Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2016
(Unaudited)

Mandalay Resources Corporation
March 31, 2016

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, “Continuous Disclosure Obligations”, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity’s auditor.

Mandalay Resources Corporation

Condensed consolidated interim statements of income and comprehensive income three months ended March 31, 2016 and 2015

(Expressed in U.S. dollars)
(Unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
	$'000	$'000 (Restated Note 19)
Revenue	**50,442**	56,779
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note13)	**31,426**	30,994
Depletion and depreciation	**11,094**	10,550
	42,520	41,544
Income from mine operations	**7,922**	15,235
Expenses		
Administration	**1,742**	1,402
Write-off of mining interest (Note 6)	**3,441**	-
Share-based compensation (Note 12(b), (c) and (d))	**197**	283
Loss on disposal of property, plant and equipment	**13**	12
Business development costs	**12**	116
	5,405	1,813
Income from operations	**2,517**	13,422
Other income (expenses)		
Finance costs (Note 14)	**(1,386)**	(1,279)
Gain (Loss) on financial instruments (Note 15)	**(931)**	283
Interest and other income	**78**	171
Foreign exchange gain (loss)	**(1,761)**	2,471
	(4,000)	1,646
Income (loss) before income taxes	**(1,483)**	15,068
Income tax expense (Note 20)		
Current	**840**	1,226
Deferred	**(3,472)**	2,080
Income tax expense (recovery)	**(2,632)**	3,306
Net income for the period	**1,149**	11,762
Other comprehensive income, net of tax		
Item that may subsequently be reclassified to net income (loss)		
Foreign currency translation	**5,660**	(9,571)
Comprehensive income for the period	**6,809**	2,191
Net income per share		
Basic	**0.00**	0.03
Diluted	**0.00**	0.03
Weighted average number of common shares outstanding (Note 16)		
Basic ('000)	**411,278**	408,923
Diluted ('000)	**412,459**	411,854

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position

As at March 31, 2016 and December 31, 2015

(Expressed in U.S. dollars)
(Unaudited)

	March 31, 2016	December 31, 2015
	($'000)	($'000)
Assets		
Current assets		
Cash and cash equivalents	**40,738**	49,199
Trade and other receivables (Note 4)	**34,932**	23,187
Inventories (Note 5)	**25,718**	27,628
Prepaid expenses	**2,807**	1,983
	104,195	101,997
Non-current assets		
Reclamation and other deposits	**26,877**	25,423
Trade and other receivables (Note 4)	**427**	406
Property, plant and equipment (Note 6)	**217,252**	212,842
Intangible asset (Note 7)	**675**	799
Deferred tax asset (Note 16)	**7,691**	5,106
	252,922	244,576
	357,117	346,573
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	**18,840**	18,820
Borrowings (Note 9)	**970**	1,063
Five-year exchangeable loan (Note 10)	**55,315**	54,960
Income taxes payable	**5,742**	4,408
Other provisions (Note 11)	**2,204**	2,250
Financial instruments (Note 15)	**1,732**	740
	84,803	82,241
Non-current liabilities		
Borrowings (Note 9)	**1,714**	1,875
Reclamation and site closure costs provision	**43,553**	41,999
Other provisions (Note 11)	**872**	714
Deferred tax liability	**11,248**	12,050
	57,387	56,638
	142,190	138,879
Equity		
Share capital (Note 12)	**162,935**	158,979
Share option reserve (Note 12)	**8,693**	9,510
Foreign currency translation reserve	**(27,134)**	(32,794)
Retained earnings	**70,433**	71,999
	214,927	207,694
	357,117	346,573

Approved by the Board of Directors and authorized for issue on May 11, 2016.

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

(Signed) Robert Doyle
Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity
three months ended March 31, 2016 and 2015
(Expressed in U.S. dollars, except number of shares)
(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	($'000)	($'000)	($'000)	($'000)	($'000)
Balance, December 31, 2015	**410,420**	**158,979**	**9,510**	**(32,794)**	**71,999**	**207,694**
Stock options exercised (Note 12(c))	3,038	2,240	(959)	-	-	**1,281**
Share-based compensation (Note 12(b))	-	-	142	-	-	**142**
Dividends paid (Note 12(e))	-	-	-	-	(2,715)	**(2,715)**
Shares issued (Note 12(a))	2,500	1,716	-		-	**1,716**
Total comprehensive (loss) income for the period	-	-	-	5,660	1,149	**6,809**
Balance, March 31, 2016	**415,957**	**162,935**	**8,693**	**(27,134)**	**70,433**	**214,927**

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	($'000)	($'000)	($'000)	($'000)	($'000)
Balance, December 31, 2014	408,758	158,170	8,896	(17,253)	70,205	220,018
Stock options exercised (Note 12(c))	205	145	(59)	-	-	86
Share-based compensation (Note 12(b))	-	-	280	-	-	280
Dividends paid (Note 12(e))	-	-	-	-	(3,976)	(3,976)
Total comprehensive (loss) income for the period (Note 19)	-	-	-	(9,571)	11,762	2,913
Balance, March 31, 2015	**408,963**	**158,315**	**9,117**	**(26,824)**	**77,991**	**219,321**

See accompanying notes to the condensed consolidated interim financial statements

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows
for three months ended March 31, 2016 and 2015
(Expressed in U.S. dollars)
(Unaudited)

	Three months ended	March 31,
	2016	2015
	($'000)	($'000)
Operating activities		
Net income	**1,149**	11,762
Adjustments to reconcile net income to net cash flows from operating activities		
Amortization of intangible asset	**123**	125
Depletion and depreciation	**11,094**	10,557
Share-based compensation	**197**	283
Loss on disposal of property, plant and equipment	**13**	12
Write-off of mining interest	**3,441**	-
Finance cost	**1,387**	1,279
Unrealized gain on derivative financial instruments	**931**	(283)
Interest and other income	**(78)**	(171)
Foreign exchange gain	**1,297**	(2,369)
Income tax expense (income)	**(2,632)**	3,494
Changes in non-cash operating working capital items		
Trade and other receivables	**(10,991)**	625
Inventories	**2,222**	597
Prepaid and other expenses	**(737)**	(701)
Trade and other payables	**(344)**	(297)
Provisions	**213**	(81)
Cash generated from operations	**7,285**	24,832
Income taxes paid	**-**	(2,922)
Interest and other income received	**78**	171
Interest and bank charges paid	**(937)**	(881)
Net cash flows from operating activities	**6,426**	21,200
Investing activities		
Payment on deposits	**(124)**	(158)
Payment for cancellation of royalty contract (Note 6)	**(4,000)**	-
Expenditure for property, plant and equipment	**(9,057)**	(13,001)
Proceeds on disposal of property, plant and equipment	**10**	2
Net cash flows used in investing activities	**(13,171)**	(13,157)
Financing activities		
Proceeds from borrowings	**-**	235
Repayments of borrowings	**(366)**	(231)
Issuance of common shares for cash	**1,281**	86
Dividends paid (Note 12 (e))	**(2,715)**	(3,976)
Net cash flows from financing activities	**(1,800)**	(3,886)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**84**	(1,207)
Increase in cash and cash equivalents	**(8,461)**	2,950
Cash and cash equivalents, beginning of the year	**49,199**	49,004
Cash and cash equivalents, end of period	**40,738**	51,954
Cash and cash equivalents consist of		
Cash	**40,738**	51,954
Cash equivalents	**-**	-
	40,738	**51,954**

See accompanying notes to the condensed consolidated interim financial statements

1. Description of business and nature of operations

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

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

2. Basis of preparation

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

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

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

Judgments made by management in the application of International Financial Reporting Standards ("IFRS") that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in the Company's audited consolidated financial statements for the year ended December 31, 2015.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2015. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015

New accounting pronouncements

(a) *IFRS standards effective for annual periods beginning on or after January 1, 2016*

Effective January 1, 2016, the Company adopted new and revised IFRS standards in interpretations that were issued by the IASB. The application of these standards has not had any material impact on the amounts reported for the consolidated financial statements.

(i) Amended Standard IFRS 16, *Leases*

These amendments requires all the leases to be reported on company's Balance Sheet as assets and liabilities.

(ii) IAS 12, *Income Taxes*

The amendments provide additional guidance on recognition of deferred tax assets related to debt instruments measured at fair value.

3. Summary of significant accounting policies (continued)

(iii) IAS 7, *Statement of cash flows*

The objective of the amendment is to enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cashflows and non-cash changes.

(b) *Accounting standards issued but not yet effective*

The Company has not early adopted these new and amended standards. The Company is currently assessing the impact of the following standards and plans to adopt the new standards on the required effective dates. Other standards and interpretations that are issued, but not yet effective, have not been listed here, as these are not expected to impact the Company.

(i) IFRS 9, *Financial Instruments*

In July, 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

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

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

4. Trade and other receivables

Trade and other receivables consist of the following:

	March 31, 2016	December 31, 2015
	($'000)	($'000)
Trade receivables	**24,909**	16,045
Mark to market adjustment	**2,339**	-
VAT and other indirect tax receivables	**6,785**	5,394
Other receivables and marketable securities	**1,326**	2,154
	35,359	23,593
Less: non-current portion	**427**	406
Total current portion	**34,932**	23,187

There was no allowance for doubtful debts as at March 31, 2016 and December 31, 2015.

4. Trade and other receivables (continued)

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at March 31, 2016, this mark-to-market adjustment is recorded as a $2,339,000 adjustment to trade and other receivables (2015 – $nil).

5. Inventories

Inventories consist of the following:

	March 31, 2016	December 31, 2015
	($'000)	($'000)
Finished goods	**9,156**	11,552
Work in progress and stockpiled ore	**5,295**	5,779
Consumables	**11,267**	10,297
	25,718	27,628

The amount of inventories recognized in cost of operations for the three months ended March 31, 2016 is $42,520,000 (2015 – $41,544,000).

The Company did not recognised a write-down of consumables as at March 31, 2016 (2015 – $nil).

6. Property, plant and equipment

	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Cost												
As at January 1, 2015	55,515	55,414	43,490	27,062	42,637	13,091	3,071	7,256	4,300	14,047	41,830	307,712
Acquisition	-	-	-	-	-	-	-	-	-	-	-	-
Additions	8,039	10,918	9,131	6,079	5,932	4,058	77	2,434	608	3,461	3,784	54,521
Disposals	-	-	-	(791)	-	-	(82)	-	-	-	-	(873)
Reclassification to mining interest	1,371	2,308	2,474	-	(767)	-	-	(1,371)	(1,541)	(2,474)	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	-	-	(89)	(427)	(2,264)	(2,780)
Foreign exchange	(5,349)	-	(3,687)	(3,230)	-	(1,105)	(138)	(775)	-	(690)	136	(14,838)
As at December 31, 2015	59,576	68,640	51,408	29,120	47,802	16,044	2,928	7,544	3,278	13,917	43,486	343,742
Additions	33	7,116	2,747	305	1,427	1,005	53	958	519	743	345	15,251
Disposals	-	-	-	(85)	-	-	-	-	-	-	-	(85)
Reclassification to mining interest	550	-	-	-	-	-	-	(550)	-	-	-	-
Derecognition of mining interest	-	(3,441)	-	-	-	-	-	-	-	-	-	(3,441)
Foreign exchange	2,668	-	1,547	1,628	-	685	51	430	-	-	(160)	6,849
As at March 31, 2016	**62,827**	**72,315**	**55,702**	**30,968**	**49,229**	**17,734**	**3,032**	**8,382**	**3,797**	**14,660**	**43,671**	**362,316**
Accumulated depreciation												
As at January 1, 2015	27,925	31,756	1,532	6,273	23,168	1,131	290	-	-	-	-	92,075
Expense	10,965	11,178	7,057	3,364	7,138	3,442	139	-	-	-	-	43,283
Disposals	-	-	-	(496)	-	-	-	-	-	-	-	(496)
Foreign exchange	(2,916)	-	(110)	(835)	-	(80)	(22)	-	-	-	-	(3,963)
As at December 31, 2015	35,974	42,934	8,479	8,306	30,306	4,493	407	-	-	-	-	130,899
Expense	2,406	2,954	2,124	1,332	1,636	845	16	-	-	-	-	11,313
Disposals	-	-	-	(63)	-	-	-	-	-	-	-	(63)
Foreign exchange	1,800	-	292	577	-	237	8	-	-	-	-	2,914
As at March 31, 2016	**40,180**	**45,888**	**10,895**	**10,152**	**31,942**	**5,575**	**431**	**-**	**-**	**-**	**-**	**145,063**
Carrying value												
As at January 1, 2015	27,590	23,658	41,958	20,789	19,469	11,960	2,781	7,256	4,300	14,047	41,830	215,637
As at December 31, 2015	23,602	25,706	42,928	20,814	17,496	11,550	2,521	7,544	3,278	13,917	43,486	212,843
As at March 31, 2016	**22,647**	**26,427**	**44,806**	**20,816**	**17,287**	**12,158**	**2,601**	**8,382**	**3,797**	**14,660**	**43,671**	**217,252**

For the three months ended March 31, 2016, plant and equipment depreciation for Cerro Bayo of $150,000 (2015 – $154,000), for Costerfield of $nil (2015 – $17,000) and for Björkdal of $68,000 (2015 – $31,000) was capitalized in mining interest.

6. Property, plant and equipment (continued)

In connection with Mandalay's acquisition of Cerro Bayo from Coeur Mining, Inc. ("Coeur Mining"), Coeur Mining received a 2% Net Smelter Royalty interest in production at Cerro Bayo. On March 31, 2016, a subsidiary of the Company repurchased and cancelled the royalty from Coeur Mining in exchange for consideration consisting of $4.0 million cash and 2.5 million common shares of the Company valued at $1.7 million. Additions in mining interest of Cerro Bayo for the three months ended March 31, 2016 includes $5.7 million related to the value of the cancelled royalty.

7. Intangible asset

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

In June, 2012, the Company reached an agreement with its union workers in Chile and paid a lump-sum cash payment of $1,414,000 to secure the contract. This payment was amortized over the contractual life of the union agreement (three years), and therefore was fully amortized as at June 30, 2015. As at March 31, 2016, the carrying amount of the intangible asset is $675,000, which relates to the 2015 agreement (2015 – $125,000, all relating to the 2012 agreement). Amortization expense for the three months ended March 31 2016, of $123,000 (2015 - $125,000) is recorded as part of cost of sales.

8. Trade and other payables

	March 31, 2016	December 31, 2015
	($'000)	($'000)
Trade payables	**10,384**	9,365
Payroll and other taxes payable	**3,084**	3,227
Accrued liabilities	**5,311**	5,986
Cash election option (Note 12(c))	**61**	12
Mark-to-market adjustment	**-**	230
	18,840	18,820

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

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at March 31, 2016, there was no mark-to-market adjustment recorded in trade and other payables (2015 - $230,000).

9. Borrowings

Equipment loans

As at March 31, 2016, the Company's Björkdal mine in Sweden, has a balance of $1,010,000 (December 31, 2015 – $1,205,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the 3-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 27 months from the period ended March 31, 2016. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling $1,674,000 (December 31, 2015 – $1,734,000). These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments, with the final lease payment falling due 46 months from the period ended March 31, 2016. The leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost.

As at March 31, 2016, the current portion of the above facilities is $970,000 (December 31, 2015 – $1,063,000) and the non-current portion is $1,714,000 (December 31, 2015 – $1,875,000).

10. Five-year exchangeable loan

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

Each Bond holder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The initial exchange price is US$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of US$1,556 per ounce. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which net asset value ("NAV") of the SPDR Gold Trust or Gold Shares is calculated.

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares (less the number of Gold Shares, if any, being released from the Custody Account in connection with the exchange) to the Bond holder.

Starting on May 14, 2017, the Company is required to start depositing, on a quarterly basis, Gold Shares into a depositary account maintained by The Bank of New York Mellon, London Branch. The depositary account serves as security for the Issuer's obligations to the Bond holders.

The number of Gold Shares that must be deposited on each quarterly instalment date is determined in accordance with the following formula:

DSI = (1 / A) x ((B / C) – D)

Where:
"DSI" is the number of Gold Shares to be registered in the custody account on the relevant instalment date;
"A" is the number of instalment dates remaining (including the relevant instalment date);
"B" is the aggregate principal amount of the Bonds outstanding as at the relevant instalment date;
"C" is the then prevailing exchange price for the Bonds; and "D" is the number of Gold Shares that are held in the custody account immediately before the relevant instalment date.

10. Five-year exchangeable loan (continued)

The Issuer may redeem the Bonds at its option:

- any time after June 13, 2017, if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30 consecutive trading day period; or
- any time, if US$9 million or less in the principal amount of the Bonds remains outstanding.

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

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the consolidated statements of financial position of the Company as at March 31, 2016 and December 31, 2015. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (Note 16).

11. Provisions

	Employee benefits
	($'000)
Balance, December 31, 2015	2,964
Additions	598
Amounts paid	(635)
Foreign exchange	149
Balance, March 31, 2016	3,076
Less: current portion	2,204
Total non-current portion	872

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

12. Share capital

As at March 31, 2016, the Company had an unlimited number of authorized common shares without par value and 415,957,479 common shares outstanding (December 31, 2015 – 410,419,979 common shares). All outstanding common shares are fully paid.

(a) Shares issued

For the three months ended March 31, 2016 and 2015, the Company issued its common shares upon exercise of share options by their holders. The Company also issued 2.5 million shares to Coeur Mining as part of the purchase of the 2% Net Smelter Return royalty at Cerro Bayo (See Note 6 for detail).

(b) Share-based compensation

For the three months ended March 31, 2016, the Company recorded $197,000 (2015 – $283,000) as net share-based compensation expense and recorded this amount in share option reserve.

	2016	2015
	($'000)	($'000)
Stock based compensation on options	**280**	383
Fair value for cash election option	**(122)**	(116)
RSU amortization	**39**	16
	197	**283**

The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C$0.91 (2015 – C$0.91) was calculated using the following weighted average assumption. Expected stock price volatility and option life is based on the Company's historical share price volatility.

	2016	2015
Risk free interest rate	**0.60%**	0.59%
Expected dividend yield	**4.48%**	3.49%
Expected option life (years)	**5.00**	5.00
Expected stock price volatility	**44.05%**	47.87%
Expected forfeiture rate	**5.00%**	5.00%

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

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

12. Share capital (continued)

(c) Stock options

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at March 31, 2016, the liability is $61,000 (2015 - $111,000).

The Company recognized a fair value measurement gain of $122,000 for the three months ended March 31, 2016 (2015 – $116,100), which is included in share-based compensation.

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

	2016	2015
Risk free interest rate	**0.54%**	0.74%
Expected dividend yield	**4.03%**	6.30%
Expected life of options in years	**2.98**	2.23
Expected stock price volatility	**43.63%**	44.46%
Expected forfeiture rate	**0.00%**	0.00%

As at March 31, 2016, 1,455,000 (2015 – 2,020,000) stock options with the cash election option are outstanding.

	Number of options	**Weighted average exercise price**
		C$
Balance, December 31, 2014	16,947,500	0.85
Granted	5,120,000	0.91
Forfeited	(1,595,000)	0.96
Expired	(7,693)	0.26
Exercised-equity issuance	(1,552,307)	0.39
Balance, December 31, 2015	18,912,500	0.89
Granted	5,463,000	0.91
Exercised-equity issuance	(3,037,500)	0.57
Balance, March 31, 2016	**21,338,000**	**0.95**

The weighted average share price at the time when the stock options were exercised during the three months ended March 31, 2015, was C$0.95 (2015 – C$0.87).

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

12. Share capital (continued)

(c) Stock options (continued)

The following table summarizes information about the stock options outstanding as at March 31, 2016:

	Options outstanding		Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
70,000	0.03	0.58	70,000	0.58
250,000	0.67	0.70	250,000	0.70
3,347,500	0.94	0.83	3,347,500	0.83
3,542,500	1.97	1.13	3,542,500	1.13
4,045,000	2.98	0.98	-	-
40,000	3.60	0.93	-	-
4,580,000	3.98	0.91	-	-
5,463,000	4.98	0.91	-	-
21,338,000	**3.18**	**0.95**	**7,210,000**	**0.97**

(d) Restricted Share Units

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

The number of RSUs as at March 31, 2016, is as follows:

	Number of RSU awards
Balance, December 31, 2014	211,004
Granted	318,045
Redeemed	(109,577)
Balance, December 31, 2015	419,472
Granted	4,288
Outstanding at March 31, 2016	423,760

For the three months ended March 31, 2016, the company recorded $39,000 (2015 – $16,000) as share based compensation relating to RSUs.

12. Share capital (continued)

(e) Dividends

On February 18, 2016, the Board of Directors declared a dividend in the amount of C$0.0088 per common share, based on the Company's operating results for the three months ended December 31, 2015, payable to shareholders of record as of February 29, 2016. Total payment of $2,715,400 was made during the three months ended March 31, 2016 (2015 – $3,976,000).

13. Cost of sales

The cost of sales for the three months ended March 31, 2016 and 2015, consists of:

	Three months ended March 31, 2016	Three months ended March 31, 2015
	($'000)	**($'000)**
Raw materials and consumables	10,002	12,024
Salary and employee benefits	8,359	9,347
Contractors	6,754	4,011
Change in inventories	2,850	258
Royalty	440	582
Other	3,021	4,772
	31,426	**30,994**

14. Finance costs

	Three months ended March 31, 2016	Three months ended March 31, 2015
	($'000)	($'000)
Interest on borrowings	**1,303**	1,207
Accretion of reclamation and site closure costs	**82**	72
	1,386	1,279

15. Financial instruments

(a) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (Note 11) using the Black-Scholes option pricing model and determined the value of $4,634,000 at the date of May 13, 2014. For the three months ended March 31, 2016, the derivative value of the conversion feature amounts to $1,732,000 (2015 – $2,241,000) and is recorded in current liabilities in the consolidated statements of financial position. The Company recorded a fair value measurement loss of $992,000 (2015 – gain of $613,000) for the three months ended March 31, 2016. The value was estimated using the following Level 2 assumptions: risk free interest rate of 0.59% (2015 – 0.50%); volatility of 16.4% (2015 – 18%), gold forward curve adjustment of (0.28%) (2015 – (0.37%)).

(b) Oil derivative

On March 15, 2014, the Company entered into a crude oil call for a notional amount of 120,000 barrels of crude oil for the period from January 1, 2015 to December 31, 2015 at an exercise price of $60.50 per barrel. As at December 31, 2015, the derivative has expired and therefore had no carrying value. During three months ended March 31, 2015 the Company has recorded $317,000 of loss on the oil call option.

(c) Marketable securities

In connection with the Company's acquisition of Elgin Mining Inc. in September 2014, the Company acquired marketable securities held by Elgin Mining. The value of these securities as at March 31, 2016, is $188,000 (2015 – $189,600), recorded in trade and other receivables on the consolidated statements of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain of $62,000 (2015 – loss of $13,000) for three months ended March 31, 2016, using Level 1 assumptions.

16. Income per share

As at March 31, 2016 and 2015, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended	
		March 31,
	2016	2015
	('000)	('000)
Basic weighted average number of shares outstanding	**411,278**	408,923
Effect of diluted securities :		
Stock options	**759**	2,682
RSU	**421**	249
Diluted weighted average number of shares outstanding	**412,459**	411,854

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the exercise price exceeded the daily weighted average market value of the common shares for the three months ended March 31, 2016, of C$0.94 (2015 – C$0.94):

	Three months ended	
		March 31,
	2016	2015
	('000)	('000)
Stock options	**7,588**	8,248

17. Segmented information

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

					Three months ended on March 31, 2016
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	17,867	17,398	15,177	-	50,442
Depletion and depreciation (including corporate depreciation)	(3,738)	(4,452)	(2,900)	(4)	(11,094)
Income (loss) from operations	4,904	(3,636)	1,556	(307)	2,517
Other expense, except for fair value adjustment on derivatve financial warrants	(783)	62	(1)	(2,347)	(3,069)
Income (loss) for underlying operations	4,121	(3,574)	1,554	(2,654)	(552)
Income for underlying operations per share					
Basic					($0.00)
Diluted					($0.00)
Fair value adjustments gain (loss) (Note 15)					
Five year exchangeable bonds (Note 15 (a))	-	-	-	(993)	(993)
Marketable Securities (Note 15 (c))	-	-	-	62	62
Total fair value adjustment	-	-	-	(931)	(931)
Income (loss) before income taxes	4,121	(3,574)	1,554	(3,585)	(1,483)
Current tax recovery (expense)	(584)	-	(256)	-	(840)
Deferred tax recovery (expense)	850	2,541	81	-	3,472
Net income (loss)	4,387	(1,033)	1,379	(3,585)	1,149
Income per share					
Basic					$0.00
Diluted					$0.00
Cash expenditure for property, plant and equipment	1,296	7,540	4,168	53	13,057
Total non-current assets as at March 31,2016	54,792	92,796	74,487	30,847	252,922
Total assets as at March 31,2016	78,647	128,463	93,919	56,088	357,117
Total liabilities as at March 31,2016	14,010	23,459	26,299	78,421	142,190

17. Segmented information (continued)

	Three months ended on March 31, 2015				
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	17,588	22,900	16,291	-	56,779
Depletion and depreciation					
(including corporate depreciation)	(3,544)	(4,281)	(2,696)	(35)	(10,556)
Income (loss) from operations	5,644	3,425	4,470	(117)	13,422
Other income (expense), except for fair value					
adjustment on derivatve financial warrants	(93)	(265)	31	1,690	1,363
Income for underlying operations	5,551	3,160	4,501	1,573	14,785
Income for underlying operations per share					
Basic					$0.04
Diluted					$0.04
Fair value adjustments gain (loss) (Note 15)					
Oil derivative (Note 15 (b))	-	-	-	(317)	(317)
Marketable Securities (Note 15 (c))	-	-	-	(13)	(13)
Five year exchangeable bonds (Note 15 (a))	-	-	-	613	613
Total fair value adjustment	-	-	-	283	283
Net income before income taxes	5,551	3,160	4,501	1,856	15,068
Current tax expense	-	(381)	(845)	-	(1,226)
Deferred tax recovery (expense)	(1,334)	(668)	(78)	-	(2,080)
Net income	4,217	2,111	3,578	1,856	11,762
Income per share					
Basic					$0.03
Diluted					$0.03
Cash expenditures for property, plant and equipment	5,024	4,904	3,073	-	13,001
Total non-current assets as at December 31, 2015	54,756	89,001	71,324	29,495	244,576
Total assets as at December 31, 2015	75,551	129,605	88,213	53,204	346,573
Total liabilities as at December 31, 2015	13,199	23,566	26,161	75,953	138,879

17. Segmented information (continued)

For the three months ended March 31, 2016, the Company had five customers from whom it earned more than 10% of its total revenue (2015 – four customers). Revenue from these customers is summarized as follows:

	Three months ended	
	March 31, 2016	March 31, 2015
	($'000)	($'000)
Costerfield (gold and antimony)		
Customer 1	**11,242**	8,976
Customer 2	**5,947**	4,872
	17,189	13,848
Cerro Bayo (silver and gold)		
Customer 3	**9,217**	13,549
Customer 4	**3,976**	6,407
	13,193	19,956
Björkdal (gold)		
Customer 5	**12,580**	-
	12,580	-
Total	**42,962**	33,804

18. Fair value measurement

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

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

As at March 31, 2016, the provisional pricing feature of trade receivables, other receivables, marketable securities and oil derivative are also based on Level 1 input. Provisional pricing feature of trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

19. Restatement

During the three months ended December 31, 2015, the Company had recognized additional depletion expenses of $3.3 million in respect of Björkdal in connection with the finalization of the fair value of Björkdal in line with 2015 production, accordingly the comparatives for the three months to December 31, 2015 have been restated to reflect the impact of depletion and tax thereon as shown below:

	$'000
Net income for three months ended March 31, 2015	**12,484**
Less: Depletion on Björkdal PPA fair value	**(926)**
Add: Deferred tax recovery on fair value depletion	**204**
Net income restated, for period ended March 31, 2015	**11,762**

20. Income tax

During the three months ended March 31, 2016, the Company had recognised current tax expense of $840,000 (2015-$1,226,000) and deferred tax expense (recovery) of ($3,472,000) (2015- $2,080,000).

The material items included in the deferred tax recovery of $3,472,000 for three months ended March 31, 2016, are the reversal of Available Fraction tax adjustment of $1,372,000 at Costerfield and the tax benefit of $1,372,000 from the royalty cancellation at Cerro Bayo.

21. Related party transactions

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

	2016	2015
	($'000)	($'000)
Administration expense and salaries		
SKS Business Services	15	15

22. Commitments and contingencies

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

The Company's Björkdal mine has entered into several equipment leases and the detailed future minimum payments relating to these leases are outlined in Note 10.

23. Subsequent events

On May 11, 2016, the Board of Directors declared a dividend in the amount of C$0.0094 per share, payable on June 3, 2016, to shareholders of record as of May 24, 2016.