

Consolidated financial statements of

Mandalay Resources Corporation

December 31, 2016 and 2015

Mandalay Resources Corporation

December 31, 2016 and 2015

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Independent auditors' report

To the Shareholders of
Mandalay Resources Corporation

We have audited the accompanying consolidated financial statements of **Mandalay Resources Corporation**, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of (loss) income and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Mandalay Resources Corporation** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
February 15, 2017

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants



Mandalay Resources Corporation

Consolidated statements of (loss) income and comprehensive loss

Years ended December 31, 2016 and 2015

(Expressed in U.S. dollars)

	Year ended	
	December 31,	
	2016	2015
	(\$'000)	(\$'000)
Revenue	185,543	194,500
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note 14)	125,554	117,092
Depletion and depreciation	40,027	42,119
	165,581	159,211
Income from mine operations	19,962	35,289
Expenses		
Administration (Note 15)	9,124	9,419
Write-off of mining interests and impairment (Note 5)	14,179	-
Write-off of exploration and evaluation (Note 5)	3,746	2,841
Share-based compensation (Note 12(b))	905	876
Loss on disposal of property, plant and equipment	635	221
	28,589	13,357
(Loss) income from operations	(8,627)	21,932
Other income (expenses)		
Finance costs (Note 16)	(5,693)	(5,539)
(Loss) gain on financial instruments (Note 17)	(262)	1,531
Interest and other income	337	519
Foreign exchange (loss) gain	(943)	3,960
	(6,561)	471
(Loss) income before income taxes	(15,188)	22,403
Income tax expense (Note 13)		
Current	123	4,677
Deferred	4,922	3,061
Income tax expense	5,045	7,738
Net (loss) income for the year	(20,233)	14,665
Other comprehensive loss, net of tax		
Foreign currency translation	(4,735)	(15,541)
Comprehensive loss for the year	(24,968)	(876)
Net (loss) income per share		
Basic	(0.05)	0.04
Diluted	(0.05)	0.04
Weighted average number of common shares outstanding (Note 18)		
Basic ('000)	430,151	409,504
Diluted ('000)	430,151	411,221

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of financial position

As at December 31, 2016 and 2015

(Expressed in U.S. dollars)

	December 31,	
	2016	2015
	(\$'000)	(\$'000)
Assets		
Current assets		
Cash and cash equivalents	66,917	49,199
Trade receivables and other assets (Note 3)	26,226	21,956
Inventories (Note 4)	25,207	27,628
Prepaid expenses	3,713	1,983
Assets held for sale (Note 23)	31,382	-
	153,445	100,766
Non-current assets		
Reclamation and other deposits	5,146	25,423
Trade and other receivables (Note 3)	1,884	1,637
Property, plant and equipment (Note 5)	188,818	212,842
Intangible asset (Note 6)	305	799
Deferred tax asset (Note 13)	634	5,106
	196,787	245,807
	350,232	346,573
Liabilities		
Current liabilities		
Trade and other payables (Note 7)	23,133	18,820
Borrowings (Note 8)	1,303	1,063
Five-year exchangeable loan (Note 9)	56,424	54,960
Income taxes payable	3,570	4,408
Other provisions (Note 11)	2,603	2,250
Financial instruments (Note 17)	1,072	740
Liabilities associated with assets held for sale (Note 23)	21,554	-
	109,659	82,241
Non-current liabilities		
Borrowings (Note 8)	1,263	1,875
Reclamation and site closure costs provision (Note 10)	23,391	41,999
Other provisions (Note 11)	1,146	714
Deferred tax liability (Note 13)	11,736	12,050
	37,536	56,638
	147,195	138,879
Equity		
Share capital (Note 12)	191,819	158,979
Share option reserve (Note 12)	8,854	9,510
Foreign currency translation reserve	(37,529)	(32,794)
Retained earnings	39,893	71,999
	203,037	207,694
	350,232	346,573

Approved by the Board of Directors and authorized for issue on February 15, 2017.

(Signed) Mark Sander

Mark Sander, President and Chief Executive Officer

(Signed) Robert Doyle

Robert Doyle, Director

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Consolidated statements of changes in equity

Year ended December 31, 2016 and 2015

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

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance, December 31, 2014	408,758	158,170	8,896	(17,253)	70,205	220,018
Net income	-	-	-	-	14,665	14,665
Other comprehensive income (loss) for the year	-	-	-	(15,541)	-	(15,541)
Total comprehensive income (loss)	-	-	-	(15,541)	14,665	(876)
Stock options exercised (Note 12(c))	1,552	779	(315)	-	-	464
Share-based compensation (Note 12(b))	-	-	959	-	-	959
Redemption of RSUs (Note 12(d))	110	30	(30)	-	-	-
Dividends paid (Note 12(e))	-	-	-	-	(12,871)	(12,871)
Balance, December 31, 2015	410,420	158,979	9,510	(32,794)	71,999	207,694
Net loss	-	-	-	-	(20,233)	(20,233)
Other comprehensive loss for the year	-	-	-	(4,735)	-	(4,735)
Total comprehensive loss	-	-	-	(4,735)	(20,233)	(24,968)
Shares issued (Note 12(a))	36,415	29,378	-	-	-	29,378
Share-based compensation (Note 12(b))	-	-	867	-	-	867
Stock options exercised (Note 12(c))	4,123	3,314	(1,375)	-	-	1,939
Redemption of RSU (Note 12(d))	216	148	(148)	-	-	-
Dividends paid (Note 12(e))	-	-	-	-	(11,873)	(11,873)
Balance, December 31, 2016	451,174	191,819	8,854	(37,529)	39,893	203,037

See accompanying notes to the consolidated interim financial statements

Mandalay Resources Corporation

Consolidated statements of cash flows

for the year ended December 31, 2016 and 2015

(Expressed in U.S. dollars)

	Year ended December 31,	
	2016	2015
	(\$'000)	(\$'000)
Operating activities		
Net (loss) income	(20,233)	14,665
Adjustments to reconcile net income to net cash flows from operating activities		
Amortization of intangible asset	492	550
Depletion and depreciation	40,027	42,133
Share-based compensation (Note 12(b))	905	876
Loss on disposal of property, plant and equipment	635	221
Write-off of mining interest and impairment (Note 5)	14,179	-
Write-off of exploration and evaluation (Note 5)	3,746	2,841
Finance cost (Note 16)	5,693	5,539
Unrealized gain on derivative financial instruments (Note 17)	262	(1,531)
Interest and other income	(337)	(519)
Foreign exchange gain	(450)	(3,455)
Income tax expense (income) (Note 19)	5,045	7,738
Changes in non-cash operating working capital items		
Trade and other receivables	(2,860)	3,773
Inventories	1,589	(1,305)
Prepaid and other expenses	(2,187)	18
Trade and other payables	6,076	1,349
Provisions	1,075	528
Cash generated from operations	53,657	73,421
Income taxes paid	(2,871)	(3,737)
Interest and other income received	337	519
Interest and bank charges paid	(3,825)	(3,848)
Net cash flows from operating activities	47,298	66,355
Investing activities		
Payment on deposits	(294)	(809)
Payment for cancellation of royalty contract (Note 5)	(4,000)	-
Expenditure for property, plant and equipment	(42,348)	(50,552)
Proceeds on disposal of property, plant and equipment	1,082	192
Payment for intangible asset	-	(1,046)
Net cash flows from investing activities	(45,560)	(52,215)
Financing activities		
Proceeds from borrowings	908	2,226
Repayments of borrowings	(1,052)	(1,851)
Issuance of common shares for cash	31,459	464
Cost for issue of common shares (Note 12(a))	(1,859)	-
Dividends paid (Note 12(e))	(11,873)	(12,871)
Net cash flows used in financing activities	17,583	(12,032)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(1,603)	(1,913)
Increase in cash and cash equivalents	17,718	195
Cash and cash equivalents, beginning of the year	49,199	49,004
Cash and cash equivalents, end of year	66,917	49,199
Cash and cash equivalents consist of		
Cash	66,917	49,199
Cash equivalents	-	-
	66,917	49,199

See accompanying notes to the consolidated financial statements

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

1. Description of business and nature of operations

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

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

2. Summary of significant accounting policies

These consolidated financial statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for the year ended December 31, 2016, using the significant accounting policies outlined below.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

(a) Basis of consolidation

The consolidated financial statements of the Company include the results of entities (including structured entities) controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

Income or loss and each component of comprehensive income or loss are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income or loss of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company have been eliminated in full on consolidation.

The principal subsidiaries of the Company as at December 31, 2016 and 2015 are as follows:

Subsidiary	Interest	Interest
	2016	2015
	%	%
Mandalay Resources Australia Pty Ltd. ¹	100	100
Compania Minera Cerro Bayo Ltda ²	100	100
Björkdalsgruvan AB. ³	100	100
Mandalay Resources Finance Limited ⁴	100	100

¹ Mandalay Resources Australia Pty Ltd. ("MRA") owns the Costerfield gold and antimony mine in Australia.

² Compania Minera Cerro Bayo Ltda ("Cerro Bayo") owns the Cerro Bayo silver and gold mine and exploration projects in Chile.

³ Mandalay Elgin Holdings Inc ("Elgin") acquired Elgin Mining Inc. Elgin Mining Inc. was acquired on September 9, 2014. Elgin owns the Björkdal gold mine in Sweden through its subsidiary, Björkdalsgruvan AB ("Björkdal"), and exploration projects in Canada.

⁴ Mandalay Resources Finance Limited ("MND Finance") was incorporated in the Cayman Islands, MND Finance borrowed \$60 million from Gold Exchangeable Limited at an interest rate of 5.875 percent (see note 9).

(b) Functional currency and foreign currency transactions

The Company's functional currency is the Canadian dollar as this is the principal currency of the economic environment in which it operates. The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in the countries that it operates in, and sources of debt and equity financing.

MRA, Cerro Bayo and Björkdal have functional currencies of the Australian dollar, U.S. dollar and Swedish krona, respectively.

Transactions in foreign currencies are initially recorded in the respective entity's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. The translation gain/loss is recognized in the consolidated statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. On consolidation, each respective entity's financial statements are translated into the presentation currency as outlined below.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(b) *Functional currency and foreign currency transactions (continued)*

The consolidated financial statements are presented in U.S. dollars. For presentation purposes, the assets and liabilities of the Company and its subsidiaries, including fair value adjustments arising on acquisition, are translated into U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into U.S. dollars at the average exchange rate for the period in which the transaction arose. Exchange differences arising are recognized as a separate component of equity titled "foreign currency translation reserve". The consolidated financial statements have been presented in a currency other than the parent's functional currency as management has determined that the U.S. dollar is the common currency in which the Company's peers, being multi-jurisdictional mining companies, present their financial statements.

(c) *Business combinations*

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in income or loss as incurred (unless they related to issue of debt/equity instruments).

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant international financial reporting standards. Changes in the fair value of contingent consideration classified as equity are not recognized.

Goodwill, if any, arising in a business combination is recognized as an asset at the date that control is acquired (the "acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree, if any, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, if any, the excess is recognized immediately in income or loss as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(d) *Cash and cash equivalents*

The Company considers all the closing balances at bank and of highly liquid investments with remaining maturities of three months or less at the date of acquisition to be cash equivalents.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(e) *Inventories*

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

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

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

(f) *Property, plant and equipment*

(i) Exploration and evaluation

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

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

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

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

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

(ii) Mining interests

Mining interests represent capitalized expenditures related to the development of mining properties, acquisition costs, capitalized borrowing costs (Note 2(h)), expenditures related to exploration and evaluation transferred in and estimated site closure and reclamation costs.

Capitalized costs are depleted over the estimated economic life of the mine using the method as explained in depletion and depreciation (Note 2(f)(iv)) below.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(f) *Property, plant and equipment (continued)*

(iii) Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation, depletion 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. Any remaining book value associated with the component being replaced is derecognized upon its replacement. Directly attributable costs 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.

(iv) Depletion and depreciation

Depletion

Mining interests are depleted to estimated residual value using the unit-of-production method based on the estimated total saleable metal ounces contained in a life of mine plan that includes Proven and Probable Reserves as well as any Measured, Indicated and Inferred Resources that are not yet converted to Reserves but that Management believes are highly likely to be converted to Reserves and eventually mined. It can also include mineralization for which there is direct drilling evidence, although not yet in sufficient abundance to support an estimation of Inferred Resources, but that Management believes is highly likely to be drilled on close spacing to eventually be converted to Proven and Probable Reserves.

Commercial production is considered to be commenced when operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a pre-determined period of time and there are indicators that these operating results can 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.

Depreciation

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 over their estimated useful lives, if shorter than the mine life, otherwise they are depleted on the unit-of-production basis, as outlined above.

Plant and equipment include building, plant and equipment, vehicles, furniture and fixtures and computer equipment and their estimated useful lives range from 2.5 years to 10 years.

Assets under construction are depreciated when they are complete and available for their intended use over their estimated useful lives.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(g) *Impairment of non-financial assets*

The Company reviews and evaluates its property, plant and equipment for indicators of impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable or at least at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in income or loss.

An impairment loss is reversed if there is an indication that there has been a change in the original conditions that resulted in the impairment being recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(h) *Borrowing costs*

Borrowing costs related to the costs of developing mining properties and constructing new facilities are capitalized and included in the carrying amounts of the related assets until mining properties reach commercial production and facilities are ready for their intended use.

The amount of borrowing costs capitalized (before effects of income tax) during the year is determined by applying the interest rate applicable to appropriate borrowings outstanding during the year to the average amount of capitalized expenditures for the qualifying assets during the year. Where any borrowing costs are incurred specifically in relation to a qualifying asset, they are allocated directly to the asset to which they relate and are excluded from the aforementioned calculation.

All other borrowing costs are recognized in income or loss in the period in which they are incurred.

(i) *Intangible assets*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with infinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(j) *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 the 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 or the discount rate. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(j) Site closure and reclamation cost obligations (continued)

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

Costs of site closure and reclamation 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 the mine.

(k) 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 consolidated financial statements and the corresponding tax bases used in the computation of taxable income and on the carry forward of tax losses and tax credits. Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that affects neither accounting nor taxable income at the time of the transaction. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

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 income 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 income 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 recognized as an expense or recovery in income or loss, except when they relate to items that are recognized outside of income or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside income 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.

Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the consolidated statements of financial position. Deferred tax assets, including those arising from unutilized tax losses, require the Company to assess the likelihood that the group will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Judgment is also required about the application of existing tax laws in each jurisdiction.

Assumptions about the generation of future taxable income depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditures, dividends and other capital management transactions).

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(k) *Income taxes (continued)*

To the extent that future cash flows and taxable income differ significantly from these estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(l) *Employee benefits*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and it is capable of being measured reliably. Liabilities recognized in respect of employee benefits due to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not due to be settled within one year are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

(m) *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 predetermined future date based on the market price at that time. Revenue on these sales is initially recognized (when the above criteria are met) at the current market price. Provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark to market adjustment is recognized in revenue.

(n) *Share-based payments*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 12(c).

The fair value determined using a valuation technique (e.g., Black-Scholes option pricing model) at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in income or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(n) *Share-based payments (continued)*

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes option pricing model, further details of which are given in Note 12(c). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in share-based compensation.

(o) *Financial assets*

Financial assets are classified into one of four categories:

- fair value through profit or loss ("FVTPL");
- held-to-maturity ("HTM");
- available for sale ("AFS"); and
- loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in income or loss. Transaction costs are expensed when incurred. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

(ii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM.

(iii) AFS financial assets

AFS financial assets are initially recognized at fair value. Subsequently, gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in other comprehensive income. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is included in income or loss for the year. The fair value of AFS monetary assets denominated in a foreign currency is translated at the spot rate at the consolidated statement of financial position dates. The change in fair value attributable to translation differences on amortized cost of the asset is recognized in income or loss, while other changes are recognized in equity. The Company does not have any assets classified as AFS.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(o) *Financial assets (continued)*

(iv) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at year end. Bad debts are written off during the period in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(v) Effective interest rate method

The effective interest rate method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for financial instruments other than those financial assets classified as FVTPL.

(vi) Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had the impairment not been recognized.

(vii) Derecognition of financial assets

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- if the Company transfers the financial asset and substantially all of the risks and rewards of ownership to another entity.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(p) *Financial liabilities or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(i) Other financial liabilities

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

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

(ii) Financial Liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

(iii) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire.

(q) *Loss per share*

Basic loss per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options.

The number of additional shares is calculated by assuming that outstanding dilutive stock options were exercised and that the proceeds from such exercise (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting period.

(r) *Provisions*

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(s) Fair value measures

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the group determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(t) Critical judgments and accounting estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Following are the items involving significant judgments:

- determination of functional currency (Note 2(b));
- recoverability of deferred tax assets (Notes 2(k) and 13); and
- indicator of impairment (Notes 2(g) and 5).

Following are the items involving significant estimates:

- measurement of revenue and accounts receivable (Notes 2(m) and 3);
- fair value of financial instruments (Notes 2(s) and 22);
- the fair value of assets held for sale and liabilities associated with assets held for sale (Note 23);
- reserve estimates (see below);
- the anticipated cost of reclamation and closure cost obligations (Notes 2(j) and 10); and
- unit-of-production depreciation (Notes 2(f)(iv) and 5).

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 depletion, 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 updated.

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(t) *Critical judgments and accounting estimates (continued)*

Estimated recoverable saleable metal ounces contained in the life of mine plan are used in determining the depreciation and/or amortization of mine-specific assets. This results in a depreciation charge proportional to the depletion of the anticipated remaining life-of-mine production. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the unit of production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on economically recoverable reserves, or if future capital expenditure estimates change. Changes to economically recoverable reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on economically recoverable reserves of differences between actual commodity prices and commodity price assumptions.
- Unforeseen operational issues.
- New exploration information.
- Sustained rise or fall in operating costs.

Changes in estimates are accounted for prospectively.

(u) *New accounting pronouncements*

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

Effective January 1, 2016, the Company adopted new and revised IFRS standards that were issued by the IASB. The application of the following standards has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests*
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Annual Improvements Cycle - 2012-2014
- Amendments to IAS 1, *Disclosure Initiative*
- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment Entities: Applying the Consolidation Exception*

(b) Accounting standards issued but not yet effective

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

Mandalay Resources Corporation

Notes to the consolidated financial statements

as at December 31, 2016 and 2015

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

2. Summary of significant accounting policies (continued)

(u) *New accounting pronouncements (continued)*

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

(i) IFRS 9, *Financial Instruments*

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory

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

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

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

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

(iii) IFRS 16, *Leases*

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

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after January 1 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

Mandalay Resources Corporation

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3. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	December 31, 2016 (\$'000)	December 31, 2015 (\$'000)
Trade receivables	18,628	16,045
VAT and other indirect tax receivables	7,537	5,394
Other receivables	1,684	2,039
Marketable securities	261	115
	28,110	23,593
Less: non-current portion	1,884	1,637
Total current portion	26,226	21,956

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

4. Inventories

Inventories consist of the following:

	2016 (\$'000)	2015 (\$'000)
Finished goods	8,722	11,552
Work in progress and stockpiled ore	5,533	5,779
Consumables	10,952	10,297
	25,207	27,628

The amount of inventories recognized in cost of operations for the year ended December 31, 2016 is \$165,581,000 (2015 – \$159,211,000).

The Company did not recognise a write-down of any type of inventory as at December 31, 2016 (2015 – \$nil).

Mandalay Resources Corporation

Notes to the consolidated financial statements

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5. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total	
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others		
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost													
As at January 1, 2015	55,515	55,414	43,490	27,062	42,637	13,091	3,071	7,256	4,300	14,047	41,830		307,713
Acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-
Additions	8,039	10,918	9,131	6,079	5,932	4,058	77	2,434	608	3,461	3,784		54,521
Disposals	-	-	-	(791)	-	-	(82)	-	-	-	-	-	(873)
Reclassification to mining interest	1,371	2,308	2,474	-	(767)	-	-	(1,371)	(1,541)	(2,474)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	-	-	(89)	(427)	(2,264)	-	(2,780)
Foreign exchange	(5,349)	-	(3,687)	(3,230)	-	(1,105)	(138)	(775)	-	(690)	136		(14,838)
As at December 31, 2015	59,576	68,640	51,408	29,120	47,802	16,044	2,928	7,544	3,278	13,917	43,486		343,743
Additions	-	14,390	11,818	3,389	3,296	4,879	206	4,551	2,626	1,947	4,370		51,472
Disposals	-	-	-	(3,124)	-	(50)	(232)	-	-	-	(186)		(3,592)
Reclassification to mining interest	5,763	1,024	-	-	-	-	-	(5,763)	(1,024)	-	-		-
Transferred to Asset held for sale	-	-	-	-	-	-	(2,644)	-	-	-	(6,726)		(9,370)
Write-off of mining interest	-	(14,179)	-	-	-	-	-	-	-	-	-		(14,179)
Write-off of exploration and evaluation	-	-	-	-	-	-	-	(491)	(3,066)	(189)	-		(3,746)
Foreign exchange	(571)	-	(4,184)	(235)	-	(1,377)	31	14	-	(639)	(64)		(7,025)
As at December 31, 2016	64,768	69,875	59,042	29,150	51,098	19,496	289	5,855	1,814	15,036	40,880		357,303
Accumulated depreciation													
As at January 1, 2015	27,925	31,756	1,532	6,273	23,168	1,131	290	-	-	-	-		92,075
Expense	10,965	11,178	7,057	3,364	7,138	3,442	139	-	-	-	-		43,283
Disposals	-	-	-	(496)	-	-	-	-	-	-	-		(496)
Foreign exchange	(2,914)	-	(110)	(835)	-	(80)	(22)	-	-	-	-		(3,961)
As at December 31, 2015	35,976	42,934	8,479	8,306	30,306	4,493	407	-	-	-	-		130,901
Expense	8,559	8,508	8,185	5,802	6,720	3,234	58	-	-	-	-		41,066
Disposals	-	-	-	(1,690)	-	-	-	-	-	-	-		(1,690)
Foreign exchange	(408)	-	(696)	(182)	-	(510)	4	-	-	-	-		(1,792)
As at December 31, 2016	44,127	51,442	15,968	12,236	37,026	7,217	469	-	-	-	-		168,485
Carrying value													
As at January 1, 2015	27,590	23,658	41,958	20,789	19,469	11,960	2,781	7,256	4,300	14,047	41,830		215,638
As at December 31, 2015	23,600	25,706	42,929	20,814	17,496	11,551	2,521	7,544	3,278	13,917	43,486		212,842
As at December 31, 2016	20,641	18,433	43,074	16,914	14,072	12,279	(180)	5,855	1,814	15,036	40,880		188,818

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5. Property, plant and equipment (continued)

In connection with Mandalay's acquisition of Cerro Bayo from Coeur Mining, Inc. ("Coeur Mining"), Coeur Mining received a 2% Net Smelter Royalty interest in production at Cerro Bayo. On March 31, 2016, the Company repurchased and cancelled the royalty from Coeur Mining in exchange for consideration consisting of \$4,000,000 cash and 2,500,000 common shares of the Company with a value of \$1,717,000 at that date. Additions in mining interests of Cerro Bayo for the year ended December 31, 2016 includes \$5,717,000 related to the cancelled royalty.

For the year ended December 31, 2016, plant and equipment depreciation for Cerro Bayo of \$796,000 (2015 – \$880,000), for Costerfield of \$nil (2015 – \$44,000) and for Björkdal of \$240,000 (2015 – \$229,000) was capitalized in mining interests.

As part of our review of indicators of impairment, the Company determined that the reduction in reserves at Cerro Bayo was an indicator of impairment for the Cerro Bayo cash generating unit. The Company calculated the recoverable amount based on fair value less cost to sell and determined that the recoverable amount was in below the carrying value and as a result the Company recognized an impairment of \$10,000,000 for the Cerro Bayo cash generating unit. The key assumptions in determining the recoverable amount were a long-term gold price of \$1,275 per ounce and long term silver price of \$18.50 per ounce and a discount rate of 7% after tax.

The remaining \$4,179,000 related to the write-off of residual mining interests in the Fabiola, Yasna and Dagny veins at Cerro Bayo due to the fact there were no additional accessible reserves in those veins.

For the year ended December 31, 2016, the Company decided not to pursue certain exploration projects and recorded a write-off of \$491,000 at Costerfield, \$3,066,000 for Cerro Bayo and \$189,000 for Björkdal.

(a) *Exploration and evaluation – others*

(i) Challacollo

As at December 31, 2016, a suitable source of water has yet to be developed. However, in January, 2017, the Company received permission to explore and develop a source of water on concessions it controls about 30 kilometres from the deposit that are highly prospective for hosting the required water. The Company is preparing to drill water exploration holes on the concessions: if and when successful, optimization and refinement of the water supply and usage strategy will be incorporated into the operational plan.

(ii) La Quebrada

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.

As at December 31, 2016, the Company concluded that there were no impairment indicators at this property. As part of the annual impairment review in 2015, 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 \$2,264,000 which was recognized in the consolidated statements of loss and comprehensive loss. The key assumptions in the valuation of La Quebrada was a long-term copper price of \$3.00/lb and a discount rate of 8.8% after tax.

(iii) Ulu and Lupin

The Ulu and Lupin gold projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently classified as non-core assets (Note 23).

Mandalay Resources Corporation

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5. Property, plant and equipment (continued)

(b) Royalties

(i) Costerfield

The Company is required to pay a 2.75% NSR to the government in Australia. During the year ended December 31, 2016, the Company paid NSR in the amount of \$577,000 (2015 – \$740,000) which is recorded as part of cost of sales.

(ii) Cerro Bayo

Until March 31, 2016, the Company was required to pay to the former owner a 2% NSR. The Company purchased the royalty from the former owner on March 31, 2016 for total consideration consisting of \$4,000,000 and 2,500,000 common shares of the Company. The Company no longer has any royalty obligations with respect to Cerro Bayo. During the year ended December 31, 2016, the Company paid NSR in the amount of \$292,000 (2015 – \$1,309,000) which is recorded as part of cost of sales.

(iii) Björkdal

The Company is required to pay NSR of 0.2% of the average gold price of the production, one fourth of that amount is to be paid to the government and the rest to the owners of the land. During the year ended December 31, 2016, the Company paid NSR in the amount of \$53,400 (2015 – \$44,000) which is recorded as part of cost of sales.

6. Intangible asset

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

In June, 2012, the Company reached an agreement with its union workers in Chile and paid a lump-sum cash payment of \$1,414,000 to secure the contract. This payment was amortized over the contractual life of the union agreement (three years), and therefore was fully amortized as at June 30, 2015.

As at December 31, 2016, the carrying amount of the intangible asset is \$305,000, which relates to the 2015 agreement (2015 – \$799,000). In 2016, amortization of \$492,000 (2015 – \$497,000) was recorded as part of cost of sales.

7. Trade and other payables

	2016	2015
	(\$'000)	(\$'000)
Trade payables	13,069	9,365
Accrued liabilities	6,265	5,986
Payroll and other taxes payable	2,780	3,227
Cash election option (Note 12(c))	36	12
Mark-to-market adjustment	983	230
	23,133	18,820

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

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7. Trade and other payables (continued)

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract.

As at December 31, 2016, there was \$983,000 in mark-to-market adjustments recorded in trade and other payables (2015 – \$230,000).

8. Borrowings

Equipment loans

As at December 31, 2016, the Company's Björkdal mine in Sweden had a balance of \$1,176,000 (2015 – \$1,205,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the three-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 15 months from the year ended December 31, 2016. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling \$1,390,000 (2015 – \$1,733,000). These leases financed 80% of the equipment purchase cost, bear interest at the one-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments, with the final lease payment falling due 34 months from the year ended December 31, 2016. The leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost.

As at December 31, 2016, the current portion of the above facilities is \$1,303,000 (2015 – \$1,063,000) and the non-current portion is \$1,263,000 (2015 – \$1,875,000).

Future minimum payments under the equipment loans as at December 31, 2016 and 2015 are as follows:

	2016		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Principal repayments of equipment loans	588	588	1,176
Minimum future lease payments for equipment leases	715	675	1,390
	1,303	1,263	2,566
Interest portion on lease payments for equipment leases	38	28	66
Total borrowings, including interest portion	1,341	1,291	2,632

	2015		
	Less than 1 year	Between 1- 4 years	Total
	(\$'000)	(\$'000)	(\$'000)
Principal repayments of equipment loans	542	663	1,205
Minimum future lease payments for equipment leases	521	1,212	1,733
	1,063	1,875	2,938
Interest portion on lease payments for equipment leases	43	47	90
Total borrowings, including interest portion	1,106	1,922	3,028

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9. Five-year exchangeable loan

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

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

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

Starting on May 14, 2017, the Company is required to start depositing, on a quarterly basis, Gold Shares into a depositary account maintained by The Bank of New York Mellon, London Branch. The depositary account serves as security for the Issuer's obligations to the Bond holders. The maturity date of this loan is May 13, 2019.

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

$$DSI = (1 / A) \times ((B / C) - D)$$

Where:

"DSI" is the number of Gold Shares to be registered in the custody account on the relevant instalment date;

"A" is the number of instalment dates remaining (including the relevant instalment date);

"B" is the aggregate principal amount of the Bonds outstanding as at the relevant instalment date;

"C" is the then prevailing exchange price for the Bonds; and "D" is the number of Gold Shares that are held in the custody account immediately before the relevant instalment date.

The Issuer may redeem the Bonds at its option:

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

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

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount of the Loan as a current liability, determined using the effective interest rate method, in the consolidated statements of financial position of the Company as at December 31, 2016 and 2015. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (Note 17).

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10. Reclamation and site closure costs

Site closure and reclamation cost obligations arise from the acquisition, development, construction and normal operation from mining property, plant and equipment, due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The Company has future obligations to retire its mining assets including dismantling, remediation and ongoing treatment and monitoring of sites. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future are subject to change, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

The Company's site closure reclamation obligations consist of costs for the mines at Costerfield, Cerro Bayo, Björkdal and Ulu/Lupin. Significant site closure and reclamation activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

Changes to the site closure and reclamation cost balance are as follows:

	(\$'000)
Balance at December 31, 2014	42,721
Expenditure for reclamations	(159)
Change in estimated cash outflows	2,820
Accretion (Note 16)	445
Foreign exchange	(3,828)
Balance at December 31, 2015	41,999
Expenditure for reclamations	-
Change in estimated cash outflows	2,109
Accretion (Note 16)	428
Liabilities associated with assets held for sale (Note 23)	(21,516)
Foreign exchange	371
Balance at December 31, 2016	23,391

At each reporting period the Company reviews cost estimates and other assumptions used in the valuation of reclamation and closure costs to reflect events, changes in circumstances and new information available. Changes in these cost estimates and assumptions have a corresponding impact on the best estimate of the site closure and reclamation obligation costs.

The best estimate of the site closure and reclamation costs is measured by discounting the expected cash flows using a discount factor that reflects a pre-tax rate specific to the liability. The Company prepares estimates of the timing and amount of expected cash flows when site closure and reclamation costs are incurred. Expected cash flows are updated to reflect changes in facts and circumstances. The principal factors that can cause expected cash flows to change are: the construction of new processing facilities; changes in the quantities of material in reserves and a corresponding change in the life-of-mine plan; changing ore characteristics that impact required environmental protection measures and related costs changes in water quality that impact the extent of water treatment required; and changes in laws and regulations governing the protection of the environment. The best estimate of the site closure and reclamation costs is recorded when it is incurred.

The total undiscounted amount of estimated cash flows required to settle the retirement obligations is \$47,383,000 (2015 - \$42,345,000).

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10. Reclamation and site closure costs (continued)

The present value of the site closure and reclamation cost obligations for the Costerfield mine at December 31, 2016 is \$2,850,000 (2015 – \$2,846,000), calculated using a discount rate of 2.3% (2015 – 2.1%). The obligations are expected to be settled by 2021. The regulatory body in Australia requires reclamation deposits from the Company. As at December 31, 2016, the deposit amounted to \$2,776,000 (2015 - \$2,796,000) and is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Cerro Bayo mine as at December 31, 2016 is \$18,026,000 (2015 – \$17,855,000), calculated using a discount rate of 1.3% (2015 – 1.3%). The obligations are expected to be settled by 2021.

The present value of the site closure and reclamation cost obligations for the Björkdal mine as at December 31, 2016 is \$2,514,000 (2015 – \$2,770,000) derived through an independent consultant.

The present value of the site closure and reclamation cost obligations for the Ulu/Lupin mine as at December 31, 2016 is \$21,516,000 (2015 – \$18,689,000), calculated using a discount rate of 0.70% (2015 – 0.73%). The obligations are expected to be settled by the end of 2021. Restricted cash at December 31, 2016 amounting to \$20,634,000 (2015 – \$19,856,000) stands as a deposit against reclamation.

11. Other provisions

	Employee benefits
	(\$'000)
Balance, December 31, 2014	3,229
Additions	2,181
Amounts paid	(2,069)
Foreign exchange	(377)
Balance, December 31, 2015	2,964
Additions	2,722
Amounts paid	(1,947)
Foreign exchange	10
Balance, December 31, 2016	3,749
Less: current portion	2,603
Total non-current portion	1,146

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

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12. Share capital

As at December 31, 2016, the Company had an unlimited number of authorized common shares without par value and 451,174,008 common shares outstanding (2015 – 410,419,979 common shares). All outstanding common shares are fully paid.

(a) Shares issued

For the years ended December 31, 2016 and 2015, the Company issued its common shares upon exercise of share options by their holders. For the year ended December 31, 2016 Company issued 2,500,000 shares to Coeur Mining as part of the purchase of the 2% Net Smelter Return royalty at Cerro Bayo (See Note 5 for detail).

On July 26, 2016, the Company closed a treasury offering (the "Offering") of 33,915,000 common shares at a price of C\$1.15 per common share for aggregate gross proceeds of \$29,529,000 (C\$39,002,250). Transaction costs incurred related to the Offering amounted to \$1,859,000.

(b) Share-based compensation

For the year ended December 31, 2016, the Company recorded \$905,000 (2015 – \$876,000) as net share-based compensation expense and recorded this amount in share option reserve.

	2016	2015
	(\$'000)	(\$'000)
Stock based compensation on options	772	837
Change in Fair value of cash election options	24	(113)
Restricted Share Units amortization	109	152
	905	876

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

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

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

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12. Share capital (continued)

(c) Stock options

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at December 31, 2016, the liability is \$36,000 (2015 - \$12,000).

The Company recognized a fair value measurement loss of \$24,000 for the year ended December 31, 2016 (2015 – gain of \$113,000), which is included in the share-based compensation expense.

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumptions as at December 31, 2016 and 2015. The fair value is determined based on Level 1 and 2 inputs as follows:

	2016	2015
Risk free interest rate	0.75%	0.74%
Expected dividend yield	3.57%	6.30%
Expected life of options in years	2.23	2.23
Expected stock price volatility	42.18%	44.46%
Expected forfeiture rate	0.00%	0.00%

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

	Number of options	Weighted average exercise price
		C\$
Balance, December 31, 2014	16,947,500	0.85
Granted	5,120,000	0.91
Forfeited	(1,595,000)	0.96
Expired	(7,693)	0.26
Exercised	(1,552,307)	0.39
Balance, December 31, 2015	18,912,500	0.89
Granted	5,463,000	0.91
Exercised	(4,123,300)	0.63
Forfeited	(1,010,000)	0.93
Balance, December 31, 2016	19,242,200	0.95

The weighted average share price at the time when the stock options were exercised during the year ended December 31, 2016, was C\$0.99 (2015 – C\$0.87).

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12. Share capital (continued)

(c) Stock options

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

	Options outstanding		Options exercisable		
	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
			C\$		C\$
	2,621,700	0.19	0.83	2,621,700	0.83
	3,502,500	1.22	1.13	3,502,500	1.13
	3,815,000	2.23	0.98	-	-
	20,000	2.85	0.93	-	-
	4,315,000	3.23	0.91	-	-
	4,968,000	4.23	0.91	-	-
	19,242,200	2.51	0.95	6,124,200	1.00

(d) Restricted Share Units

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

The number of RSUs as at December 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	78,435
Redeemed	(215,730)
Outstanding at December 31, 2016	282,177

For the year ended December 31, 2016, the Company recorded \$109,000 (2015 – \$152,000), respectively, as share based compensation relating to RSUs.

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12. Share capital (continued)

(e) Dividends

The Board of Directors has declared dividends on a quarterly basis, based on the Company's quarterly operating results.

The details of the dividends paid are as follows:

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
May 11, 2016	May 24, 2016	0.0094	2,996
August 11, 2016	August 22, 2016	0.0094	3,272
November 02, 2016	November 24, 2016	0.0086	2,890
			11,873
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

13. Income taxes

Income tax expense consists of the following:

	2016	2015
	(\$'000)	(\$'000)
Current tax		
Income tax	123	4,677
Deferred tax		
Origination and reversal of temporary differences	4,802	86
Previously unrecognized tax loss or temporary difference used to reduce current tax expense	120	2,975
	4,922	3,061

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13. Income taxes (continued)

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to income before income taxes. These differences result from the following items:

	2016	2015
	(\$'000)	(\$'000)
(Loss) income before income taxes	(15,188)	22,404
Canadian federal and provincial income tax rates	26.5%	26.5%
Income tax expense based on above rates	(4,025)	5,937
Increase (decrease) due to		
Non-deductible (taxable) expenditures	430	(1,979)
Effect of different foreign tax rates on earnings of subsidiaries	2,395	534
Deferred income asset not recognised	2,650	-
Reduction in carrying amount of deferred income tax asset	4,774	-
Impact of lower tax rates on deferred income taxes	(140)	(52)
Increase (decrease) in unrecognized losses	(692)	423
Others	(347)	2,875
	5,045	7,738

The tax rates used for the 2016 and 2015 reconciliations above are the corporate tax rates applicable to Mandalay in Canadian jurisdictions. The applicable tax rate charged was 26.5% in 2016 and 2015.

The components of deferred income taxes are as follows:

	2016	2015
	(\$'000)	(\$'000)
Deferred tax assets		
Tax losses carried forward	4,760	2,000
Deductible temporary differences and other:		
Reclamation and site closure costs	-	4,605
Provisions and accruals	(1,052)	3,237
Deferred tax assets	3,708	9,842
Deferred tax liabilities		
Property, plant and equipment	(14,810)	(16,786)
Deferred tax asset (liability), net	(11,102)	(6,944)
Deferred tax asset	634	5,106
Deferred tax liability	(11,736)	(12,050)
Deferred tax asset (liability), net	(11,102)	(6,944)

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13. Income taxes (continued)

At December 31, 2016, the Company assessed the carrying amount of the deferred income tax assets to determine if sufficient taxable profit will be available against which they can be utilized. As a result of this assessment, the Company has reduced the carrying amount of the deferred income tax asset by \$4,774,000.

Changes in the Company's net deferred income tax asset (liability) are as follows:

	2016	2015
	(\$'000)	(\$'000)
Opening net deferred tax asset (liability)	(6,944)	(4,607)
Income tax expense charged to earnings during the year	(4,922)	(3,061)
Foreign exchange	764	724
Ending net deferred tax asset (liability)	(11,102)	(6,944)

Deferred tax assets not recognized at the reporting date are summarized as follows:

	2016	2015
	(\$'000)	(\$'000)
Deferred tax assets		
Tax losses carried forward	16,276	14,668
Deductible temporary differences:		
Financing costs	393	-
Other	35	31
Unrecognized deferred tax assets	16,704	14,699

As at December 31, 2016, the Company has Canadian income tax losses of approximately \$63,948,000 (2015 – \$57,884,000) that expire from 2023 through 2036.

14. Cost of sales

The cost of sales for the year ended December 31, 2016 and 2015, consists of:

	2016	2015
	(\$'000)	(\$'000)
Raw materials and consumables	40,778	48,758
Salary and employee benefits	37,078	36,910
Contractors	30,871	16,287
Change in inventories	3,047	(2,536)
Royalty	990	2,006
Other	12,790	15,667
	125,554	117,092

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15. Administration expenses

The administration expenses for the year ended December 31, 2016 and 2015 consists of the following:

	2016	2015
	(\$'000)	(\$'000)
Accounting and legal	1,664	1,568
Administrative and office	4,577	4,312
Salaries	1,477	1,603
Travel and entertainment	906	1,356
Other	500	580
Total	9,124	9,419

Included in cost of sales and administrative expenses and office are the employee salary and benefit expenses of \$37,078,000 and \$4,577,000 respectively (2015 - \$36,910,000 and \$4,312,000).

16. Finance costs

The finance expenses for the year ended December 31, 2016 and 2015 consists of the following:

	2016	2015
	(\$'000)	(\$'000)
Interest on borrowings	301	288
Interest on five year exchangeable bonds (Note 9)	4,964	4,806
Accretion of reclamation and site closure costs (Note 10)	428	445
	5,693	5,539

17. Financial instruments

The changes to the fair values in financial instruments for the year ended December 31, 2016 and 2015 consists of the following:

	2016	2015
	(\$'000)	(\$'000)
Five-year exchangeable bonds (a)	(333)	2,113
Oil derivative (b)	-	(508)
Marketable securities (c)	71	(74)
Total fair value adjustment	(262)	1,531

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17. Financial instruments

(a) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (Note 9) using the Black-Scholes option pricing. For the year ended December 31, 2016, the derivative value of the conversion feature amounts to \$1,072,000 (2015 – \$740,000) and is recorded in current liabilities in the consolidated statements of financial position. The Company recorded a fair value measurement gain/(loss) of \$(333,000) (2015 – 2,113,000) for the year ended December 31, 2016. The value was estimated using the following Level 2 assumptions: risk free interest rate of 1.47% (2015 – 1.39%); volatility of 18% (2015 – 16.4%), gold forward curve adjustment of (-0.16%) (2015 – (0.43%)).

(b) Oil derivative

On March 15, 2014, the Company entered into a crude oil call for a notional amount of 120,000 barrels of crude oil for the period from January 1, 2015, to December 31, 2015, at an exercise price of \$60.50 per barrel. As at December 31, 2016 and 2015, the derivative has expired and therefore had no carrying value.

(c) Marketable securities

The value of securities as at December 31, 2016, is \$261,000 (2015 – \$115,000), recorded in trade A/R and other assets on the consolidated 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/(loss) of \$71,000 (2015 – (\$74,000)) for the year ended December 31, 2016, respectively, using Level 1 assumptions.

18. Income per share

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

	Year ended December 31,	
	2016	2015
	('000)	('000)
Net (loss) income for the year	(20,233)	14,665
Basic weighted average number of shares outstanding	430,151	409,504
Effect of diluted securities :		
Stock options	-	1,318
RSU	-	399
Diluted weighted average number of shares outstanding	430,151	411,221

Since the Company is in a loss this year, all the stock options as well as the RSU's are anti-dilutive. Details for the options and RSU's are below:

	2016	2015
	('000)	('000)
Stock options	19,242	12,208
RSU	282	-

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19. Segmented information

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

	Year ended on December 31, 2016				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	74,864	50,010	60,669	-	185,543
Cost of sales	(40,029)	(39,422)	(46,103)	-	(125,554)
Depletion and depreciation	(14,360)	(14,479)	(11,171)	(17)	(40,027)
Income from mine operations	20,475	(3,891)	3,395	(17)	19,962
Administration expenses	(1,025)	(2,625)	(1,564)	(4,815)	(10,029)
Write-off of exploration and evaluation (Note 5)	(491)	(3,066)	(189)	-	(3,746)
Write-off of mining interest and impairment (Note 5)	-	(14,179)	-	-	(14,179)
Income (loss) from operations	18,959	(23,761)	1,642	(4,832)	(7,992)
Other expense, except for fair value adjustment	(441)	(671)	16	(5,838)	(6,934)
Income (loss) for underlying operations	18,518	(24,432)	1,658	(10,670)	(14,926)
Income for underlying operations per share					
Basic					(\$0.03)
Diluted					(\$0.03)
Fair value adjustments gain (loss) (Note 17)					
Five-year exchangeable bonds (Note 17(a))	-	-	-	(333)	(333)
Marketable Securities (Note 17(c))	-	-	-	71	71
Total fair value adjustment	-	-	-	(262)	(262)
Income (loss) before income taxes	18,518	(24,432)	1,658	(10,932)	(15,188)
Current tax recovery (expense)	(2,678)	2,920	(365)	-	(123)
Deferred tax recovery (expense)	(874)	(4,493)	445	-	(4,922)
Net income (loss)	14,966	(26,005)	1,738	(10,932)	(20,233)
Income per share					
Basic					(\$0.05)
Diluted					(\$0.05)
Cash expenditure for property, plant and equipment	7,944	16,027	18,355	22	42,348
Total non-current assets as at December 31, 2016	46,205	75,521	74,058	1,003	196,787
Total assets as at December 31, 2016	76,840	106,206	94,101	73,085	350,232
Total liabilities as at December 31, 2016	14,828	25,470	26,312	80,585	147,195

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19. Segmented information (continued)

	Year ended on December 31, 2015				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	71,471	71,327	51,702	-	194,500
Cost of sales	(33,099)	(46,320)	(37,673)	-	(117,092)
Depletion and depreciation	(14,286)	(17,493)	(10,245)	(95)	(42,119)
Income (loss) from mine operations	24,086	7,514	3,784	(95)	35,289
Administrative expenses	(1,582)	(3,812)	78	(5,200)	(10,516)
Write-off of exploration and evaluation	-	(708)	(427)	(1,706)	(2,841)
Income (loss) from operations	22,504	2,994	3,435	(7,001)	21,932
Other expense, except for fair value adjustment	(723)	(905)	17	551	(1,060)
Income (loss) for underlying operations	21,781	2,089	3,452	(6,450)	20,872
Income for underlying operations per share					
Basic					\$0.05
Diluted					\$0.05
Oil derivative (Note 17(b))	-	-	-	2,113	2,113
Marketable Securities (Note 17(c))	-	-	-	(74)	(74)
Five-year exchangeable bonds (Note 17(a))	-	-	-	(508)	(508)
Total fair value adjustment	-	-	-	1,531	1,531
Net income (loss) before income taxes	21,781	2,089	3,452	(4,919)	22,403
Current tax expense	(3,036)	(812)	(829)	-	(4,677)
Deferred tax recovery (expense)	(3,679)	(44)	662	-	(3,061)
Net income (loss)	15,066	1,233	3,285	(4,919)	14,665
Income per share					
Basic					\$0.04
Diluted					\$0.04
Cash expenditures for property, plant and equipment	16,167	18,150	16,237	(2)	50,552
Total non-current assets as at December 31, 2015	54,756	90,232	71,324	29,495	245,807
Total assets as at December 31, 2015	75,551	129,605	88,213	53,204	346,573
Total liabilities as at December 31, 2015	13,199	23,566	26,161	75,953	138,879

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19. Segmented information (continued)

For the year ended December 31, 2016, the Company had four customers from whom it earned more than 10% of its total revenue (2015 – five customers).

Revenue from these customers is summarized as follows:

	December 31, 2016	December 31, 2015
	(\$'000)	(\$'000)
Costerfield (gold and antimony)		
Customer 1	52,003	44,131
Customer 2	23,031	26,106
	75,034	70,237
Cerro Bayo (silver and gold)		
Customer 3	26,470	41,081
Customer 4	-	19,500
	26,470	60,581
Björkdal (gold)		
Customer 5	50,864	44,095
	50,864	44,095
Total	152,368	174,913

20. Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

In the management of capital, the Company includes the components of equity, long-term debt, net of cash and cash equivalents.

Capital, as defined above, as at December 31, 2016 and 2015 is summarized in the following table.

	2016	2015
	(\$'000)	(\$'000)
Equity	217,811	207,694
Five-year exchangeable bonds (Note 9)	56,424	54,960
Non - current borrowings	1,263	1,875
	275,498	264,529
Cash and cash equivalents	(66,917)	(49,199)
	208,581	215,330

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or purchase existing shares under Normal Course Issuer Bid arrangements, issue new debt or pay down existing debt, or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budget and quarterly updated forecasts are approved by the Board of Directors.

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

21. Financial risk management

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and commodity price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations.

The Company's financial assets are primarily composed of cash and cash equivalents, trade and other receivables, derivative financial instruments and reclamation and other deposits. Credit risk is primarily associated with trade receivables and investments; however, it also arises on cash and cash equivalents.

To mitigate exposure to credit risk, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable creditworthiness, and to ensure liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company sells its antimony, silver and gold exclusively to large international organizations with strong credit ratings.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold, silver and antimony trade receivables as at December 31, 2016 is not considered to be high.

The Company's maximum exposure to credit risk as at December 31, 2016 and December 31, 2015, is as follows:

	2016	2015
	(\$'000)	(\$'000)
Cash and cash equivalents	66,917	49,199
Trade and other receivables	28,110	23,593
Reclamation and other deposits	5,146	25,423
	100,173	98,215

A significant portion of the Company's cash and cash equivalents is held in large Canadian financial institutions.

(b) Aging of past due but not impaired receivables

The Company receives 90-95% of the estimated sales revenue of gold, silver, and antimony upon delivery. Final selling price is determined approximately 90-180 days after the delivery when smelting is complete. The remaining receivable balance is settled with an adjustment once the final selling price is determined, which may be after 180 days. The Company has financial risk management policies in place to ensure that all receivables are received within the pre-agreed credit terms.

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21. Financial risk management (continued)

(b) Aging of past due but not impaired receivables (continued)

For the year ended December 31, 2016, substantially all of the Company's silver/gold/antimony production was sold to four customers (2015 – five) and there was no significant change in the credit quality of these customers over that time. Below is the information on the aging of the accounts receivable. There are neither past due amounts nor impaired trade receivables as at December 31, 2016 and 2015.

	2016	2015
	(\$'000)	(\$'000)
Less than 6 months	18,628	16,045
6 months or more	-	-
	18,628	16,045

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as outlined in Note 21.

The following are the contractual maturities of commitments. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not necessarily equate to the carrying amounts on the consolidated statements of financial position.

					2016	2015
	Less than			After	Total	Total
	1 year	1-3 years	4-5 years	5 years	(\$'000)	(\$'000)
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Trade and other payables	23,133	-	-	-	23,133	18,820
Five-year exchangeable bonds	60,000	-	-	-	60,000	60,000
Borrowings	1,341	1,291	-	-	2,632	3,028
Current income tax liabilities	3,570	-	-	-	3,570	4,408
	88,044	1,291	-	-	89,335	86,256

In the opinion of management, the working capital of \$43,786,000 as at December 31, 2016, which is the current assets, net of the current liabilities, together with expected positive cash flows from operations, are sufficient to support the Company's normal operating requirements through its current reporting period. However, taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations.

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21. Financial risk management (continued)

(d) Currency risk

The Company operates in Canada, Australia, Chile and Sweden. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars.

(i) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, trade and other receivables, reclamation and other deposits, trade and other payables and borrowings.

(ii) Translation exposure

The Company's presentation currency is U.S. dollars. The Company's foreign operations translate their operating results from their respective functional currency to U.S. dollars. Therefore, exchange rate movements in the Australian dollar, Canadian dollar, Chilean peso and Swedish krona can have a significant impact on the Company's consolidated financial position.

The following tables demonstrate the sensitivity to a reasonably possible change in AUD, SEK and CAD exchange rates, with all other variables held constant. The impact on the Company's profit is due to changes in the fair value of monetary assets and liabilities in place at the balance sheet data. The Company's exposure to foreign currency changes for all other currencies is not material.

	2016		
	Change in USD rate	Effect on profit before tax	Effect on per tax equity
Australia	±5%	(926)	(3,101)
Sweden	±5%	(83)	(3,389)
Canada	±5%	534	375

	2015		
	Change in USD rate	Effect on profit before tax	Effect on per tax equity
Australia	±5%	(1,089)	(3,118)
Sweden	±5%	(173)	(3,103)
Canada	±5%	323	1,137

(e) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate changes is limited as at December 31, 2016 since interest to be paid on the Bonds is fixed at 5.875%, interest on the Equipment Facility of Björkdal bears interest at the three-month STIBOR plus 2.16% per annum and equipment leases of Björkdal bear interest at the one-month STIBOR plus between 2.05%-3.21% per annum.

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21. Financial risk management (continued)

(f) *Commodity price risk*

The Company's income and cash flows are subject to price risk due to fluctuations in the market price of gold, silver, and antimony. World metal prices have historically fluctuated widely. World gold prices are 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 by central banks and other holders;
- demand for jewelry containing gold, and/or silver;
- changes in industrial demand for silver and/or antimony;
- changes in supply of gold, silver, and/or antimony due to new mines being commissioned and existing mines being exhausted; and
- investment activity, including speculation, in gold, silver, and antimony as commodities.

The Company is subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by the prices of materials it consumes or uses in its operations, such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control.

22. Fair value measurement

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

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

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22. Fair value measurement (continued)

At December 31, 2016 and December 31, 2015, the Company's financial assets and liabilities are categorized as follows:

	2016			
	FVTPL	Loans and receivables	Other financial liabilities	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Financial assets				
Cash and cash equivalents	-	66,917	-	66,917
Trade receivables	-	18,628	-	18,628
Other receivables	-	9,221	-	9,221
Reclamation and other deposits	-	25,780	-	25,780
Marketable securities	261	-	-	261
Financial liabilities				
Trade and other payables	1,019	-	22,114	23,133
Five-year exchangeable bonds	-	-	56,424	56,424
Borrowings	-	-	2,566	2,566
Derivative financial instruments	1,072	-	-	1,072
				2015
	FVTPL	Loans and receivables	Other financial liabilities	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Financial assets				
Cash and cash equivalents	-	49,199	-	49,199
Trade receivables	-	16,045	-	16,045
Other receivables	-	7,433	-	7,433
Reclamation and other deposits	-	25,423	-	25,423
Marketable securities	115	-	-	115
Financial liabilities				
Trade and other payables	103	-	18,717	18,820
Five-year exchangeable bonds	-	-	54,960	54,960
Borrowings	-	-	2,938	2,938
Derivative financial instrument	740	-	-	740

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22. Fair value measurement (continued)

At December 31, 2016 and 2015, the carrying values and the fair values of the Company's financial instruments are shown in the following table.

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

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Financial assets				
Cash and cash equivalents	66,917	66,917	49,199	49,199
Trade receivable	18,628	18,628	16,045	16,045
Other receivables	9,221	9,221	7,433	7,433
Reclamation and other deposits	25,780	25,780	25,423	25,423
Marketable securities	261	261	115	115
Financial liabilities				
Trade and other payables	23,133	23,133	18,820	18,820
Five-year exchangeable bonds	56,424	58,928	54,960	53,151
Borrowings	2,566	2,632	2,938	3,039
Derivative financial instruments	1,072	1,072	2,250	2,250

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

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

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23. Assets and liabilities held for sale

On October 31, 2016, Mandalay entered into a definitive agreement with WPC Resources Inc. (TSXV: WPC) ("WPC") pursuant to which WPC has agreed to purchase the Lupin gold mine ("Lupin") and the Ulu ("Ulu") gold project from Mandalay. Following the agreement all the assets related to Lupin and Ulu amounting to \$31,382,000 are classified as held for sale, and Liabilities of \$21,554,000 directly associated with Lupin and Ulu are classified as Liabilities directly associated with assets held for sale.

The following table presents the assets and liabilities of Lupin and Ulu, classified as Assets held for sale and Liabilities directly associated with the assets held for sale in the consolidated balance sheet:

	December 31, 2016 (\$'000)
Assets	
Reclamation deposits and other	20,634
Property, plant and equipment	9,370
Current assets	1,378
Assets held for sale	<u>31,382</u>
Liabilities	
Reclamation and site closure costs	21,516
Other liabilities	38
Liabilities associated with Assets held for sale	<u>21,554</u>

24. Related party transactions

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

Bradford Mills (Executive Chairman of the Company), Mark Sander (Director and President and Chief Executive Officer of the Company) and Sanjay Swarup (Chief Financial Officer of the Company) are also Directors of Plinian Capital. Plinian Capital is a shareholder of the Company. The Company received one-off mining consultancy services from Plinian Capital during the year ended on December 31, 2016.

	2016 (\$'000)	2015 (\$'000)
Salaries and short-term benefits	2,275	2,433
Share-based payments	872	1,129
	<u>3,147</u>	<u>3,562</u>

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24. Related party transactions (continued)

	2016	2015
	(\$'000)	(\$'000)
Administration expenses, salaries and consultancy services		
SKS Business Services	180	139
Plinian Capital	7	-
Total	187	139

25. Commitments and contingencies

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

The Company's Björkdal mine has entered into several equipment leases and the detailed future minimum payments relating to these leases are outlined in Note 8.

26. Subsequent events

On February 15, 2017, the Board of Directors declared a quarterly dividend of \$1.9 million, or \$0.0043 per share (C\$0.0057 per share), payable on March 9, 2017 to shareholders of record as of February 27, 2017.

27. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from the statements previously presented to confirm to the presentation of the 2016 consolidated financial statements.