourth quarter of 2016, Björkdal invested $2.1 million in mine development, $2.0 million in property, plant and equipment and $0.9 million in exploration.

In 2017 Björkdal invested $14.5 million in mine development, $9.7 million in property, plant and equipment and $1.8 million in exploration. During 2016, Björkdal invested $9.6 million in mine development, $4.9 million in property, plant and equipment and $4.0 million in exploration.

Björkdal financial results

	Three months ended December 31, 2017 ($'000)	Three months ended December 31, 2016 ($'000)	Year ended December 31, 2017 ($'000)	Year ended December 31, 2016 ($'000)
Revenue	23,466	10,401	74,348	60,669
Cost of sales	12,783	11,718	48,200	46,069
Income (loss) from mining operations before depreciation and depletion	10,683	(1,317)	26,148	14,600
Depreciation and depletion	5,089	2,257	16,555	11,171
Income (loss) from mining operations	5,594	(3,574)	9,593	3,429
Administration(1)	191	346	999	1,532
Adjusted EBITDA(2)(4)	10,687	(1,317)	26,152	14,600
Finance costs, foreign exchange and others(2)	539	132	2,312	240
Income (loss) before tax	4,864	(4,053)	6,282	1,657
Current tax expense (recovery)	1,323	(683)	1,693	365
Deferred tax expense (recovery)	(163)	(295)	(409)	(445)
Operating net profit (loss) after tax(4)	4,627	(2,490)	8,354	4,476
Adjusted net profit (loss) after tax before special items(4)	8,616	(3,075)	4,998	1,737
Consolidated net profit (loss) after tax	3,704	(3,075)	4,998	1,737
Capital expenditure (5)	8,544	5,091	26,021	18,508

1Includes intercompany transfer pricing recharge costs of $243,000 in the three months ended in December 31, 2017 and $309,000 in the same period of 2016.

2Does not include intercompany transfer pricing recharge costs.

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

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

5Includes capitalized depreciation on equipment.

Björkdal Financial and Operating Results for the Year Ended December 31, 2017 and 2016

During the year ended 2017, Björkdal produced a combined 1,130,733 tonnes of ore from the open pit and underground operations, with an average grade of 1.57 grams per tonne gold as compared to 1,138,742 tonnes in the prior year period of 2016 with average grade of 1.39 grams per tonne. During 2017, 4,589 metres of operating development was completed against 5,384 metres in the corresponding period of 2016. The weighted average mining cost from the open pit and underground was $26.95 per tonne for 2017 against $25.07 per tonne in 2016. The cost increase was due to the increased rate of operating development and waste removal in the open pit mines to maximize delivery of high grade ore to the plant and to the discarding of previously low-grade material sent directly to the mill.

Björkdal operating statistics

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

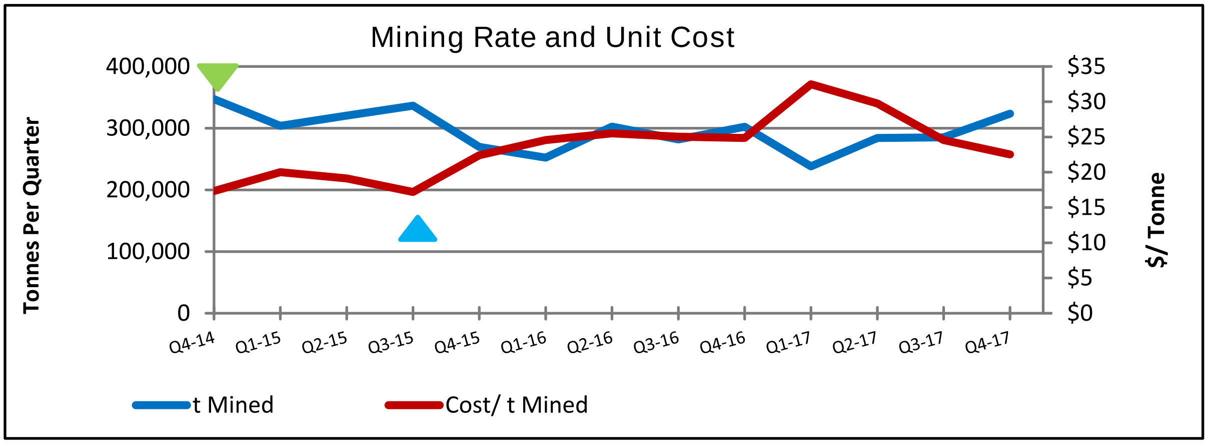
	Unit	Three months ended December 31, 2017	Three months ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
Mining Production and Mining Cost					
Operating development	m	1,073	1,604	4,589	5,384
Mined ore	t	323,526	302,363	1,130,733	1,138,742
Ore mined Au grade	g/t	1.76	1.57	1.57	1.39
Mined contained Au	oz	18,283	15,266	57,185	50,771
Mining cost per tonne ore	$/t	22.52	24.86	26.95	25.07
Processing and Processing Cost					
Processed ore	t	304,046	317,553	1,261,803	1,288,927
Mill head grade Au	g/t	2.53	1.28	1.76	1.35
Recovery Au	%	90.65	86.02	88.39	87.80
Concentrate produced	dry t	1,431	1,024	4,498	3,557
Concentrate grade Au	g/t	479	332	429	421
Saleable Au produced	oz	22,035	10,934	62,028	48,143
Processing cost per tonne ore	$/t	9.20	7.41	8.19	7.03
Sales					
Concentrate sold	dry t	1,337	815	4,495	3,498
Concentrate Au grade	g/t	432	343	402	426
Au sold	oz	18,565	8,980	58,058	47,888
Benchmark Unit Cost					
Site cash operating cost/ tonne ore processed(1)	$/t	44.70	40.0	40.13	35.71
Site cash operating cost/tonne concentrate produced(1)	$/t	9,498	12,393	11,258	12,940
Adjusted EBITDA/tonne ore milled(1)	$/t	35.15	(4.15)	20.73	11.33
Adjusted EBITDA/tonne concentrate produced(1)	$/t	7,468	(1,286)	5,814	4,106
Cash cost per oz Au equivalent produced(1)(2)	$/oz	617	1,160	816	956
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	848	1,374	1,083	1,190
Capital Spending					
Capital development (Underground)	m	495	351	1,930	2,044
Capital development (Open pit)	t	250,980	778,474	1,524,836	2,490,385
Capital development cost	$000	4,502	2,144	14,499	9,611
Capital purchases	$000	3,902	2,000	9,699	4,917
Capitalized exploration	$000	140	948	1,823	3,980

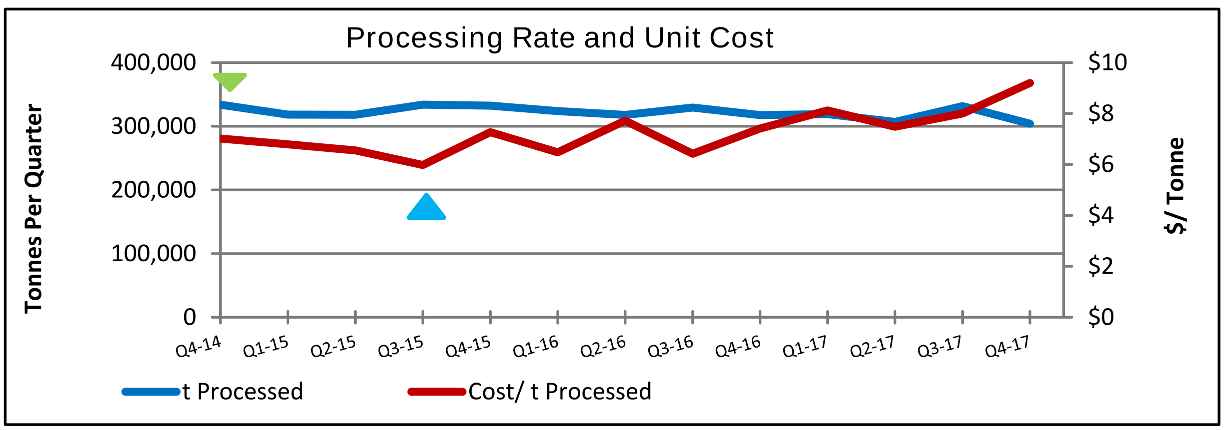
1 Does not include intercompany transfer pricing recharge costs and business development costs.
2 The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.16"Non-IFRS Measures" for further information.
3 Site all-in cost per ounce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

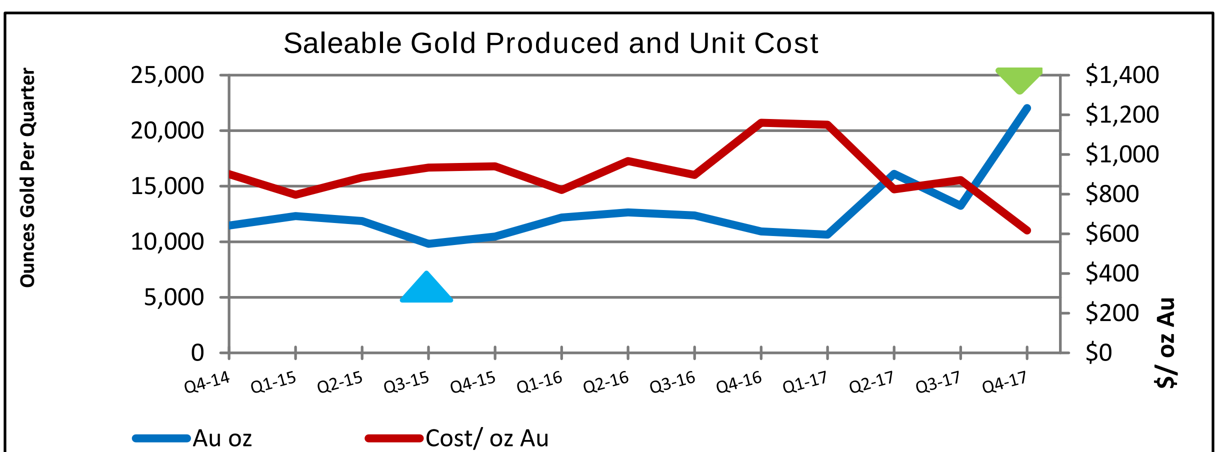
During 2017, the Björkdal concentrator processed 1,261,803 tonnes of ore with grades of 1.76 grams per tonne gold against 1,288,927 tonnes of ore with average grade of 1.35 grams per tonne gold in 2016. Metallurgical recoveries during 2017 were 88.39% compared with 87.8% for the year 2016. Processing cost was $8.19 per tonne in 2017 as compared to $7.03 per tonne in 2016.

During 2017, Björkdal produced 62,028 saleable gold ounces and sold 58,058 ounces. In 2016, Björkdal produced 48,143 saleable gold ounces and sold 47,888 ounces. Cash cost per gold ounce was $816 and all-in cost was $1,083 in 2017 against $956 and $1,190 respectively in 2016.

During 2017, the Company invested $14.5 million in mine development, $9.7 million in property, plant and equipment and $1.8 million in exploration. During 2016, the Company invested $9.6 million in mine development, $4.9 million in property, plant and equipment and $4.0 million in exploration.







▼ Record high rate ▲ Record low cost

Costerfield

Costerfield Financial and Operating Results for the Three Months Ended December 31, 2017 and 2016

Operationally, Costerfield delivered a sound quarter in terms of tonnes mined and processed. Production and financial outcomes were affected by lower grades processed in the current year than in the year-ago quarter. These lower grades were expected according to the long-term mine plan as the Company mined out the heart of the very high grade Cuffley lode in previous years.

In the fourth quarter of 2017, Costerfield delivered a total of 12,360 ounces of gold equivalent at cash costs and all-in costs of $707 and $902 per ounce of gold equivalent, respectively. This compares to the prior year quarter production of 12,403 ounces of gold equivalent at $837 cash costs and $1,096 all-in-cost per ounce gold equivalent.

Costerfield generated revenue of $14.2 million for the quarter ended December 31, 2017. Income from mine operations before depreciation and depletion was $4.8 million, adjusted EBITDA was $4.8 million, net income before tax was $1.5 million and net income after tax was $1.3 million. Comparable results for the quarter ended December 31, 2016 were revenue of $15.8 million, income from mine operations before depreciation and depletion of $3.5 million, adjusted EBITDA of $3.5 million, operating net income before tax of $1.6 million and net income after tax of $0.7 million.

During the year ended December 31, 2017 Costerfield generated revenue of $63.2 million, income from mine operations before depreciation and depletion of $24.8 million, adjusted EBITDA of $24.6 million, net income before tax of $7.0 million and net income after tax was $5.4 million. Comparable results for the year ended December 31, 2016 were revenue of $74.9 million, income from mine operations before depreciation and depletion of $34.8 million, adjusted EBITDA of $24.6 million, net income before tax of $18.5 million and net income after tax of $15.0 million.

The Costerfield mine completed 1,132 metres of operating development in the fourth quarter of 2017 versus 1,340 metres in 2016. 32,895 tonnes of ore were mined in fourth quarter of 2017 as compared to 38,934 tonnes in the fourth quarter of 2016. Mining cost increased to $176 per tonne from the previous year's quarter of $165 per tonne. The mined gold grade in the fourth quarter of 2017 was 7.58 grams per tonne versus 6.62 grams per tonne in 2016, while the mined antimony grade was 3.21% in 2017 versus 2.96% in the prior year quarter.

During year ended December 31, 2017 the Costerfield mine completed 5,307 metres of operating development versus 5,701 metres in 2016. 140,638 tonnes of ore were mined in 2017 as compared to 158,351 tonnes in 2016. Mining cost increased to $169 per tonne from the previous year of $152 per tonne due to reduced mined tonnes. The mined gold grade in 2017 was 8.19 grams per tonne versus 9.63

grams per tonne in 2016, while the mined antimony grade was 3.28% in 2017 versus 3.41% in the prior year.

Costerfield financial results

	Three months ended December 31, 2017 ($'000)	Three months ended December 31, 2016 ($'000)	Year ended December 31, 2017 ($'000)	Year ended December 31, 2016 ($'000)
Revenue	14,161	15,808	63,209	74,864
Cost of sales	9,366	12,337	38,433	40,029
Income from mining operations before depreciation and depletion	4,795	3,471	24,776	34,835
Depreciation and depletion	2,243	3,033	14,419	14,360
Income from mining operations	2,552	438	10,357	20,475
Administration (1)	196	110	810	922
Adjusted EBITDA (2)(4)	4,758	3,506	24,597	34,582
Finance costs, foreign exchange and others (3)	866	(741)	2,540	1,035
Income before tax	1,490	1,069	7,007	18,518
Current tax expense (recovery)	166	(39)	2,105	2,678
Deferred tax expense (recovery)	40	389	(477)	874
Operating net income after tax(4)	1,586	1,203	6,943	17,191
Adjusted net income after tax before special items(4)	1,284	719	5,379	13,549
Consolidated net income after tax	1,284	719	5,379	14,966
Capital expenditure (5)	2,293	2,043	10,949	7,958

1Includes intercompany transfer pricing recharge costs of $159,000 in the three months ended in December 31, 2017 and $145,000 in the same period of 2016.

2Does not include intercompany transfer pricing recharge costs.

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

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

5Includes capitalized depreciation on equipment.

During the fourth quarter of 2017, Costerfield processed the same volume of ore as in the year ago quarter (39,239 tonnes vs 39,245 tonnes), accompanied by a slight decrease in processing cost from $38.47 per tonne in 2016 to $37.03 per tonne in 2017.

Plant gold head grade in 2017 was 7.31 grams per tonne versus 7.71 grams per tonne in the year ago quarter, while the antimony head grade was 3.05% in 2017 versus 3.31% in 2016. These grade declines were expected and account for the reduced metal output despite more tonnes being processed. The plant achieved recoveries of 89.46% for gold and 94.41% for antimony versus 88.63% for gold and 95.91% for antimony in fourth quarter of 2016.

Total saleable metal production in the fourth quarter of 2017 was 7,222 tonnes of antimony and 805 ounces of gold versus 7,523 ounces of gold and 792 tonnes of antimony in the fourth quarter of 2016. A total of 6,337 ounces of gold and 668 tonnes of antimony were sold in the fourth quarter of 2017 versus a total of 8,040 ounces of gold and 883 tonnes of antimony sold in the fourth quarter of 2016.

During the fourth quarter of 2017, Costerfield incurred $0.5 million in capital development costs, spent $0.8 million in exploration and $1.0 million in property, plant and equipment. The corresponding amounts for the prior year quarter were nil, $1.0 million and $1.0 million, respectively.

Costerfield operating statistics

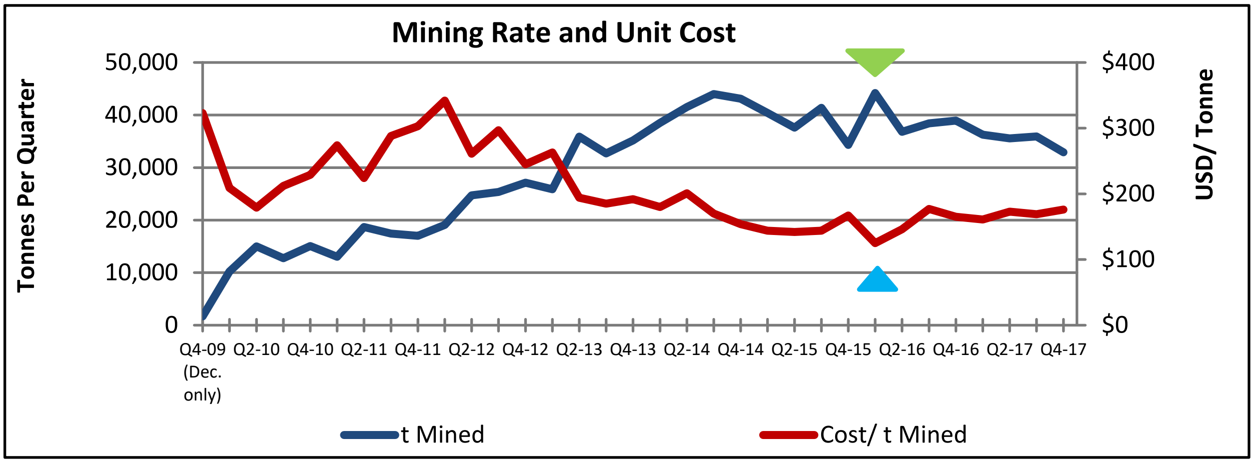
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield.

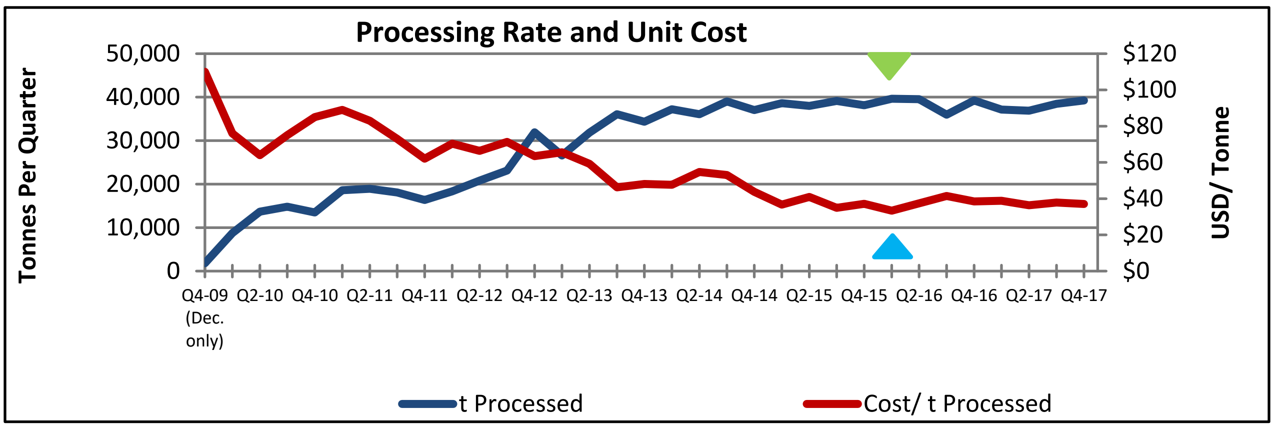
	Unit	Three months ended December 31, 2017	Three months ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
Mining Production and Mining Cost					
Operating development	m	1,132	1,340	5,307	5,701
Mined ore	t	32,895	38,934	140,638	158,351
Ore mined Au grade	g/t	7.58	6.62	8.19	9.63
Ore mined Sb grade	%	3.21	2.96	3.28	3.41
Mined contained Au	oz	8,013	8,284	37,013	49,013
Mined contained Sb	t	1,054	1,153	4,612	5,407
Mining cost per tonne ore	$/t	176	165	169	152
Processing and Processing Cost					
Processed ore	t	39,239	39,245	151,759	154,409
Mill head grade Au	g/t	7.31	7.71	8.17	10.27
Mill head grade Sb	%	3.05	3.31	3.28	3.74
Recovery Au	%	89.46	88.63	89.69	90.15
Recovery Sb	%	94.41	95.91	95.32	95.40
Concentrate produced	dry t	2,131	2,326	9,052	10,188
Concentrate grade Au	g/t	84.71	76.24	71.82	83.83
Concentrate grade Sb	%	52.96	53.61	52.43	54.15
Au produced in gravity concentrate	oz	2,419	2,889	14,719	18,316
Au produced in sulfide concentrate	oz	4,803	4,634	16,793	22,994
Saleable Au produced	oz	7,222	7,523	31,512	41,310
Saleable Sb produced	t	805	792	3,115	3,597
Saleable Au equivalent produced	oz	12,360	12,403	52,138	60,076
Processing cost per tonne ore	$/t	37.03	38.47	37.52	37.60
Sales					
Concentrate sold	dry t	2,029	2,553	8,792	10,365
Concentrate Au grade	g/t	77.85	75.45	70.70	81.22
Concentrate Sb grade	%	52.66	54.48	52.38	54.27
Au sold in gravity concentrate	oz	2,188	3,188	14,470	18,339
Au sold in sulfide concentrate	oz	4,149	4,852	15,826	21,822
Au sold	oz	6,337	8,040	30,297	40,161
Sb sold	t	668	883	2,879	3,573
Benchmark Unit Cost					
Site cash operating cost/ tonne ore processed(1)	$/t	220	262	238	245
Site cash operating cost/tonne concentrate produced(1)	$/t	4,056	4,417	3,982	3,709
Adjusted EBITDA/tonne ore milled(1)	$/t	121	89	162	224
Adjusted EBITDA/tonne concentrate produced(1)	$/t	2,233	1,507	2,717	3,395
Cash cost per oz Au equivalent produced(1)(2)	$/oz	707	837	701	640
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	902	1,096	991	890
Capital Spending					
Capital development	m	122	-	530	-
Capital development cost	$000	553	-	2,437	-
Capital development cost/meter	$/m	4,531	NA	4,599	NA
Capital purchases	$000	954	1,033	4,492	3,407
Capitalized exploration	$000	787	1,010	4,020	4,551

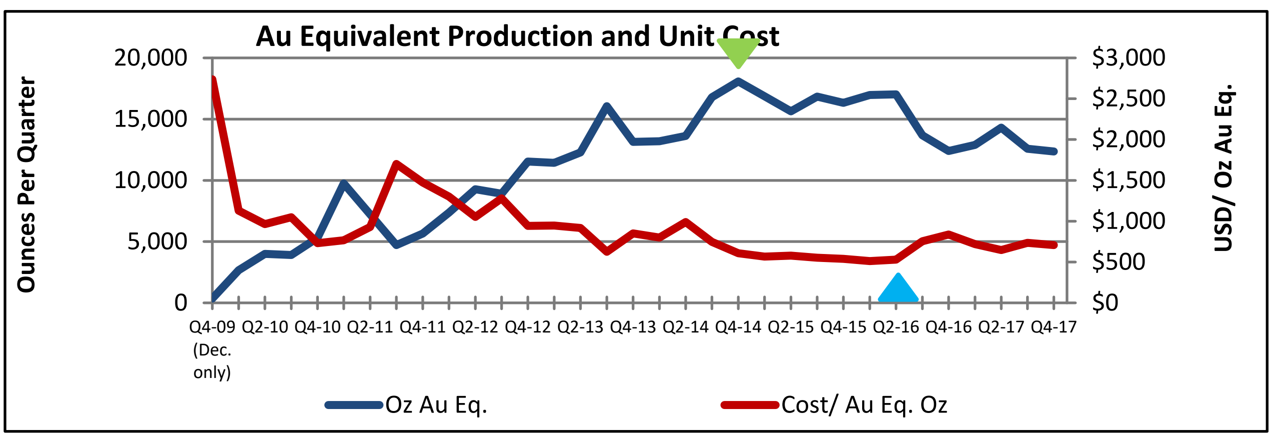
[1]Does not include intercompany transfer pricing recharge costs and business development costs.

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

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







Record high rate Record low cost

Costerfield Financial and Operating Results for the year ended December 31, 2017 and December 31, 2016

Operationally, Costerfield delivered another excellent year in terms of production and sales and low cash and all-in operating cost per ounce of gold equivalent produced. For the year ended December 31, 2017, Costerfield delivered 52,138 ounces of gold equivalent at cash costs and all-in costs of $701 and $1,002 per ounce of gold equivalent, respectively.

The Costerfield mine completed 5,307 metres of operating development in year ended December 31, 2017 versus 5,701 metres in 2016. There was no capital development in 2016, while there was 530 m completed in 2017.

The operation mined less ore in 2017 than in 2016 — 140,638 tonnes versus 158,351 tonnes in 2016. Mining costs increased to $169 per tonne from $152 per tonne in the prior year. The mined gold grade in 2017 decreased to 8.19 grams per tonne from 9.63 grams per tonne in 2016, while the mined antimony grade declined to 3.28% in 2017 from 3.41%.

Plant throughput in 2017 was marginally less (151,759 tonnes) than in 2016 (154,409 tonnes) and unit costs were: $37.60 per tonne in 2016 versus $37.52 per tonne in 2017.

Plant gold head grade in 2017 was 8.17 grams per tonne versus 10.27 grams per tonne gold for 2016, while the antimony head grade was 3.28% in 2017 versus 3.74% in 2016. The plant achieved recoveries of 89.69% for gold and 95.32% for antimony versus 90.15% for gold and 95.40% for antimony in 2016.

Total saleable metal production in 2017 was 3,115 tonnes antimony and 31,512 ounces gold versus 3,597 tonnes antimony and 41,310 ounces gold in 2016. A total of 30,297 ounces gold and 2,879 tonnes antimony were sold in 2017 versus a total of 40,161 ounces gold and 3,573 tonnes antimony sold in 2016.

In 2017, the Company spent $2.4 million on capital development, $4.0 million on exploration and $4.5 million on property, plant and equipment at Costerfield. The corresponding amounts for the prior year period were nil, $4.6 million and $3.4 million, respectively.

Cerro Bayo

Cerro Bayo Financial and Operating Results for the Three Months Ended December 31, 2017 and 2016

During the three months ended December 31, 2017 there was no production at Cerro Bayo mine due to the suspension of operations following the flooding of the Delia NEW mine on June 9, 2017. The Cerro Bayo mine has been on care and maintenance and the workforce was substantially reduced at the end of the fourth quarter in order to preserve the Company's financial capacity to invest in restarting operations once it is confident that this can be accomplished safely, and all permits are obtained.

Cerro Bayo generated revenue of $0.5 million for the quarter ended December 31, 2017, by selling concentrate inventory. All the minimal operational and financial results as compared with the full production year-ago quarter arise from these small inventory sales.

Cerro Bayo Financial and Operating Results for the Year Ended December 31, 2017 and 2016

2017 was characterized by the full production first quarter, the diminished second quarter when the flooding occurred, and the third and fourth quarter of no production. In contrast, during the equivalent period in 2016, nearly full production occurred throughout. During 2017, the Cerro Bayo mine produced 154,542 tonnes of ore versus 383,860 tonnes in the prior year period of 2016. Mining costs increased to $61.09 per tonne from $52.88 per tonne in the prior year. During 2017, 3,252 metres of operating development was completed versus 6,090 metres in 2016.

In 2017, Cerro Bayo delivered higher grades of silver compared to the previous year period (182.82 grams per tonne silver and 1.38 grams per tonne gold versus 166.39 grams per tonne silver and 1.33 grams per tonne gold).

During 2017, the Cerro Bayo concentrator processed 156,727 tonnes of ore with grades of 182.47 grams per tonne silver and 1.38 grams per tonne gold, compared to more ore and lower grades (396,508 tonnes of ore with grades of 161.74 grams per tonne silver and 1.31 grams per tonne gold) during the prior year period of 2016. Metallurgical recoveries during 2017 were 88.16% for gold and 90.36% for silver in 2017, higher than the 84.93% for gold and 87.40% for silver in the prior year period.

Processing cost per tonne ore increased to $22.67 per tonne in 2017 from $21.01 per tonne in 2016 due to the impact of lower throughput. Cash cost per ounce of silver net of gold credit in 2017 was $14.10 and all-in cost was $27.05; both numbers are higher than in the prior year period of 2016 ($12.29 per ounce and $20.87 per ounce respectively) due to lower production.

Cerro Bayo produced 794,533 ounces saleable silver and 5,909 ounces saleable gold in 2017, as compared to 1,731,031 ounces saleable silver and 13,792 ounces saleable gold in the comparable 2016 period.

During 2017, Cerro Bayo sold 7,003 ounces gold and 926,832 ounces silver. Sales during the comparable period of 2016 were 15,419 ounces of gold and 1,796,693 ounces of silver.

During year ended December 31, 2017 Cerro Bayo generated revenue of $25.4 million, income from mine operations before depreciation and depletion of $5.0 million, adjusted EBITDA of $4.1 million, net loss before tax of $40.5 million and net loss after tax was $40.0 million. Comparable results for the year ended December 31, 2016 were revenue of $50.0 million, income from mine operations before depreciation and depletion of $10.6 million, adjusted EBITDA of $8.9 million, net loss before tax of $24.4 million and net loss after tax of $26.0 million.

During 2017, Cerro Bayo invested $6.0 million in mine development versus $8.3 million in 2016. The mine spent $2.2 million for the purchase of property, plant and equipment in 2017, versus $3.3 million in 2016. The mine spent $1.4 million on exploration, versus $3.0 million in 2016.

Cerro Bayo financial results

	Three months ended December 31, 2017 ($'000)	Three months ended December 31, 2016 ($'000)	Year ended December 31, 2017 ($'000)	Year ended December 31, 2016 ($'000)
Revenue	466	6,182	25,440	50,010
Cost of sales	541	8,716	20,478	39,416
(Loss) income from mining operations before depreciation and depletion	(75)	(2,534)	4,962	10,594
Depreciation and depletion	997	3,051	9,261	14,479
Loss from mining operations	(1,072)	(5,585)	(4,299)	(3,885)
Administration (1)	312	271	1,967	2,579
Adjusted EBITDA (2)(4)	(96)	(2,587)	4,159	8,892
Finance costs, foreign exchange and others (3)	19,080	13,234	21,405	17,968
Care and maintenance and other expenses	4,912	-	12,815	-
Loss before tax	(25,376)	(19,091)	(40,486)	(24,432)
Current tax recovery	-	(2,876)	(850)	(2,920)
Deferred tax expense (recovery)	-	5,914	(4)	4,493
Operating net loss after tax(4)	(25,060)	(21,775)	(37,939)	(24,076)
Adjusted net loss after tax before special items(4)	(1,464)	(7,354)	(7,040)	(6,881)
Consolidated net loss after tax	(25,376)	(22,128)	(39,632)	(26,005)
Capital expenditure (5)	1,271	3,036	9,589	14,592

[1] Includes intercompany transfer pricing recharge costs of $291,000 in the three months ended in December 31, 2017 and $218,000 in the same period of 2016.

[2]Does not include intercompany transfer pricing recharge costs.

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties

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

[5]Includes capitalized depreciation on equipment.

Cerro Bayo operating statistics

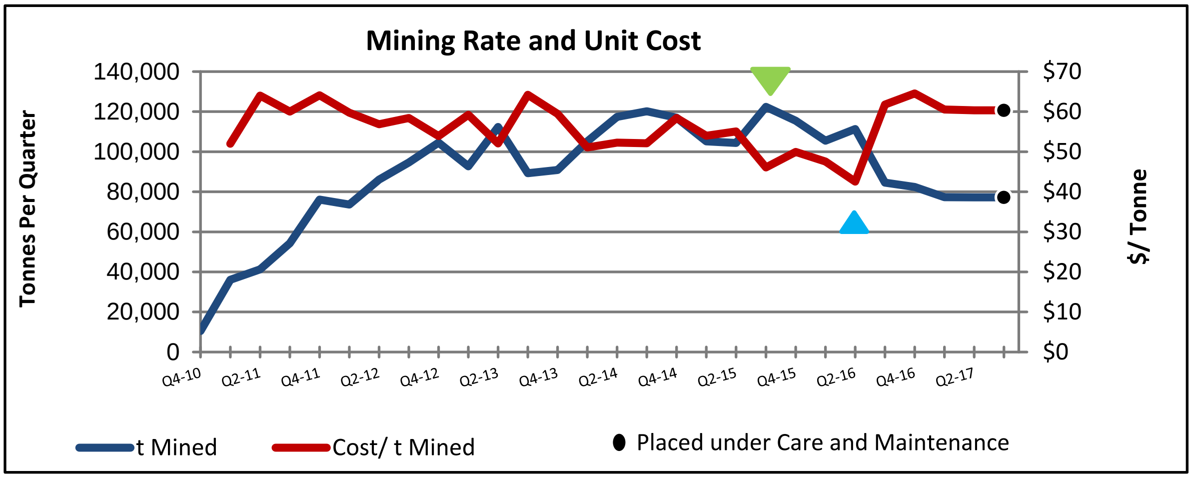
The following table summarizes certain aspects of production, sales, costs and capital investment activities at Cerro Bayo.

	Unit	Three months ended December 31, 2017	Three months ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
Mining Production and Mining Cost					
Operating development	m	-	1,774	3,252	6,090
Mined ore	t	-	82,432	154,542	383,860
Ore mined Au grade	g/t	-	1.24	1.38	1.33
Ore mined Ag grade	g/t	-	163.27	182.82	166.39
Mined contained Au	oz	-	3,299	6,868	16,473
Mined contained Ag	oz	-	432,705	908,386	2,053,485
Mining cost per tonne ore	$/t	-	64.55	61.09	52.88
Processing and Processing Cost					
Processed ore	t	-	89,811	156,727	396,508
Mill head grade Au	g/t	-	1.18	1.38	1.31
Mill head grade Ag	g/t	-	153.00	182.47	161.74
Recovery Au	%	-	84.54	88.16	84.93
Recovery Ag	%	-	86.74	90.36	87.40
Concentrate produced	dry t	-	1,497	2,916	6,093
Concentrate grade Au	g/t	-	59.93	64.81	72.16
Concentrate grade Ag	g/t	-	7,963	8,905	9,199
Saleable Au produced	oz	-	2,807	5,909	13,792
Saleable Ag produced	oz	-	365,214	794,533	1,731,031
Saleable Au equivalent produced	oz	-	7,956	17,021	37,279
Processing cost per tonne ore	$/t	-	20.95	22.67	21.01
Sales					
Concentrate sold	dry t	70	1,364	3,398	6,206
Concentrate Au grade	g/t	-	56.83	64.54	79.16
Concentrate Ag grade	g/t	-	7,657	8,719	9,368
Au sold	oz	142	2,426	7,003	15,419
Ag sold	oz	18,334	320,175	926,832	1,796,693
Benchmark Unit Cost					
Site cash operating cost/ tonne ore processed(1)	$/t	-	94.71	99.84	84.44
Site cash operating cost/tonne concentrate produced(1)	$/t	-	5,683	5,367	5,495
Adjusted EBITDA/tonne ore milled(1)	$/t	-	(36)	28	22
Adjusted EBITDA/tonne concentrate produced(1)	$/t	-	(2,134)	1,489	1,431
Cash cost per oz Ag produced net of Au byproduct credit(1)(2	$/oz	-	17.48	14.10	12.29
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	-	25.99	27.05	20.87
Capital Spending					
Capital development	m	-	759	1,923	2,884
Capital development cost	$000	-	2,014	5,971	8,260
Capital development cost/meter	$/m	-	2,654	3,105	2,864
Capital purchases	$000	741	260	2,216	3,292
Capitalized exploration	$000	529	762	1,402	3,040

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

[2]The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.16"Non-IFRS Measures" for further information.

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


Mining Rate and Unit Cost
Tonnes Per Quarter
$/ Tonne
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
$70
$60
$50
$40
$30
$20
$10
$0
Q4-10
Q2-11
Q4-11
Q2-12
Q4-12
Q2-13
Q4-13
Q2-14
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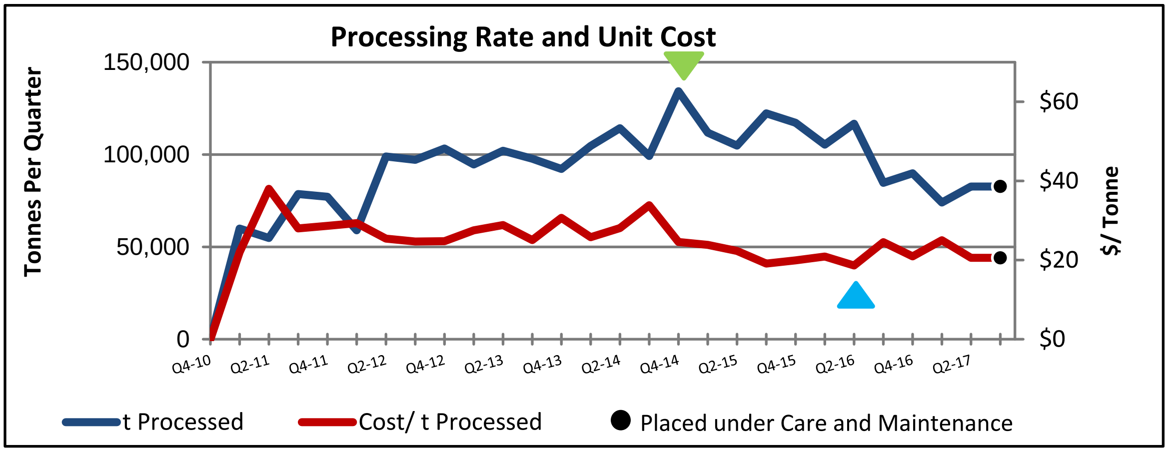
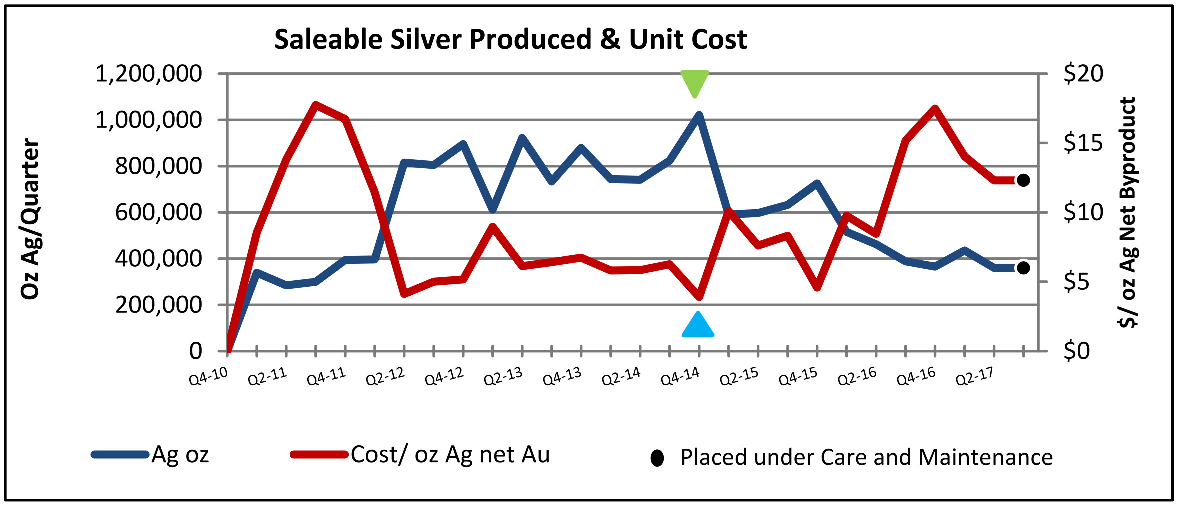
t Mined
Cost/ t Mined
Placed under Care and Maintenance


Processing Rate and Unit Cost
Tonnes Per Quarter
$/ Tonne
150,000
100,000
50,000
0
$60
$40
$20
$0
Q4-10
Q2-11
Q4-11
Q2-12
Q4-12
Q2-13
Q4-13
Q2-14
Q4-14
Q2-15
Q4-15
Q2-16
Q4-16
Q2-17
t Processed
Cost/ t Processed
Placed under Care and Maintenance


Saleable Silver Produced & Unit Cost
Oz Ag/Quarter
$/ oz Ag Net Byproduct
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
$20
$15
$10
$5
$0
Q4-10
Q2-11
Q4-11
Q2-12
Q4-12
Q2-13
Q4-13
Q2-14
Q4-14
Q2-15
Q4-15
Q2-16
Q4-16
Q2-17
Ag oz
Cost/ oz Ag net Au
Placed under Care and Maintenance


Record high rate
Record low cost

Following the flooding event at the Delia NW mine at Cerro Bayo on June 9, 2017 and suspension of the mining operation, risk assessment of the inundation event is currently being undertaken.

Challacollo

The Company has applied for surface rights needed to construct a production water well sufficient to supply possible future operations at the location of successful ground water exploration wells completed in the second quarter of 2017. During the fourth quarter of 2017, while it awaited completion of the regulatory process, the Company spent $0.3 million on property maintenance, exploration and activities related to project development.

La Quebrada

Spending on care and maintenance at La Quebrada was less than $0.1 million during the fourth quarter of 2017 and corresponding period in 2016.

Lupin and Ulu

Spending on care and maintenance and reclamation at Lupin and Ulu was $0.1 million during the fourth quarter of 2017. The corresponding amount for the prior year quarter was $0.7 million. Most of the spending was for permanent reclamation work, in respect of which the Company has applied for reduced reclamation bonding requirements. During the third quarter, the regulatory authorities required an additional approximately C$9.1 million in reclamation bonding, bringing the total bond to C$34.6 million. The additional bonding requirement has caused the Company to begin permitting and implementing a final closure and reclamation plan for Lupin, which it expects can be completed for the amount of the previous C$25.5 million bond or less, leading to eventual return of the additional bond amount.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate October 1, 2017 December 31, 2017	Average rate October 1, 2016 December 31, 2016	Average rate January 1, 2017 December 31, 2017	Average rate January 1, 2016 December 31, 2016
1A$ = C$	0.9768	1.0002	0.9927	0.9852
1A$ = US$	0.7688	0.7498	0.7687	0.7442
1 US$ = C$	1.2705	1.3340	1.2908	1.3236
1 US$ = Chilean Peso	633	665	647	676
1 US$= SEK	8.3160	9.0562	8.4918	8.5570

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of gold and antimony were higher in the fourth quarter of 2017 than in the fourth quarter of 2016 and were lower for silver. Realized prices were impacted by the application of adjustments with respect to open concentrate shipments at forward prices (see "Critical Accounting Policies - Revenue recognition" below). This resulted in realized prices in the fourth quarter of 2017 being higher than relative average market prices for all the metals.

COMMODITY	Average rate October 1, 2017 December 31, 2017	Average rate October 1, 2016 December 31, 2016	Average rate January 1, 2017 December 31, 2017	Average rate January 1, 2016 December 31, 2016
Realized gold US$/oz[1]	1,276	1,138	1,279	1,266
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,275	1,218	1,251	1,248
Realized antimony US$/tonne[1]	8,688	7,130	8,546	6,668
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	8,137	7,498	8,374	6,589
Realized silver price US$/oz[1]	18.99	12.36	17.73	17.07
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	16.71	17.17	17.12	17.10

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

1.4 SUMMARY OF QUARTERLY RESULTS

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

Particulars	Quarter 4, 2017 ($'000)	Quarter 3, 2017 ($'000)	Quarter 2, 2017 ($'000)	Quarter 1, 2017 ($'000)	Quarter 4, 2016 ($'000)	Quarter 3, 2016 ($'000)	Quarter 2, 2016 ($'000)	Quarter 1, 2016 ($'000)
Revenue	38,093	35,407	44,124	45,373	32,391	48,544	54,166	50,442
Income/(loss)	(23,073)	(7,181)	(10,105)	(2,349)	(25,542)	549	3,611	1,149
Income/(loss) per share - Basic	(0.05)	(0.02)	(0.02)	(0.01)	(0.06)	0.00	0.01	0.00
Income/(loss) per share - Diluted	(0.05)	(0.02)	(0.02)	(0.01)	(0.06)	0.00	0.01	0.00

Since the acquisition of the Costerfield mine in December, 2009, of the Cerro Bayo mine in August, 2010, and the Björkdal mine in September, 2014, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield, Cerro Bayo and Björkdal mines. Financial results are impacted by the amounts of gold, silver and antimony production, the costs associated with that production and the prices received for metal in concentrate. Metal prices are determined using prevailing international prices for gold, silver and antimony. The Company's products are priced in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield), Chilean pesos (at Cero Bayo) and Swedish Krona (at Björkdal). The Company's results will be impacted by exchange rate variations during the reporting periods.

Volatility in revenue and earnings over the past two years is due to the combined impact of changes in production volumes, fluctuations in metal prices and timing of concentrate shipments. These include most recently the performance improvements resulting from emerging turnaround at Björkdal, offset by the operational suspension at Cerro Bayo.

1.5 LIQUIDITY, SOLVENCY AND USES OF CASH

At December 31, 2017, the Company had working capital of $10.8 million compared to $43.8 million at December 31, 2016. Working capital would have been $38.5 million as of December 31, 2017, had the exchangeable loan been classified as long-term debt. The Company had cash and cash equivalents of $16.9 million at December 31, 2017, as compared to $66.9 million at December 31, 2016. Approximately $30 million of the cash decline was used to redeem half of the Loan (as defined below) and push the maturity of the remaining half out to 2022 (refer to Section 1.16 "Contractual Commitments and Contingencies – Gold Bonds Loan").

On July 25, 2017, the Company entered into a new senior secured revolving credit facility with HSBC Bank Canada for up to US$40 million. As of the end of the year, $15 million had been drawn.

On February 12, 2018, the Company filed a base shelf prospectus up to an aggregate amount of C$250 million. The Company currently anticipates allocating net proceeds of any offering under the Prospectus towards its continued growth strategy and for general corporate purposes. The acquisition of a significant producing asset is a key corporate objective for the Company in 2018 and the Company accordingly anticipates that a significant portion of the net proceeds of any offering under the Prospectus will be used to fund potential acquisitions. The Company, however, gives no assurance that it will be able to negotiate commercially acceptable terms for one or more acquisitions that will cause it to access these funds.

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

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

1.6 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Gold bonds loan

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

Each Bond holder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The 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.

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.

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. 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 December 31, 2016. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date.

Repurchase and Amendment

On May 26, 2017, the Issuer repurchased $29,950,000 of the Bonds from the 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 Bonds:

- extending the maturity date of the Bonds to May 13, 2022;
- deleting a condition of the Bonds that required that beginning on May 14, 2017, as additional security for the Bonds, the Issuer was required to start depositing the aggregate number of shares of the SPDR Gold Trust issuable upon exchange of the Bonds into a custody account;
- 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 (in ounces) at the Company'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.

For clarity, Company has provided some examples below to further explain the details of the Loan, all of which exclude the interest that is payable on the principal until the date of redemption or maturity at the rate of 6.875%:

i) If all the bondholders exercised their right to redeem on December 31, 2017, assuming a gold price of $1,283/oz (which is equivalent to US$121.58 per Gold Share), then the repayment cost to the Company would be approximately $27.5 million.

   $30 million ÷ $1,400/oz × $1,283 = $27.5 million

ii) The repayment cost to the Company to repay the Loan on maturity will be minimum $30 million if the Gold Share price remains constant or below $135 per share.

iii) If the price of gold during the Loan term reaches $1,700/oz (which is equivalent to US$ 161.10 per Gold Share) and the Bondholders elect to redeem the Gold Shares prior to maturity date, then the repayment cost to the Company will be $36.4 million.

   $30 million ÷ $1,400/oz × $1,700 = $36.4 million

US$40 million revolving credit facility

One July 25, 2017, the Company announced a new US$ 40 million senior secured revolving credit facility with HSBC Bank Canada (the "Facility"). The Facility matures on July 24, 2020. Proceeds from the Facility will be used for working capital, capital expenditures, permitted acquisitions and other general corporate purposes.

Amounts drawn on the Facility 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 Facility is subject to a standby fee of 1.0% per annum. The 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.

The Facility includes a number of customary positive and negative covenants, including a prohibition on the payment of dividends by the Company without HSBC's consent. As a result, in connection with entering into the Facility, the Company has agreed to suspend its dividend.

As at December 31, 2017, the Company had drawn $15.0 million under the Facility.

Fair-value adjustments

As at December 31, 2017, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

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

In May, 2014, the Company computed and initially allocated $4.6 million to the value of derivative financial instruments associated with the Loan. As at December 31, 2017, the Company has recomputed the derivative portion of the Loan at $3.6 million. As a result, there is a mark-to-market adjustment loss of less than $0.4 million in the quarter.

Marketable securities - The Company holds marketable securities with a fair market value of $0.2 million as at December 31, 2017, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain of $0.4 million for the quarter ended December 31, 2017.

The above items are non-operating in nature and the following tables summarize the impact of the accounting for these changes.

Fair value and deferred tax adjustments impact on items in the statement of financial position

	Before fair value and deferred tax adjustments [(a)]	Note	Fair value and deferred tax adjustments				As of December 31, 2017 [(a)]	As of December 31, 2016 [(a)]
			Q1 2017	Q2 2017	Q3 2017	Q4 2017		
	($'000)		($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Assets								
Marketable Securities	311	(c)	(37)	(37)	(39)	(39)	159	188
Liabilities								
Deferred tax	11,245	(b)	62	562	144	(595)	11,418	634
Derivative financial instruments	6,062	(d)	(793)	(1,703)	(428)	429	3,567	1,072
Equity								
Retained earnings/(deficit)	(5,081)		(768)	(1,178)	(284)	(205)	(7,516)	39,893

(a) Values are net of foreign exchange translation.
(b) The Company recorded a deferred tax expense of $871,000 for the three months ended December 31, 2017.
(c) The Company recorded fair value measurement loss of $39,000 relating to marketable securities for the three months ended December 31, 2017.
(d) The Company recorded fair value measurement gain of $429,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended December 31, 2017.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended December 31, 2017 and 2016

	As of December 31, 2017			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Loss from operations	(20,196)			(20,196)
Interest and other income	267			267
Finance costs	(1,507)			(1,117)
		(a)	(39)	
		(b)	429	
Foreign exchange gain	57			57
Net loss before tax	(21,379)		390	(20,989)
Current tax expense	(1,489)			(1,489)
Deferred tax income		(c)	(595)	(595)
Net income/(loss)	(22,868)		(205)	(23,073)
Loss per share				
Basic	($0.05)			($0.05)
Diluted	($0.05)			($0.05)

a) The Company recorded fair value measurement loss of $39,000 relating to marketable securities for the three months ended December 31, 2017.
b) The Company recorded fair value measurement gain of $429,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended December 31, 2017.
c) The Company recorded a deferred tax expense of $871,000 for the three months ended December 31, 2017.

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

a) Values are net of foreign exchange translation.
b) The Company recorded a deferred tax expense of $6,009,000 for the three months ended December 31, 2016.
c) The Company recorded fair value measurement loss of $37,000 relating to marketable securities for the three months ended December 31, 2016.
d) The Company recorded fair value measurement gain of $1,481,000 relating to the derivative portion of the five-year exchangeable loan for the three months ended December 31, 2016.

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

(a) The Company recorded fair value measurement loss of $39,000 relating to marketable securities for the three months ended December 31, 2016.

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

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

Fair value and deferred tax adjustments impact on items in the income statement for year ended December 31, 2017 and 2016

	As of December 31, 2017			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income from operations	(27,864)			(27,864)
Other items				
Interest and other income	434			434
Finance (costs)/income	(8,176)	(a)	(113)	(10,784)
		(b)	(2,495)	
Foreign exchange gain (loss)	(1,717)			(1,717)
Net income/(loss) before tax	(37,323)		(2,608)	(39,931)
Current tax	(2,948)			(2,948)
Deferred tax		(c)	173	173
Net income/(loss)	(40,271)		(2,435)	(42,706)
Income (loss) per share				
Basic	($0.09)			($0.09)
Diluted	($0.09)			($0.09)

(a) The Company recorded fair value measurement loss of $113,000 relating to marketable securities for the year ended December 31, 2017.

(b) The Company recorded fair value measurement loss of $2,495,000 relating to the derivative portion of the five-year exchangeable loan for the year ended December 31, 2017.

(c) The Company recorded a deferred tax expense of $104,000 for the year ended December 31, 2017.

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

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

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

(c) The Company recorded a deferred tax expense of $4,992,000 for the year ended December 31, 2016.

1.7 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.8 TRANSACTIONS WITH RELATED PARTIES

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

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

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

1.9 CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

- the significant risks and rewards of ownership have been transferred to the purchaser;

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

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

Inventories

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

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

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

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

Property, plant and equipment

Exploration and Evaluation

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

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

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

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

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

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

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

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

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

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

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

Site closure and reclamation cost obligations

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

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.10 FINANCIAL INSTRUMENTS

General

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

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at December 31, 2017, the Company had no past overdue trade receivables.

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

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

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

Hedging Activities

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

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

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

1.11 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

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

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluates the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 on a regular basis. The Company's controls include policies and procedures that:

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

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

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

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

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

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

Internal control weakness	**Potential impact of the weakness on the issuer's financial reporting and its ICFR**	**Current plan or actions being undertaken for remediating the potential material weakness**
Documentation Review of process and activities	Inaccuracy and possible fraud Risk of financial loss	Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year. During 2017, the general health and safety audits and expenses testing was performed.

III. Limitation of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

1.12 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 451,313,865 common shares issued and outstanding. The weighted average number of shares outstanding during the fourth quarter used for the calculation of per share results was 451,246,904.

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

Exercise Price CND$	As of December 31, 2017	As of February 22, 2018	Expiry Date
0.60	4,800,000	4,800,000	30 June, 2024
0.91	4,808,000	4,793,000	23 March, 2021
0.91	4,200,000	4,200,000	24 March, 2020
0.98	3,730,000	3,730,000	24 March, 2019
1.13	3,407,500	3,407,500	18 March, 2018
Total	**20,945,500**	**20,930,500**	

During the quarter ended December 31, 2017, no options were exercised. There were 20,945,500 options outstanding as of December 31, 2017, which could result in issuance of shares.

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

The number of RSUs as at December 31, 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**

1.13 QUALIFIED PERSONS

Disclosures of a scientific or technical nature in this MD&A in respect of each of the Company's material mineral resource properties were prepared by, or under the supervision of, the "qualified persons" (as that term is defined in NI 43-101) listed below:

Project	**Qualified Person**	**Relationship to Mandalay Resources**
Costerfield	Chris Gregory	Employee
Björkdal	Chris Gregory	Employee
Cerro Bayo	Scott Manske	Employee
La Quebrada	Scott Manske	Employee
Challacollo	Scott Manske	Employee

1.14 FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mining industry risks; fluctuations in the market price of mineral commodities; project development; expansion targets and operational delays; environmental risks and hazards; requirement of additional financing; health and safety; uncertainty as to calculations of mineral deposit estimates; marketability; licenses and permits; title matters; governmental regulation of the mining industry; current global financial conditions; currency risk; uninsured risks; competition; repatriation of earnings; properties without known mineral reserves; dependence upon key management personnel and executives; dependence on major customers; infrastructure; litigation; potential volatility of market price of common shares; possible conflicts of interest of directors and officers of the Company; risk of dilution; payment obligations relating to properties; instability of political and economic environments; and integration of acquisitions. Specific reference is made to the Annual Information Form for a discussion of some of the factors underlying forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

1.15 SUBSEQUENT EVENTS

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

1.16 NON-IFRS MEASURES

Non-IFRS performance measures are included in this MD&A because the Company believes these are useful indicators to discuss and understand performance of the Company and its operations. These performance measures do not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These non-IFRS performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS.

Management uses adjusted EBITDA, adjusted net income, income after tax from underlying operations and operating net income/(loss) after tax as measures of operating performance to assist in assessing the Company's ability to generate liquidity through operating cash flow in order to fund future working capital needs and to fund future capital expenditures, as well as in measuring financial performance from period to period on a consistent basis. Management uses adjusted net income in order to facilitate an understanding of the Company's financial performance prior to the impact of non-recurring or special items. The Company believes that these measures are used by and are useful to investors and other users of the Company's financial statements in evaluating the Company's operating and cash performance because they allow for analysis of its financial results without regard to special, non-cash and other non-core items, which can vary substantially from company to company and over different periods.

The Company presents "cash cost" and "all-in sustaining costs" metrics for its gold and silver production because it believes that these measures assist investors and other users of the Company's financial statements in understanding the economics of the Company's gold and silver mining activities. "Free cash flow" is included as the Company believes it provides Management, investors and analysts insight in evaluating the Company's ability to generate cash flow. This measure is comparable to, but not necessarily indicative of cash flow from operating activities as per IFRS, therefore a reconciliation between these two measures is included on page 13 for clarity. Management also uses these metrics to assess Company's ability to meet short and long term financial objectives.

1. *Adjusted EBITDA* - The Company defines adjusted EBITDA as income from mine operations, net of administration and business development costs, and before interest, taxes, non-cash charges/(income), intercompany charges and finance costs. Refer to page 15 for a reconciliation between adjusted EBITDA and net income.

2. *Income after tax from underlying operations* - The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 37-39 for reconciliation between income from underlying operations and income from operations.

3. *Operating net income/(loss) after tax* - The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs.

4. *Adjusted net income/(loss)* - The Company defines adjusted net income as net income before special items. Special items are items of income and expense that are presented separately due to their non-recurring nature or the expected infrequency of the events giving rise to them. Refer to page 15 for reconciliation between adjusted net income and net income.

5. Saleable gold equivalent ounces produced

    a. For Costerfield, equivalent gold ounces produced is calculated by adding to saleable gold ounces produced, the saleable antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period.
    b. For Cerro Bayo, equivalent gold ounces produced is calculated by adding to saleable gold ounces produced, the saleable silver ounces produced times the average silver price in the period divided by the average gold price in the period.
    c. For Björkdal, equivalent gold ounces equals gold ounces.
    d. For consolidated Mandalay, total equivalent gold ounces equals the sum of equivalent gold ounces produced at all the operations.

6. *Site cash cost per ounce of saleable gold equivalent produced* – For all sites, the cash cost per ounce of saleable gold equivalent equals the total cash operating cost associated with the production of saleable equivalent ounces produced in the period divided by the saleable equivalent gold ounces produced. The cash cost excludes royalty expenses.

7. *Site all-in cost per ounce of saleable gold equivalent produced* - Site all-in costs include total cash operating costs, royalty expense, accretion, depletion, depreciation and amortization. For all sites, the all-in cost per ounce of saleable gold equivalent in a period equals the all-in cost divided by the saleable equivalent gold ounces produced in the period.

8. *Cash cost per ounce of saleable silver produced net of gold byproduct credit (Cerro Bayo only)*- The cash cost per saleable silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals saleable ounces gold produced times the average realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the saleable silver ounces produced in the period. The cash cost excludes royalty expenses.

9. *Site all-in cost per ounce of saleable silver produced net of gold byproduct credit (Cerro Bayo only)*- The site all-in cost per saleable silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, accretion, depletion, depreciation and amortization to cash cost net of

gold byproduct credit as calculated in 1.16.8 above and dividing the resultant number by the saleable silver ounces produced in the period.

10. *Corporate average cash cost per ounce of gold equivalent produced* – The corporate average cash cost per saleable ounce gold equivalent produced in the period equals the sum of cash costs associated with the production of the gold equivalent ounces at all operating sites in the period plus the corporate overhead expense in the period divided by the total saleable gold equivalent ounces produced in the period. The cash cost excludes royalty expenses.

11. *Corporate average all-in cost per ounce of gold equivalent produced* – The corporate average cash cost per saleable ounce gold equivalent produced in the period equals the sum of cash costs associated with the production of the gold equivalent ounces at all operating sites in the period plus the corporate overhead expense in the period plus royalty expense, accretion, depletion, depreciation and amortization, divided by the total saleable gold equivalent ounces produced in the period.

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

13. *Free cash flow* - The Company defines free cash flow as a measure of the Corporation's ability to generate and manage liquidity. It is calculated starting with the net cash flows from operating activities (as per IFRS) and then adding capital expenditures and cash payments related to the cancellation of certain royalty contracts.