MANDALAY RESOURCES

Management's Discussion and Analysis

For the quarter ended March 31, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated interim financial statements and notes to the condensed consolidated interim financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended March 31, 2016, and the Company's annual information form dated March 30, 2016 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States ("U.S.") dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

FIRST QUARTER 2016 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Quantities of metal sold during the quarter were 29,183 ounces ("oz") of gold ("Au"), 602,621 oz of silver ("Ag") and 893 tonnes ("t") of antimony ("Sb") compared to 28,657 oz Au, 792,797 oz Ag and 781 t Sb in the first quarter of 2015. Prices realized during the quarter were $1,241 per oz for Au, $15.75 per oz for Ag and $5,292 per t for Sb in 2016 versus $1,271 per oz for Au, $17.66 per oz for Ag and $8,147 per t for Sb in the same period in 2015 (2.3% lower price for Au, 10.8% lower for Ag and 35.0% lower for Sb).

- During the quarter, Mandalay's sales totaled 40,808 oz of gold equivalent ("Au Eq.") as compared to 44,711 Au Eq. oz in the prior year quarter.

- Revenue in the quarter of $50.4 million included a favorable revenue adjustment of $1.2 million related to open sales contracts from prior quarters, compared with revenue of $56.8 million in the first quarter of 2015, which included adverse revenue adjustments of $1.1 million relating to open sales contracts from prior quarters.

- Adjusted EBITDA[1] was $17.3 million in the first quarter of 2016 compared with $24.3 million in the first quarter of 2015; The lower amount in the current quarter was mainly due to lower metal prices.

- Consolidated net profit after tax during the quarter was $1.1 million ($0.00 per share) compared with $11.8 million ($0.03 per share) in the first quarter of 2015.

- During the quarter, the following special items were recognized in the statement of income:
  - Write-off of $3.4 million of residual mining interest in the Fabiola and Yasna veins at Cerro Bayo due to the fact there were no accessible reserves, and the associated tax credit of $0.8 million;
  - Deferred income tax credit of $1.4 million related to the value of the cancelled royalty previously held in Cerro Bayo; and
  - Reversal of one-off tax expense adjustment at Costerfield of $1.4 million.

- After adjusting for the above special items, adjusted net income[1] in the first quarter was $1.0 million ($0.00 per share) compared with adjusted net income of $12.5 million ($0.03 per share) in the first quarter of 2015.

- Net loss after tax from underlying operations[1] in the current quarter was $1.4 million compared with income after tax from underlying operations of $13.6 million in the first quarter of 2015.

- Dividends paid in the first quarter of 2016 were $2.7 million (C$0.0088 per share) compared to $4.0 million (C$0.0121 per share) in the corresponding quarter of the prior year.

- Cash capital expenditures during the first quarter of 2016 were $3.2 million at Cerro Bayo, $1.3 million at Costerfield, $4.2 million at Björkdal and $0.3 million at Challacollo, compared to $3.8 million at Cerro Bayo, $5.0 million at Costerfield, $3.1 million at Björkdal and $1.1 million at Challacollo in the first quarter of 2015.

- During the quarter, the Company purchased and cancelled a 2% NSR royalty on production at Cerro Bayo from Coeur Mining, Inc. The total value of the consideration paid to repurchase the royalty was $5.7 million, consisting of $4.0 million in cash and the issuance of 2.5 million common shares of the Company with an agreed value of $1.7 million. This amount has been capitalized to the mining interest asset on the balance sheet, and will be depleted over time in line with production.

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[1] Adjusted EBITDA, Adjusted net income, operating net income/(loss) after tax and Income/(loss) after tax from underlying operations are non-IFRS performance measures. Refer to Section 1.16 “Non-IFRS measures” for further information.

- As at March 31, 2016, the Company had $40.7 million of cash and cash equivalents as compared to $49.2 million as at December 31, 2015. The cash and cash equivalents balance declined during the quarter mainly due to the $4.0 million paid for the Cerro Bayo royalty purchase and an increase in working capital partly due to the timing of shipments and increasing metal prices.

2. Operating Highlights

a. Consolidated Production and Sales

- In the first quarter of 2016, Mandalay produced 28,954 oz Au, 515,216 oz Ag and 1,000 t Sb, representing 39,965 Au Eq. oz. Production in the first quarter of 2015 was 27,740 oz Au, 590,755 oz Ag and 969 t Sb, representing 42,277 Au Eq. oz.

- Consolidated average cash cost[2] of production in the first quarter was $751/Au Eq. oz and all-in cost was $1,042/Au Eq. oz; Costerfield delivered cash cost and all-in costs, respectively, of $512 and $724 per Au Eq. oz; Björkdal delivered cash cost and all-in costs, respectively of $821 per oz Au and $1,059 per oz Au, and Cerro Bayo delivered cash cost per oz Ag net of Au credit of $9.76 and all-in cost of $18.78/oz Ag.

- Looking forward, the Company expects Costerfield to maintain its current low cost and volume performance for the balance of the year. During the quarter, Cerro Bayo completed mining as planned in the Fabiola and Yasna veins and continued developing the new Delia SE mine, where Cerro Bayo expects stoping to be initiated in the second quarter. At Cerro Bayo, the Company also obtained final permits for commercial mining at the new Coyita mine. Björkdal's quarterly gold production rate to continue to rise as mining and metallurgical improvements are implemented.

- Improved operational exchange rates and lower petroleum prices were significant contributors to lower U.S. dollar-denominated costs in the quarter. The Australian dollar averaged 1.3845/US$ in the first quarter of 2016 vs 1.2718/US$ in the prior year period. The Chilean Peso averaged 701 Peso/US$ vs 625/US$ in the prior period. The Swedish Krona Averaged 8.45/US$ in the period vs 8.34/US$ in the prior period. Petroleum prices were approximately 29% lower than in the prior period.

- The increase in production at Costerfield was the result of more tonnes of ore mined and processed than in the previous year, and at higher grade, as the proportion of ore from the Cuffley lode increased. Production at Cerro Bayo was lower as compared to the prior year corresponding quarter, mainly due to expected lower grades of ore mined and processed.

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

Björkdal mine contributed slightly lower production as compared the prior year quarter mainly due to grades of material processed.

Saleable Production

Metal	Source	Three months to 31 March 2016	Three months to 31 March 2015
Gold (oz)	Costerfield	12,433	10,416
	Cerro Bayo	4,336	5,005
	Björkdal	12,185	12,319
	Total	**28,954**	**27,740**
Antimony (t)	Costerfield	**1,000**	**969**
Silver (oz)	Cerro Bayo	**515,216**	**590,755**
Average quarterly prices:			
Gold US$/oz		1,181	1,218
Antimony US$/t		5,353	8,109
Silver US$/oz		14.85	16.67
Au Eq. (oz)[1]	Costerfield	16,966	16,867
	Cerro Bayo	10,814	13,091
	Björkdal	12,185	12,319
	Total	**39,965**	**42,277**

[1] Au Eq. oz produced is calculated by multiplying the saleable quantities of Au, Ag and Sb 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 Au 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.

Sales

Metal	Source	Three months to 31 March 2016	Three months to 31 March 2015
Gold (oz)	Costerfield	10,816	9,823
	Cerro Bayo	6,030	7,084
	Björkdal	12,337	11,750
	Total	**29,183**	**28,657**
Antimony (t)	Costerfield	**893**	**781**
Silver (oz)	Cerro Bayo	**602,621**	**792,797**
Average quarterly prices:			
Gold US$/oz		1,181	1,218
Antimony US$/t		5,353	8,109
Silver US$/oz		14.85	16.67
Au Eq. (oz)[2]	Costerfield	14,864	15,026
	Cerro Bayo	13,607	17,935
	Björkdal	12,337	11,750
	Total	**40,808**	**44,711**

[1]Au Eq. oz sold is calculated by multiplying the quantities of Au, Ag, and Sb 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 Au 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.

b. **Costerfield Gold-Antimony Mine, Victoria, Australia**

i. *Production* — Saleable Au production for the first quarter of 2016 was a record high 12,433 oz versus 11,582 oz in the previous quarter and 10,416 oz in the first quarter of 2015. Saleable Sb production for the first quarter of 2016 was 1,000 t versus 937 t in the previous quarter and 969 t in the first quarter of 2015. Greater production in the current quarter compared to the corresponding quarter of the previous year was mainly due to better grades mined and processed.

ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the first quarter of 2016 was a record low of $512 versus $540 in the previous quarter and $566 in the first quarter of 2015. The lower cash cost in the first quarter of 2016 was due to high throughput and high grades of ore processed coupled with the completion of the move to 10 metre mining stopes from 5 metre stopes throughout the mine and consequent reduction in cost. The site all-in cost per Au eq. oz produced in the first quarter of 2016 was also a record low $724, versus $760 in the previous quarter and $774 in the first quarter of 2015.

c. **Cerro Bayo Silver-Gold Mine, Aysen, Chile**

i. *Production* — Cerro Bayo produced 515,216 oz Ag and 4,336 oz Au in the first quarter of 2016 versus 725,243 oz Ag and 6,901 oz Au in the previous quarter and 590,755 oz Ag and 5,005 oz Au in the first quarter of 2015. Cerro Bayo's production during the quarter was impacted by the mine-outs of Yasna and Fabiola veins as well as the transition to, and ramp up of mining in, the new Delia SE and Coyita mines.

ii. *Operating Costs* — Cash cost per saleable oz Ag produced net of Au credits was $9.76 in the first quarter of 2016 versus $4.58 in the previous quarter and $10.09 in the first quarter of 2015. Cash cost per oz was higher in the first quarter of 2016 compared to the corresponding quarter of 2015, principally due to lower production arising from lower plant head grades. The site all-in cost per oz Ag produced net of Au by-product credit was $18.78 in the first quarter of 2016 versus $11.75 in the previous quarter and $17.61 in the first quarter of 2015.

d. **Björkdal Gold Mine, Sweden**

i. *Production* — Björkdal produced 12,185 oz Au in the first quarter of 2016 versus 10,465 oz Au in the previous quarter and 12,319 oz Au in first quarter of 2015. Production was higher in the current quarter than the prior quarter due to increased grade of ore processed. Reconciled mill head grades increased to 1.35 g/t from 1.14 g/t in the previous quarter and Au recovery increased from 88.04% to 88.44%.

ii. *Operating Costs* — Cash cost per saleable oz Au produced at Björkdal in the first quarter of this year was $821 and the site all-in cost per saleable oz Au produced was $1,059, as compared to $940 and $1,224 in the previous quarter and $797 and $1,016 respectively for the prior year quarter of 2015. The current quarter lower unit costs reflect the higher unit volume produced by an essentially fixed cost operation.

3. Exploration

A detailed update for all exploration activity for the second half of 2015 was released on January 19, 2016 and exploration results were included in the Company's year-end 2015 technical reports filed on March 30, 2016. The descriptions of exploration activities below are a summary of the more detailed information reported in the year-end exploration release.

a. Cerro Bayo

At Cerro Bayo, drilling under Laguna Verde continued to reveal the southeast and depth limits of the Coyita vein, with a gap remaining in the middle of the lake that has proved difficult to drill from currently accessible locations. New intercepts on the Yasna vein under Laguna Verde have further defined and slightly enlarged this ore shoot as well.

b. Costerfield

At Costerfield, infill and extensional drilling of the Cuffley lode above the King Cobra fault has delivered mineralized intercepts that have been incorporated in the Company's yearend 2015 resources and reserves update. In addition, the extension of the Cuffley lode below the King Cobra fault is now demonstrated in two intercepts, spaced about 200 m apart along strike and 100 m apart down-dip.

c. Björkdal

At Björkdal, drilling has pushed the limits of underground mineralization some 200 m to the north and up to 100 m to east and northeast. The Company expects this work will translate into a significant increase in underground resources and reserves in a reserve and resource update anticipated for the third quarter of 2016. Furthermore, drilling results in and around the southeast part of the open pit suggests the Company will be able to expand the pit in this area, perhaps to include the Nylunds resource model in respect of which confirmatory core drilling was conducted in 2015. The Nylunds resource is expected to convert to a new open pit reserve as a result. Finally, a new mineralized zone was intercepted in the Storheden area some 700 m north of the current Björkdal mine. This intercept, which is anomalously wide for the district, represents a new high quality exploration target for the coming year.

d. Challacollo

At Challacollo, securing a suitable water source for the proposed operation is the significant remaining factor required to demonstrate feasibility. During the quarter, a potential source of water was identified in respect of which applications for water exploration permits were submitted.

e. La Quebrada, Chile

La Quebrada is a non-core asset of the Company. Less than $0.1 million exploration activities occurred in the first quarter of 2016. At part of its annual impairment review, the Company determined that the lower copper market price was considered an indicator of impairment for the La Quebrada asset. Based on the analysis of internal valuation models, the carrying value of La Quebrada was impaired by $2.3 million in the fourth quarter of 2015.

f. Lupin and Ulu, Canada

The Lupin and Ulu Au projects in Nunavut, Canada were acquired as part of the Company's acquisition of Elgin Mining and are currently held for sale as non-core assets. Shortly after the end of the third quarter, 2015, the Company received a water license for ongoing care and maintenance work at Lupin.

1.0 DATE

This MD&A is dated as of May 11, 2016.

1.1 SUBSEQUENT EVENTS

Quarterly Dividend

On May 11, 2016, the Board of Directors declared a dividend in the amount of $0.0073 per share (C$0.0094 per share), payable on June 3, 2016 to shareholders of record as of May 24, 2016.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company, the business of which is to acquire, discover, develop and produce mineral commodities. It currently produces Au, Ag and Sb in Australia, Chile, and Sweden. The Company uses its strong technical expertise and understanding of value creation to systematically increase the value of its assets through a disciplined approach of exploration, mining and processing optimization and operational efficiency. The Company's current producing assets are its Costerfield Au-Sb mine in Victoria, Australia, its Cerro Bayo Ag-Au mine in Patagonia, Chile, and its Björkdal Au mine in northern Sweden. The Company is completing a feasibility study on its Challacollo Ag-Au project near Iquique, Chile. The Company conducts exploration on near-mine and district targets at its operating and feasibility stage projects.

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

Costerfield

Costerfield is a 100%-owned Au-Sb mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Acquired while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day ("tpd") in 2009 to 485 tpd in the first quarter of 2016. The production increases (and associated unit cost reductions) are due principally to: a change in mining method from cut-and-fill to blast-hole stoping with cemented rock fill; increasing sub-level spacing from 5 m to 10 m; replacing the underground mobile mining fleet; introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput) and construction of a new gold room which has increased the proportion of gold recovered to gravity concentrate. In addition, rigorous improvements in maintenance and production processes in the mine and plant have led to increases in equipment availability and utilization as well as in labor productivities. Exploration (funded by mine operating cash flow) has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life from nil upon acquisition to over four years today.

Cerro Bayo

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

Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. Key to the financial performance of the restarted operation have been: shifting the mining method from shrinkage stoping to completely mechanized blast-hole open stoping; ramping up the operation to a total rate of 1400 tpd from three mines; and developing four highly competitive concentrate customers. Exploration has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life from a nominal three years to more than five today.

With the repurchase of the Coeur Mining royalty interest in the first quarter of 2016, Cerro Bayo is now royalty-free.

Björkdal

Björkdal is a 100% owned gold mine located in northern Sweden. It was acquired through the Company's acquisition of Elgin Mining on September 9, 2014. The operation currently produces from both an open pit mine and an underground mine. The concentrator currently processes 3,500 tpd and has been permitted to expand to 4,300 tpd. Activities since the acquisition have been focused on: completing a new, independent estimation of Mineral Resources and Reserves; augmenting the geologic and sampling staff to provide for best-practice core logging, face mapping, and sampling; formulating an optimized life-of-mine plan balancing production from open pit and underground while reducing dilution in both; establishing a local assay lab for fast exploration and grade control sample turnaround; and fundamental metallurgical surveys and ore sorting studies to improve plant performance. The Company's primary objective at Björkdal is to increase production from the current annual run rate of 45,000-50,000 ounces/year over the next two years. The majority of the production growth is expected to come from mining higher grade with less dilution rather than from higher tonnages.

Challacollo

Challacollo is a 100% owned Ag-Au deposit located in Region I, Northern Chile. Mandalay completed an independent NI 43-101 Mineral Resource estimate for this development property in conjunction with its acquisition of the property, which was completed on February 7, 2014. Since then, the Company has completed: infill drilling to upgrade previously Inferred Mineral Resource to Indicated; metallurgical studies; mine, plant and infrastructure design; and capital and operating costing. The key outstanding feasibility issue is securing an adequate water supply to support operation. Initial test water well drilling was not successful in this regard and the currently permitted water source is deemed to be too environmentally sensitive to be used for the project. The Company has identified additional water source options and is pursuing permitting for these alternative sources. The overall operations permit application has been postponed until an adequate water supply can be secured and incorporated into the project design.

La Quebrada

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

Lupin/Ulu

The Lupin and Ulu Au projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project.

1.3 SELECTED QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended March 31, 2016 and 2015:

	Three months ended March 31, 2016 ($'000)	Three months ended March 31, 2015 ($'000)
Revenue	50,442	56,779
Cost of sales	31,426	30,994
Income from mine operations before depreciation and depletion	19,016	25,785
Depreciation and depletion	11,094	10,550
Income from mine operations	7,922	15,235
Administration	1,742	1,402
Business development costs	12	116
Adjusted EBITDA*	17,262	24,267
Finance costs, foreign exchange and others/(income)**	7,651	(1,351)
Consolidated Income/(loss) before tax	(1,483)	15,068
Current tax expense	840	1,226
Deferred tax expense (recovery)	(3,472)	2,080
Adjusted Net Income/(loss) before special items after tax *	1,020	12,484
Consolidated Net Income/(loss) after tax	1,149	11,762
Total assets	357,117	357,202
Total liabilities	142,190	138,603
Adjusted Income/(loss) per share before special items	0.00	0.03
Consolidated Income/(loss) per share	0.00	0.03

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

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

Dividend

Mandalay's current policy is to pay a quarterly dividend equal in an aggregate amount equal to 6% of the trailing quarter's revenue. The following table summarizes dividends paid by Mandalay in 2016 and 2015:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
2016				
	February 18, 2016	February 29, 2016	0.0088	2,715
				2,715
2015				
	February 17, 2015	February 27, 2015	0.0121	3,976
	May 12, 2015	May 22, 2015	0.0101	3,308
	August 05, 2015	August 17, 2015	0.0098	3,037
	November 05, 2015	November 16, 2015	0.0083	2,550
				12,871

Adjusted EBITDA and Adjusted Net Income Reconciliation to Net Income

The table below reconciles adjusted EBITDA and adjusted net income/(loss) to reported net income for the three months ended March 31, 2016 and 2015. Adjusted EBITDA and adjusted net income/(loss) are a non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	($'000)	($'000)	($'000)	($'000)
Consolidated Net Income/(loss)		1,149		11,762
Special items				
Mining interest write-off at Cerro Bayo	3,441		-	
- tax impact of above	(826)		-	
Tax impact on Cerro Bayo royalty purchase	(1,372)		-	
Available Fraction tax adjustment at Costerfield	(1,372)		-	
Additional DDA from PPA at Björkdal	-		926	
- tax impact of above	-	(129)	(204)	722
Adjusted Net Income/(loss) before special items		1,020		12,484
Add: Non-cash and finance costs				
Depletion and depreciation	11,094		10,550	
Loss (gain) on disposal of property, plant and equipment	13		12	
Share based compensation	197		283	
Interest and finance charges	1,386		1,279	
Fair value adjustments	931		(283)	
Current tax	840		1,226	
Deferred tax	98		2,080	
Foreign exchange (gain)/loss	1,761	16,320	(2,471)	12,676
		17,340		24,438
Less: Interest and other income	(78)	(78)	(171)	(171)
Adjusted EBITDA		17,262		24,267

Fair-value adjustments

As at March 31, 2016, 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 five-year debt financing at an interest rate of 5.875% from Gold Exchangeable Limited ("GEL"), an unaffiliated special purpose vehicle incorporated in Jersey. GEL raised the financing proceeds by way of a concurrent offering of five-year 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 (the "Borrower"), 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. Beginning on June 23, 2014, each Bondholder 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 $149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of $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 NAV of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder exercises its exchange rights, GEL will give notice to the Borrower, and the Borrower will be required to deliver the requisite number of Gold Shares to the Bondholder.

GEL 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 $9 million or less principal amount of the Bonds remains outstanding.

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

The Company has computed and initially allocated $4.6 million to the value of derivative financial instruments associated with the Loan. As at March 31, 2016, the Company has recomputed the derivative portion of the Loan at $1.7 million. As a result, there is a mark-to-market adjustment loss of $0.9 million.

Marketable securities - With the acquisition of Elgin, the Company acquired marketable securities with the fair market value of $0.2 million as at March 31, 2016, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain of $62,000 for the quarter ended March 31, 2016.

Oil derivative - On December 15, 2014, the Company entered into a crude oil call option for a notional amount of 120,000 barrels of crude oil at an exercise price of $60.50 per barrel. As at December 31, 2015 the oil derivative had expired.

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

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

	Before fair value and deferred tax adjustments [a]	Note	Fair value and deferred tax adjustments Q1 2016	As of March 31, 2016 [a]	As of December 31, 2015 [a]
	($'000)		($'000)	($'000)	($'000)
Assets					
Deferred tax	4,219	(b)	3,472	7,691	5,106
Marketable Securities	126	(c)	62	188	115
Liabilities					
Derivative financial instrument (Five year exchangeable bonds)	2,725	(d)	(993)	1,732	740
Equity					
Retained earnings/(deficit)	67,892		2,541	70,433	71,999

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax income of $3,472k for the three months ended March 31, 2016.

(c) The Company recorded a fair value measurement gain of $62k relating to marketable securities for the three months ended March 31, 2016.

(d) The Company recorded a fair value measurement loss of $993k relating to the derivative portion of the five-year exchangeable loan for the three months ended March 31, 2016.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended March 31, 2016 and 2015

	As of March 31, 2016			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income (loss) from operations	2,517			2,517
Interest and other income	78			78
Finance (costs)/income	(1,386)			(2,317)
		(a)	62	
		(b)	(993)	
Foreign exchange gain (loss)	(1,761)			(1,761)
Net income/(loss) before tax	(552)		(931)	(1,483)
Current tax	(840)			(840)
Deferred tax		(c)	3,472	3,472
Net income/(loss)	(1,392)		2,541	1,149
Income (loss) per share				
Basic	($0.00)			$0.00
Diluted	($0.00)			$0.00

(a) The Company recorded a fair value measurement gain of $62k relating to marketable securities for the three months ended March 31, 2016.

(b) The Company recorded a fair value measurement loss of $993k relating to derivative portion of five-year exchangeable loan for the three months ended March 31, 2016

(c) The Company recorded a deferred tax income of $3,472k for the three months ended March 31, 2016.

	As of March 31, 2015			
	Underlying operations	Note	Fair value and deferred tax adjustments	Total
	($'000)		($'000)	($'000)
Income (loss) from operations	13,422			13,422
Interest and other income	171			171
Finance (costs)/income	(1,279)			(996)
		(a)	(13)	
		(b)	613	
		(c)	(317)	
Foreign exchange gain (loss)	2,471			2,471
Net income/(loss) before tax	14,785		283	15,068
Current tax	(1,226)			(1,226)
Deferred tax		(d)	(2,080)	(2,080)
Net income/(loss)	13,559		(1,797)	11,762
Income (loss) per share				
Basic	($0.00)			$0.03
Diluted	($0.00)			$0.03

(a) The Company recorded fair value measurement loss of $13k relating to marketable securities for the three months ended March 31, 2015.

(b) The Company recorded fair value measurement gain of $613k relating to derivative portion of five year exchangeable bonds for the three months ended March 31, 2015

(c) The Company recorded fair value measurement loss of $317k relating to the oil call option for the three months ended March 31, 2015.

(d) The Company recorded a deferred tax expense of $2,080k for the three months ended March 31, 2015.

1.4 RESULTS OF OPERATIONS

Three Months Ended March 31, 2016 compared to Three Months Ended March 31, 2015

During the three months ended March 31, 2016, the Company recorded net income of $1.1 million (net of fair value measurement loss of $0.9 million and deferred tax income of $3.5 million). This is compared to net income of $11.8 million (net of fair value measurement gain of $0.3 million and deferred tax expense of $2.1 million) during the three months ended March 31, 2015**.** Mandalay delivered adjusted EBITDA of $17.3 million for the quarter ended March 31, 2016, compared to $24.3 million in the quarter ended March 31, 2015. The decrease in adjusted EBITDA and net income was principally due to lower sales volumes and lower realized metal prices.

Administrative expenses for the quarter ended March 31, 2016 were $1.7 million compared to $1.4 million during the quarter ended March 31, 2015. During the three months ended March 31, 2016, administration expenses of $0.1 million at Corporate included $0.4 million in management fees, $0.8 million of transfer pricing income on management fees, $0.06 million in audit and internal review fees, $0.07 million in travel expense, $0.09 million legal and accounting fees, $0.11 million in investor relations and transfer agent and filing fees $0.14 million in Lupin and Ulu administration, care and maintenance, $0.03 million in general administrative expenses and computer maintenance.

Capital expenditures in the first quarter of 2016, including capitalized depreciation and exploration, were $13.3 million. Of this amount $7.4 million was spent at Cerro Bayo, $1.3 million at Costerfield, $4.2 million at Björkdal, $0.3 million at Challacollo. By comparison, capital expenditures in the first quarter of 2015 were $13.1 million.

Costerfield Results, Production, Sales and Costs for the Three Months Ended March 31, 2016

Costerfield generated revenue of $17.9 million for the quarter ended March 31, 2016. Income from mine operations before depreciation and depletion was $8.8 million adjusted EBITDA was $8.9 million, net income after tax was $4.0 million and operating net income was $4.8 million during the period. For the quarter ended March 31, 2015, revenue was $17.6 million, income from mine operations before depreciation and depletion was $9.8 million, adjusted EBITDA was $9.6 million, net income after tax was $3.9 million and operating net income was $4.9 million.

Costerfield financial results

	Three months ended March 31, 2016 ($'000)	Three months ended March 31, 2015 ($'000)
Revenue	17,867	17,588
Cost of sales	8,817	7,825
Income from mine operations before depreciation and depletion	9,050	9,763
Depreciation and depletion	3,738	3,544
Income from mine operations	5,312	6,219
Administration (1)	365	357
Adjusted EBITDA (2)(4)	8,919	9,560
Finance costs, foreign exchange and others (3)	1,183	663
Income/(loss) before tax	3,764	5,199
Current tax expense	584	-
Deferred tax expense (recovery)	(850)	1,334
Operating net income/(loss) after tax(4)	4,838	4,892
Adjusted Net income/(loss) after tax before special items	2,657	3,865
Consolidated Net income/(loss) after tax	4,030	3,865
Capital expenditure (5)	1,296	5,041

[1]Includes intercompany transfer pricing re-charge costs of $234,000 in three months ended in March 31, 2016 and $154,000 in same period of 2015.

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

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/loss on disposals of properties and intercompany transfer pricing recharge costs of $387,000 in three months ended March 31, 2016 and $560,000 in same period of 2015.

[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.

[5]Includes capitalized depreciation on equipment.

Costerfield operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended March 31, 2016 ($'000)	Three months ended March 31, 2015 ($'000)
Net income/(loss) after tax	4,030	3,865
Add: Intercompany expenses		
Intercompany interest expense	187	313
Intercompany transfer pricing recharge costs	621	714
Operating net income/(loss) after tax	4,838	4,892

Costerfield operating statistics

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

	Unit	Three months ended March 31, 2016	Three months ended March 31, 2015
Mining Production and Mining Cost			
Operating development	m	1,475	1,060
Mined ore	t	44,192	40,393
Ore mined Au grade	g/t	11.60	10.69
Ore mined Sb grade	%	3.93	3.88
Mined contained Au	oz	16,482	13,884
Mined contained Sb	t	1,735	1,567
Mining cost per tonne ore	$/t	125	144
Processing and Processing Cost			
Processed ore	t	39,635	38,601
Mill head grade Au	g/t	11.79	10.61
Mill head grade Sb	%	4.08	4.01
Recovery Au	%	90.58	89.91
Recovery Sb	%	95.35	95.00
Concentrate produced	dry t	2,859	2,704
Concentrate grade Au	g/t	87.31	76.51
Concentrate grade Sb	%	53.94	54.40
Au produced in gravity concentrate	oz	5,523	5,136
Au produced in sulfide concentrate	oz	6,910	5,280
Saleable Au produced	oz	12,433	10,416
Saleable Sb produced	t	1,000	969
Saleable Au equivalent produced	oz	16,966	16,867
Processing cost per tonne ore	$/t	33.36	36.72
Sales			
Concentrate sold	dry t	2,589	2,264
Concentrate Au grade	g/t	84.05	79.09
Concentrate Sb grade	%	54.32	54.36
Au sold in gravity concentrate	oz	5,109	5,231
Au sold in sulfide concentrate	oz	5,707	4,592
Au sold	oz	10,816	9,823
Sb sold	t	893	781
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	214	243
Site cash operating cost/tonne concentrate produced(1)	$/t	2,973	3,474
Adjusted EBITDA/tonne ore milled(1)	$/t	225	248
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,120	3,536
Cash cost per oz Au equivalent produced(1)(2)	$/oz	512	566
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	724	774
Capital Spending			
Capital development	m	-	742
Capital development cost	$000	33	3,173
Capital development cost/meter	$/m	NA	4,277
Capital purchases	$000	305	1,566
Capitalized exploration	$000	958	301

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.

Three months ended March 31, 2016 and 2015

Operationally, Costerfield delivered another excellent quarter in terms of quantities produced and sold and low cash and all-in operating cost per Au Eq. oz produced. In the first quarter of 2016, Costerfield delivered 16,966 oz Au Eq. at record low cash costs and all-in costs of $512 and $724 per Au Eq. oz, respectively.

The Costerfield mine completed 1,475 metres ("m") of operating development in the first quarter of 2016 versus 1,060 m in 2015. There was no capital development in the first quarter of 2016 compared to 742 m in 2015 with a cost of $4,277/m.

The mining rate increased from 40,393 t in first quarter of 2015 to 44,192 t in first quarter of 2016 as the blast hole stoping with cemented rock fill mining method was continually refined, resulting in reduced mining cost to $125/t from the previous year's quarter $144/t. The mined Au grade in 2016 was 11.60 grams per tonne ("g/t") versus 10.69 g/t in 2015, while the mined Sb grade was 3.93 g/t in 2016 versus 3.88 g/t.

Similarly, continuous improvements in processing allowed slightly higher throughput in the quarter to a record 39,635 t from 38,601 t, reducing costs from $36.72/t in 2015 to 33.36/t in 2016. Whereas the rate of mining was intentionally limited to avoid building ore stockpiles, the rate of processing has reached bottlenecks of grinding capacity and grid power supply. Therefore, the slight increase in processing throughput and decrease in cost are due mostly to decrease in plant downtime and increase in efficiency.

Plant Au head grade in 2016 was 11.79 g/t versus 10.61 g/t Au a year ago, while the Sb head grade was 4.08% in 2016 versus 4.01% in 2015. The plant achieved recoveries of 90.58% Au and 95.35% Sb versus 89.91% Au and 95.00% Sb in first quarter of 2015.

Concentrate production was 2,859 dry metric tonnes ("dmt") during the first quarter of 2016 versus 2,704 dry metric tonnes ("dmt") during the first quarter of 2015. Total saleable metal production in the first quarter of 2016 was 1,000 t Sb and 12,433 oz Au versus 969 t Sb and 10,416 oz Au in the first quarter of 2015.

During the first quarter of 2016, Costerfield sold 2,589 dmt of concentrate compared to 2,264 dmt in the prior year period. A total of 10,816 oz Au and 893 t Sb were sold in the first quarter of 2016 versus a total of 9,823 oz Au and 781 t Sb sold in the first quarter of 2015.

During the first quarter of 2016, the Company invested less than $0.1 million in capital development, $1.0 million in exploration and $0.3 million in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were $3.2 million, $0.3 million and $1.6 million, respectively.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended March 31, 2016

Cerro Bayo generated revenue of $17.4 million for the quarter ended March 31, 2016. Income from mine operations before depreciation and depletion was $5.0 million. Adjusted EBITDA was $4.5 million, net income (loss) after tax was ($1.4 million) and operating net income (loss) was ($0.8 million). For the quarter ended March 31, 2015, revenue was $22.9 million, income from mine operations before depreciation and depletion was $8.9 million. Adjusted EBITDA was $8.2 million, net income after tax was $1.7 million, and operating net income was $2.6 million.

Cerro Bayo financial results

	Three months ended March 31, 2016 ($'000)	Three months ended March 31, 2015 ($'000)
Revenue	17,398	22,900
Cost of sales	12,362	14,045
Income from mine operations before depreciation and depletion	5,036	8,855
Depreciation and depletion	4,452	4,281
Income from mine operations	584	4,574
Administration (1)	767	925
Adjusted EBITDA (2)(4)	4,528	8,153
Finance costs, foreign exchange and others (3)	3,739	947
Income/(loss) before tax	(3,922)	2,702
Current tax expense	-	381
Deferred tax expense (recovery)	(2,541)	669
Operating net income/(loss) after tax(4)	(763)	2,558
Adjusted Net income/(loss) after tax before special items	(138)	1,653
Net income/(loss) after tax	(1,381)	1,653
Capital expenditure (5)	7,345	3,913

[1]Includes intercompany transfer pricing recharge costs of $258,000 in 2016 and $223,000 in 2015.

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

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties and intercompany transfer pricing recharge costs of $360,000 in 2016 and $682,000 in 2015.

[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.

[5]Includes capitalized depreciation on equipment.

Cerro Bayo operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended March 31, 2016 ($'000)	Three months ended March 31, 2015 ($'000)
Net income/(loss) after tax	(1,381)	1,653
<u>Add: Intercompany expenses</u>		
Intercompany transfer pricing recharge costs	618	905
Operating net income/(loss) after tax	(763)	2,558

Cerro Bayo operating statistics

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

	Unit	Three months ended March 31, 2016	Three months ended March 31, 2015
Mining Production and Mining Cost			
Operating development	m	1,155	1,608
Mined ore	t	105,507	105,167
Ore mined Au grade	g/t	1.50	1.67
Ore mined Ag grade	g/t	172.50	199.63
Mined contained Au	oz	5,081	5,634
Mined contained Ag	oz	585,154	674,978
Mining cost per tonne ore	$/t	47.56	54.00
Processing and Processing Cost			
Processed ore	t	105,347	111,831
Mill head grade Au	g/t	1.49	1.65
Mill head grade Ag	g/t	172.18	188.24
Recovery Au	%	87.89	86.52
Recovery Ag	%	91.46	90.39
Concentrate produced	dry t	1,500	1,721
Concentrate grade Au	g/t	91.94	92.68
Concentrate grade Ag	g/t	11,056	11,058
Saleable Au produced	oz	4,336	5,005
Saleable Ag produced	oz	515,216	590,755
Saleable Au equivalent produced	oz	10,814	13,091
Processing cost per tonne ore	$/t	20.89	23.85
Sales			
Concentrate sold	dry t	1,785	2,275
Concentrate Au grade	g/t	107.42	99.14
Concentrate Ag grade	g/t	10,868	11,218
Au sold	oz	6,030	7,084
Ag sold	oz	602,621	792,797
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	80.64	86.56
Site cash operating cost/tonne concentrate produced(1)	$/t	5,661	5,625
Adjusted EBITDA/tonne ore milled(1)	$/t	43	73
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,017	4,762
Cash cost per oz Ag produced net of Au byproduct credit(1)(2	$/oz	9.76	10.09
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	18.78	17.61
Capital Spending			
Capital development	m	473	450
Capital development cost	$000	1,399	1,479
Capital development cost/meter	$/m	2,959	3,290
Capital purchases	$000	1,427	1,916
Capitalized exploration	$000	519	518

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

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

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

Three months ended March 31, 2016 and 2015

During the first quarter of 2016, the Cerro Bayo mine produced 105,507 t of ore versus 105,167 t in the corresponding prior year period. During 2016, 1,155 m of operating development was completed versus 1,608 m in the 2015 comparative period.

In the first quarter Cerro Bayo delivered lower grades than in the first quarter of the previous year (172.50 g/t Ag and 1.50 g/t Au versus 199.63 g/t Ag and 1.67 g/t Au). This is because the lowest levels of the Yasna and Fabiola veins proved to have about 100,000 t less high grade ore than planned as they were mined out and abandoned, while high grade production from the new mines on Delia SE vein and Coyita vein were delayed. Delay on Delia SE was due to poorer ground conditions than expected, with bolting and meshing required for on-vein development. Installation of this ground support has slowed the rate of development. Delay on the Coyita vein was due to delays in receiving the mining permit that allowed us to proceed to on-vein development from previously completed capital development. The permit is now received, and mining is proceeding.

During the first quarter of 2016, the Cerro Bayo concentrator processed 105,347 t of ore with grades of 172.18 g/t Ag and 1.49 g/t Au, compared to 111,831 t of ore with grades of 188.24 g/t Ag and 1.65 g/t Au during the first quarter of 2015. The lower year-on-year plant head grades were in line with lower produced mine grades. Metallurgical recoveries during the first quarter of 2016 were 87.89% for Au and 91.46% for Ag in 2016 versus 86.52% for Au and 90.39% for Ag in the prior year period. Processing cost per tonne ore was $20.89/t in 2016 versus $23.85/t in 2015.

Excellent control of mining and milling costs combined with favorable exchange rate movement to result in per unit cost savings (declining to $47.56/t from $54.00/t in 2015) and processing costs (declining to $20.89/t from $23.85/t in 2015). Cash costs per oz Ag net of Au credit were $9.76 per oz and all-in costs is $18.78 per oz in the first quarter of 2016.

Cerro Bayo produced 1,500 dmt of concentrate containing 515,216 oz saleable Ag and 4,336 oz saleable Au in the first quarter of 2016, as compared to 1,721 dmt of concentrate containing 590,755 oz saleable Ag and 5,005 oz saleable Au in the comparable 2015 period.

During the first quarter of 2016, Cerro Bayo sold 1,785 dmt of concentrate containing 6,030 oz of saleable Au and 602,621 oz saleable Ag. Sales during the comparable quarter of 2015 were 2,275 dmt of concentrate 7,084 oz of Au and 792,797 oz of Ag.

During the first quarter of 2016, the Company invested $1.4 million in mine development versus $1.5 million in 2015. The Company spent $1.4 million for the purchase of property, plant and equipment in 2016 versus $1.9 million in 2015. The Company spent $0.5 million on exploration versus $0.5 million in the first quarter of 2015.

Björkdal Results, Production, Sales and Costs for the three months ended on March 31, 2016

Björkdal generated revenue of $15.2 million for the quarter ended March 31, 2016. Income from mine operations before depreciation and depletion was $4.9 million. Adjusted EBITDA was $4.9 million, net income after tax was $1.1 million and operating net income was $1.9 million. For the quarter ended March 31, 2015, revenue was $16.3 million, income from mine operations before depreciation and depletion was $7.2 million. Adjusted EBITDA was $7.2 million, net income after tax was $4.3 million and operating net income was $3.6 million.

Björkdal financial results

	Three months ended March 31, 2016 ($'000)	Three months ended March 31, 2015 ($'000)
Revenue	15,177	16,291
Cost of sales	10,248	9,125
Income from mine operations before depreciation and depletion	4,929	7,166
Depreciation and depletion	2,900	2,695
Income from mine operations	2,029	4,471
Administration	469	-
Adjusted EBITDA (1)	4,930	7,166
Finance costs, foreign exchange and others	302	(32)
Income/(loss) before tax	1,259	4,503
Current tax expense	256	845
Deferred tax expense (recovery)	(81)	78
Operating net income/(loss) after tax (1)	1,854	3,580
Adjusted Net income/(loss) after tax before special items	1,084	4,302
Net income/(loss) after tax	1,084	3,580
Capital expenditure (2)	4,243	3,073

[1] Adjusted EBITDA, operating net income/(loss) after tax and adjusted net income are non-IFRS performance measures. Refer to Section 1.16 “Non-IFRS Measures” for further information.

[2]Includes capitalized depreciation on equipment.

Björkdal operating net income/(loss) after tax reconciliation to net income/(loss) after tax

	Three months ended March 31, 2016 ($'000)	Three months ended March 31, 2015 ($'000)
Net income/(loss) after tax	1,084	3,580
Add: Intercompany expenses		
Intercompany transfer pricing recharge costs	770	-
Operating net income/(loss) after tax	1,854	3,580

Björkdal operating statistics

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

	Unit	Three months ended March 31, 2016	Three months ended March 31, 2015
Mining Production and Mining Cost			
Operating development	m	1,140	1,456
Mined ore	t	252,268	303,694
Ore mined Au grade	g/t	1.32	1.39
Mined contained Au	oz	10,736	13,551
Mining cost per tonne ore	$/t	24.57	19.94
Processing and Processing Cost			
Processed ore	t	323,929	318,347
Mill head grade Au	g/t	1.35	1.37
Recovery Au	%	88.44	89.79
Concentrate produced	dry t	826	944
Concentrate grade Au	g/t	459	406
Saleable Au produced	oz	12,185	12,319
Processing cost per tonne ore	$/t	6.48	6.79
Sales			
Concentrate sold	dry t	979	911
Concentrate Au grade	g/t	392	401
Au sold	oz	12,337	11,750
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed(1)	$/t	31.10	30.05
Site cash operating cost/tonne concentrate produced(1)	$/t	12,190	10,127
Adjusted EBITDA/tonne ore milled(1)	$/t	15.22	22.51
Adjusted EBITDA/tonne concentrate produced(1)	$/t	5,965	7,589
Cash cost per oz Au equivalent produced(1)(2)	$/oz	821	797
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,059	1,016
Capital Spending			
Capital development (Underground)	m	611	160
Capital development (Open pit)	t	620,473	824,346
Capital development cost	$000	2,767	1,783
Capital purchases	$000	992	772
Capitalized exploration	$000	485	519

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

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

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

Three months ended March 31, 2016

During the first quarter of 2016, Björkdal produced a combined 252,268 t of ore from the open pit and underground operations, with an average grade of 1.32 g/t Au as compared to 303,694 t for first quarter of 2015 with average grade of 1.39 g/t. During the first quarter of 2016, 1,140 m of operating development was completed against 1,456 m in first quarter of 2015. The weighted average mining cost from the open pit and underground was $24.57/t in the first quarter of 2016 against $19.94/t in the corresponding period of 2015. The increase was mainly due to adopting the selective mining approach described below for first quarter of 2016.

In the first quarter of 2016, the Company established an underground and open pit grade control program as standard practice. However, during the quarter as a whole, the average grade of the mine declined slightly, to 1.32 g/t Au versus the 1.39 g/t for first quarter of 2015. This is because the underground grade control process results in discarding 30-50% of low grade material previously sent to the mill. Due to the limited developed state of the mine, newly spare capacity created in the plant has been filled with low grade stockpile material averaging only 0.6-0.7 g/t Au. As the vein development program proceeds, capacity in the plant will be filled with high grade material rather than low grade, resulting in increased gold production.

During the first quarter of 2016, the Björkdal concentrator processed 323,929 t of ore with grades of 1.35 g/t Au against 318,347 t of ore with average grade of 1.37 g/t Au in 2015. Metallurgical recoveries during the first quarter of 2016 were 88.44%, and 89.79% for the first quarter of 2015. The Company continues to review and implement optimal metallurgical processes inside the plant. Processing cost was $6.48/t in 2016 as compared to $6.79/t in 2015.

During the first quarter of 2016, Björkdal produced 12,185 oz saleable Au and sold 12,337 oz of Au. In the first quarter of 2015, Björkdal produced 12,319 oz salable Au and sold 11,750 oz of Au. Cash cost per oz Au was $821 and all-in cost was $1,059 in 2016 against $797 and $1,016 respectively in 2015.

During the first quarter of 2016, the Company invested $2.8 million in mine development, $1.0 million in property, plant and equipment and $0.5 million in exploration. During the first quarter of 2015, the Company invested $1.8 million in mine development, $0.8 million in property, plant and equipment and $0.5 million in exploration.

Challacollo

During the first quarter of 2016, the Company spent $0.3 million on exploration and activities related to feasibility study. Work completed to date by consultants on design of the underground mine, processing plant, tailing storage and project infrastructure has been completed. The development options being evaluated for Challacollo consist of the following components:

• Underground mine with ramp access for longhole open stoping to produce 1,800 tpd mill feed;

• Processing plant with 3-stage crushing, single-stage milling, agitated cyanide leach circuit, Merrill Crowe plant to produce a silver-gold doré and tailing filtration to recover water and cyanide;

• The extensive metallurgical testing program confirmed cyanidation as the most appropriate method and silver recovery to doré of 93%;

• Dry stack tailing storage facility;

• On-site infrastructure support facilities, to include camp accommodation for up to 250 people during the operating phase;

• Electrical power supply via connection to the SING grid; and

• New site access road (15 km).

The study has confirmed that water supply of 12 litres/second is required for the operation, and as of March 31, 2016, a suitable source of water has yet to be developed. Alternatives being evaluated include a well field on the property and off-site water sources. The Company has identified additional water source options and is pursuing permitting for these alternative sources. The overall operations permit application has been postponed until an adequate water supply can be secured and incorporated into the project design. In the meantime, the Company is continuing with key project optimization studies and exploration.

La Quebrada and Lupin

Spending on care and maintenance at La Quebrada and Lupin, both held for sale, was less than $0.1 million during the first quarter of 2016. The corresponding amount for the prior-year quarter was also $0.1 million.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate Jannuary 1, 2016 March 31, 2016	Average rate Jannuary 1, 2015 March 31, 2015
1A$ = C$	0.9908	0.9755
1A$ = US$	0.7223	0.7863
1 US$ = C$	1.3717	1.2405
1 US$ = Chilean Peso	701	625
1 SEK = US$	0.1183	0.1199

The U.S. dollar has strengthened in relation to the Australian dollar, the Canadian dollar, the Chilean peso, and the Swedish Krona.

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of Au, Ag, and Sb were lower in the first quarter of 2016 compared to the first quarter of 2015. Realized prices were impacted by the application of adjustments with respect to open concentrate shipments at forward prices (see “Critical Accounting Policies - Revenue recognition” below). This resulted in realized prices in the first quarter of 2016 being marginally higher than relative average market prices for gold and silver, and slightly lower for antimony.

COMMODITY	Average rate Jannuary 1, 2016 March 31, 2016	Average rate Jannuary 1, 2015 March 31, 2015
Realized gold US$/oz[1]	1,241	1,271
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,181	1,218
Realized antimony US$/tonne[1]	5,292	8,147
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	5,353	8,109
Realized silver price US$/oz[1]	15.75	17.66
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	14.85	16.67

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

1.5 SUMMARY OF QUARTERLY RESULTS

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

Particulars	Quarter 1, 2016 ($'000)	Quarter 4, 2015 ($'000)	Quarter 3*, 2015 ($'000)	Quarter 2*, 2015 ($'000)
Revenue	50,442	43,646	43,282	50,793
Income/(loss)	1,149	(3,105)	1,608	4,400
Income/(loss) per share - Basic	0.00	(0.01)	0.00	0.01
Income/(loss) per share - Diluted	0.00	(0.01)	0.00	0.01

Particulars	Quarter 1*, 2015 ($'000)	Quarter 4, 2014 ($'000)	Quarter 3, 2014 ($'000)	Quarter 2, 2014 ($'000)
Revenue	56,779	66,973	34,676	44,888
Income/(loss)	11,762	7,588	(692)	4,936
Income/(loss) per share - Basic	0.03	0.02	(0.00)	0.01
Income/(loss) per share - Diluted	0.03	0.02	(0.00)	0.01

**Income from prior quarters has been updated to reflect the updated depletion and depreciation as a result of the finalization of the PPA for Björkdal.*

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

The general trend of increasing metal sales volumes with time represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine and the acquisition of the Björkdal mine. Volatility in revenue and earnings over the past two years is due to the combined impact of changes in volumes, fluctuations in metal prices and timing of concentrate shipments.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At March 31, 2016, the Company had working capital of $19.3 million, the same amount as at March 31, 2015. Had the gold loan been classified as long term debt, working capital would have been $74.8 million. The Company had cash and cash equivalents of $40.7 million at March 31 2016 as compared to $49.2 million at December 31, 2015.

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

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

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five year 5.875% debt financing

In May, 2014, the Company borrowed $60 million in a five-year loan at an interest rate of 5.875% from Gold Exchangeable Limited ("GEL"), an unaffiliated special purpose vehicle incorporated in Jersey.

GEL raised the financing proceeds by way of a concurrent offering of five-year 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 (the "Borrower"), 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.

Beginning on June 23, 2014, each Bondholder 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 $149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of $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 NAV of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder exercises its exchange rights, GEL will give notice to the Borrower, and the Borrower will be required to deliver the requisite number of Gold Shares to the Bondholder.

As security for its obligations under the Bonds, GEL will be required to deposit into a custody account, in quarterly instalments over the fourth and fifth years of the term of the Bonds, the aggregate number of

Gold Shares issuable upon exchange of the Bonds. Pursuant to the terms of the Loan, the Borrower will have to provide such Gold Shares to GEL.

The performance of the Borrower's obligations under the Loan is guaranteed by the Company. This guarantee is secured by first ranking pledge of all of the shares of Mandalay Resources Australia Pty Limited, which owns and operates the Costerfield mine.

GEL 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 $9 million or less principal amount of the Bonds remains outstanding.

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

The maturity date of the Loan is May 13, 2019. However, because the Bondholders have the right to exercise their exchange rights any time after June 23, 2014 (which would trigger a requirement for GEL to exercise its parallel exchange rights under the Loan), the Company has classified the Loan balance as a current liability. IFRS requires that the Company ignore the probability that holders will elect to convert in the next 12 months, even if the Company assesses such probability as remote. However, if holders did elect to convert the debt as of March 31, 2016, the Company would realize a gain of $9.3 million and the holders of the debt would realize a loss of $12.3 million based on the principal value of $60 million.

For clarity, Company has provided some examples below to further explain the details of the exchangeable bond agreement, all of which exclude the interest that is payable on the principal until the date of redemption or maturity at the rate of 5.875%:

i) If all the bondholders exercised their right to redeem on March 31, 2016, assuming a gold price of $1,237/oz (which is equivalent to US$117.64 per Gold Share), then the repayment cost to the Company would be approximately $47.7 million.

   $60 million ÷ $1,556/oz × $1,237 = $47.7 million

ii) The repayment cost to the Company to repay the loan on maturity will be minimum $60 million.

iii) If the average price of gold during the escrow period is $1,700/oz (which is equivalent to US$ 161.67 per Gold Share) then repayment cost to the Company will be $65.6 million.

   $60 million ÷ $1,556/oz × $1,700 = $65.6 million

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

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

1.10 CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

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

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

Inventories

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

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

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

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

Property, plant and equipment

Exploration and Evaluation

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

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

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

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

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

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

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

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

- a significant utilization rate of plant capacity has been achieved;
- a significant portion of available funding is directed towards operating activities;
- a pre-determined, reasonable period of time of stable operation has passed; and

- a development project significant to the primary business objective of the Company has been completed and significant milestones have been achieved.

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

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

Site closure and reclamation cost obligations

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

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.11FINANCIAL INSTRUMENTS

General

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

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at March 31, 2016, the Company had no past overdue trade receivables.

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

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

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

Hedging Activities

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

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

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

1.12 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. During the fourth quarter of 2011, the Company finished implementing Sage AccPac Enterprise Resource Planning (ERP) software to strengthen internal control and reporting. Sage AccPac implementation combined with improvements in the monthly close process provides information to the senior management for appropriate decision making.

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the quarter ended March 31, 2016. The Company's controls include policies and procedures that:

- relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

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

The Company appointed KPMG to conduct an internal audit review in 2011. This is designed to further identify the gaps in internal control procedures and help create internal policy documents as necessary.

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

<table>
<tr><th>Internal control weakness</th><th>Potential impact of the weakness on the issuer's financial reporting and its ICFR</th><th>Current plan or actions being undertaken for remediating the potential material weakness</th></tr>
<tr><td>Review of process and activities</td><td>Inaccuracy and possible fraud</td><td rowspan="2">Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year. During 2015, the following internal audit activities were completed:

• Health and safety management system;
• Marketing of concentrates (compliance);
• Preventative maintenance system;
• Cost management and core financial controls; and
• Environmental management

The areas proposed to be covered during 2016 internal audit are related to the following broad categories:
• Contracts compliance; and
• Mine disaster plans.</td></tr>
<tr><td>Documentation</td><td>Audit trail and completeness</td></tr>
</table>

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.

1.13 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 416,131,978 common shares issued and outstanding. The weighted average number of shares outstanding during the first quarter used for the calculation of per share results was 411,278,499.

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

Exercise Price CND$	As of March 31, 2016	As of May 11, 2016	Expiry Date
0.91	5,463,000	5,463,000	23 March, 2021
0.91	4,580,000	4,580,000	24 March, 2020
0.93	40,000	40,000	06 November, 2019
0.98	4,045,000	4,045,000	24 March, 2019
1.13	3,542,500	3,542,500	18 March, 2018
0.83	3,347,500	3,347,500	09 March, 2017
0.70	250,000	250,000	02 December, 2016
0.58	70,000	0	11 April, 2016
Total	**21,338,000**	**21,268,000**	

During the quarter ended March 31, 2016, 3,037,500 options were exercised. There were 21,338,000 options outstanding as of March 31, 2016, which could result in issuance of shares.

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

1.14 QUALIFIED PERSONS

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

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

1.15 FORWARD LOOKING STATEMENTS

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

1.16 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 earnings before interest, taxes, non-cash charges/ (income) and finance costs. Refer to page 13 for a reconciliation between adjusted EBITDA and net income.

2. *Income after tax from underlying operations* - The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 15-16 for reconciliation between income from underlying operations and income from operations.

3. *Operating net income/(loss) after tax* - The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs. Refer to pages 18, 20 and 23 for reconciliation between operating net income after tax and net income after tax.

4. *Adjusted net income* - 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 13 for reconciliation between adjusted net income and net income.

5. *Cash cost per ounce of saleable gold equivalent produced* - 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. The total cash operating cost associated with the production of these saleable equivalent ounces produced in the period is then divided by the saleable equivalent gold ounces produced to yield the cash cost per saleable equivalent ounce produced. The cash cost excludes royalty expenses.

6. *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. Saleable 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. The site all-in cost is then divided by the saleable equivalent gold ounces produced to yield the site all-in cost per saleable equivalent ounce produced.

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

8. *Site all-in cost per ounce of saleable silver produced net of gold byproduct credit* - The site all-in cost per saleable silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, accretion, depletion, depreciation and amortization to cash cost net of gold byproduct credit as calculated in note 7 above and dividing the resultant number by the saleable silver ounces produced in the period.

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