MANDALAY RESOURCES

Management's Discussion and Analysis

For the Quarter and Year ended December 31, 2018

As of March 14, 2019

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, 2018, and the Company's annual information form dated March 29, 2018 (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 "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 references 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 2018 FINANCIAL AND OPERATING SUMMARY

Mandalay's Current Financial Condition

Mandalay recently experienced significant liquidity issues as a result of a number of unforeseen operational and financial developments that have arisen since September 30, 2018. These include:

- *Gold Bond Redemptions:* In December 2018 and January 2019, Mandalay was required to spend $5.4 million to retire $6.1 million principal amount of senior exchangeable gold bonds (the "Bonds") issued by Gold Exchangeable Limited (but which are Mandalay's financial responsibility) due to the holders of these Bonds exercising their exchange rights.

- *Capital Spending Overrun:* Capital spending at Björkdal in the fourth quarter of 2018 exceeded forecast amounts by approximately $3.8 million as a result of significantly deeper footings than originally designed for the construction of a tailings dam lift. The tailings dam lift was completed in the fourth quarter of 2018.

- *Operational Underperformance:* In the fourth quarter of 2018, operational underperformance at Björkdal resulted in a cash shortfall of approximately $4.6 million, due in part to a haulage bottleneck caused by the change in underground haulage contactors (see Mandalay's November 8, 2018 press release) as well as over budget operational costs. This situation has now been rectified and the operation, including haulage of underground material, is currently performing at budgeted levels.

As at December 31, 2018, Mandalay's cash and cash equivalents had declined to $8.4 million, which combined with the fact that the Company generated negative cash flow from operations in the fourth quarter of 2018, meant that Mandalay required additional funding and called into question its ability to continue to operate as a going concern.

In order to address its liquidity requirements, and to secure funding for the Company's capital development and exploration programs, on February 20, 2019 the Company closed a financing transaction for gross proceeds of approximately $54 million (the "Financing"), consisting of a $8 million bridge loan that is convertible into common shares of the Company ("Common Shares") at a price of CAD$0.108 per Common Share (the "Bridge Loan") and a CAD$43 million public offering of 359,400,000 subscription receipts ("Subscription Receipts") at a price of CAD$0.120 per Subscription Receipt (the "Public Offering"). Upon the satisfaction of certain conditions, including the receipt of shareholder approval at a special meeting of Mandalay shareholders that has been called for March 29, 2019, each Subscription Receipt will be exchanged for one Common Share and the gross proceeds from the sale of the Subscription Receipts, less the underwriters' commission and expenses, will be released to the Company.

For further information regarding the Financing transaction, please refer to Mandalay's February 12, 2019 prospectus supplement to its short form base shelf prospectus dated February 12, 2018 (the "Prospectus") and its management information circular dated March 1, 2019, both of which are available on SEDAR (www.sedar.com).

Financial Summary

- Revenue in the fourth quarter of 2018 was $22.7 million, compared to $38.1 million in fourth quarter of 2017. The decline in quarterly revenue this year compared to same quarter in the prior year was primarily due to lower production and therefore sales at Costerfield and Björkdal. Production for the fourth quarter was in line with the revised guidance given on November 8, 2018. The significant difference in revenue between the two periods was largely because the Björkdal mine had record sales in the fourth quarter of 2017 due to higher than expected grades, which was not repeated in the fourth quarter of 2018, where lower grades were processed as the new underground haulage fleet was ramping up production throughout the quarter.

- Mandalay's consolidated average cash cost[1] of production in the fourth quarter of 2018 was $1,311 per ounce of gold equivalent versus $680 per ounce of gold equivalent in the fourth quarter of 2017, for the year end 2018 the consolidated average cash cost was $1,148 versus $851 for 2017.

[1] Consolidated average cash cost is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

Consolidated all-in cost[2] in the current quarter was $1,709 per ounce of gold equivalent versus $945 per ounce of gold equivalent in the prior-year quarter. Lower production in the fourth quarter of 2018 resulted in higher cash and all-in costs, for the year end 2018 the consolidated average all-in cost was $1,537 versus $1,175 for 2017. The higher comparative cost measures relate largely to the grade of ore mined.

- Adjusted EBITDA[2] in the fourth quarter of 2018 was negative $1.9 million versus $14.4 million in the fourth quarter of 2017. Lower comparative adjusted EBITDA in the 2018 quarter was mainly due to lower revenue, as mentioned above.

- Consolidated after tax net loss in the fourth quarter of 2018 was $31.3 million ($0.07 loss per share), compared with the consolidated net loss of $23.1 million ($0.05 per share) in the fourth quarter of 2017. Of this consolidated net loss, $21.2 million was related to non-cash write downs of several of the Company's non-core assets. Consolidated net loss for the 2018 year was $63.7 million ($0.14 loss per share) versus $42.7 million in 2017 ($0.09 loss per share). Of the current year consolidated net loss, $39.7 million was related to the non-cash write downs of several of the Company's non-core assets. These non-cash write downs include $23.9 million at Challacollo due to its ongoing sales process, $8.8 million at Cerro Bayo due to uncertainty surrounding permitting and restart timeframes, $1.9 million at La Quebrada, as well as a $5.1 million write down of Cerro Bayo consumables inventory.

- On December 3, 2018 the Company was required to exchange a principal amount of $2,300,000 of the Bonds for a cost of $1,978,000. As at December 31, 2018, there was a current liability of $25,235,000 (2017 - $27,784,000) recognized on the statement of financial position related to these instruments. The outstanding principal at year end was $27,750,000. Subsequent to year end, on February 11, 2019, the Company exchanged a principal amount of $3,650,000 of Bonds for a monetary cost $3,350,000. The outstanding principal after this exchange was $24,100,000.

- At December 31, 2018, the Company had $8.4 million of cash and cash equivalents compared to $16.9 million as at December 31, 2017.

Operational Summary

Consolidated Production and Sales

- In the fourth quarter of 2018, Mandalay's production was in line with the revised guidance issued on November 8, 2018. In the fourth quarter of 2018, the Company produced a total of 19,173 ounces of gold equivalent, including 15,430 ounces of gold and 561 tonnes of antimony. This compares to 34,395 ounces of gold equivalent produced in the fourth quarter of 2017, consisting of 29,257 ounces of gold and 805 tonnes of antimony. For the year ended December 31, 2018, Mandalay produced a total of 81,568 ounces of gold equivalent, including 67,329 ounces of gold and 2,173 tonnes of antimony. This compares to 131,186 ounces of gold equivalent produced in 2017, consisting of 99,449 ounces of gold,

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

3,115 tonnes of antimony and 794,533 ounces of silver. The decline in year-over-year production was attributable to the production disruptions experienced earlier in 2018, namely the delay in producing from the Brunswick lode due to more dewatering required than expected, and the haulage bottlenecks at Björkdal, which resulted in lower-grade ore feed being processed. Both operational issues have been rectified.

- Mandalay's consolidated average cash cost of production in the fourth quarter of 2018 was $1,311 per ounce of gold equivalent versus $680 per ounce of gold equivalent in the fourth quarter of 2017. Cash costs are considered relatively high for the current period, and as outlined above, the Company expects the cash cost per ounce to decrease in the coming quarters with expected increase in production. Consolidated average cash cost of production for the year ended December 31, 2018 was $1,148 per ounce of gold equivalent versus $851 per ounce of gold equivalent for the prior year period.

- Consolidated all-in cost in the current quarter was $1,709 per ounce of gold equivalent versus $945 per ounce of gold equivalent in the prior-year quarter. Consolidated all-in cost for the year ended December 31, 2018 was $1,537 per ounce of gold equivalent versus $1,175 per ounce of gold equivalent in the prior year period. This was mainly due to the higher cash cost, as described above.

- Cash costs and all-in costs mentioned above exclude Cerro Bayo care and maintenance costs of $5.7 million incurred during the current quarter, as compared to $4.9 million in the fourth quarter of 2017. The $5.7 million care and maintenance cost at Cerro Bayo in the current quarter is net of a $0.8 million credit for an insurance claim received and a $5.1 million non-cash write down of consumables inventory. For the full year ended 2018, care and maintenance costs were down slightly to $10.5 million as compared to $12.8 million for year ended 2017. Care and maintenance costs are expected to continue at the mine going forward at a rate of approximately $3.0 to $4.0 million per year.

- Foreign exchange rates impacted U.S. dollar-denominated costs favorably in the current quarter, compared to the prior year quarter. The Australian dollar averaged 1.3949/US$ in the fourth quarter of 2018 vs 1.3007/US$ in the prior year period and 1.3378/US$ for year end 2018 vs. 1.3009 for year end 2017. The Swedish Krona averaged 9.0458 krona/US$ in the fourth quarter vs 8.3160 krona/US$ in the prior year period and 8.5837 krona/US$ for year end 2018 vs. 8.4918 krona/US$ for year end 2017. The Chilean Peso averaged 680 peso/US$ for the fourth quarter of 2018 vs 633 peso/US$ in the prior year period and 642 peso/US$ for year end 2018 vs. 647 peso/US$ for year end 2017. Average petroleum prices were approximately 30% lower in 2018 than in year end 2017.

- Quantities of metal sold during the fourth quarter of 2018 were 14,514 ounces of gold and 582 tonnes of antimony compared to 25,044 ounces of gold, 18,334 ounces of silver and 668 tonnes of antimony in the fourth quarter of 2017. These sales totaled 18,399 ounces of gold equivalent in the 2018 quarter versus 29,547 ounces of gold equivalent in the corresponding quarter of 2017.

- Prices realized during the fourth quarter of 2018 were $1,253 per ounce for gold and $7,771 per tonne for antimony versus $1,276 per ounce for gold and $8,688 per tonne for antimony in the same period in 2017 (1.8% lower price for gold and 10.6% lower for antimony).

Mandalay Saleable Production

Metal	Source	Three months to 31 December 2018	Three months to 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2017
Gold (oz)	Björkdal	10,482	22,035	45,719	62,028
	Costerfield	4,948	7,222	21,610	31,512
	Cerro Bayo	-	-	-	5,909
	Total	**15,430**	**29,257**	**67,329**	**99,449**
Antimony (t)	Costerfield	**561**	**805**	**2,173**	**3,115**
Silver (oz)	Cerro Bayo	**-**	**-**	**-**	**794,533**
Average quarterly prices:					
Gold US$/oz		1,229	1,275		-
Antimony US$/tonne		8,204	8,137		-
Silver US$/oz		15.00	16.71		-
Au Eq. (oz)[1]	Björkdal	10,482	22,035	45,719	62,028
	Costerfield	8,691	12,360	35,849	52,137
	Cerro Bayo	-	-	-	17,021
	Total	**19,173**	**34,395**	**81,568**	**131,186**

[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 2018	Three months to 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2017
Gold (oz)	Björkdal	9,557	18,565	50,062	58,058
	Costerfield	4,957	6,337	22,900	30,296
	Cerro Bayo	-	142	-	7,003
	Total	**14,514**	**25,044**	**72,962**	**95,357**
Antimony (t)	Costerfield	**582**	**668**	**2,307**	**2,879**
Silver (oz)	Cerro Bayo	**-**	**18,334**	**-**	**926,832**
Average quarterly prices:					
Gold US$/oz		1,229	1,275		-
Antimony US$/tonne		8,204	8,137		-
Silver US$/oz		15.00	16.71		-
Au Eq. (oz)[2]	Björkdal	9,557	18,565	50,062	58,058
	Costerfield	8,842	10,599	37,987	49,425
	Cerro Bayo	-	383	-	19,884
	Total	**18,399**	**29,547**	**88,049**	**127,368**

[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 10,482 ounces of gold in the fourth quarter of 2018 versus 8,504 ounces of gold in the third quarter of 2018, compared to 22,035 ounces of gold in the fourth quarter of 2017. For year end 2018 the production was 45,721 ounces of gold versus 62,028 ounces of gold for year end 2017. The decrease in production in the current quarter was directly related to the lower milled head grades, which arose from trucking issues limiting the amount of higher-grade mineral that could be transported from underground, as mill tonnage throughput remained broadly constant between periods. The Company experienced continual improvements in underground haulage rates over the course of the fourth quarter of 2018 due to the delivery of a new underground trucking fleet. Underground haulage rates are now back to levels achieved prior to the recent declines due to the haulage contractor changeover. See "Results of Operations – Björkdal".

- *Operating Costs* — Cash cost per saleable ounce of gold produced at Björkdal in the fourth quarter of 2018 was $1,497 and the site all-in cost per saleable ounce of gold produced was $1,794, as compared to $1,304 and $1,615 respectively in the third quarter of 2018 and $617 and $848 respectively for the fourth quarter of 2017. For year end 2018 the cash cost per saleable ounce of gold produced was $1,159 and all-in cost per saleable ounce of gold produced was $1,452 as compared to $816 and $1,083 for year end 2017 respectively. The higher cost per ounce in the current period compared to the last quarter was due to lower gold production in the current quarter.

Costerfield Gold-Antimony Mine, Victoria, Australia

- *Production* — Saleable gold production for the fourth quarter of 2018 was 4,948 ounces versus 7,222 ounces in the fourth quarter of 2017. Saleable antimony production for the fourth quarter of 2018 was 561 tonnes versus 805 tonnes in the fourth quarter of 2017. As expected, production in the current quarter was lower than in the year-ago quarter due to grades from the Brunswick lode, which was being mined during the quarter, being lower than from the Augusta and Cuffley lodes, which were being mined in the fourth quarter of 2017. Saleable gold production for year ended 2018 was 21,609 ounces versus 31,512 ounces for year end 2017. Saleable antimony production for year end 2018 was 2,173 tonnes versus 3,115 tonnes for year end 2017. See "Results of Operations – Costerfield".

- *Operating Costs* — Cash cost per ounce of gold equivalent produced in the fourth quarter of 2018 was $962, an improvement against the $988 in the third quarter of 2018, however higher than the $707 in the fourth quarter of 2017. The site all-in cost per ounce of gold equivalent produced in the fourth quarter of 2018 improved slightly to $1,391 versus $1,420 compared to the third quarter of 2018, although was higher than the $902 in the fourth quarter of 2017. For year end 2018 the cash cost per saleable ounce of gold equivalent produced was $961 and all-in cost per saleable ounce of gold equivalent produced was $1,407 as compared to $701 and $991 for year end 2017 respectively. Cash cost per ounce was higher for the current quarter due to lower grades mined of both gold and antimony.

Cerro Bayo Silver-Gold Mine, Aysen, Chile

- *Production and Operating Costs* — there was no production in 2018 at Cerro Bayo due to the ongoing suspension of operations following the June 9, 2017, flooding in the Delia NW mine. See "Results of Operations – Cerro Bayo" below. The Company currently expects ongoing care and maintenance costs at Cerro Bayo to be maintained at a rate of approximately $3.0 to $4.0 million per year going forward.

Exploration

Ongoing exploration activities during the fourth quarter of 2018 included:

Björkdal

In the current period, drilling focused on near term, underground higher-grade areas including skarn mineralization and the Aurora zone. The Company released its year end Mineral Resources and Reserves for Björkdal on February 21, 2019.

Costerfield

On April 3, 2018, and June 27, 2018, the Company released details of the recent and ongoing exploration drilling campaign. During the current period drilling continued into the Youle zone seeking to increase the extents of the vein. Drilling was also carried out on the Brunswick vein, below and to the east and west of the current workings. The Company has released its year end 2018 Mineral Resources and Reserves for Costerfield on January 22, 2019, which included a maiden Mineral Resource and Reserve estimate for Youle.

1.1 SELECTED QUARTERLY INFORMATION

Summary Financial Information

The following table sets forth a summary of the Company's financial results for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31, 2018 ($'000)	Three months ended December 31, 2017 ($'000)	Year ended December 31, 2018 ($'000)	Year ended December 31, 2017 ($'000)
Revenue	22,711	38,093	112,168	162,997
Cost of sales	23,799	22,690	92,990	107,111
Income from mining operations before depreciation and depletion	(1,088)	15,403	19,178	55,886
Depreciation and depletion	7,026	8,335	30,486	40,258
Income/(loss) from mining operations	(8,114)	7,068	(11,308)	15,628
Administration costs	805	998	5,867	7,289
Adjusted EBITDA*	(1,893)	14,405	13,311	48,597
Finance costs, foreign exchange and others**	24,253	27,059	50,404	48,270
Consolidated loss before tax	(33,172)	(20,989)	(67,579)	(39,931)
Current tax expense (recovery)	(18)	1,489	(307)	2,948
Deferred tax income	(1,855)	595	(3,554)	(173)
Adjusted net loss before special items after tax *	(11,475)	839	(20,523)	(10,114)
Consolidated net loss after tax	(31,299)	(23,073)	(63,718)	(42,706)
Total assets	237,703	305,061	237,703	305,061
Total liabilities	141,567	139,522	141,567	139,522
Adjusted loss per share before special items*	(0.03)	0.00	(0.05)	(0.02)
Consolidated loss per share	(0.07)	(0.05)	(0.14)	(0.09)

* Adjusted EBITDA, 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 down 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, 2018 ($'000)	As at December 31, 2017 ($'000)
Cash and cash equivalents	8,395	16,935
Inventories, accounts receivables and other current assets	30,505	54,285
Property, plant and equipment	168,380	194,564
Reclamation deposit and other non current assets	30,423	39,277
Total assets	**237,703**	**305,061**
Five year exchangeable loan*	25,235	27,784
Other current liabilities	62,857	32,683
Non current liabilities	53,475	79,055
Equity attributable to common share holders	96,136	165,539
Total equity and liability	**237,703**	**305,061**

*The five-year exchangeable loan is shown as a current liability on the consolidated statements of financial position.

Adjusted EBITDA and Adjusted Net Income Reconciliation to Net Income

The table below reconciles Adjusted EBITDA and Adjusted Net Income to reported net income for the three months and year ended December 31, 2018 and 2017. 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, 2018		Three months ended December 31, 2017		Year ended December 31, 2018		Year ended December 31, 2017	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Consolidated Net loss		(31,299)		(23,073)		(63,718)		(42,706)
Special items								
Write down of assets - Cerro Bayo	8,791		19,000		8,791		19,777	
Write down of assets - Challacollo	5,385		-		23,918		-	
Care and maintenance	5,649		4,912		10,486		12,815	
		19,825		23,912		43,195		32,592
Adjusted Net Income/(loss) before special items		(11,474)		839		(20,523)		(10,114)
Add: Non-cash and finance costs								
Depletion and depreciation	7,026		8,335		30,485		40,258	
Loss on disposal of property, plant and equipmen	(883)		57		(748)		575	
Write down of assets - other	1,936		2,036		1,936		2,036	
Share based compensation	185		261		773		1,000	
Interest and finance charges	1,544		1,507		5,580		8,176	
Fair value adjustments	326		(390)		(799)		2,608	
Current tax	(18)		1,489		(307)		2,948	
Deferred tax	(1,855)		595		(3,554)		(173)	
Foreign exchange loss	1,315	9,576	(57)	13,833	1,366	34,732	1,717	59,145
		(1,898)		14,672		14,209		49,031
Less: Interest and other income	5	5	(267)	(267)	(898)	(898)	(434)	(434)
Adjusted EBITDA		(1,893)		14,405		13,311		48,597

1.2 RESULTS OF OPERATIONS

Mandalay – Consolidated

Three Months Ended December 31, 2018 and 2017

Revenue in the fourth quarter of 2018 was $22.7 million, compared to $38.1 million in fourth quarter of 2017. The decline in quarterly revenue this year compared to same quarter in the prior year was primarily due to lower production and therefore sales at Costerfield and Björkdal. Production at Costerfield and Björkdal for the fourth quarter was in line with the revised guidance given on November 8, 2018. The significant difference in revenue between the two periods was largely because the Björkdal mine had record sales in the fourth quarter of 2017 due to higher than expected grades, which was not repeated in the fourth quarter of 2018, where lower grades were processed as the new underground haulage fleet was ramping up production throughout the quarter.

Cost of sales in the current quarter was $23.8 million compared to $22.7 million in the year ago quarter leaving adjusted EBITDA in the fourth quarter of 2018 of negative $1.9 million, compared to $14.4 million in the fourth quarter of 2017.

Consolidated after tax net loss in the fourth quarter of 2018 was $31.3 million ($0.07 loss per share) compared to consolidated net loss of $23.1 million ($0.05 loss per share) in the fourth quarter of 2017.

Capital expenditures in the fourth quarter of 2018, including capitalized depreciation and exploration, were $16.0 million. Of this amount, $5.1 million occurred at Costerfield, $10.3 million at Björkdal and $0.6 million at other entities. By comparison, total capital expenditures, including capitalized depreciation and exploration, in the fourth quarter of 2017 were $12.5 million.

Years Ended December 31, 2018 and 2017

During 2018, consolidated revenue was $112.2 million versus $163.0 million in 2017. The decline in quarterly and annual revenue 2018 versus 2017 was due primarily to lower production. Loss from mine operations during 2018 was $11.3 million compared to $15.6 million income in 2017, with the difference caused by the lower revenue in 2018, explained above.

During 2018, the Company recorded a consolidated net loss of $63.7 million, compared to a consolidated net loss of $42.7 million during the year ended December 31, 2017. The main reason for the increased loss in 2018 was due to $23.9 million write down of Challacollo, a $1.9 million for write down of La Quebrada, a $8.5 million write down of mining interest, a $0.3 million of exploration write down and a $5.1 million of consumables inventory write down at Cerro Bayo. Lower adjusted EBITDA was due to lower revenue in 2018 than in the 2017 period.

During 2018, the Company invested $20.4 million in capital development, $8.0 million in exploration, and $22.8 million in property, plant and equipment. The corresponding amounts for 2017 were $22.9 million for capital development, $8.1 million for exploration and $16.4 million for property, plant and equipment.

Björkdal

Financial and Operating Results for the Three Months Ended December 31, 2018 and 2017

The lower production and higher costs at Björkdal for the fourth quarter of 2018 relative 2017 are principally due to the underground haulage bottleneck that prevented the delivery of higher-grade material to the mill, compared to a record quarter in the fourth quarter of 2017, where the mine produced grades that were above the expected grades.

During the fourth quarter of 2018, Björkdal produced a total 267,266 tonnes of ore from the open pit and underground operations, with an average grade of 1.32 grams per tonne gold as compared to 323,526 tonnes for fourth quarter of 2017 with average grade of 1.76 grams per tonne.

The weighted average mining cost from the open pit and underground was $32.33 per tonne in the fourth quarter of 2018, higher than the $22.52 per tonne in the corresponding period of 2017.

During the fourth quarter of 2018, the Björkdal concentrator processed 319,232 tonnes of ore compared to 304,046 tonnes of ore in the previous year. The head grade in the current period was lower (1.17 grams per tonne gold) compared to the year-ago quarter (2.53 grams per tonne gold), mainly attributable to the processing of lower grade stockpiled ore, as the Company worked through the haulage bottleneck during the current quarter. Metallurgical recoveries during the fourth quarter of 2018 were 89.56%, against 90.65% for the fourth quarter of 2017. Processing cost was $8.22 per tonne in the fourth quarter of 2018, decrease from the previous year cost of $9.20.

During the fourth quarter of 2018, Björkdal produced 10,482 saleable gold ounces and sold 9,557 ounces. By comparison, in the fourth quarter of 2017, Björkdal produced 22,035 saleable gold ounces and sold 18,565 ounces. Cash cost per gold ounce was $1,497 and all-in cost was $1,794 in the fourth quarter of 2018, higher than the costs of $617 cash and $848 all-in, respectively, in 2017.

Björkdal generated revenue of $12.0 million for the quarter ended December 31, 2018, versus $23.5 million in the year-ago quarter. Loss from mine operations before depreciation and depletion was $2.0 million versus income of $10.7 million in the year ago quarter. Adjusted EBITDA was negative $1.9 million versus $10.7 million in the year ago quarter. Net loss before tax was $5.4 million and net loss after tax was $4.3 million in 2018 versus net profit before tax of $4.9 million and after tax of $3.7 million, respectively, in 2017.

During the fourth quarter of 2018, Björkdal invested $2.2 million in mine development, $7.9 million in property, plant and equipment and $0.3 million in exploration. 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. The comparatively higher property, plant and equipment expenditure in the current quarter compared to the prior year quarter was due to spending on the lift of the tailings dam required to support production in the future.

Financial and Operating Results for the Years Ended December 31, 2018 and 2017

During 2018, Björkdal produced a combined 871,625 tonnes of ore from the open pit and underground operations, with an average grade of 1.37 grams per tonne gold as compared to 1,130,733 tonnes in the prior year period of 2017 with average grade of 1.57 grams per tonne. During 2018, 4,229 metres of operating development was completed against 4,589 metres in the corresponding period of 2017. The weighted average mining cost from the open pit and underground was $28.46 per tonne in 2018 against $26.95 per tonne in 2017. The cost decrease was due to more tonnes being mined in the current period.

During 2018, the Björkdal concentrator processed 1,251,453 tonnes of ore with grades of 1.30 grams per tonne gold against 1,261,803 tonnes of ore with average grade of 1.76 grams per tonne gold in 2017.

Metallurgical recoveries during 2018 were 88.93% compared with 88.39% for the year 2017. Processing cost was $7.85 per tonne in 2018 as compared to $8.19 per tonne in 2017.

During 2018, Björkdal produced 45,719 saleable gold ounces and sold 50,062 ounces. During 2017, Björkdal produced 62,028 saleable gold ounces and sold 58,058 ounces. Cash cost per gold ounce was $1,159 and all-in cost was $1,452 in 2018 against $816 and $1,083 respectively in 2017.

During 2018, the Company invested $10.2 million in mine development, $15.8 million in property, plant and equipment and $1.8 million in exploration. 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.

Björkdal Financial Results

	Three months ended December 31, 2018 ($'000)	Three months ended December 31, 2017 ($'000)	Year ended December 31, 2018 ($'000)	Year ended December 31, 2017 ($'000)
Revenue	12,004	23,466	64,128	74,348
Cost of sales	14,028	12,783	55,103	48,200
Income from mining operations before depreciation and depletion	(2,024)	10,683	9,025	26,148
Depreciation and depletion	3,107	5,089	13,393	16,555
Income from mining operations	(5,131)	5,594	(4,368)	9,593
Administration(1)	36	191	748	999
Adjusted EBITDA(2)(4)	(1,891)	10,687	9,169	26,152
Finance costs, foreign exchange and others(2)	255	539	1,972	2,312
Income (loss) before tax	(5,422)	4,864	(7,088)	6,282
Current tax expense (recovery)	(18)	1,323	-	1,693
Deferred tax recovery	(1,155)	(163)	(2,386)	(409)
Operating net income after (loss) tax(4)	(3,554)	4,627	(1,522)	8,354
Adjusted net income after tax before special items(4)	(4,249)	3,704	(4,702)	4,998
Consolidated net income after tax	(4,249)	3,704	(4,702)	4,998
Capital expenditure (5)	10,402	8,544	27,866	26,021

1Includes intercompany transfer pricing recharge costs of $169,000 in the three months ended in December 31, 2018 and $243,000 in the same period of 2017.

2Does not include intercompany transfer pricing recharge costs.

3Others includes such items as mark to market derivative adjustments, write down 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 Operating Statistics

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

	Unit	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Mining Production and Mining Cost					
Operating development	m	1,258	1,073	4,229	4,589
Mined ore	t	267,266	323,526	871,625	1,130,733
Ore mined Au grade	g/t	1.32	1.76	1.37	1.57
Mined contained Au	oz	11,344	18,283	38,288	57,185
Mining cost per tonne ore	$/t	32.33	22.52	28.46	26.95
Processing and Processing Cost					
Processed ore	t	319,232	304,046	1,251,453	1,261,803
Mill head grade Au	g/t	1.17	2.53	1.30	1.76
Recovery Au	%	89.56	90.65	88.93	88.39
Concentrate produced	dry t	1,080	1,431	2,511	4,498
Concentrate grade Au	g/t	302	479	566	429
Saleable Au produced	oz	10,482	22,035	45,721	62,028
Processing cost per tonne ore	$/t	8.22	9.20	7.85	8.19
Sales					
Concentrate sold	dry t	929	1,337	3,602	4,495
Concentrate Au grade	g/t	320	432	432	402
Au sold	oz	9,557	18,565	50,061	58,058
Benchmark Unit Cost					
Site cash operating cost/ tonne ore processed(1)	$/t	49.16	44.70	33.48	40.13
Site cash operating cost/tonne concentrate produced(1)	$/t	14,528	9,498	16,683	11,258
Adjusted EBITDA/tonne ore milled(1) (4)	$/t	(5.92)	35.15	7.33	20.73
Adjusted EBITDA/tonne concentrate produced(1) (4)	$/t	(1,750)	7,468	3,652	5,814
Cash cost per Au oz produced(1)(2)	$/oz	1,497	617	1,159	816
Site all-in cost per oz Au oz produced(1)(3)	$/oz	1,794	848	1,452	1,083
Capital Spending					
Capital development (Underground)	m	497	495	2,135	1,930
Capital development (Open pit)	t	225,557	250,980	1,146,097	1,524,836
Capital development cost	$000	2,229	4,502	10,199	14,499
Capital purchases	$000	7,906	3,902	15,844	9,699
Capitalized exploration	$000	266	140	1,823	1,823

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

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

4 Adjusted 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.

Costerfield

Financial and Operating Results for the Three Months Ended December 31, 2018 and 2017

Fourth quarter 2018 production and grade at Costerfield were in line with Company expectations although financial results were lower in the current period versus the fourth quarter of 2017. This was due to the overall grade from Brunswick, which the Company was mining in the fourth quarter of 2018, being lower than from the Augusta and Cuffley lodes, which the Company was mining in the fourth quarter of 2017.

In the fourth quarter of 2018, Costerfield produced a total of 8,691 ounces of gold equivalent at cash costs and all-in costs of $962 and $1,391 per ounce of gold equivalent, respectively. This compares to the prior year quarter production of 12,360 ounces of gold equivalent at $707 cash costs and $902 all-in cost per ounce gold equivalent.

Costerfield generated revenue of $10.7 million for the quarter ended December 31, 2018. Income from mine operations before depreciation and depletion was $0.8 million, adjusted EBITDA was $1.0 million, net loss before tax was $2.6 million and net loss after tax was $1.9 million. Comparable results for the quarter ended December 31, 2017 were revenue of $14.2 million, income from mine operations before depreciation and depletion of $4.8 million, adjusted EBITDA of $4.8 million, net loss before tax of $1.5 million and net income after tax of $1.3 million.

The Costerfield mine completed 1,012 metres of operating development in the fourth quarter of 2018 versus 1,132 metres in 2017.

37,536 tonnes of ore were mined in the fourth quarter of 2018 as compared to 32,895 tonnes in the fourth quarter of 2017. Mining cost decreased to $141 per tonne from the previous year's quarter of $176 per tonne. As expected, the mined gold grade in the fourth quarter of 2018 was 5.10 grams per tonne versus 7.58 grams per tonne in 2017, while the mined antimony grade was 2.32% in 2018 versus 3.21% in the prior year quarter. The Company expects these grades to increase as it mines the higher-grade areas of the Brunswick lode.

During the fourth quarter of 2018, Costerfield processed slightly less ore than in the year ago quarter (39,019 tonnes versus 39,239 tonnes). Processing costs in the fourth quarter of 2018 of $31.61 per tonne were slightly higher than in the fourth quarter of 2017, which were $37.03 per tonne.

Plant gold head grade in 2018 was 5.30 grams per tonne versus 7.31 grams per tonne in the year ago quarter, while the antimony head grade was 2.33% in 2018 versus 3.05% in 2017. These grade declines were expected and account for the reduced metal output despite more tonnes being processed. The plant achieved recoveries of 87.38% for gold and 95.95% for antimony versus 89.46% for gold and 94.41% for antimony in fourth quarter of 2017.

Total saleable metal production in the fourth quarter of 2018 was 4,948 ounces of gold and 561 tonnes of antimony versus 7,222 ounces of gold and 805 tonnes of antimony in the fourth quarter of 2017. A total of 4,957 ounces of gold and 582 tonnes of antimony were sold in the fourth quarter of 2018 versus 6,337 ounces of gold and 668 tonnes of antimony sold in the fourth quarter of 2017.

During the fourth quarter of 2018, Costerfield incurred $2.5 million in capital development costs, spent $1.1 million in exploration and $1.5 million in property, plant and equipment. The corresponding amounts for the prior year quarter were $0.5 million, $0.8 million and $1.0 million, respectively.

Financial and Operating Results for the Years Ended December 31, 2018 and 2017

In 2018, Costerfield produced 35,849 ounces of gold equivalent at cash costs and all-in costs of $961 and $1,407 per ounce of gold equivalent, respectively, which compares to 52,137 ounces of gold equivalent at cash costs and all-in costs of $701 and $991 per ounce of gold equivalent, respectively, in the prior year. The lower production for the 2018 year relates to the lower grade processed due to production delays at the Brunswick lode, which have now been rectified.

The Costerfield mine completed 3,844 metres of operating development in the year ended December 31, 2018 versus 5,307 metres in 2017. There were 2,644 metres of capital development completed in 2018 compared to 530 metres in 2017.

The operation mined higher amounts of ore in 2018 than in 2017 – 151,557 tonnes in 2018 versus 140,638 tonnes in 2017. Mining costs decreased to $145 per tonne from $169 per tonne in the prior year. The mined gold grade in 2018 decreased to 5.66 grams per tonne from 8.19 grams per tonne in 2017, while the mined antimony grade declined to 2.36% in 2018 from 3.28%.

Plant throughput in 2018 was higher (155,744 tonnes) than in 2017 (151,759 tonnes) and processing costs versus $37.52 per tonne versus $36.67 per tonne in 2017.

Plant gold head grade in 2018 was 5.64 grams per tonne versus 8.17 grams per tonne gold a year ago, while the antimony head grade was 2.33% in 2018 versus 3.28% in 2017. The plant achieved recoveries of 87.70% for gold and 93.80% for antimony versus 89.69% for gold and 95.32% for antimony in 2017.

Total saleable metal production in 2018 was 21,610 ounces of gold and 2,173 tonnes antimony versus 31,512 ounces of gold and 3,115 tonnes antimony in 2017. A total of 22,900 ounces gold and 2,307 tonnes antimony were sold in 2018 versus a total of 30,296 ounces gold and 2,879 tonnes antimony sold in 2017.

In 2018, the Company spent $10.2 million on capital development, $5.2 million on exploration and $7.0 million on property, plant and equipment at Costerfield. The corresponding amounts for the prior year period were $2.4 million, $4.0 million and $4.5 million, respectively.

Costerfield Financial Results

	Three months ended December 31, 2018 ($'000)	Three months ended December 31, 2017 ($'000)	Year ended December 31, 2018 ($'000)	Year ended December 31, 2017 ($'000)
Revenue	10,708	14,161	47,960	63,209
Cost of sales	9,884	9,366	37,800	38,433
Income from mining operations before depreciation and depletion	824	4,795	10,160	24,776
Depreciation and depletion	3,595	2,243	15,424	14,419
Income from mining operations	(2,771)	2,552	(5,264)	10,357
Administration (1)	(140)	196	449	810
Adjusted EBITDA (2)(4)	1,077	4,758	10,398	24,597
Finance costs, foreign exchange and others (3)	6	866	(391)	2,540
Income before tax	(2,637)	1,490	(5,322)	7,007
Current tax expense (recovery)	-	166	(307)	2,105
Deferred tax expense	(700)	40	(1,168)	(477)
Operating net income after tax(4)	(1,723)	1,586	(2,760)	6,943
Adjusted net income after tax before special items(4)	(1,937)	1,284	(3,847)	5,379
Consolidated net income after tax	(1,937)	1,284	(3,847)	5,379
Capital expenditure (5)	5,118	2,293	22,445	10,949

[1]Includes intercompany transfer pricing recharge costs of $113,000 in the three months ended December 31, 2018 and $159,000 in the corresponding period of 2017.

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

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

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

[5]Includes capitalized depreciation on equipment.

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, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Mining Production and Mining Cost					
Operating development	m	1,012	1,132	3,844	5,307
Mined ore	t	37,536	32,895	151,557	140,638
Ore mined Au grade	g/t	5.10	7.58	5.66	8.19
Ore mined Sb grade	%	2.32	3.21	2.36	3.28
Mined contained Au	oz	6,154	8,013	27,599	37,013
Mined contained Sb	t	869	1,054	3,572	4,612
Mining cost per tonne ore	$/t	141	176	145	169
Processing and Processing Cost					
Processed ore	t	39,019	39,239	155,744	151,759
Mill head grade Au	g/t	5.30	7.31	5.64	8.17
Mill head grade Sb	%	2.33	3.05	2.33	3.28
Recovery Au	%	87.38	89.46	87.70	89.69
Recovery Sb	%	95.95	94.41	93.80	95.32
Concentrate produced	dry t	1,638	2,131	6,507	9,052
Concentrate grade Au	g/t	64.46	84.71	71.76	71.82
Concentrate grade Sb	%	53.18	52.96	52.21	52.43
Au produced in gravity concentrate	oz	2,392	2,419	9,655	14,719
Au produced in sulfide concentrate	oz	2,556	4,803	11,954	16,793
Saleable Au produced	oz	4,948	7,222	21,609	31,512
Saleable Sb produced	t	560	805	2,173	3,115
Saleable Au equivalent produced	oz	8,691	12,360	35,849	52,138
Processing cost per tonne ore	$/t	31.61	37.03	36.67	37.52
Sales					
Concentrate sold	dry t	1,759	2,029	6,968	8,792
Concentrate Au grade	g/t	64.34	77.85	73.79	70.70
Concentrate Sb grade	%	52.92	52.66	52.21	52.38
Au sold in gravity concentrate	oz	2,118	2,188	9,514	14,470
Au sold in sulfide concentrate	oz	2,839	4,149	13,386	15,826
Au sold	oz	4,957	6,337	22,900	30,297
Sb sold	t	582	668	2,307	2,879
Benchmark Unit Cost					
Site cash operating cost/ tonne ore processed(1)	$/t	212	220	218	238
Site cash operating cost/tonne concentrate produced(1)	$/t	5,049	4,056	5,227	3,982
Adjusted EBITDA/tonne ore milled(1) (4)	$/t	26	121	66	162
Adjusted EBITDA/tonne concentrate produced(1) (4)	$/t	631	2,233	1,592	2,717
Cash cost per oz Au equivalent produced(1)(2)	$/oz	962	707	961	701
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,391	902	1,407	991
Capital Spending					
Capital development	m	672	122	2,644	530
Capital development cost	$000	2,478	553	10,243	2,437
Capital development cost/meter	$/m	3,689	4,531	3,875	4,599
Capital purchases	$000	1,498	954	6,959	4,492
Capitalized exploration	$000	1,141	787	5,243	4,020

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

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

3Site 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.

4 Adjusted 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.

Cerro Bayo

Financial and Operating Results for the Three months and Years Ended December 31, 2018 and 2017

During the three months ended December 31, 2018 there was no production at the Cerro Bayo mine due to the suspension of operations following the flooding of the Delia NW mine on June 9, 2017. The Cerro Bayo mine has been on care and maintenance and the workforce was substantially reduced in order to preserve the Company's financial capacity going forward.

Cerro Bayo incurred care and maintenance expense of $5.7 million during the current quarter, which includes $5.1 million of consumables inventory write down and also a $0.8 million credit for an insurance claim received for damaged equipment. This compared to $4.9 million for ordinary care and maintenance costs during the fourth quarter 2017. For the full year 2018, care and maintenance expenses were $10.5 million, as compared to $12.8 million for the 2017 year.

Cerro Bayo Financial Results

	Three months ended December 31, 2018 ($'000)	Three months ended December 31, 2017 ($'000)	Year ended December 31, 2018 ($'000)	Year ended December 31, 2017 ($'000)
Revenue	-	466	80	25,440
Cost of sales	(113)	541	87	20,478
Income from mining operations before depreciation and depletion	113	(75)	(7)	4,962
Depreciation and depletion	321	997	1,651	9,261
Income (loss) from mining operations	(208)	(1,072)	(1,658)	(4,299)
Administration (1)	278	312	934	1,967
Adjusted EBITDA (2)(4)	(94)	(96)	(42)	4,159
Finance costs, foreign exchange and others (3)	8,320	19,080	8,506	21,405
Care and maintenance and other expenses	5,649	4,912	10,486	12,815
Loss before tax	(14,455)	(25,376)	(21,584)	(40,486)
Current tax recovery	-	-	-	(850)
Deferred tax recovery	-	-	-	(4)
Operating net loss after tax(4)	(14,338)	(25,060)	(20,605)	(37,939)
Adjusted net loss after tax before special items(4)	(14)	(1,464)	(2,306)	(7,040)
Consolidated net loss after tax	(14,455)	(25,376)	(21,584)	(39,632)
Capital expenditure (5)	-	1,271	-	9,589

1 Includes intercompany transfer pricing recharge costs of $154,000 in the three months ended in December 31, 2018 and $291,000 in the same period of 2017.

2 Does not include intercompany transfer pricing recharge costs.

3 Others includes such items as mark to market derivative adjustments, write down 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.

Challacollo

On August 1, 2018, the Company announced that it had entered into a non-binding letter of intent with Aftermath Silver Ltd. ("Aftermath") pursuant to which Aftermath would acquire Minera Mandalay

Challacollo Limitada ("MMC"), a wholly-owned subsidiary of the Company which owns the Challacollo project, in exchange for total consideration of CAD$11.6 million. During the fourth quarter of 2018, the Company identified an indicator of impairment for this asset due to the terms of the letter of intent. The Company has valued the asset at fair value less cost of disposal. As a result of this, impairment of $23.9 million was recognized in the Company's consolidated financial statements for year ended December 31, 2018.

In addition, the Company signed on November 28, 2018 a binding agreement with a third party for the acquisition of certain easement properties which comprise part of the Challacollo property. Total consideration is expected to be net $2.0 million after payments due to the holders of royalties and other encumbrances on these concessions.

Lupin and Ulu

On December 21, 2018, the Nunavut Water Board reached a decision to recommend that the Letter of Credit that has been posted by Mandalay as security for its reclamation obligations in respect of the Lupin mine be reduced by CAD$3.2 million. On January 28, 2019, this recommendation was approved by the Minister of Indigenous and Northern Affairs. After this approval the total bond outstanding is CAD$26,107,303.

Spending on care and maintenance at Lupin and Ulu was $0.1 million during the fourth quarter of 2018. The corresponding amount for the prior year quarter was $0.1 million. Reclamation spending at Lupin and Ulu was $1.5 million during the fourth quarter of 2018. The corresponding amount for the prior year quarter was $1.7 million. For year end 2018 spending on care and maintenance at Lupin and Ulu was $0.6 million as compared to $0.7 million for year end 2017. The reclamation spent for year end 2018 at Lupin and Ulu was $4.3 million as compared to $1.7 million for year end 2017.

On July 27, 2018, the Company filed its final closure and reclamation plan for Lupin which is expected to be approved approximately 12 months from its submission. The Company continues to work with stakeholders, including the Nunavut Water Board and the Crown-Indigenous Relations and Northern Affairs Canada, for progressive reclamation deposit reductions as a result of work being completed on site and future work to be completed on site. The Company also is pursuing discussions with a reclamation contractor on the final closure of the Lupin mine.

La Quebrada

Spending on care and maintenance at La Quebrada was less than $0.1 million during the fourth quarter of 2018 and corresponding period in 2017. During the year end 2018 the spending was less than $0.1 million as compared to less than $0.1 million for year end 2017.

As at December 31, 2018, the Company concluded that there were impairment indicators at this property. As part of the annual impairment review in 2018, the Company determined that the lower copper market price was considered an indicator of impairment for the La Quebrada asset. Based on the analysis of internal valuation models, the carrying value of La Quebrada was impaired by $1.9 million which was recognized in the consolidated statements of loss and comprehensive loss.

1.3 MARKETS - CURRENCY EXCHANGE RATES

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

CURRENCY	Average rate October 1, 2018 December 31, 2018	Average rate October 1, 2017 December 31, 2017	Average rate January 1, 2018 December 31, 2018	Average rate January 1, 2017 December 31, 2017
1A$ = C$	0.9481	0.9768	0.9686	0.9927
1A$ = US$	0.7169	0.7688	0.7475	0.7687
1 US$ = C$	1.3221	1.2705	1.2960	1.2908
1 US$ = Chilean Peso	680	633	642	647
1 US$= SEK	9.0458	8.3160	8.5837	8.4918

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of all the metals were lower in the fourth quarter of 2018 than in the fourth quarter of 2017. Realized prices in the fourth quarter of 2018 were lower than relative average market prices for gold; higher for antimony.

COMMODITY	Average rate October 1, 2018 December 31, 2018	Average rate October 1, 2017 December 31, 2017	Average rate January 1, 2018 December 31, 2018	Average rate January 1, 2017 December 31, 2017
Realized gold US$/oz[1]	1,253	1,276	1,280	1,279
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,229	1,275	1,269	1,251
Realized antimony US$/tonne[1]	7,771	8,688	8,145	8,546
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	8,204	8,137	8,312	8,374
Realized silver price US$/oz[1]	-	18.99	-	17.73
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	15.00	16.71	15.83	17.12

[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, 2018 ($'000)	Quarter 3, 2018 ($'000)	Quarter 2, 2018 ($'000)	Quarter 1, 2018 ($'000)
Revenue	22,711	21,765	27,945	39,747
Income/(loss)	(31,299)	(7,468)	(23,713)	(1,237)
Income/(loss) per share - Basic	(0.07)	(0.02)	(0.05)	(0.00)
Income/(loss) per share - Diluted	(0.02)	(0.02)	(0.05)	(0.00)

Particulars	Quarter 4, 2017 ($'000)	Quarter 3, 2017 ($'000)	Quarter 2, 2017 ($'000)	Quarter 1, 2017 ($'000)
Revenue	38,093	35,407	44,124	45,373
Income/(loss)	(23,073)	(7,181)	(10,105)	(2,349)
Income/(loss) per share - Basic	(0.05)	(0.02)	(0.02)	(0.01)
Income/(loss) per share - Diluted	(0.05)	(0.02)	(0.02)	(0.01)

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 Cerro 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.

1.5 LIQUIDITY, SOLVENCY AND USES OF CASH

At December 31, 2018, the Company's working capital was negative $49.2 million compared to $10.8 million at December 31, 2017. Working capital would have been $6.0 million as of December 31, 2018, had the Loan (as defined below) and Facility (as defined below) been classified as long-term debt. The Company had cash and cash equivalents of $8.4 million at December 31, 2018, as compared to $16.9 million at December 31, 2017.

Lower production in the third quarter of 2018 resulted in higher cash and all-in costs relative to metal prices. Production levels improved in the fourth quarter of 2018, however since September 30, 2018, several liquidity issues have arisen for the Company, as a result of a number of unforeseen operational and financial developments, including $5.3 million on Bond redemptions in December 2018 and January 2019, capital spending overruns compared to forecast of $3.8 million from work on the tailings dam construction at Björkdal, and also operation underperformance in the fourth quarter of 2018 at Björkdal resulted in a cash shortfall of approximately $4.6 million, due in part to a haulage bottleneck caused by the change in underground haulage contactors (see Mandalay's November 8, 2018 press release) as well as over budget operational costs. This situation has now been rectified and the operation is currently performing at budgeted levels.

These developments, combined with the fact that the Company generated negative cash flow from operations, meant that Mandalay required additional funding and called into question its ability to continue to operate as a going concern. In order to address this going concern risk and secure additional capital to fund ongoing operations, the Company completed the Financing on February 20, 2019. The Company requires shareholder approval of the Public Offering in order to access the proceeds of the Public Offering, which are currently held in escrow, and has called a Special Meeting of its shareholders for the purposes of seeking the required approval. If shareholder approval is obtained, the Company expects that the net proceeds of the Financing will be sufficient to fund operations and its planned capital development and exploration activities for the balance of 2019. In connection with the Financing, the Company was required to establish two separate cash reserves. Under the terms of the Bridge Loan, if the proceeds of the Public Offering are released to the Company, it will be required to maintain a cash reserve in respect of its obligations under Gold Bonds equal to the lesser of US$15 million and the outstanding principal amount of the Gold Bonds. The Company will be unable to use these funds for any other corporate purposes for as long as they are reserved for this purpose.

If the Company does not receive the requisite shareholder approval for the Public Offering and is unable to secures an additional source of capital, it would once again face a going concern risk.

The Company's consolidated capital expenditures for the 2019 year are estimated between $39.0 million to $47.0 million. These capital expenditures are expected to be funded from cash flow from operations and the proceeds of the Financing.

In connection with the Financing, the Company has received a waiver of the financial covenants in the Facility for the quarters ending December 31, 2018, and March 31, 2019. The waiver is subject to a number of conditions, including the Company receiving the net proceeds of the Public Offering of Subscription Receipts not later than April 30, 2019. In addition, the Company has agreed that, from and after the date on which it receives the net proceeds of the Public Offering of Subscription Receipts, the aggregate of its unrestricted cash (as defined in the Facility) plus undrawn availability under the Facility shall be not less than $10 million. If the waiver is revoked as a result of the Company's shareholders not approving the Public Offering, the Company would be in default under the Facility and, unless it was able to secure additional financing, would likely not be in a position to satisfy its obligations under the Facility.

1.6 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five-year exchangeable loan

In May 2014, Mandalay issued $60.0 million of debt securities at an interest rate of 5.875% for proceeds of $60.0 million by way of a concurrent offering of 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$9.0 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. 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 $29.95 million of the Bonds from the holders thereof at a price of 105% of their principal amount resulting in a remaining principal amount of $30.05 million.

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.

Recent Bond Exchanges

On December 3, 2018, the Company was required to repurchase $2.3 million principal amount of Bonds for a cost of $2.0 million as a result of an exchange request. As at December 31, 2018, there was a current liability of $25.2 million (2017 - $27.8 million) recognized on the statement of financial position related to this loan. The outstanding principal amount of the Bonds at year end was $27.75 million.

Subsequent to year end, on February 11, 2019, the Company exchanged a principal amount of $3.65 million of Bonds for Gold Shares at a cost $3.3 million. The outstanding principal amount of the Loan was reduced by the aggregate principal amount of the Bonds that were repurchased or exchanged, and is currently $24.1 million.

Illustrative Exchange and Repayment Costs

For clarity, the 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 exchange their Bonds on December 31, 2018, assuming a gold price of $1,279/oz (which is equivalent to US$121.59 per Gold Share), then the repayment cost to the Company would be approximately $25.4 million.

   $27.75 million ÷ $1,400/oz × $1,279 = $25.4 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 $1,700/oz (which is equivalent to US$ 161.61 per Gold Share), for example, and the Bondholders elect to redeem the Gold Shares prior to maturity date, then the repayment cost to the Company will be $33.7 million.

   $27.75 million ÷ $1,400/oz × $1,700 = $33.7 million

US$40 million revolving credit facility

On July 25, 2017, the Company announced a 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 are used for working capital, capital expenditures, permitted acquisitions and other general corporate purposes.

Amounts drawn on the Revolver Facility bears 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. In order to satisfy cash flow requirements to the Costerfield mine, on December 21, 2018, the Company entered into an amended agreement with HSBC to allow for the remaining $10.0 million to be drawn by directly by the Costerfield operating company directly. In return for this, the Company has provided HSBC a general security of the operating assets of Costerfield for any drawn amount.

The Facility includes the following 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 not less than $105.0 million plus 50% of net income (cumulative) earned after Closing Date; and
- Current Ratio of not less than 1.20:1.00.

As at December 31, 2018, the Company was in breach of all of the above covenants for the Facility. On February 20, 2019, in connection with the Financing, the Company received a waiver for all of these financial covenants for the quarters ending December 31, 2018 and March 31, 2019. The waiver is subject to a number of conditions, including the Company receiving the net proceeds of the Public Offering of Subscription Receipts not later than April 30, 2019. In addition, the Company has agreed that, from and after the date on which it receives the net proceeds of the public offering of Subscription Receipts, the aggregate of its unrestricted cash (as defined in the Facility) plus undrawn availability under the Facility shall be not less than $10 million. Because the waiver was received after year end, the outstanding amount under the Facility has been classified as a current liability as at December 31, 2018.

During the year ended December 31, 2018, the Company borrowed $30.0 million under the Facility. Subsequent to December 31, 2018 the Company drew down an additional $5.0 million. The Company will not be entitled to draw on the remaining $5.0 million in availability under the Facility until it is in compliance with the financial covenants.

Fair-value adjustments

As at December 31, 2018, 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. This amount was revised with the repurchase of a portion of the Loan that occurred in the second quarter of 2017. As at December 31, 2018, the Company has recomputed the derivative portion of the Loan at $2.7 million, as compared to $3.6 million as at December 31, 2017. As a result, there is a mark-to-market adjustment loss of $0.4 million in the quarter, compared to loss of less than $0.4 million in the fourth quarter of 2017. For year end 2018 the mark-to-market adjustment gain of $0.9 million was recorded as compared to loss of $2.5 million for year end 2017.

Marketable securities - The Company holds marketable securities with a fair market value of $0.1 million as at December 31, 2018, as compared to $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. There was no fair value measurement loss recorded by the company for the quarter ended December 31, 2018, as compared to $0.4 million gain recorded in the year ago quarter. For year end 2018 fair value measurement loss of $0.1 million was recorded as compared to loss $0.1 million for year end 2017.

Contractual obligations as at December 31, 2018

Contractual obligations	Payments due by year ($ '000)			Total ($ '000)
	Less than 1 year	1-3 years	4-5 years	
Five-year exchangeable loan	27,750	-	-	27,750
HSBC facility	30,000	-	-	30,000
Lease obligations	1,839	2,591	907	5,337
Other equipment loan obligations	224	289	34	547
Total contractual obligations	**59,813**	**2,880**	**941**	**63,634**

1.7 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.8 TRANSACTIONS WITH RELATED PARTIES

Mr. Sanjay Swarup was the Chief Financial Officer of the Company until August 16, 2018. He was also the Director of SKS Business Services, which provides contractual accounting services to the Company.

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
	($'000)	($'000)	**($'000)**	($'000)
Administration expenses, salaries and consultancy services				
SKS Business Services	**-**	136	**117**	181

On February 20, 2019, the Company completed the Financing. As part of the Financing, the Company received the Bridge Loan from an affiliate of CE Mining Fund III L.P. ("CE Mining"), an investment fund advised by Plinian Capital LLP, which is controlled by Bradford A. Mills, Chairman of the Board. In addition, as part of the Public Offering, Ruffer LLP, GMT Capital Corp. and azValor Asset Management SGIIC, S.A.U. (each of which is a related party of the Company by virtue of owning more than 10% of the outstanding Common Shares), along with CE Mining, collectively subscribed for 305,075,000 Subscription Receipts. The loan agreement in respect of the Bridge Loan contains a number of customary positive and negative covenants, and also provides that for as long as CE Mining owns at least 10% of the outstanding Common Shares it will be entitled to nominate two members of the Company's board of directors, provided that one such nominee must be Bradford A. Mills. The purpose of the Financing was to secure additional funding to allow the Company to satisfy its working capital requirements and fund ongoing capital development and exploration programs.

1.9 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade receivables and other assets, 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.

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, 2018, 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, Sweden, and Chile, 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.

1.10 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.

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.

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.

1.11 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 451,595,877 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 451,595,877.

The following transactions/events could add to the total amount of outstanding shares of the Company, subsequent to the date of this MD&A.

Subscription Receipts

If the Subscription Receipts are exchanged for Common Shares (and assuming no further exercise of the underwriters' over-allotment option in connection with the issuance of the Subscription Receipts), a total of 359,400,000 Common Shares would be issued on such exchange.

Bridge Loan

Pursuant to the terms of the Bridge Loan, if the Company obtains shareholder approval for the Financing, the entire principal amount of the Bridge Loan will automatically convert into Common Shares at a price of CAD$0.108 per share. Based on an exchange rate of US$1.00 = CAD$1.3294, a total of 98,474,074 Common Shares would be issued upon conversion of the entire principal amount of the Bridge Loan. However, if the Financing is not approved by shareholders, the number of Common Shares that may be issued on a conversion of the Bridge Loan would be capped at 45,159,587.

Outstanding Stock Options

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 CAD$	As of December 31, 2018	As of March 14, 2019	Expiry Date
0.20	5,005,000	5,005,000	30 June, 2025
0.60	3,849,900	3,849,900	30 June, 2024
0.91	4,078,000	4,078,000	23 March, 2021
0.91	3,485,000	3,485,000	24 March, 2020
0.98	3,060,000	3,060,000	24 March, 2019
Total	**19,477,900**	**19,477,900**	

During the quarter ended December 31, 2018, no options were exercised and during the year ended 2018, 100 options were exercised. In comparison, no options were exercised during the year ended 2017. There were 19,477,900 options outstanding as of December 31, 2018, which could result in issuance of shares.

Restricted Share Units

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, 2018, is as follows:

	Number of RSU awards
Balance, December 31, 2016	282,177
Granted	511,890
Redeemed	(105,721)
Outstanding at December 31, 2017	**688,346**
Granted	1,562,500
Redeemed	(316,046)
Outstanding at December 31, 2018	**1,934,800**

1.12 CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of the condensed consolidated interim 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 the fair value of assets and liabilities acquired in business combinations.

Going concern

The 2018 consolidated financial statements were prepared on a going concern basis that contemplated the realization of assets and the settlement of liabilities in the normal course of business as they become due, except for the revaluation to fair value of certain financial assets and financial liabilities in accordance with the Company's accounting policies.

For the year ended December 31, 2018, the Company incurred a net loss of $63.7 million (2017 - $42.7 million) and had an excess of current liabilities over current assets of $49.2 million. Further, as at December 31, 2018 the Company in in breach of various covenants of the Facility, which results in the outstanding amount classified as a current liability and limits the Company's ability to draw additional funds on the Facility, is facing liquidity challenges as a result of operational underperformance and the requirement to fund recent exchanges of the Bonds.

The Company has initiated the following activities subsequent to December 31, 2018 in response to the liquidity challenges:

- On January 16, 2019, the Company drew down $5.0 million of the remaining $10.0 million of availability under the Facility.
- On February 20, 2019, the Company completed the Financing and received a waiver in respect to the financial covenants associated with the Facility as at December 31, 2018 and March 31, 2019.

The ability of the Company to continue as a going concern is dependent on receiving the proceeds of the Public Offering (which is subject to receipt of shareholder approval) or securing additional funding from another source. There can be no assurance that the Company's shareholders will provide the requisite approval of the Public Offering in order to allow the Company to receive the proceeds of the Public Offering or that the Company will be able to secure any additional funding. As a result, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The 2018 consolidated financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

Changes in accounting standards during the year ended December 31, 2018

The accounting policies adopted in preparation of the 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. The amendments and interpretations are outlined below for IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments.

Revenue from Contracts with Customers

The Company is principally engaged in the business of producing metal concentrate. Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

Prior to January 1, 2018, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of metals was recognized when all of the following conditions were satisfied:

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

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue on these sales is initially recognized at the current market price. The receivables relating to 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, but is not considered to be revenue from contracts with customers.

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 recognized 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 summarizes 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.

Other critical accounting estimates

Inventories

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

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

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

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 paid, the value of share consideration and exploration costs incurred. The recoverable values are not always readily determinable and are dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

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

Management reviews the carrying value of capitalized exploration and evaluation costs for indicators of impairment at each reporting date. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output.

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

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 estimated 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.

1.13 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, Chris Gregory (BSC Geology, MAIG, MAICD), Mandalay's Vice President, Operational Geology & Exploration and a "qualified person" (as that term is defined in National Instrument 43-101).

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 and the Prospectus 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

Reclamation and site closure costs

On December 31, 2018, the Nunavut Water Board reached a decision to recommend that the Letter of Credit that was posted by the Company as security for its reclamation obligations in respect of the Lupin mine be reduced by CAD$3,205,000. On January 28, 2019, this recommendation had been approved by the Minister of Indigenous and Northern Affairs.

Revolver Facility

On January 16, 2019, the Company drew down $5.0 million from the Facility, resulting in $35.0 million total drawn and therefore $5.0 million remaining to be drawn under this facility after that date.

On February 20, 2019, the Company received waivers from HSBC Bank Canada in respect of the Company's compliance with the financial covenants of the Facility for the three months ending December 31, 2018 and March 31, 2019. See Section 1.6 – Contractual Commitments and Contingencies for further information.

Financing

On February 20, 2019, the Company completed the Financing. See Section 1.0 – Fourth Quarter 2018 Financial and Operating Summary for further information.

Five-year exchangeable gold loan conversion

On February 11, 2019, the Company exchanged a principal amount of $3.65 million of Bonds for Gold Shares at a cost $3.35 million.

1.16 NON-IFRS MEASURES

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

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

The Company presents "cash cost" and "all-in sustaining costs" metrics for its gold and silver production because it believes that these measures assist investors and other users of the Company's financial statements in understanding the economics of the Company's gold and silver mining activities. Management also uses these metrics to assess Company's ability to meet short and long term financial objectives.

1. *Adjusted EBITDA* - The Company defines adjusted EBITDA as 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 in Section 1.1 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.

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 11 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. *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.

9. *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.

10. *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.