

Condensed consolidated interim financial statements of

# **Mandalay Resources Corporation**

March 31, 2018  
(Unaudited)

# Mandalay Resources Corporation

March 31, 2018

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# Mandalay Resources Corporation

## Condensed consolidated interim statements of income (loss) and comprehensive income (loss) three months ended March 31, 2018 and 2017

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended	
	2018	March 31, 2017
	(\$'000)	(\$'000)
Revenue (Note 12)	39,747	45,373
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note 14)	25,820	31,988
Depletion and depreciation	8,839	10,532
	34,659	42,520
Income from mining operations	5,088	2,853
Expenses		
Administration	1,793	1,972
Care and maintenance and other operating expenses	2,176	-
Share-based compensation (Note 13(b))	248	237
Loss on disposal of property, plant and equipment (Note 6)	7	9
	4,224	2,218
Income from operations	864	635
Other income (expenses)		
Finance costs (Note 15)	(1,368)	(1,414)
Loss on financial instruments (Note 16)	(243)	(830)
Interest and other income	485	97
Foreign exchange gain (loss)	242	(1,079)
	(884)	(3,226)
Loss before income taxes	(20)	(2,591)
Income tax expense (recovery)		
Current	783	(180)
Deferred	434	(62)
Income tax expense (recovery)	1,217	(242)
<b>Net loss for the period</b>	<b>(1,237)</b>	<b>(2,349)</b>
Comprehensive income (loss), net of tax		
Item that may subsequently be reclassified to net loss		
Foreign currency translation	(974)	3,713
Comprehensive income (loss) for the period	(2,211)	1,364
<b>Net loss per share</b>		
Basic	(0.00)	(0.01)
Diluted	(0.00)	(0.01)
<b>Weighted average number of common shares outstanding (Note 17)</b>		
Basic and Diluted ('000)	451,299	451,174

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

## Condensed consolidated interim statements of financial position

As at March 31, 2018 and December 31, 2017

(Expressed in U.S. dollars)

(Unaudited)

	March 31, 2018	December 31, 2017
	(\$'000)	(\$'000)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	23,407	16,935
Trade receivables and other assets (Note 4)	17,875	27,186
Inventories (Note 5)	21,216	24,249
Prepaid expenses	2,936	2,850
	<b>65,434</b>	<b>71,220</b>
Non-current assets		
Reclamation and other deposits	34,160	35,924
Trade and other receivables (Note 4)	3,192	3,324
Property, plant and equipment (Note 6)	196,277	194,564
Intangible asset (Note 7)	15	29
	<b>233,644</b>	<b>233,841</b>
	<b>299,078</b>	<b>305,061</b>
<b>Liabilities</b>		
Current liabilities		
Trade and other payables (Note 8)	21,169	24,281
Borrowings (Note 9)	1,535	1,699
Five-year exchangeable loan (Note 10)	26,857	27,784
Income taxes payable	977	1,053
Other provisions (Note 11)	1,888	2,083
Financial instruments (Note 16)	3,810	3,567
	<b>56,236</b>	<b>60,467</b>
Non-current liabilities		
Borrowings (Note 9)	15,784	16,161
Reclamation and site closure costs provision	49,065	49,886
Other provisions (Note 11)	1,590	1,590
Deferred tax liability	11,743	11,418
	<b>78,182</b>	<b>79,055</b>
	<b>134,418</b>	<b>139,522</b>
<b>Equity</b>		
Share capital (Note 13)	191,909	191,893
Share option reserve (Note 13)	10,048	9,816
Foreign currency translation reserve	(29,628)	(28,654)
Retained deficit	(7,669)	(7,516)
	<b>164,660</b>	<b>165,539</b>
	<b>299,078</b>	<b>305,061</b>

Approved by the Board of Directors and authorized for issue on May 9, 2018.

**(Signed) Mark Sander**

Mark Sander, President and Chief Executive Officer

**(Signed) Robert Doyle**

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

## Condensed consolidated interim statements of changes in equity three months ended March 31, 2018 and 2017

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

(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained deficit	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Balance, December 31, 2017</b>	<b>451,280</b>	<b>191,893</b>	<b>9,816</b>	<b>(28,654)</b>	<b>(7,516)</b>	<b>165,539</b>
Impact of IFRS 9 adoption (Note 3)	-	-	-	-	1,084	<b>1,084</b>
<b>Balance, January 1, 2018</b>	<b>451,280</b>	<b>191,893</b>	<b>9,816</b>	<b>(28,654)</b>	<b>(6,432)</b>	<b>166,623</b>
Net loss	-	-	-	-	(1,237)	<b>(1,237)</b>
Other comprehensive loss for the period	-	-	-	(974)	-	<b>(974)</b>
<b>Total comprehensive (loss)</b>	-	-	-	(974)	(1,237)	<b>(2,211)</b>
Share-based compensation (Note 13(b))	-	-	248	-	-	<b>248</b>
Redemption of RSU (Note 13(d))	34	16	(16)	-	-	-
<b>Balance, March 31, 2018</b>	<b>451,314</b>	<b>191,909</b>	<b>10,048</b>	<b>(29,628)</b>	<b>(7,669)</b>	<b>164,660</b>

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings (deficit)	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Balance, December 31, 2016</b>	<b>451,174</b>	<b>191,819</b>	<b>8,854</b>	<b>(37,529)</b>	<b>39,893</b>	<b>203,037</b>
Net loss	-	-	-	-	(2,349)	<b>(2,349)</b>
Other comprehensive income for the period	-	-	-	3,713	-	<b>3,713</b>
<b>Total comprehensive income</b>	-	-	-	3,713	(2,349)	<b>1,364</b>
Share-based compensation (Note 13(b))	-	-	266	-	-	<b>266</b>
Dividends paid (Note 13(e))	-	-	-	-	(1,922)	<b>(1,922)</b>
<b>Balance, March 31, 2017</b>	<b>451,174</b>	<b>191,819</b>	<b>9,120</b>	<b>(33,816)</b>	<b>35,622</b>	<b>202,745</b>

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

## Condensed consolidated interim statements of cash flows for the three months ended March 31, 2018 and 2017

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended	
	2018	March 31, 2017
	(\$'000)	(\$'000)
<b>Operating activities</b>		
Net loss	(1,237)	(2,349)
Adjustments to reconcile net income to net cash flows from operating activities		
Amortization of intangible asset	15	123
Depletion and depreciation	8,839	10,532
Share-based compensation (Note 13(b))	248	237
Loss on disposal of property, plant and equipment	7	9
Finance cost (Note 15)	1,368	1,414
Unrealized gain on derivative financial instruments (Note 16)	243	830
Interest and other income	(485)	(97)
Foreign exchange gain	(267)	1,074
Income tax expense (recovery)	1,217	(242)
Changes in non-cash operating working capital items		
Trade and other receivables	9,179	(4,391)
Inventories	2,973	2,185
Prepaid and other expenses	(135)	(607)
Trade and other payables	(3,641)	(1,592)
Provisions	(144)	(204)
Cash generated from operations	18,180	6,922
Interest and other income received	485	97
Interest and bank charges paid	(1,124)	(946)
Net cash flows from operating activities	17,541	6,073
<b>Investing activities</b>		
Increase in reclamation deposits	(173)	(71)
Reclamation expenditures	(252)	-
Expenditure for property, plant and equipment	(11,310)	(12,092)
Proceeds from disposal of property, plant and equipment	19	-
Net cash flows used in investing activities	(11,716)	(12,163)
<b>Financing activities</b>		
Proceeds from borrowings	370	-
Repayments of borrowings	(495)	(292)
Dividends paid (Note 13(e))	-	(1,922)
Net cash flows used in financing activities	(125)	(2,214)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	772	225
Increase in cash and cash equivalents	6,472	(8,079)
Cash and cash equivalents, beginning of the year	16,935	66,936
<b>Cash and cash equivalents, end of year</b>	<b>23,407</b>	<b>58,857</b>
Cash and cash equivalents consist of		
Cash	23,407	58,857
	<b>23,407</b>	<b>58,857</b>

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at March 31, 2018 and December 31, 2017

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

(Unaudited)

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### 1. Description of business and nature of operations

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

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

### 2. Basis of preparation

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

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

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

Judgments made by management in the application of International Financial Reporting Standards (“IFRS”) that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in the Company’s audited consolidated financial statements for the year ended December 31, 2017.

Certain immaterial amounts in the comparative condensed consolidated interim financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2018 condensed consolidated interim financial statements.

### 3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the annual financial statements as at December 31, 2017. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2017.

#### Changes in accounting standards

The accounting policies adopted in preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of amendments and interpretations effective January 1, 2018. These amendments and interpretations are outlined below.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at March 31, 2018 and December 31, 2017

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

(Unaudited)

### 3. Summary of significant accounting policies (continued)

#### IFRS 9, *Financial Instruments*

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

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in equity and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following table summarises the impact of transition to IFRS 9 on the opening consolidated statement of financial position:

	Balance December 31, 2017	IFRS 9 Adjustment	Adjusted opening balance - January 1, 2018
	\$'000	\$'000	\$'000
Five-year exchangeable loan (Current liability)	27,784	(1,084)	26,700
Retained deficit (Equity)	(7,516)	1,084	(6,432)

This IFRS 9 adjustment is a result of the accounting for the modification of the Five-year Exchangeable Loan that occurred during the three months ended June 30, 2017. Under IAS 39, modification gains can be amortized over the remaining term of the liability. Under IFRS 9, modification gains are required to be recorded immediately in profit or loss.

#### *Financial assets*

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents, other receivables, and reclamation and other deposits are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as loan and receivables.
- Marketable securities continue to be classified as fair value through profit or loss, under IFRS 9.
- Trade receivables are classified as financial assets at fair value through profit or loss and measured at fair value during the provisional pricing period until the final settlement price is determined. Once the final settlement price is determined, trade receivables are classified as financial assets measured at amortized cost. Previously under IAS 39, trade receivables were classified as loans and receivables measured at amortized cost except for the provisional pricing adjustment that was measured at fair value through profit or loss.

#### *Financial liabilities or equity*

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements and did not result in a transitional adjustment.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at March 31, 2018 and December 31, 2017

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

(Unaudited)

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### 3. Summary of significant accounting policies (continued)

#### (i) Other financial liabilities

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

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

#### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014, and amended in April 2016. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The Company has applied the modified retrospective approach under the transition provisions of IFRS 15.

The implementation of the new standard, effective January 1, 2018, has not had a significant financial statement impact in the year ended December 31, 2017, or in the three months ended March 31, 2018.

One impact noted for the Company is that the provisional pricing adjustment does not meet the definition of revenue from customers under IFRS 15 and therefore disclosure of the breakdown of revenue has been presented. Provisional pricing represents an embedded derivative that is accounted for under IFRS 9, Financial Instruments. The adjustments still form part of the revenue amount reported. The following policies applied in accounting for revenue for the three months ended March 31, 2018. In the comparative period, revenue was accounted for in accordance with the revenue recognition policy disclosed in the Company's December 31, 2017, annual audited consolidated financial statements.

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

#### Accounting standards issued but not yet effective

##### IFRS 16, Leases

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

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Company is currently assessing the impact of adopting IFRS 16.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at March 31, 2018 and December 31, 2017

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

(Unaudited)

#### 4. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	March 31, 2018	December 31, 2017
	(\$'000)	(\$'000)
Trade receivables	13,553	22,576
VAT and other indirect tax receivables	3,910	4,399
Other receivables	3,229	3,376
Marketable securities	155	159
Provisional pricing adjustment	220	-
	<b>21,067</b>	30,510
Less: non-current portion	<b>3,192</b>	3,324
<b>Total current portion</b>	<b>17,875</b>	27,186

There was no allowance for doubtful accounts as at March 31, 2018, or at December 31, 2017.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. The receivable associated with provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at March 31, 2018, there was \$220,000 recorded as an unrealized mark-to-market adjustment in trade receivables and other assets. As at December 31, 2017, an unrealized \$91,000 mark to market adjustment was recorded in trade and other payables (Note 8).

#### 5. Inventories

Inventories consist of the following:

	March 31, 2018	December 31, 2017
	(\$'000)	(\$'000)
Finished goods	6,206	9,668
Work in progress and stockpiled ore	3,686	2,990
Consumables	11,324	11,591
	<b>21,216</b>	24,249

The amount of inventories recognized in cost of operations for the three months ended March 31, 2018, is \$34,659,000 (2017 – \$42,520,000).

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at March 31, 2018 and December 31, 2017

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

(Unaudited)

### 6. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Cost</b>												
As at January 1, 2017	64,768	69,875	59,042	29,150	51,098	19,496	289	5,855	1,814	15,036	40,880	357,303
Additions	2,437	6,355	14,601	4,505	2,216	9,714	55	4,020	1,018	1,867	4,729	51,517
Disposals	-	-	-	(584)	(2,647)	-	-	-	-	-	-	(3,231)
Write-off of assets	-	(11,916)	-	-	(6,135)	-	-	(552)	(1,726)	-	(1,484)	(21,813)
Reclassification to mining interest	1,038	-	705	-	-	-	-	(1,038)	-	(705)	-	-
Transferred from Asset held for sale	-	-	-	-	-	-	2,644	-	-	-	6,726	9,370
Foreign exchange	4,421	-	4,250	2,486	-	2,323	(190)	536	-	143	286	14,255
<b>As at December 31, 2017</b>	<b>72,664</b>	<b>64,314</b>	<b>78,598</b>	<b>35,557</b>	<b>44,532</b>	<b>31,533</b>	<b>2,798</b>	<b>8,821</b>	<b>1,106</b>	<b>16,341</b>	<b>51,137</b>	<b>407,401</b>
Additions	2,115	-	2,972	1,637	-	2,895	18	1,070	-	307	257	11,271
Disposals	-	-	-	(64)	-	-	-	-	-	-	-	(64)
Reclassification to mining interest	3,521	-	-	-	-	-	-	(3,521)	-	-	-	-
Foreign exchange	(1,086)	-	(985)	(601)	-	(657)	(19)	(83)	-	(10)	(67)	(3,508)
<b>As at March 31, 2018</b>	<b>77,214</b>	<b>64,314</b>	<b>80,585</b>	<b>36,529</b>	<b>44,532</b>	<b>33,771</b>	<b>2,797</b>	<b>6,287</b>	<b>1,106</b>	<b>16,638</b>	<b>51,327</b>	<b>415,100</b>
<b>Accumulated depreciation</b>												
As at January 1, 2017	44,127	51,442	15,968	12,236	37,026	7,217	469	-	-	-	-	168,485
Expense	8,123	4,402	12,735	6,309	5,223	3,437	31	-	-	-	-	40,260
Disposals	-	-	-	(395)	(2,223)	-	-	-	-	-	-	(2,618)
Foreign exchange	3,200	-	1,401	1,161	-	940	8	-	-	-	-	6,710
<b>As at December 31, 2017</b>	<b>55,450</b>	<b>55,844</b>	<b>30,104</b>	<b>19,311</b>	<b>40,026</b>	<b>11,594</b>	<b>508</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>212,837</b>
Expense	3,011	-	2,804	1,598	506	890	-	-	-	-	-	8,809
Disposals	-	-	-	(44)	-	-	-	-	-	-	-	(44)
Foreign exchange	(817)	-	(1,132)	(348)	-	(479)	(3)	-	-	-	-	(2,779)
<b>As at March 31, 2018</b>	<b>57,644</b>	<b>55,844</b>	<b>31,776</b>	<b>20,517</b>	<b>40,532</b>	<b>12,005</b>	<b>505</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>218,823</b>
<b>Carrying value</b>												
As at January 1, 2017	20,641	18,433	43,074	16,914	14,072	12,279	(180)	5,855	1,814	15,036	40,880	188,818
As at December 31, 2017	17,214	8,470	48,494	16,246	4,506	19,939	2,290	8,821	1,106	16,341	51,137	194,564
<b>As at March 31, 2018</b>	<b>19,570</b>	<b>8,470</b>	<b>48,809</b>	<b>16,012</b>	<b>4,000</b>	<b>21,766</b>	<b>2,292</b>	<b>6,287</b>	<b>1,106</b>	<b>16,638</b>	<b>51,327</b>	<b>196,277</b>

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 6. Property, plant and equipment (continued)

For the three months ended March 31, 2018, there was no plant and equipment depreciation capitalized to mining interests at Cerro Bayo (2017 – \$222,000).

During the year ended December 31, 2017, the Company has disposed of mining equipment having carrying value of \$424,000; this amount has been recognised under the disposal of assets.

	<b>December 31, 2017</b>
	<b>(\$'000)</b>
Costerfield	552
Cerro Bayo	19,777
Bjorkdal	-
Ulu/Lupin	1,484
<b>Total write off of assets</b>	<b>21,813</b>

#### Cerro Bayo (2017)

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

### 7. Intangible asset

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

As at March 31, 2018, the carrying amount of the intangible asset is \$15,000 (December 31, 2017 – \$29,000). Amortization expense for the three months ended March 31, 2018, of \$14,000 (2017 - \$123,000) is recorded as part of cost of sales.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

(Expressed in U.S. dollars, except where otherwise noted)  
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### 8. Trade and other payables

	March 31, 2018	December 31, 2017
	(\$'000)	(\$'000)
Trade payables	11,972	13,870
Accrued liabilities	6,110	6,499
Payroll and other taxes payable	3,087	3,820
Cash election option (Note 12(c))	-	1
Provisional pricing adjustment	-	91
	<b>21,169</b>	<b>24,281</b>

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

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at March 31, 2018, there was \$220,000 recorded as mark-to-market adjustments in trade receivables and other assets (Note 4). As at December 31, 2017, \$91,000 relating to mark to market adjustment was recorded in trade and other payables.

### 9. Borrowings

	March 31, 2018	December 31, 2017
	(\$' 000)	(\$' 000)
Liability for the Revolver facility	14,362	14,721
Borrowings for loan/lease facility	2,957	3,139
	<b>17,319</b>	<b>17,860</b>
Less: Current portion of total borrowings	1,535	1,699
Non-current portion of total borrowings	<b>15,784</b>	<b>16,161</b>

#### ***Revolver facility***

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

Amounts drawn on the Revolver Facility will bear interest at LIBOR plus 3.5%-4.5% per annum or at HSBC's "base rate" plus 2.5%-3.5%, depending on the Company's leverage ratio. The undrawn portion of the Revolver Facility is subject to a standby fee of 1.0% per annum. The Revolver Facility is secured by a first ranking security interest over substantially all of the Company's assets, excluding the Company's

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

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### 9. Borrowings (continued)

Australian subsidiaries and its Costerfield mine and subject to permitted liens. As required by the terms, the Company has suspended dividends on its common shares.

The facility has the below mentioned financial covenants:

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

As at March 31, 2018, the Company was in compliance with all covenants related to the above borrowings.

#### **Equipment loans**

As at March 31, 2018, the Company's Björkdal mine in Sweden, had a balance of \$695,000 (December 31, 2017 – \$372,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the 3-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest. These loans are due to be repaid during the year ended December 31, 2020. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling \$2,262,000 (December 31, 2017 – \$2,767,000). These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments. These leases are due to be repaid during the year ended December 31, 2022. Certain leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost.

As at March 31, 2018, the current portion of the above facilities is \$1,535,000 (December 31, 2017 – \$1,699,000) and the non-current portion is \$1,422,000 (December 31, 2017 – \$1,440,000).

### 10. Five-year Exchangeable Loan

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

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

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

The Issuer may redeem the Bonds at its option:

- if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30-consecutive trading day period; or

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

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### 10. Five-year Exchangeable Loan (continued)

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

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

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the condensed consolidated interim statements of financial position of the Company as at March 31, 2018, and December 31, 2017. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (Note 16).

#### *Repurchase and Amendment of Bonds*

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

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

- extending the maturity date of the Bonds to May 13, 2022;
- deleting a condition of the Bonds which required that beginning on May 14, 2017, as additional security for the Bonds, the Issuer was required to start depositing the aggregate number of Gold Shares issuable upon exchange of the Bonds into a custody account;
- adding a new covenant to the Bonds pursuant to which the Issuer will be required to offer to repurchase a proportion of the Bonds outstanding at the relevant time if and to the extent that the contained gold equivalent Mineral Reserves (in ounces) at Mandalay's Costerfield mine falls below (initially) 232,000 gold equivalent ounces;
- increasing the interest rate payable on the Bonds from 5.875% per annum to 6.875% per annum effective as of May 13, 2017; and
- reducing the exchange price of the Bonds from US\$149.99 to US\$135.00 (which equates to gold prices of US\$1,556 per ounce, and US\$1,400 per ounce, respectively).

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

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 11. Other provisions

	Employee benefits (\$'000)
Balance, December 31, 2017	3,673
Additions	602
Amounts paid	(752)
Foreign exchange	(45)
Balance, March 31, 2018	3,478
Less: current portion	1,888
Total non-current portion	1,590

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

### 12. Revenue

#### *Disaggregation of revenue*

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (see Note 18).

	Costerfield		Cerro Bayo		Björkdal		Total	
Three months ended March 31,	2018	2017	2018	2017	2018	2017	2018	2017
<b>Primary geographical markets</b>								
Australia	15,244	14,798	-	-	-	-	15,244	14,798
Chile	-	-	-	10,520	-	-	-	10,520
Sweden	-	-	-	-	23,534	16,364	23,534	16,364
<b>Revenue from contracts with customers</b>	<b>15,244</b>	<b>14,798</b>	<b>-</b>	<b>10,520</b>	<b>23,534</b>	<b>16,364</b>	<b>38,778</b>	<b>41,682</b>
Provisional pricing adjustments	356	822	81	2,413	532	456	969	3,691
<b>Total revenue from mining operations</b>	<b>15,600</b>	<b>15,620</b>	<b>81</b>	<b>12,933</b>	<b>24,066</b>	<b>16,820</b>	<b>39,747</b>	<b>45,373</b>
<b>Commodities</b>								
Gold	9,613	9,209	-	3,244	23,534	16,364	33,147	28,817
Silver	-	-	-	7,276	-	-	-	7,276
Antimony	5,631	5,589	-	-	-	-	5,631	5,589
<b>Revenue from contracts with customers</b>	<b>15,244</b>	<b>14,798</b>	<b>-</b>	<b>10,520</b>	<b>23,534</b>	<b>16,364</b>	<b>38,778</b>	<b>41,682</b>
Provisional pricing adjustments	356	822	81	2,413	532	456	969	3,691
<b>Total revenue from mining operations</b>	<b>15,600</b>	<b>15,620</b>	<b>81</b>	<b>12,933</b>	<b>24,066</b>	<b>16,820</b>	<b>39,747</b>	<b>45,373</b>

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 13. Share capital

As at March 31, 2018, the Company had an unlimited number of authorized common shares without par value and 451,313,865 common shares outstanding (December 31, 2017 – 451,279,731 common shares). All outstanding common shares are fully paid.

#### (a) Shares issued

For the three months ended March 31, 2018, the Company issued 34,134 common shares upon the redemption of RSUs.

#### (b) Share-based compensation

For the three months ended March 31, 2018, the Company recorded \$248,000 (2017 – \$237,000) as net share-based compensation expense.

	Three months ended	
	2018	March 31,
	2018	2017
	(\$'000)	(\$'000)
Stock based compensation on options	210	233
Fair value for cash election option	(6)	(19)
RSU amortization	44	23
	<b>248</b>	<b>237</b>

No options were granted during the three months ended March 31, 2018. During year-end 2017, the value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$0.60 was calculated using the following weighted average assumption. Expected stock price volatility and option life is based on the Company's historical share price volatility.

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

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

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

(Expressed in U.S. dollars, except where otherwise noted)  
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### 13. Share capital (continued)

#### (c) Stock options

Option holder's resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at March 31, 2018, the liability is \$nil (December 31, 2017 - \$1,000).

The Company recognized a fair value measurement gain of \$6,000 for the three months ended March 31, 2018 (2017 – \$19,000 gain), which is included in the share-based compensation expense.

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

	Three months ended	
	2018	March 31, 2017
Risk free interest rate	1.76%	0.75%
Expected dividend yield	0.00%	3.31%
Expected life of options in years	1.99	2.99
Expected stock price volatility	50.21%	45.52%
Expected forfeiture rate	0.00%	0.00%

As at March 31, 2018, 525,000 (December 31, 2017 – 775,000) stock options with the cash election option are outstanding.

	Number of options	Weighted average exercise price
		C\$
Balance, December 31, 2016	19,242,200	0.95
Granted	4,800,000	0.60
Exercised-equity issuance	(2,609,200)	0.78
Forfeited	(487,500)	0.96
Balance, December 31, 2017	20,945,500	0.89
Expired	(3,395,000)	1.13
Forfeited	(72,500)	0.96
<b>Balance, March 31, 2018</b>	<b>17,478,000</b>	<b>0.84</b>

No stock options were exercised during the three months ended March 31, 2018.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 13. Share capital (continued)

#### (c) Stock options (continued)

The following table summarizes information about the stock options outstanding as at March 31, 2018:

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
3,715,000	0.98	0.98	3,715,000	0.98
4,185,000	1.98	0.91	4,185,000	0.91
4,778,000	2.98	0.91	-	-
4,800,000	6.25	0.60	1,600,000	0.60
<b>17,478,000</b>	<b>3.22</b>	<b>0.84</b>	<b>9,500,000</b>	<b>0.89</b>

#### (d) Restricted Share Units

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

The number of RSUs as at March 31, 2018, is as follows:

	Number of RSU awards
Balance, December 31, 2016	282,177
Granted	511,890
Redeemed	(105,721)
Balance, December 31, 2017	688,346
Redeemed	(34,134)
<b>Outstanding at March 31, 2018</b>	<b>654,212</b>

For the three months ended March 31, 2018, the Company recorded \$44,000 (2017 – \$23,000), as share based compensation relating to RSUs.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 13. Share capital (continued)

#### (e) Dividends

On February 16, 2017, and May 10, 2017, the Board of Directors declared a dividend in the amount of C\$0.0057 and C\$0.0083 per common share, based on the Company's operating results for the three months ended December 31, 2016, and March 31, 2017, payable to shareholders of record as of February 27, 2017. Total payments of \$1,922,000 and \$2,781,000 were made during the period ended March 31, 2017, and June 30, 2017, respectively. In accordance with the terms of the Revolver Facility (note 9), dividends on common shares have been suspended.

### 14. Cost of sales

The cost of sales for the three months ended March 31, 2018 and 2017, consists of:

	Three months ended	
	March 31,	
	2018	2017
	(\$'000)	(\$'000)
Raw materials and consumables	6,896	9,692
Salary and employee benefits	8,082	9,539
Contractors	4,638	7,775
Change in inventories	2,767	2,148
Royalty	185	178
Other	3,252	2,656
	<b>25,820</b>	<b>31,988</b>

### 15. Finance costs

	Three months ended	
	March 31,	
	2018	2017
	(\$'000)	(\$'000)
Interest on five year exchangeable loan	684	1,273
Finance charges on revolver facility	414	-
Interest on other borrowings and bank charges	183	56
Accretion of reclamation and site closure costs	87	85
	<b>1,368</b>	<b>1,414</b>

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 16. Financial instruments

#### (a) Marketable securities - asset

The value of securities as at March 31, 2018, is \$155,000 (at December 31, 2017 – \$159,000), recorded in trade receivables and other assets. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain/(loss) of \$nil (2017 – (\$37,000)) for three months ended March 31, 2018, using Level 1 assumptions.

#### (b) Five-year exchangeable loan – liability

The Company has valued the conversion feature of the five-year exchangeable loan (Note 10) using the Black-Scholes option pricing. For the three months ended March 31, 2018, the derivative value of the conversion feature amounts to \$3,810,000 (2017 – \$3,567,000) and is recorded in current liabilities. The Company recorded a fair value measurement loss of \$243,000 (2017 – loss of \$793,200) for the three months ended March 31, 2018. The value was estimated using the following Level 2 assumptions: risk free interest rate of 1.27% (2017 – 0.76%); volatility of 16% (2016 – 18%), gold forward curve adjustment of (1.55%) (2017 – (1.15%)).

### 17. Income per share

As at March 31, 2018 and 2017, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended	
	March 31,	
	2018	2017
	('000)	('000)
<b>Net loss for the period</b>	<b>(1,237)</b>	(2,349)
Basic weighted average number of shares outstanding	451,299	451,174
Effect of diluted securities :		
Stock options	-	-
RSU	-	-
<b>Diluted weighted average number of shares outstanding</b>	<b>451,299</b>	451,174

The following stock options and RSU are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the company has reported loss for the three months ended March 31, 2018 and 2017:

	Three months ended	
	December 31,	
	2017	2016
	('000)	('000)
Stock options	17,478	20,928
RSU	654	784

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 18. Segmented information

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

	Three months ended March 31, 2018				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue (Note 12)	15,600	81	24,066	-	39,747
Cost of sales (Note 14)	(9,156)	(79)	(16,585)	-	(25,820)
Depletion and depreciation	(4,602)	(506)	(3,726)	(6)	(8,839)
Income from mine operations	1,843	(504)	3,755	(6)	5,088
Other operating expenses	(727)	(469)	(727)	(126)	(2,048)
Care and maintenance and other operating expenses (Note 22)	-	(2,176)	-	-	(2,176)
Income (loss) from operations	1,117	(3,149)	3,029	(132)	864
Other expense, except for fair value adjustment	426	(118)	(150)	(799)	(641)
Income (loss) for underlying operations	<b>1,543</b>	<b>(3,267)</b>	<b>2,879</b>	<b>(931)</b>	<b>223</b>
Loss from underlying operations per share					
Basic					\$0.00
Diluted					\$0.00
Fair value adjustments gain (loss)					
Five-year exchangeable bonds (Note 16(b))	-	-	-	(243)	(243)
Total fair value adjustment	-	-	-	(243)	<b>(243)</b>
Income (loss) before income taxes	1,543	(3,267)	2,879	(1,174)	(20)
Current tax expense	(212)	-	(571)	-	(783)
Deferred tax expense	(335)	-	(99)	-	(434)
Net income (loss)	<b>996</b>	<b>(3,267)</b>	<b>2,209</b>	<b>(1,174)</b>	<b>(1,237)</b>
Net Loss per share					
Basic					(\$0.00)
Diluted					(\$0.00)
Cash expenditure for property, plant and equipment	4,818	253	6,212	27	11,310
Total non-current assets as at March 31, 2018	45,001	56,118	90,270	42,255	233,644
Total assets as at March 31, 2018	66,277	67,352	118,998	46,451	299,078
Total liabilities as at March 31, 2018	13,707	21,281	27,873	71,557	134,418

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 18. Segmented information (continued)

	Three months ended on March 31, 2017				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue (Note 12)	15,620	12,933	16,820	-	45,373
Cost of sales (Note 14)	(9,800)	(8,724)	(13,464)	-	(31,988)
Depletion and depreciation	(3,887)	(3,653)	(2,988)	(4)	(10,532)
Income from mine operations	1,933	556	368	(4)	2,853
Other operating expenses	(283)	(848)	(357)	(721)	(2,209)
Income (loss) from operations	1,650	(292)	11	(725)	644
Other expense, except for fair value adjustment	(983)	(138)	(174)	(1,110)	(2,405)
Income (loss) for underlying operations	667	(430)	(163)	(1,835)	(1,761)
Income for underlying operations per share					
Basic					(\$0.01)
Diluted					(\$0.01)
Five-year exchangeable bonds (Note 16(b))	-	-	-	(793)	(793)
Marketable Securities (Note 16(a))	-	-	-	(37)	(37)
Total fair value adjustment	-	-	-	(830)	(830)
Income (loss) before income taxes	667	(430)	(163)	(2,665)	(2,591)
Current tax recovery	89	-	91	-	180
Deferred tax recovery (expense)	(91)	2	151	-	62
Net income (loss)	665	(428)	79	(2,665)	(2,349)
Net Income per share					
Basic					(\$0.01)
Diluted					(\$0.01)
Cash expenditure for property, plant and equipment	2,780	4,214	5,098	-	12,092
Total non-current assets as at March 31, 2017	47,545	75,972	77,098	849	201,464
Total assets as at March 31, 2017	82,245	104,102	97,774	65,713	349,834
Total liabilities as at March 31, 2017	16,879	23,452	24,703	82,012	147,046

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

(Expressed in U.S. dollars, except where otherwise noted)  
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### 18. Segmented information (continued)

For the three months ended March 31, 2018, the Company had three customers from whom it earned more than 10% of its total revenue (2017 – four customers).

Revenue from these customers is summarized as follows:

	Three months ended	
	March 31, 2018	March 31, 2017
	(\$'000)	(\$'000)
Costerfield (gold and antimony)		
Customer 1	11,779	10,211
Customer 2	-	4,393
	11,779	14,604
Cerro Bayo (silver and gold)		
Customer 3	-	6,817
	-	6,817
Björkdal (gold)		
Customer 4	19,748	14,112
Customer 5	4,318	-
	24,066	14,112
<b>Total</b>	<b>35,845</b>	<b>35,533</b>

### 19. Fair value measurement

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

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

As at March 31, 2018, the provisional pricing feature of trade receivables, other receivables and marketable securities are based on Level 1 input. Provisional pricing feature of trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at March 31, 2018 and December 31, 2017

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

### 20. Related party transactions

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

	Three months ended	
	March 31,	
	2018	2017
	(\$'000)	(\$'000)
Administration expenses, salaries and consultancy services		
SKS Business Services	48	59

### 21. Commitments and contingencies

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

Due to recent events at the Cerro Bayo mine, the Company has provided for certain costs related to possible settlements with third parties in the future. These have been included using Management's best estimate, however these estimates could be materially different to the final outcome of the claims.

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

### 22. Subsequent events

**Ulu Option Agreement:** In April, 2018, the Company received the sum of CAD \$400,000 from WPC Resources pursuant to the terms of the existing option agreement between WPC Resources and the Company subject to which WPC has the right to acquire the Ulu gold exploration property in Nunavut, Canada.

**Lupin Reclamation Deposit:** On April 18, 2018, the Nunavut Water Board reached a decision to recommend that the security held in respect of the Letter of Credit that has been posted by Mandalay in respect of the Lupin mine be reduced by C\$5.345 million. This recommendation is subject to approval by the Minister of Indigenous and Northern Affairs within 45 days. If the reduction is approved, Mandalay expects to have the cash returned in the second quarter of 2018.