Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2015
(Unaudited)

Mandalay Resources Corporation

June 30, 2015

Table of contents

Mandalay Resources Corporation

Condensed consolidated interim statements of income and comprehensive income
three and six months ended June 30, 2015 and 2014

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended	June 30,	Six months ended	June 30,
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Revenue	**50,793**	44,888	**107,572**	82,980
Cost of operations				
Cost of sales excluding depletion and depreciation (Note 15)	**30,915**	26,373	**61,909**	46,749
Depletion and depreciation	**9,344**	7,965	**18,968**	15,249
	40,259	34,338	**80,877**	61,998
Income from mine operations	**10,534**	10,550	**26,695**	20,982
Expenses				
Administration	**1,636**	1,748	**3,038**	3,164
Business development costs	**2**	364	**118**	638
Share-based compensation	**294**	544	**577**	901
Loss on disposal of property, plant and equipment	**136**	19	**148**	25
Write-off of exploration and evaluation costs	**-**	387	**-**	681
	2,068	3,062	**3,881**	5,409
Income from operations	**8,466**	7,488	**22,814**	15,573
Other income (expenses)				
Finance costs (Note 16)	**(1,377)**	(756)	**(2,656)**	(991)
Gain (loss) on derivative financial instruments (Note 17)	**297**	(148)	**580**	(43)
Interest and other income	**196**	21	**367**	56
Foreign exchange (loss) gain	**(541)**	(76)	**1,930**	(128)
	(1,425)	(959)	**221**	(1,106)
Income before income taxes	**7,041**	6,529	**23,035**	14,467
Income taxes expense (Note 19)				
Current	**355**	1,604	**1,581**	2,246
Deferred	**1,613**	(11)	**3,897**	1,541
Income tax expense	**1,968**	1,593	**5,478**	3,787
Net income for the period	**5,073**	4,936	**17,557**	10,680
Other comprehensive income, net of tax				
Foreign currency translation	**2,368**	1,493	**(7,203)**	3,067
Comprehensive income for the period	**7,441**	6,429	**10,354**	13,747
Income per share (Note 20)				
Basic	**$0.01**	$0.01	**$0.04**	$0.03
Diluted	**$0.01**	$0.01	**$0.04**	$0.03
Weighted average number of common shares outstanding (Note 20)				
Basic ('000)	**409,094**	340,920	**408,948**	336,328
Diluted ('000)	**411,649**	355,275	**411,470**	350,440

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statement of financial position
as at June 30, 2015 and December 31, 2014
(Expressed in U.S dollars)
(Unaudited)

	June 30, 2015	December 31, 2014
	$'000	$'000 (Restated - Note 21)
Assets		
Current assets		
Cash and cash equivalents	**52,297**	49,004
Trade and other receivables (Note 6)	**31,130**	32,142
Inventories (Note 7)	**25,432**	27,663
Prepaid expenses	**2,480**	1,635
Derivative financial instruments (Note 17)	**213**	552
	111,552	110,996
Non-current assets		
Reclamation and other deposits	**26,809**	28,523
Trade and other receivables (Note 6)	**329**	343
Property, plant and equipment (Note 8)	**219,511**	215,940
Intangible asset (Note 9)	**-**	249
Deferred tax asset	**5,012**	7,057
	251,661	252,112
	363,213	363,108
Liabilities		
Current liabilities		
Trade and other payables (Note 10)	**21,572**	23,347
Borrowings (Note 11)	**1,094**	951
Five year exchangeable loan (Note 12)	**54,275**	53,621
Income taxes payable	**1,261**	2,580
Provisions (Note 13)	**2,253**	2,707
Derivative financial instruments (Note 17)	**1,950**	2,854
	82,405	86,060
Non-current liabilities		
Borrowings (Note 11)	**2,045**	1,821
Reclamation and site closure costs provision	**40,934**	42,721
Provisions (Note 13)	**636**	521
Deferred tax liability	**13,311**	11,967
	56,926	57,030
	139,331	143,090
Equity		
Share capital (Note 14)	**158,517**	158,170
Share option reserve (Note 14)	**9,343**	8,896
Foreign currency translation reserve	**(24,456)**	(17,253)
Retained earnings	**80,478**	70,205
	223,882	220,018
	363,213	363,108

Approved and authorized for issue by the Board on August 05, 2015.

(Signed) Bradford A. Mills
Bradford A. Mills, Director

(Signed) Robert Doyle
Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated statements of changes in equity

six months ended June 30, 2015 and 2014

(Expressed in U.S. dollars)

(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Balance, December 31, 2014 (Restated Note 21)	**408,758**	**158,170**	**8,896**	**-**	**(17,253)**	**70,205**	**220,018**
Stock options exercised (Note 14 (b))	585	329	(133)	-	-	-	**196**
Share-based compensation (Note 14 (c))	-	-	598	-	-	-	**598**
Redemption of RSU (Note 14 (d))	73	18	(18)	-	-	-	**-**
Dividends paid (Note 14 (e))	-	-	-	-	-	(7,284)	**(7,284)**
Total comprehensive (loss) income for the period	-	-	-	-	(7,203)	17,557	**10,354**
Balance, June 30, 2015	**409,416**	**158,517**	**9,343**	**-**	**(24,456)**	**80,478**	**223,882**

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Balance, December 31, 2013 (Restated Note 21)	322,780	89,780	8,439	1,089	(6,586)	62,100	154,821
Stock options exercised (Note 14 (b))	1,593	1,009	(459)	-	-	-	550
Share-based compensation (Note 14 (c))	-	-	712	-	-	-	712
Warrants exercised	5,100	2,422	-	(284)	-	-	2,138
Normal course issuer bid	(31)	(9)	-	-	-	(13)	(22)
Dividends paid (Note 14 (e))	-	-	-	-	-	(4,679)	(4,679)
Challacollo acquisition (Note 4)	12,000	9,188	-	-	-	-	9,188
Total comprehensive income for the period	-	-	-	-	3,067	10,680	13,747
Balance, June 30, 2014	**341,442**	**102,390**	**8,692**	**804**	**(3,519)**	**68,088**	**176,454**

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statement of cash flows
for six months ended June 30, 2015 and 2014
(Expressed in U.S dollars)
(Unaudited)

	Six months ended June 30, 2015	2014
	$'000	$'000
Operating activities		
Net income	**17,557**	10,680
Adjustments to reconcile net income to net cash flows from operating activities		
Amortization of intangible assets	**250**	250
Depletion and depreciation	**18,981**	15,264
Share-based compensation	**577**	901
Loss on disposal of property, plant and equipment	**148**	25
Write-off of exploration and evaluation costs	**-**	681
Finance cost	**2,656**	991
Unrealized gain on derivative financial instruments	**(580)**	(94)
Interest and other income	**(367)**	(56)
Foreign exchange (gain) loss	**(1,855)**	437
Income tax expense	**5,666**	3,787
Change in non-cash operating working capital items		
Trade and other receivables	**(1,728)**	(12,489)
Inventories	**1,607**	(2,255)
Prepaid and other expenses	**(413)**	(561)
Trade and other payables	**1,341**	1,689
Provisions	**121**	1,221
Cash generated from operations	**43,961**	20,471
Income taxes paid	**(3,737)**	(4,175)
Interest and other income received	**367**	56
Interest paid	**(1,847)**	(72)
Net cash flows from operating activities	**38,744**	16,280
Investing activities		
Payment on deposits	**(239)**	(18)
Expenditure for property, plant and equipment	**(27,332)**	(26,919)
Proceeds on disposal of property, plant and equipment	**109**	11
Acquisition of Challacollo (Note 4)	**-**	(7,770)
Net cash flows used in investing activities	**(27,462)**	(34,696)
Financing activities		
Proceeds from borrowings	**972**	57,008
Repayments of borrowings	**(457)**	-
Issuance of common shares for cash	**196**	2,687
Purchase of common shares for cancellation	**-**	(22)
Dividends paid (Note 14 (e))	**(7,284)**	(4,679)
Net cash flows used in financing activities	**(6,573)**	54,994
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(1,416)**	(1,010)
Increase in cash and cash equivalents	**3,293**	35,568
Cash and cash equivalents, beginning of the period	**49,004**	33,465
Cash and cash equivalents, end of period	**52,297**	69,033
Cash and cash equivalents are comprised of		
Cash	**52,297**	69,033
Cash equivalents	**-**	-
	52,297	69,033

See accompanying notes to the condensed consolidated interim financial statements.

1. Description of business and nature of operations

Mandalay Resources Corporation ("Mandalay" or the "Company") is a gold, silver and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay's assets include the Costerfield gold and antimony mine in Australia ("Costerfield"), the Cerro Bayo silver and gold mine in Chile ("Cerro Bayo"), the Björkdalsgruvan ("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 Note 2 (t), of the Company's audited consolidated financial statements for the year ended December 31, 2014.

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, 2014. 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, 2014.

New accounting pronouncement

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.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments 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.

3. Summary of significant accounting policies (continued)

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. The group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

4. Acquisition of Minera Silver Standard Chile S.A.

On February 6, 2014, the Company closed its acquisition of 100% of Minera Silver Standard Chile S.A. (“MSSC”) from Silver Standard Resources, Inc. (“SSR”). MSSC owns the Challacollo silver exploration property near Iquique, Chile. The Company acquired MSSC in exchange for the following consideration:

(i) $7,501,000 in cash;

(ii) 12 million common shares of the Company;

(iii) 5 million common shares of the Company to be issued to SSR at the end of the quarter in which commercial production commences at the Challacollo project (the “Deferred Payment Shares”);

(iv) an aggregate cash payment equal to the equivalent of 240,000 ounces of silver, payable in eight quarterly installments based on the average silver price for such quarter (i.e., cash payment equal to the equivalent of 30,000 ounces of silver for each quarter), beginning with the quarter immediately following the quarter in which commencement of commercial production occurs (the “Silver Delivery Consideration”); and

(v) a 2% Net Smelter Returns (“NSR”) royalty on silver sold from the Challacollo project in excess of 36 million ounces, with a cap/buyout of $5,000,000.

Until all of the consideration is paid, the shares of MSSC and all of the present and future assets of MSSC are provided to SSR as security for Mandalay’s post-closing payment obligations to SSR.

The Company determined that MSSC was not a business in accordance with IFRS 3, Business Combinations, and therefore the Company accounted for the acquisition as an asset acquisition rather than a business combination. The NSR, Deferred Payment Shares and the Silver Delivery Consideration are considered to be contingent liabilities. These contingent liabilities have not been included in the purchase consideration and shall only be recognized if and when the contingency in question is satisfied.

4. Acquisition of Minera Silver Standard Chile S.A. (continued)

The following table summarizes the fair value of the consideration transferred to SSR and the fair value of MSSC's net assets acquired:

Particulars	**Amount $'000**
Initial cash payout	7,501
Issuance of 12 million shares	9,188
Acquisition cost	264
Purchase Consideration	**16,953**
Net assets acquired	
Net working capital acquired	595
Property, plant and equipment	16,358
Net identifiable assets	**16,953**

5. Acquisition of Elgin Mining Inc.

On September 9, 2014, the Company completed the acquisition of Elgin Mining Inc. ("Elgin"). Elgin was a Canadian-based company focused on gold production at the Björkdal gold mine in Sweden. In addition, Elgin's portfolio included the Lupin and Ulu gold properties located in Nunavut, Canada.

The Company acquired all of the issued and outstanding shares of Elgin for (i) $24,514,000 (C$27,000,000) in cash; (ii) issuance of 50 million common shares of the Company; and (iii) $4,663,000 (C$5,000,000) in cash to repay an existing bridge loan of Elgin.

The transaction was accounted for as a business combination with the Company identified as the acquirer. The acquisition has been accounted for on a preliminary basis taking into account the information available at the time these consolidated financial statements were prepared. The fair values related to property, plant and equipment, including stockpiled ore, disclosed above are preliminary as at June 30, 2015, due to the complexity of the acquisition and the inherent uncertain nature of valuing mining interests, plant and equipment and exploration and evaluation assets. No value has been allocated to goodwill in the preliminary purchase allocation as all incremental values have been allocated to the property, plant and equipment, specifically to exploration and evaluation assets. The purchase price allocation is preliminary pending the completion of a valuation being conducted by a third party valuator.

5. Acquisition of Elgin Mining Inc. (continued)

	($'000)
Cash consideration paid	**24,514**
Cash consideration paid for repayment of Bridge loan	**4,663**
Equity instruments (50 million common shares of the Company)	**49,037**
Total purchase price	**78,214**
Cash and cash equivalents	**5,914**
Trade and other receivables	**7,966**
Inventories	**7,893**
Prepaid expenses and other	**1,107**
Reclamation and other deposits	**27,168**
Property, plant and equipment	**79,284**
Trade and other payables	**(10,869)**
Deferred tax liabilities	**(12,249)**
Income taxes payable	**(206)**
Long-term debt	**(3,377)**
Reclamation and site closure costs	**(24,417)**
Net assets acquired	**78,214**
Cash paid	**29,177**
Net cash acquired	**(5,914)**
Net cash flow on acquisition	**23,263**

The preliminary values allocated to property, plant and equipment are as follows:

	Björkdal	**Other**	**Total**
	($'000)	($'000)	**($'000)**
Mineral property	21,200	-	**21,200**
Property, plant and equipment	12,355	3,317	**15,672**
Exploration and evaluation	38,460	3,952	**42,412**
Total	72,015	7,269	**79,284**

These values may change upon the finalization of the purchase price allocation and goodwill may also be recognized.

6. Trade and other receivables

Trade and other receivables are comprised of the following:

	June 30, 2015	December 31, 2014
	($'000)	($'000)
Trade receivables	**26,176**	27,130
Mark to market adjustment	**207**	-
VAT and other indirect tax receivables	**3,691**	3,951
Other receivables and marketable securities	**1,385**	1,404
	31,459	32,485
Less: non-current portion	**329**	343
Total current portion	**31,130**	32,142

There was no allowance of doubtful debts as at June 30, 2015 and December 31, 2014. Included in other receivables is $209,000 for expenses paid relating to the June 2015 C$18,400,000 secondary offering of Company shares by a fund advised by West Face Capital Inc. (“West Face”) to be reimbursed from West Face Capital, a related party of the Company (see Note 24).

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. This mark-to-market adjustment is recorded as an adjustment to revenue and trade receivables.

7. Inventories

	June 30, 2015	December 31, 2014
	($'000)	($'000)
Finished goods	**9,825**	11,567
Work in progress and stockpiled ore	**4,283**	4,089
Consumables	**11,324**	12,007
	25,432	27,663

There were no inventory write-downs or reversals of write-downs during the three months ended June 30, 2015. (2014 - $nil).

8. Property, plant and equipment

Property, plant and equipment consist of the following:

	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Cost												
As at January 1, 2014	41,869	43,993	-	26,447	34,471	-	586	5,164	5,788	-	14,365	172,684
Acquisition	-	-	21,200	-	-	12,355	3,317	-	-	38,460	20,310	95,643
Additions	18,774	9,387	2,565	4,951	8,166	567	143	3,609	1,788	364	6,955	57,268
Disposals	-	-	-	(1,707)	-	-	(379)	-	-	(31)	(165)	(2,283)
Reclassification to mining interest	4,688	2,034	-	-	-	-	-	(4,688)	(2,034)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	-	(1,303)	(1,242)	-	-	(2,545)
Foreign exchange	(4,590)	-	(1,909)	(2,629)	-	(1,389)	(109)	(752)	-	(55)	(1,319)	(12,751)
As at December 31, 2014	60,741	55,414	21,857	27,062	42,637	11,534	3,557	2,030	4,300	38,738	40,145	308,015
Additions	6,461	5,006	3,669	3,572	2,684	2,275	5	607	278	1,393	1,955	27,905
Disposals	-	-	-	(475)	-	-	-	-	-	-	-	(475)
Reclassification to mining interest	659	-	-	-	-	-	-	(659)	-	-	-	-
Foreign exchange	(2,681)	-	(677)	(1,650)	-	(560)	(146)	(416)	-	(587)	54	(6,663)
As at June 30, 2015	**65,180**	**60,420**	**24,849**	**28,509**	**45,321**	**13,249**	**3,416**	**1,562**	**4,578**	**39,544**	**42,154**	**328,782**
Accumulated depreciation												
As at January 1, 2014	16,965	19,054	-	5,840	16,928	-	139	-	-	-	-	58,926
Expense	13,285	12,702	1,532	2,086	6,240	1,131	162	-	-	-	-	37,137
Disposals	-	-	-	(948)	-	-	-	-	-	-	-	(948)
Foreign exchange	(2,325)	-	-	(705)	-	-	(10)	-	-	-	-	(3,041)
As at December 31, 2014	27,925	31,756	1,532	6,273	23,167	1,131	290	-	-	-	-	92,075
Expense	5,604	5,216	1,848	1,363	3,634	1,659	97	-	-	-	-	19,421
Disposals	-	-	-	(336)	-	-	-	-	-	-	-	(336)
Foreign exchange	(1,454)	-	-	(426)	-	-	(9)	-	-	-	-	(1,889)
As at June 30, 2015	**32,075**	**36,972**	**3,380**	**6,874**	**26,801**	**2,790**	**378**	**-**	**-**	**-**	**-**	**109,271**
Carrying value												
As at January 1, 2014	24,904	24,939	-	20,607	17,544	-	447	5,164	5,788	-	14,365	113,758
As at December 31, 2014	32,816	23,658	20,325	20,789	19,470	10,403	3,267	2,030	4,300	38,738	40,145	215,940
As at June 30, 2015	**33,105**	**23,448**	**21,469**	**21,635**	**18,520**	**10,459**	**3,038**	**1,562**	**4,578**	**39,544**	**42,154**	**219,511**

For the three and six months ended June 30, 2015, Cerro Bayo's plant and equipment depreciation of $252,000 and $405,000 (2014 - $188,000 and $238,000) at Costerfield $17,000 and $34,000 ($48,000 and $67,000) were capitalized in mining interest.

9. Intangible asset

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 is recorded as an intangible asset and amortized over the contractual life of the union agreement (three years). The carrying amount of the intangible asset as at June 30, 2015 is $nil (December 31, 2014 - $249,000). Amortization expense for the three and six months ended June 30, 2015 of $125,000 and $250,000 respectively (2014 - $125,000 and $250,000) is recorded as part of cost of sales. New union agreements were executed in July 2015 (see note 23).

10. Trades and other payables

	June 30, 2015	December 31, 2014
	($'000)	($'000)
Trade payables	**11,851**	10,386
Payroll and other taxes payable	**3,156**	1,837
Accrued liabilities	**6,480**	8,626
Cash election option (Note 14(b))	**85**	125
Mark to market adjustment	**-**	2,373
	21,572	23,347

The average credit period of purchases is one month. The Company has financial risk management policies that provide reasonable assurance that all payables are paid within the pre-agreed credit terms.

Mark to market adjustment relates to revaluation of trade debtors.

11. Borrowings

Equipment loans

The Company's wholly-owned Swedish subsidiary, Björkdal, has an equipment loan facility (the "Equipment Facility") with an outstanding principal amount as at June 30, 2015 of $1,200,000. The Equipment Facility is with a local Swedish bank to finance certain capital expenditures, bears variable interest at the 3-month STIBOR plus 2.16% per annum, is repayable in monthly installments plus interest, over a term of 33 to 36 months from the three months ended June 30, 2015. 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 totaling $1,200,000. These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05% per annum with monthly lease payments over a term of 33 to 36 months from the three months ended June 30, 2015, and have an equipment buy-out option at the end of the lease term equal to 10% of the original equipment purchase cost. The Company took an additional equipment lease in June 2015 for $737,000 with an interest rate of 2% per annum with monthly lease payments over a term of 48 months.

12. Five year exchangeable loan

In May 2014, Mandalay issued $60 million of debt securities at an interest rate of 5.875% for proceeds of $60,000,000 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. The bonds are secured by the shares of the Australian subsidiary of the company.

Beginning on June 23, 2014, 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 $149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of $1,556 per ounce. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which net asset value (NAV) of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder 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 Bondholders.

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

DSI = (1 / A) x ((B / C) – D)

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

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 $9,000,000 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 Bondholder's have the right to exchange the principal amount for Gold Shares any time after June 13, 2017, the Company has classified the carrying amount of the loan as a current liability in the consolidated statement of financial position of the Company as at June 30, 2015.

13. Provisions

	Employee benefits
	($'000)
Balance, December 31, 2014	3,229
Additions	1,100
Amounts paid	(1,270)
Foreign exchange	(170)
Balance, June 30, 2015	2,889
Less: current portion	2,253
Total non-current portion	636

Costerfield and Cerro Bayo provide for vacation provisions for their current employees in accordance with statutory requirements.

14. Share capital

At June 30, 2015, the Company had unlimited authorized common shares without par value and 409,416,261 common shares outstanding (December 31, 2014 - 408,758,095 common shares). All outstanding shares are fully paid.

(a) *Shares issued*

For the three months ended June 30, 2015, the Company issued common shares upon exercise of share options by their holders (Note 14 (b)) and redemption of RSUs.

(b) *Stock options*

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 two to three years and have a maximum term of seven years from the date of grant.

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 share 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 is re measured at fair value. As at June 30, 2015, the liability is $85,000 (2014-$125,000).The Company recognized a fair value measurement gain/ (loss) of $129,000 and $245,000 for the three and six months ended June 30, 2015, respectively (2014 - $(67,000) and $(64,000)) which is included in share-based compensation.

During the three months ended June 30, 2015, there were no stock options exercised under the cash election option. As at June 30, 2015, 2,020,000 stock options with the cash election option are outstanding.

14. Share capital (continued)

(b) Stock options (continued)

	Number of options	Weighted average exercise price
	('000)	C$
Balance, December 31, 2013	16,073	0.73
Granted	4,555	0.98
Forfeited	(675)	1.01
Exercised-equity issuance	(3,005)	0.39
Balance, December 31, 2014	16,948	0.85
Granted	5,120	0.91
Forfeited	(80)	0.86
Exercised-equity issuance	(585)	0.42
Balance, June 30, 2015	**21,403**	**0.87**

The following table summarizes information about the stock options outstanding at June 30, 2015:

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$**
50,000	1.01	0.76	50,000	0.76
370,000	0.78	0.58	370,000	0.58
2,962,500	0.70	0.56	2,962,500	0.56
300,000	0.27	0.33	300,000	0.33
400,000	0.16	0.26	400,000	0.26
250,000	1.42	0.70	250,000	0.70
3,612,500	1.69	0.83	3,612,500	0.83
3,942,500	2.72	1.13	-	1.13
4,305,000	3.73	0.98	-	0.98
120,000	4.35	0.93	-	0.93
5,090,000	4.73	0.91	-	0.91
21,402,500	**2.82**	**0.87**	**7,945,000**	**0.67**

(Expressed in U.S. dollars)

14. Share capital (continued)

(c) Share-based compensation

For the three and six months ended June 30, 2015, the Company recorded $318,000 and $598,000 (2014 - $433,000 and $757,000) as share-based compensation expense and recorded this amount in share option reserve. The value was determined using the Black-Scholes option pricing model. A weighted average grant-date fair value was C$0.90 and C$0.91 (2014 - C$0.98 and C$0.98) for the three and six months ended June 30 2015, and was calculated using the following weighted average assumption. Expected stock price volatility is based on the Company's historical share price volatility.

	Three and six months ended June 30	
	2015	2014
Risk free interest rate	**0.59%**	1.06%
Expected dividend yield	**3.49%**	3.43%
Expected option life (years)	**5.00**	5.00
Expected stock price volatility	**48%**	63%
Expected annual forfeiture rate	**5%**	5%

(d) Restricted Share Unit Awards

During the year ended December 31, 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs will receive the Company's common shares at no cost at the end of vesting periods 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 outstanding RSUs as at June 30, 2015 is as follows:

	Number of RSU's
Balance, December 31, 2013	306,560
Granted	8,286
Redeemed	(103,842)
Balance, December 31, 2014	211,004
Granted	308,680
Redeemed	(73,166)
Outstanding at June 30, 2015	446,518

For the three and six months ended June 30, 2015, the company recorded $56,000 and $72,000 (2014 - $43,000 and $91,000) as share based compensation relating to RSUs.

(e) Dividends

On February 17, 2015, and May 12, 2015, the Board of Directors declared dividends in the amount of C$0.0121 and C$0.0101 per common share, respectively, based on the Company's operating results for the three months period ended December 31, 2014, and March 31, 2015, respectively, payable to shareholders of record as of February 27, 2015, and May 22, 2015. Total payments of $3,308,000 and $7,284,000 was made during the three and six months ended June 30, 2015 (2014 - $2,345,000 and $4,679,000).

15. Cost of sales

The cost of sales for the three and six months ended June 30, 2015 and 2014 consists of:

	Three months ended	June 30,	Six months ended	June 30,
	2015	2014	2015	2014
	($'000)	($'000)	($'000)	($'000)
Raw materials and consumables	11,212	9,577	23,236	17,609
Salary and employee benefits	9,248	9,107	18,595	18,095
Contractors	4,031	968	8,042	1,802
Change in inventories	746	(117)	1,004	(2,569)
Royalty	544	657	1,126	1,103
Other	5,134	6,181	9,906	10,709
	30,915	**26,373**	**61,909**	**46,749**

16. Finance costs:

Finance costs for the three and six months ended June 30, 2015 and 2014 consists of:

	Three months ended	June 30,	Six months ended	June 30,
	2015	2014	**2015**	2014
	($'000)	($'000)	**($'000)**	($'000)
Interest on borrowings	**1,306**	644	**2,513**	768
Accretion of reclamation and site closure costs	**71**	112	**143**	223
	1,377	756	**2,656**	991

17. Derivative financial instruments

(a) Conversion feature under five year exchangeable bond.

The Company has valued the conversion feature of the Loan (Note 12) using the Black Scholes option pricing model and determined the value of $4,634,000 at the date of May 13, 2014. For three months ended June 30, 2015, the derivative value of the conversion feature amounts to $1,950,000 (December 31, 2014 - $2,854,000) and is recorded as a current liability on the consolidated statement of financial position. The Company recorded a fair value measurement gain of $290,000 for three months ended June 30, 2015 and fair value measurement gain of $903,000 for six months ended June 30, 2015. The value was estimated using the following Level 2 assumptions: risk free interest rate of 0.49%; volatility of 18%, gold forward curve adjustment of -0.18%.

(b) Oil call option

On December 15, 2014, the Company entered into a crude oil call for a notional amount of 120,000 barrels of crude oil at an exercise price of $60.50 per barrel for the period comprising of January 1 to December 31, 2015. As at June 30, 2015, the derivative has a carrying value of $213,000 (at December 31, 2014 - $552,000) recorded as current asset in the consolidated financial statements.

17. Derivative financial instruments (continued)

(b) Oil call option(continued)

The Company recorded a fair value measurement gain of $12,000 for three months ended June 30, 2015 and fair value measurement loss of $305,000 for six months ended June 30, 2015.

(c) Marketable securities

In context of the Elgin acquisition, the Company indirectly acquired marketable securities with a fair market value of $193,000 as at June 30, 2015 (at December 31, 2014 - $221,000), recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement loss of $5,000 and $18,000 for the three and six months ended June 30, 2015 respectively.

18. Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables (non-provisional pricing portion), marketable securities, 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. 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 Level 3 inputs.

As at June 30, 2015, the provisional pricing feature of trade receivables, other receivables and oil derivative are based on Level 2 input. Provisional pricing feature of trade and other payables, five year exchangeable bonds and derivative financial instruments are based on Level 2 input. Reclamation and other deposits and long term-debt are also based on Level 2 input, whereas Marketable securities are based on Level 1 input. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

19. Income tax

The Company uses the liability method of accounting for income taxes. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and on the carry forward of tax losses and tax credits. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

During the three months ended June 30, 2015, the Company recognized $1,917,000 (2014 - $14,000 recovery) as deferred tax expense for Costerfield, $456,000 (2014 - ($25,000)) as deferred tax recovery for Cerro Bayo and $152,000 (2014 – nil) as deferred tax expense for Björkdal . During the six months ended June 30, 2015, the Company recognized $3,250,000 (2014 - $1,091,000 recovery) as deferred tax expense for Costerfield, $213,000 (2014 - $450,200 recovery) as deferred tax expense for Cerro Bayo and $433,000 (2014 – nil) as deferred tax expense for Björkdal.

20. Income per share

As at June 30, 2015, the weighted average number of common shares for the purpose of diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
	('000)	('000)	**('000)**	('000)
Basic weighted average number of shares outstanding	**409,094**	340,920	**408,948**	336,328
Effective of diluted securities				-
Stock options	**2,039**	3,525	**2,144**	3,393
Warrants	**-**	10,519	**-**	10,410
RSU	**516**	311	**378**	309
Diluted weighted average number of shares outstanding	**411,649**	355,275	**411,470**	350,440

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purpose of diluted income per share calculation because their exercise price exceeded the daily weighted average market values of the common shares for the three and six months ended June 30, 2015 of C$0.90 and C$0.91 (three and six months ended June 30, 2014 C$0.95 and C$0.93) respectively:

	Three months ended June 30,		Six months ended, June 30,	
	2015	2014	**2015**	2014
	('000)	('000)	**('000)**	('000)
Stock options	**13,458**	8,573	**8,368**	8,573

21. Restatement

In preparing the consolidated interim financial statements for the three month period ended June 30, 2015 and 2014, the Company determined that a Chilean provision relating to termination payments, which had grown by immaterial amounts over several years, had been incorrectly recorded as the amounts did not meet the criteria for recognition under IFRS 19 Employees Benefits. The amount of the provision as at December 31, 2014, was $3,200,000 with a corresponding deferred tax asset of $900,000.

In addition, the Company determined that the deferred income tax asset in Costerfield was overstated due to incorrectly transferring immaterial amounts of tax basis from exploration assets to develop mine properties over several years. The deferred income tax asset as at December 31, 2014, was $1,100,000.

The impact to the consolidated interim statement of financial position as at December 31, 2014, as a result of these corrections is as follows:

21. Restatement (continued)

	Previously reported ($'000) Dr/(Cr)	Effect of correction ($'000) Dr/(Cr)	Restated ($'000) Dr/(Cr)
Provisions (non current liability)	(3,754)	3,233	(521)
Deferred tax asset	9,050	(1,993)	7,057
Retained earnings	(68,965)	(1,240)	(70,205)
Total	**(63,669)**	**-**	**(63,669)**

The correction also resulted in an adjustment to increase opening retained earnings (i.e. as at January 1, 2014) by $1,200,000 with no corresponding adjustment made to either or the consolidated statements of income and comprehensive income or cash flows for any of the three month periods ended June 30, 2014, June 30, 2014, September 30, 2014 or December 31, 2014, nor for the years ended December 31, 2014 or 2013.

22. Segmented information

The Company manages its operations by geographical location. These reportable operating segments are summarized in the table below:

				Three months ended on June 30, 2015	
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	19,334	17,538	13,921	-	50,793
Depletion and depreciation					
(including corporate depreciation)	(3,390)	(4,192)	(1,735)	(33)	(9,350)
Income (loss) from operations	6,297	375	2,899	(1,105)	8,466
Other expense, except for fair value					
adjustment on derivatve financial warrants	(401)	(96)	(62)	(1,163)	(1,722)
Income for underlying operations	5,896	279	2,837	(2,268)	6,744
Income for underlying operations per share					
Basic					$0.02
Diluted					$0.02
Fair value adjustments gain (loss) (Note 17)					
Five year exchangeable bonds	-	-	-	290	290
Marketable Securities	-	-	-	(5)	(5)
Oil derivative	-	-	-	12	12
Total fair value adjustment	-	-	-	297	297
Income (loss) before income taxes	5,896	279	2,837	(1,971)	7,041
Current tax recovery (expense)	-	100	(455)	-	(355)
Deferred tax recovery (expense)	(1,917)	456	(152)	-	(1,613)
Net income (loss)	3,979	835	2,230	(1,971)	5,073
Income per share					
Basic					$0.01
Diluted					$0.01
Cash expenditure for property, plant and equipment	5,582	4,486	4,263	-	14,331
Total non-current assets as at June 30,2015	58,799	88,134	73,845	30,883	251,661
Total assets as at June 30,2015	75,544	131,972	95,718	59,979	363,213
Total liabilities as at June 30,2015	12,386	22,417	27,552	76,976	139,331

22. Segmented information (continued)

	Six months ended on June 30, 2015				
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	36,922	40,438	30,212	-	107,572
Depletion and depreciation					
(including corporate depreciation)	(6,934)	(8,473)	(3,505)	(68)	(18,980)
Income (loss) from operations	11,941	3,800	8,296	(1,223)	22,814
Other income (expense), except for fair value					
adjustment on financial instruments	(494)	(362)	(30)	527	(359)
Income (loss) from underlying operations	11,447	3,438	8,265	(696)	22,455
Income for underlying operations per share					
Basic					$0.05
Diluted					$0.05
Fair value adjustments gain (loss) (Note 17)					
Five year exchangeable bonds	-	-	-	903	903
Marketable securities	-	-	-	(18)	(18)
Oil derivative	-	-	-	(305)	(305)
Total fair value adjustments	-	-	-	580	580
Income (loss) before income taxes	11,447	3,438	8,265	(116)	23,035
Current tax expense	-	(281)	(1,300)	-	(1,581)
Deferred tax expense	(3,251)	(212)	(434)	-	(3,897)
Net income (loss)	8,196	2,945	6,531	(116)	17,557
Income per share					
Basic					$0.04
Diluted					$0.04
Cash expenditure for property, plant and equipment	10,606	9,390	7,336	-	27,332
Total non-current assets as at June 30,2015	58,799	30,883	88,134	73,845	251,661
Total assets as at June 30,2015	75,544	59,979	131,972	95,718	363,213
Total liabilities as at June 30,2015	12,386	76,976	22,417	27,552	139,331

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements
as at June 30, 2015 and December 31, 2014
(Unaudited)
(Expressed in U.S. dollars)

22. Segmented information (continued)

					Three months ended on June 30, 2014
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	17,953	26,935	-	-	44,888
Depletion and depreciation					
(including corporate depreciation)	(3,482)	(4,483)	-	(7)	(7,972)
Income (loss) from operations	1,200	7,910	-	(1,622)	7,488
Other income (expense), except for fair value					
adjustment on derivatve financial warrants	(391)	22	-	(442)	(811)
Income (loss) for underlying operations	809	7,932	-	(2,064)	6,677
Income for underlying operations per share					
Basic					$0.02
Diluted					$0.02
Fair value adjustments gain (loss) (Note 17)					
Currency Hedge Contract	14	-	-	-	14
Financing instruments	-	-	-	(162)	(162)
Total fair value adjustment	14	-	-	(162)	(148)
Net income (loss) before income taxes	823	7,932	-	(2,226)	6,529
Current tax expense	-	(1,604)	-	-	(1,604)
Deferred tax recovery (expense)	(14)	25	-	-	11
Net income (loss)	809	6,353	-	(2,226)	4,936
Income per share					
Basic					$0.01
Diluted					$0.01
Cash expenditure for property, plant and equipment	9,915	6,582	-	-	16,497
Total non-current assets as at December 31,2014	60,007	87,615	71,883	32,607	252,112
Total assets as at December 31,2014	74,664	134,532	89,248	64,663	363,108
Total liabilities as at December 31,2014	8,560	28,631	25,979	79,920	143,090

22. Segmented information (continued)

	Six months ended on June 30, 2014				
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	33,920	49,060	-	-	82,980
Depletion and depreciation					
(including corporate depreciation)	(6,819)	(8,430)	-	(14)	(15,263)
Income (loss) from operations	3,984	13,984	-	(2,395)	15,573
Other income (expense), except for fair value					
adjustment on financial instruments	(594)	(124)	-	(345)	(1,063)
Income (loss) from underlying operations	3,390	13,860	-	(2,740)	14,511
Income from underlying operations per share					
Basic					$0.04
Diluted					$0.04
Fair value adjustments gain (loss) (Note 17)					
Currency Hedge Contract	226	-	-	-	226
Financing instruments	-	-	-	(269)	(269)
Total fair value adjustment	226	-	-	(269)	(43)
Net income (loss) before income tax	3,616	13,860	-	(3,009)	14,467
Current tax expense	-	(2,246)	-	-	(2,246)
Deferred tax expense	(1,091)	(450)	-	-	(1,541)
Net income (loss)	2,525	11,164	-	(3,009)	10,680
Income per share					
Basic					$0.03
Diluted					$0.03
Cash expenditure for property, plant and equipment	16,189	10,730	-	-	26,919
Total non-current assets as at December 31,2014	60,007	87,615	71,883	32,607	252,112
Total assets as at December 31,2014	74,664	134,532	89,248	64,663	363,108
Total liabilities as at December 31,2014	8,560	28,631	25,979	79,920	143,090

22. Segmented information (continued)

For the three months ended June 30, 2015, the Company had four (2014 - four) customers from which it earned more than 10% of its total revenue. For the six months ended June 30, 2015 the company had five (2014 – four) customers from which it earned more than 10% of its total revenue.

Revenue from these customers is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
	($'000)	($'000)	**($'000)**	($'000)
Costerfield (gold and antimony)				
Customer 1	**16,202**	13,015	**18,797**	23,127
Customer 2	**6,964**	4,840	**16,808**	10,695
	23,166	17,855	**35,605**	33,822
Cerro Bayo (silver and gold)				
Customer 3	**10,632**	12,865	**24,181**	27,418
Customer 4	**-**	10,506	**10,634**	15,006
	10,632	23,371	**34,815**	42,424
Björkdal (gold)				
Customer 5	**11,780**	-	**25,753**	-
	11,780	-	**25,753**	-
Total	**45,578**	41,226	**96,173**	76,246

23. Subsequent event

Dividend:

On August 5, 2015, the Board of Directors declared a dividend in the amount of $0.0074 per share (C$ 0.0098 per share), payable on August 27, 2015 to shareholders of record as of August 17, 2015.

Collective agreements with Unions at Cerro Bayo:

On July 1 and July 8, 2015, the Company signed new two year collective agreements with its mining and plant operators' unions at Cerro Bayo. A lump sum payment of $982,000 was made to secure the contracts.

24. Related party transaction

During the quarter, expenses relating to the relating to the June 205 C$18,400,000 secondary offering of Company shares by West Face, totaling $209,000, were paid by Mandalay and are subsequently to be reimbursed by West Face, a related party of the Company. The outstanding balance is shown in other receivables.