

Condensed consolidated interim financial statements of

# **Mandalay Resources Corporation**

September 30, 2016  
(Unaudited)

# Mandalay Resources Corporation

September 30, 2016

## Table of contents

Condensed consolidated interim statements of income and other comprehensive income .....	3
Condensed consolidated interim statement of financial position .....	4
Condensed consolidated interim statement of changes in equity .....	5
Condensed consolidated interim statement of cash flows .....	6
Notes to the condensed consolidated interim financial statements .....	7-25

# Mandalay Resources Corporation

## Condensed consolidated interim statements of income and comprehensive income three and nine months ended September 30, 2016 and 2015

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	\$'000	\$'000	(\$'000)	(\$'000)
		(Restated Note 19)		(Restated Note 19)
<b>Revenue</b>	<b>48,544</b>	43,282	<b>153,152</b>	150,854
Cost of operations				
Cost of sales, excluding depletion and depreciation (Note 13)	31,389	28,946	92,742	90,855
Depletion and depreciation	9,850	10,205	31,683	30,962
	<b>41,239</b>	39,151	<b>124,425</b>	121,817
Income from mine operations	<b>7,305</b>	4,131	<b>28,727</b>	29,037
Expenses				
Administration	3,313	2,787	7,167	5,825
Write-off of mining interest (Note 6)	738	-	4,179	-
Write-off of exploration and evaluation (Note 6)	412	-	412	-
Share-based compensation (Note 12(b))	162	135	732	712
Loss (Gain) on disposal of property, plant and equipment	(19)	29	268	177
Business development costs	45	64	57	182
	<b>4,651</b>	3,015	<b>12,815</b>	6,896
Income from operations	<b>2,654</b>	1,116	<b>15,912</b>	22,141
Other income (expenses)				
Finance costs (Note 14)	(1,390)	(1,344)	(4,219)	(4,000)
Gain (Loss) on financial instruments (Note 15)	245	438	(1,706)	1,018
Interest and other income	63	78	262	445
Foreign exchange gain (loss)	(349)	1,947	(2,306)	3,877
	<b>(1,431)</b>	1,119	<b>(7,969)</b>	1,340
Income before income taxes	<b>1,223</b>	2,235	<b>7,943</b>	23,481
Income tax expense (Note 20)				
Current	1,045	(85)	3,721	1,496
Deferred	(371)	712	(1,087)	4,215
Income tax expense	<b>674</b>	627	<b>2,634</b>	5,711
<b>Net income for the period</b>	<b>549</b>	1,608	<b>5,309</b>	17,770
Other comprehensive income (loss), net of tax				
Foreign currency translation	1,440	(6,978)	3,165	(14,181)
Comprehensive income for the period	<b>1,989</b>	(5,370)	<b>8,474</b>	3,589
<b>Net income per share</b>				
Basic	<b>0.00</b>	0.00	<b>0.01</b>	0.04
Diluted	<b>0.00</b>	0.00	<b>0.01</b>	0.04
<b>Weighted average number of common shares outstanding (Note 16)</b>				
Basic ('000)	<b>441,586</b>	409,681	<b>423,092</b>	<b>409,195</b>
Diluted ('000)	<b>445,084</b>	411,082	<b>425,208</b>	<b>411,048</b>

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

Condensed consolidated interim statements of financial position  
as at September 30, 2016 and December 31, 2015

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

	September 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	74,565	49,199
Trade and other receivables (Note 4)	31,216	21,956
Inventories (Note 5)	25,888	27,628
Prepaid expenses	3,862	1,983
	<b>135,531</b>	<b>100,766</b>
Non-current assets		
Reclamation and other deposits	26,548	25,423
Trade and other receivables (Note 4)	1,678	1,637
Property, plant and equipment (Note 6)	214,126	212,842
Intangible asset (Note 7)	428	799
Deferred tax asset	6,564	5,106
	<b>249,344</b>	<b>245,807</b>
	<b>384,875</b>	<b>346,573</b>
<b>Liabilities</b>		
Current liabilities		
Trade and other payables (Note 8)	20,147	18,820
Borrowings (Note 9)	1,258	1,063
Five-year exchangeable loan (Note 10)	56,046	54,960
Income taxes payable	4,057	4,408
Other provisions (Note 11)	2,786	2,250
Financial instruments (Note 15)	2,552	740
	<b>86,846</b>	<b>82,241</b>
Non-current liabilities		
Borrowings (Note 9)	1,690	1,875
Reclamation and site closure costs provision	43,551	41,999
Other provisions (Note 11)	1,112	714
Deferred tax liability	12,535	12,050
	<b>58,888</b>	<b>56,638</b>
	<b>145,734</b>	<b>138,879</b>
<b>Equity</b>		
Share capital (Note 12)	191,827	158,979
Share option reserve (Note 12)	8,619	9,510
Foreign currency translation reserve	(29,629)	(32,794)
Retained earnings	68,324	71,999
	<b>239,141</b>	<b>207,694</b>
	<b>384,875</b>	<b>346,573</b>

Approved by the Board of Directors and authorized for issue on November 2, 2016.

**(Signed) Mark Sander**

Mark Sander, President and Chief Executive Officer

**(Signed) Robert Doyle**

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

## Condensed consolidated interim statements of changes in equity nine months ended September 30, 2016 and 2015

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

(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Balance, December 31, 2015</b>	<b>410,420</b>	<b>158,979</b>	<b>9,510</b>	<b>(32,794)</b>	<b>71,999</b>	<b>207,694</b>
Net income	-	-	-	-	5,309	5,309
Other comprehensive income for the period	-	-	-	3,165	-	3,165
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,165</b>	<b>5,309</b>	<b>8,474</b>
Shares issued (Note 12(a))	36,415	29,386	-	-	-	<b>29,386</b>
Share-based compensation (Note 12(b))	-	-	631	-	-	<b>631</b>
Stock options exercised (Note 12(c))	4,123	3,314	(1,374)	-	-	<b>1,940</b>
Redemption of RSU (Note 12(d))	216	148	(148)	-	-	-
Dividends paid (Note 12(e))	-	-	-	-	(8,984)	<b>(8,984)</b>
<b>Balance, September 30, 2016</b>	<b>451,174</b>	<b>191,827</b>	<b>8,619</b>	<b>(29,629)</b>	<b>68,324</b>	<b>239,141</b>

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Balance, December 31, 2014</b>	<b>408,758</b>	<b>158,170</b>	<b>8,896</b>	<b>(17,253)</b>	<b>70,205</b>	<b>220,018</b>
Net income	-	-	-	-	17,770	17,770
Other comprehensive loss for the period	-	-	-	(14,181)	-	(14,181)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(14,181)</b>	<b>17,770</b>	<b>3,589</b>
Share-based compensation (Note 12(b))	-	-	789	-	-	789
Stock options exercised (Note 12(c))	1,527	760	(307)	-	-	453
Redemption of RSU (Note 12(d))	109	30	(30)	-	-	-
Dividends paid (Note 12(e))	-	-	-	-	(10,321)	(10,321)
<b>Balance, September 30, 2015</b>	<b>410,394</b>	<b>158,960</b>	<b>9,348</b>	<b>(31,434)</b>	<b>77,654</b>	<b>214,528</b>

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

## Condensed consolidated interim statements of cash flows for the three and nine months ended September 30, 2016 and 2015

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Operating activities</b>				
Net income	549	1,608	5,309	19,165
Adjustments to reconcile net income to net cash flows from operating activities				
Amortization of intangible asset	123	124	369	374
Depletion and depreciation	9,850	10,206	31,683	29,187
Share-based compensation	162	135	732	712
Loss on disposal of property, plant and equipment	(19)	29	268	177
Write-off of mining interest	738	-	4,179	-
Write-off of exploration and evaluation	412	-	412	-
Finance cost	1,390	1,344	4,219	4,000
Unrealized gain on derivative financial instruments	(245)	(438)	1,706	(1,018)
Interest and other income	(63)	(78)	(262)	(445)
Foreign exchange gain	(36)	(1,593)	653	(3,448)
Income tax expense (income)	674	627	2,634	6,293
Changes in non-cash operating working capital items				
Trade and other receivables	(524)	6,028	(8,159)	4,300
Inventories	814	(904)	1,996	703
Prepaid and other expenses	203	337	(1,967)	(76)
Trade and other payables	811	(3,513)	(423)	(2,172)
Provisions	671	148	1,701	269
Cash generated from operations	15,510	14,060	45,050	58,021
Income taxes paid	-	-	(2,871)	(3,737)
Interest and other income received	63	78	262	445
Interest and bank charges paid	(927)	(1,033)	(2,782)	(2,880)
Net cash flows from operating activities	14,646	13,105	39,659	51,849
<b>Investing activities</b>				
Payment on deposits	(71)	(506)	(242)	(745)
Payment for cancellation of royalty contract	-	-	(4,000)	-
Expenditure for property, plant and equipment	(10,369)	(11,034)	(30,898)	(38,366)
Proceeds on disposal of property, plant and equipment	52	54	209	163
Payment for intangible asset	-	(1,046)	-	(1,046)
Investment in associates	-	(45)	-	(45)
Net cash flows used in investing activities	(10,388)	(12,577)	(34,931)	(40,039)
<b>Financing activities</b>				
Proceeds from borrowings	-	737	908	1,709
Repayments of borrowings	(231)	(1,147)	(835)	(1,604)
Issuance of common shares for cash	29,942	257	31,468	453
Proceeds from Ulu option agreement	-	-	186	-
Cost for issue of common shares	(1,859)	-	(1,859)	-
Dividends paid (Note 12 (e))	(3,272)	(3,037)	(8,984)	(10,321)
Net cash flows used in financing activities	24,580	(3,190)	20,884	(9,763)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	60	17	(246)	(1,399)
Increase in cash and cash equivalents	28,898	(2,645)	25,366	648
Cash and cash equivalents, beginning of the period	45,667	52,297	49,199	49,004
<b>Cash and cash equivalents, end of period</b>	<b>74,565</b>	<b>49,652</b>	<b>74,565</b>	<b>49,652</b>
Cash and cash equivalents consist of				
Cash	74,565	49,652	74,565	49,652
Cash equivalents	-	-	-	-
	74,565	49,652	74,565	49,652

See accompanying notes to the condensed consolidated interim financial statements

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at September 30, 2016 and December 31, 2015

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

(Unaudited)

---

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

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

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

### 2. Basis of preparation

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

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

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

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

### 3. Summary of significant accounting policies

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

*Changes in accounting standards* The accounting policies adopted in preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of amendments and interpretations effective January 1, 2016. The company has not assessed the impact of these amendments and interpretation on the consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at September 30, 2016 and December 31, 2015

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

(Unaudited)

#### 4. Trade and other receivables

Trade and other receivables consist of the following:

	September 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
Trade receivables	23,427	16,045
Mark to market adjustment	2,489	-
VAT and other indirect tax receivables	5,389	5,394
Other receivables and marketable securities	1,589	2,154
	<b>32,894</b>	23,593
Less: non-current portion	1,678	1,637
<b>Total current portion</b>	<b>31,216</b>	21,956

There was no allowance for doubtful accounts as at September 30, 2016, or December 31, 2015.

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 September 30, 2016, this mark-to-market adjustment is recorded as a \$2,489,000 adjustment to trade and other receivables (2015 – \$nil).

#### 5. Inventories

Inventories consist of the following:

	September 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
Finished goods	8,217	11,552
Work in progress and stockpiled ore	6,086	5,779
Consumables	11,585	10,297
	<b>25,888</b>	27,628

The amount of inventories recognized in cost of operations for the three and nine months ended September 30, 2016, is \$41,239,000 and \$124,425,000 (2015 – \$39,151,000 and \$121,817,000).

The Company did not recognise a write-down of consumables as at September 30, 2016 (2015 – \$nil).



# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at September 30, 2016 and December 31, 2015

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

(Unaudited)

### 6. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Cost</b>												
As at January 1, 2015	55,515	55,414	43,490	27,062	42,637	13,091	3,071	7,256	4,300	14,047	41,830	307,712
Acquisition	-	-	-	-	-	-	-	-	-	-	-	-
Additions	8,039	10,918	9,131	6,079	5,932	4,058	77	2,434	608	3,461	3,784	54,521
Disposals	-	-	-	(791)	-	-	(82)	-	-	-	-	(873)
Reclassification to mining interest	1,371	2,308	2,474	-	(767)	-	-	(1,371)	(1,541)	(2,474)	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	-	-	(89)	(427)	(2,264)	(2,780)
Foreign exchange	(5,349)	-	(3,687)	(3,230)	-	(1,105)	(138)	(775)	-	(690)	136	(14,838)
<b>As at December 31, 2015</b>	<b>59,576</b>	<b>68,640</b>	<b>51,408</b>	<b>29,120</b>	<b>47,802</b>	<b>16,044</b>	<b>2,928</b>	<b>7,544</b>	<b>3,278</b>	<b>13,917</b>	<b>43,486</b>	<b>343,742</b>
Additions	-	12,241	7,966	2,374	3,032	2,930	183	3,541	1,999	2,509	934	37,709
Disposals	-	-	-	(450)	-	(50)	(232)	-	-	-	(186)	(918)
Reclassification to mining interest	2,086	-	-	-	-	-	-	(2,086)	-	-	-	-
Write-off of mining interest	-	(4,180)	-	-	-	-	-	-	-	-	-	(4,180)
Write-off of exploration and evaluation	-	-	-	-	-	-	-	(412)	-	-	-	(412)
Foreign exchange	2,616	-	(827)	1,618	-	(311)	38	437	-	(80)	(126)	3,365
<b>As at September 30, 2016</b>	<b>64,278</b>	<b>76,701</b>	<b>58,547</b>	<b>32,662</b>	<b>50,834</b>	<b>18,613</b>	<b>2,917</b>	<b>9,024</b>	<b>5,277</b>	<b>16,346</b>	<b>44,108</b>	<b>379,306</b>
<b>Accumulated depreciation</b>												
As at January 1, 2015	27,925	31,756	1,532	6,273	23,168	1,131	290	-	-	-	-	92,075
Expense	10,965	11,178	7,057	3,364	7,138	3,442	139	-	-	-	-	43,283
Disposals	-	-	-	(496)	-	-	-	-	-	-	-	(496)
Foreign exchange	(2,916)	-	(110)	(835)	-	(80)	(22)	-	-	-	-	(3,963)
<b>As at December 31, 2015</b>	<b>35,974</b>	<b>42,934</b>	<b>8,479</b>	<b>8,306</b>	<b>30,306</b>	<b>4,493</b>	<b>407</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130,899</b>
Expense	6,993	6,937	6,546	4,334	5,069	2,447	42	-	-	-	-	32,368
Disposals	-	-	-	(256)	-	-	-	-	-	-	-	(256)
Foreign exchange	1,832	-	(166)	613	-	(119)	7	-	-	-	-	2,168
<b>As at September 30, 2016</b>	<b>44,799</b>	<b>49,871</b>	<b>14,859</b>	<b>12,997</b>	<b>35,375</b>	<b>6,821</b>	<b>456</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>165,179</b>
<b>Carrying value</b>												
As at January 1, 2015	27,590	23,658	41,958	20,789	19,469	11,960	2,781	7,256	4,300	14,047	41,830	215,637
As at December 31, 2015	23,602	25,706	42,928	20,814	17,496	11,550	2,521	7,544	3,278	13,917	43,486	212,842
<b>As at September 30, 2016</b>	<b>19,479</b>	<b>26,830</b>	<b>43,687</b>	<b>19,665</b>	<b>15,459</b>	<b>11,791</b>	<b>2,461</b>	<b>9,024</b>	<b>5,277</b>	<b>16,346</b>	<b>44,108</b>	<b>214,126</b>

For the three and nine months ended September 30, 2016, plant and equipment depreciation for Cerro Bayo of \$207,000 and \$613,000 (2015 – \$232,000 and \$637,000), for Costerfield of \$nil and \$nil (2015 – \$10,000 and \$44,000) was capitalized in mining interests.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

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

In connection with Mandalay's acquisition of Cerro Bayo from Coeur Mining, Inc. ("Coeur Mining"), Coeur Mining received a 2% Net Smelter Royalty interest in production at Cerro Bayo. On March 31, 2016, 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 nine months ended September 30, 2016 includes \$5,717,000 related to the value of the cancelled royalty.

During the nine months ended September 30, 2016, the Company recognized a \$4,180,000 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.

### 7. Intangible asset

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

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

As at September 30, 2016, the carrying amount of the intangible asset is \$428,000, which relates to the 2015 agreement (December 31, 2015 – \$799,000). Amortization expense for the three and nine months ended September 30, 2016, of \$124,000 and \$370,000 (2015 - \$98,000 and \$348,000) is recorded as part of cost of sales.

### 8. Trade and other payables

	September 30, 2016	December 31, 2015
	(\$'000)	(\$'000)
Trade payables	11,041	9,365
Accrued liabilities	6,194	5,986
Payroll and other taxes payable	2,809	3,227
Cash election option (Note 12(c))	103	12
Mark-to-market adjustment	-	230
	<b>20,147</b>	<b>18,820</b>

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

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. As at September 30, 2016, there was no mark-to-market adjustments recorded in trade and other payables (2015 - \$230,000).

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

---

### 9. Borrowings

#### *Equipment loans*

As at September 30, 2016, the Company's Björkdal mine in Sweden, had a balance of \$1,396,000 (December 31, 2015 – \$1,205,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the 3-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 18 months from the period ended September 30, 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 \$1,552,000 (December 31, 2015 – \$1,734,000). These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments, with the final lease payment falling due 37 months from the period ended September 30, 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 September 30, 2016, the current portion of the above facilities is \$1,258,000 (December 31, 2015 – \$1,063,000) and the non-current portion is \$1,690,000 (December 31, 2015 – \$1,875,000).

### 10. Five-year exchangeable loan

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

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

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

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

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

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

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.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

---

### 10. Five-year exchangeable loan (continued)

The Issuer may redeem the Bonds at its option:

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

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

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the consolidated statements of financial position of the Company as at September 30, 2016, and December 31, 2015. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (Note 15).

### 11. Other Provisions

	<b>Employee benefits</b>
	(\$'000)
Balance, December 31, 2015	2,964
Additions	2,113
Amounts paid	(1,356)
Foreign exchange	177
Balance, September 30, 2016	3,898
Less: current portion	2,786
Total non-current portion	1,112

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

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 12. Share capital

As at September 30, 2016, the Company had an unlimited number of authorized common shares without par value and 451,174,008 common shares outstanding (December 31, 2015 – 410,419,979 common shares). All outstanding common shares are fully paid.

#### (a) Shares issued

For the three and nine months ended September 30, 2016, the Company issued its common shares upon exercise of share options by their holders. For the nine months ended September 30, 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 6 for detail).

On July 26, 2016, the Company closed its previously announced 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 C\$39,002,250. The Offering was completed on a bought deal basis and was underwritten by BMO Capital Markets.

#### (b) Share-based compensation

For the three months ended September 30, 2016, the Company recorded \$162,000 (2015 – \$135,000) as net share-based compensation expense and recorded this amount in share option reserve.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Stock based compensation on options	217	162	555	660
Fair value for cash election option	(77)	(66)	91	(59)
RSU amortization	22	39	86	111
	162	135	732	712

The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C\$0.26 (2015 – C\$0.30) was calculated using the following weighted average assumption. Expected stock price volatility and option life is based on the Company's historical share price volatility.

	2016	2015
Risk free interest rate	0.51%	0.59%
Expected dividend yield	3.69%	3.49%
Expected life of options in years	2.48	5.00
Expected stock price volatility	44.50%	48.00%
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.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 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 September 30, 2016, the liability is \$103,000 (December 31, 2015 - \$12,000).

The Company recognized a fair value measurement gain/(loss) of \$77,000 and \$(91,000) for the three and nine months ended September 30, 2016 (2015 – \$217,000 gain and \$462,000 gain), which is included in the share-based compensation expense.

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

	2016	2015
Risk free interest rate	0.52%	0.74%
Expected dividend yield	3.76%	6.30%
Expected life of options in years	2.73	2.23
Expected stock price volatility	45.64%	44.46%
Expected forfeiture rate	0.00%	0.00%

As at September 30, 2016, 1,455,000 (2015 – 2,020,000) stock options with the cash election option are outstanding.

	Number of options	Weighted average exercise price
		C\$
Balance, December 31, 2014	16,947,500	0.85
Granted	5,120,000	0.91
Forfeited	(1,595,000)	0.96
Expired	(7,693)	0.26
Exercised-equity issuance	(1,552,307)	0.39
Balance, December 31, 2015	18,912,500	0.89
Granted	5,463,000	0.91
Exercised-equity issuance	(4,123,300)	0.63
Forfeited	(1,010,000)	0.93
<b>Balance, September 30, 2016</b>	<b>19,242,200</b>	<b>0.95</b>

The weighted average share price at the time when the stock options were exercised during the three and nine months ended September 30, 2016, was C\$1.14 and C\$1.03 (2015 – C\$0.81 and C\$0.89).

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 12. Share capital (continued)

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

The following table summarizes information about the stock options outstanding as at September 30, 2016:

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
2,621,700	0.94	0.83	2,621,700	0.83
3,502,500	1.97	1.13	3,502,500	1.13
3,815,000	2.98	0.98	-	-
20,000	3.60	0.93	-	-
4,315,000	3.98	0.91	-	-
4,968,000	4.98	0.91	-	-
<b>19,242,200</b>	<b>3.26</b>	<b>0.95</b>	<b>6,124,200</b>	<b>1.00</b>

#### (d) Restricted Share Units

The Company has a Restricted Share Unit Plan (the "RSU Plan") and has granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs will receive the Company's common shares at no cost at the end of the 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 September 30, 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	6,527
Redeemed	(146,260)
Outstanding at September 30, 2016	279,739

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 12. Share capital (continued)

#### (d) Restricted Share Units (continued)

For the three and nine months ended September 30, 2016, the Company recorded \$22,000 and \$86,000 (2015 – \$39,000 and \$111,000), respectively, as share based compensation relating to RSUs.

#### (e) Dividends

On February 18, 2016, May 11, 2016 and August 11, 2016 the Board of Directors declared dividends in the amount of C\$0.0088, C\$0.0094 and C\$0.0094 per common share, respectively, based on the Company's operating results for the three months period ended December 31, 2015, March 31, 2016 and June 30, 2016 respectively, payable to shareholders of record as of February 29, 2016, May 24, 2016 and August 22, 2016. Total payments of \$3,272,000 and \$8,984,000 were made during the three and nine months ended September 30, 2016 (2015 – \$3,037,000 and \$10,321,383).

### 13. Cost of sales

The cost of sales for the three and nine months ended September 30, 2016 and 2015, consists of:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Raw materials and consumables	10,342	11,129	30,556	34,365
Salary and employee benefits	9,553	8,724	27,064	27,319
Contractors	7,613	3,755	22,436	11,797
Change in inventories	402	(177)	2,998	827
Royalty	180	481	802	1,607
Other	3,299	5,034	8,886	14,940
	31,389	28,946	92,742	90,855

### 14. Finance costs

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Interest on borrowings	55	51	241	204
Interest on five year exchangeable bonds (Note 10)	1,251	1,220	3,729	3,580
Accretion of reclamation and site closure costs	84	73	249	216
	1,390	1,344	4,219	4,000



# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 15. Financial instruments

#### (a) Five-year exchangeable loan

The Company has valued the conversion feature of the five-year exchangeable loan (Note 10) using the Black-Scholes option pricing. For the three months ended September 30, 2016, the derivative value of the conversion feature amounts to \$2,552,000 (2015 – \$1,283,000) and is recorded in current liabilities in the consolidated statements of financial position. The Company recorded a fair value measurement gain/(loss) of \$247,000 and (\$1,812,000) (2015 – gain of \$668,000 and \$1,571,000) for the three and nine months ended September 30, 2016 respectively. The value was estimated using the following Level 2 assumptions: risk free interest rate of 0.59% (2015 – 0.52%); volatility of 18% (2015 – 18%), gold forward curve adjustment of (0.41%) (2015 – (0.32%)).

#### (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 September 30, 2016, the derivative has expired and therefore had no carrying value. During three and nine months ended September 30, 2015, the Company has recorded fair value gain of \$12,000 for and fair value measurement loss of \$305,000, respectively, on the oil call option.

#### (c) Marketable securities

The value of securities as at September 30, 2016, is \$305,000 (at December 31, 2015 – \$115,000), recorded in trade and other receivables 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 (\$2,000) and \$107,000 (2015 – (\$29,000) and (\$47,000)) for three and nine months ended September 30, 2016, respectively, using Level 1 assumptions.

### 16. Income per share

As at September 30, and December 30, 2016 and 2015, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	('000)	('000)	('000)	('000)
Basic weighted average number of shares outstanding	441,586	409,681	423,092	409,195
Effect of diluted securities :				
Stock options	3,214	985	1,755	1,461
RSU	284	416	361	392
<b>Diluted weighted average number of shares outstanding</b>	<b>445,084</b>	<b>411,082</b>	<b>425,208</b>	<b>411,048</b>

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

---

### 16. Income per share (continued)

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the exercise price exceeded the daily weighted average market value of the common shares for the three and nine months ended September 30, 2016, of C\$1.14 and C\$1.03 (three and nine months ended September 30, 2015 – C\$0.81 and C0.89) respectively:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	('000)	('000)	('000)	('000)
Stock options	-	16,100	3,503	12,528

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 17. Segmented information

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

	Three months ended on September 30, 2016				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	18,196	13,121	17,227	-	48,544
Cost of sales	(9,482)	(10,344)	(11,563)	-	(31,389)
Depletion and depreciation	(3,635)	(3,290)	(2,920)	(5)	(9,850)
Income from mine operations	5,079	(513)	2,744	(5)	7,305
Administrative expenses	(241)	(871)	(316)	(2,073)	(3,501)
Write-off of mining interest (Note 6)	-	(738)	-	-	(738)
Write-off of exploration and evolution (Note 6)	(412)	-	-	-	(412)
Income (loss) from operations	4,426	(2,122)	2,428	(2,078)	2,654
Other expense, except for fair value adjustment	(296)	(203)	(25)	(1,152)	(1,676)
Income (loss) for underlying operations	4,130	(2,325)	2,404	(3,230)	978
Income for underlying operations per share					
Basic					\$0.00
Diluted					\$0.00
Fair value adjustments gain (loss) (Note 15)					
Five year exchangeable bonds (Note 15 (a))	-	-	-	246	246
Marketable Securities (Note 15 (c))	-	-	-	(1)	(1)
Total fair value adjustment	-	-	-	245	245
Income (loss) before income taxes	4,130	(2,325)	2,404	(2,985)	1,223
Current tax recovery (expense)	(591)	-	(454)	-	(1,045)
Deferred tax recovery (expense)	(185)	534	22	-	371
Net income (loss)	3,354	(1,791)	1,972	(2,985)	549
Income per share					
Basic					\$0.00
Diluted					\$0.00
Cash expenditure for property, plant and equipment	2,208	3,857	4,267	36	10,368
Total non-current assets as at September 30, 2016	51,111	92,879	74,775	30,579	249,344
Total assets as at September 30, 2016	81,049	124,759	98,026	81,041	384,875
Total liabilities as at September 30, 2016	16,286	22,399	26,332	80,718	145,735

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 17. Segmented information (continued)

	Three months ended on September 30, 2015				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	16,363	15,956	10,963	-	43,282
Cost of sales	(7,954)	(11,705)	(9,288)	-	(28,947)
Depletion and depreciation	(3,618)	(4,132)	(2,454)	-	(10,204)
Income from mine operations	4,791	119	(779)	-	4,131
Administrative expenses	(384)	(839)	(255)	(1,537)	(3,015)
Income (loss) from operations	4,407	(720)	(1,034)	(1,537)	1,116
Other expense, except for fair value adjustment	200	(438)	131	788	681
Income for underlying operations	4,607	(1,158)	(903)	(749)	1,797
Income for underlying operations per share					
Basic					\$0.02
Diluted					\$0.02
Fair value adjustments gain (loss) (Note 15)					
Oil derivative (Note 15 (b))	-	-	-	(200)	(200)
Marketable Securities (Note 15 (c))	-	-	-	(29)	(29)
Five year exchangeable bonds (Note 15 (a))	-	-	-	667	667
Total fair value adjustment	-	-	-	438	438
Net income before income taxes	4,607	(1,158)	(903)	(311)	2,235
Current tax expense	-	65	20	-	85
Deferred tax recovery (expense)	(1,013)	133	168	-	(712)
Net income	3,594	(960)	(715)	(311)	1,608
Income per share					
Basic					\$0.00
Diluted					\$0.00
Cash expenditures for property, plant and equipment	3,179	4,423	3,432	-	11,034
Total non-current assets as at September 30, 2015	54,369	89,448	71,152	30,578	245,547
Total assets as at September 30, 2015	68,338	129,314	90,167	59,058	346,877
Total liabilities as at September 30, 2015	10,826	20,521	25,393	75,609	132,349

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements

as at September 30, 2016 and December 31, 2015

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

(Unaudited)

### 17. Segmented information (continued)

	Nine months ended on September 30, 2016				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	59,056	43,828	50,268	-	153,152
Cost of sales	(27,692)	(30,700)	(34,350)	-	(92,742)
Depletion and depreciation	(11,327)	(11,428)	(8,914)	(14)	(31,683)
Income from mine operations	20,037	1,700	7,004	(14)	28,727
Administrative expenses	(1,061)	(2,312)	(1,254)	(3,597)	(8,224)
Write-off of mining interest (Note 6)	-	(4,179)	-	-	(4,179)
Write-off of exploration and evolution (Note 6)	(412)	-	-	-	(412)
Income (loss) from operations	18,564	(4,792)	5,750	(3,611)	15,912
Other expense, except for fair value adjustment	(1,112)	(551)	(40)	(4,560)	(6,263)
Income (loss) from underlying operations	17,452	(5,343)	5,710	(8,171)	9,649
Income for underlying operations per share					
Basic					\$0.02
Diluted					\$0.02
Fair value adjustments gain (loss) (Note 15)					
Five year exchangeable bonds (Note 15 (a))	-	-	-	(1,814)	(1,814)
Marketable Securities (Note 15 (c))	-	-	-	108	108
Total fair value adjustments	-	-	-	(1,706)	(1,706)
Income (loss) before income taxes	17,452	(5,343)	5,710	(9,877)	7,943
Current tax expense	(2,717)	44	(1,048)	-	(3,721)
Deferred tax expense	(485)	1,422	150	-	1,087
Net income (loss)	14,250	(3,877)	4,812	(9,877)	5,309
Income per share					
Basic					\$0.01
Diluted					\$0.01
Cash expenditure for property, plant and equipment	5,914	11,716	13,084	184	30,898
Total non-current assets as at September 30, 2016	51,111	92,879	74,775	30,579	249,344
Total assets as at September 30, 2016	81,049	124,759	98,026	81,041	384,875
Total liabilities as at September 30, 2016	16,286	22,399	26,332	80,718	145,735

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 17. Segmented information (continued)

	Nine months ended on September 30, 2015				
	Australia	Chile	Sweden	Canada	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	53,285	56,394	41,175	-	150,854
Cost of sales	(25,031)	(38,127)	(27,697)	-	(90,855)
Depletion and depreciation	(10,552)	(12,605)	(7,747)	(56)	(30,960)
Income from mine operations	17,702	5,662	5,731	(56)	29,039
Administrative expenses	(1,354)	(2,582)	(258)	(2,704)	(6,898)
Income (loss) from operations	16,348	3,080	5,473	(2,760)	22,141
Other expense, except for fair value adjustment	(294)	(799)	102	1,313	322
Income (loss) from underlying operations	16,054	2,281	5,575	(1,447)	22,463
Income from underlying operations per share					
Basic					\$0.06
Diluted					\$0.06
Fair value adjustments gain (loss) (Note 15)					
Oil derivative (Note 15 (b))	-	-	-	362	362
Marketable Securities (Note 15 (c))	-	-	-	(47)	(47)
Five year exchangeable bonds (Note 15 (a))	-	-	-	703	703
Total fair value adjustment	-	-	-	1,018	1,018
Income (loss) before income taxes	16,054	2,281	5,575	(429)	23,481
Current tax expense	-	(216)	(1,280)	-	(1,496)
Deferred tax expense	(4,264)	(79)	128	-	(4,215)
<b>Net income (loss)</b>	<b>11,790</b>	<b>1,986</b>	<b>4,423</b>	<b>(429)</b>	<b>17,770</b>
Income per share					
Basic					\$0.04
Diluted					\$0.04
Cash expenditure for property, plant and equipment	13,785	13,813	10,768	-	38,366
Total non-current assets as at September 30, 2015	54,369	89,448	71,152	30,578	245,547
Total assets as at September 30, 2015	68,338	129,314	90,167	59,058	346,877
Total liabilities as at September 30, 2015	10,826	20,521	25,393	75,609	132,349

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 17. Segmented information (continued)

For the three months ended September 30, 2016, the Company had four customers from whom it earned more than 10% of its total revenue (2015 – four customers). For the nine months ended September 30, 2016, the company had four (2015 – four) customers from which it earned more than 10% of its total revenue.

Revenue from these customers is summarized as follows:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Costerfield (gold and antimony)				
Customer 1	12,964	11,677	38,972	30,473
Customer 2	5,352	4,735	19,235	21,544
	18,316	16,412	58,207	52,017
Cerro Bayo (silver and gold)				
Customer 3	5,750	10,041	22,670	34,222
	5,750	10,041	22,670	34,222
Björkdal (gold)				
Customer 4	14,913	9,414	41,470	35,167
	14,913	9,414	41,470	35,167
<b>Total</b>	<b>38,979</b>	<b>35,867</b>	<b>122,347</b>	<b>121,406</b>

### 18. Fair value measurement

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

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

As at September 30, 2016, the provisional pricing feature of trade receivables, other receivables and marketable securities are based on Level 1 input. Provisional pricing feature of trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

### 19. Restatement

In 2015, in accordance with IFRS 3 Business Combination, the purchase price allocation for the acquisition of Elgin Mining Inc. was finalized. Incremental depletion was then recorded as a result of higher mining interests allocation. Accordingly, the comparatives for the three and nine months ended September 30, 2015, have been restated to reflect the impact of depletion and tax thereon as shown below:

	Three months ended September 30, 2015	Nine months ended September 30, 2015
	(\$'000)	(\$'000)
Net income for the period (prior to restatement)	2,180	19,737
Less: Depletion on Björkdal PPA fair value	(733)	(2,522)
Add: Deferred tax recovery on fair value depletion	161	555
<b>Net income restated for the period</b>	<b>1,608</b>	<b>17,770</b>

### 20. Income tax

During the three and nine months ended September 30, 2016, the Company had recognised current tax expense of \$1,045,000 and \$3,721,000 (2015 – recovery of \$85,000 and expense of \$1,496,000) and deferred tax recovery of \$371,000 and \$1,087,000 (2015 – expense of \$712,000 and \$4,215,000), respectively.

### 21. Related party transactions

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

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 nine months to September 30, 2016.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Administration expenses, salaries and consultancy services				
SKS Business Services	44	46	138	95
Plinian Capital	-	-	7	-
<b>Total</b>	<b>44</b>	<b>46</b>	<b>145</b>	<b>95</b>



# Mandalay Resources Corporation

## Notes to the condensed consolidated interim financial statements as at September 30, 2016 and December 31, 2015

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

---

### 22. Commitments and contingencies

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

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

### 23. Subsequent events

1) On November 2, 2016, the Board of Directors declared a quarterly dividend of \$2.9 million, or \$0.0065 per share (C\$0.0086 per share), payable on November 24, 2016 to shareholders of record as of November 14, 2016.

2) 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 and the Ulu gold project from Mandalay for consideration payable on closing consisting of (i) C\$3 million cash, (ii) 15 million common shares of WPC and (iii) a \$1.6 million promissory note that is convertible at Mandalay's election into common shares of WPC at a price of C\$0.10 per share. In addition:

- a. WPC has agreed to make an aggregate cash payment to Mandalay based on the value of 10,000 ounces of refined gold, payable in 12 quarterly installments with each installment equal to the cash equivalent of 833 1/3 ounces of refined gold, based on the average gold price for each such quarter, beginning with the second quarter immediately following the full quarter after the commencement of commercial production; and
- b. beginning in the quarter after the completion of the payments described above, WPC will pay to Mandalay 1% net smelter returns royalty on gold production mined from the Lupin property.

The transaction, which is expected to be completed prior to December 31, 2016, is subject to the satisfaction or waiver of certain conditions, including WPC completing a private placement or other financing for gross proceeds of not less than C\$5 million and the receipt of all necessary regulatory approvals, including the approval of the TSX Venture Exchange.