



MANDALAY RESOURCES

Management's Discussion and Analysis

For the year ended December 31, 2014

CONTENTS

1.0 DATE	8
1.1 SUBSEQUENT EVENTS.....	8
1.2 PORTFOLIO AND OPERATIONAL OVERVIEW.....	8
1.3 SELECTED annual and QUARTERLY INFORMATION	10
1.4 RESULTS OF OPERATIONS.....	16
1.5 SUMMARY OF QUARTERLY RESULTS	29
1.6 LIQUIDITY, SOLVENCYAND USES OF CASH.....	30
1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES	31
1.8 OFF-BALANCE SHEET ARRANGEMENTS	33
1.9 TRANSACTIONS WITH RELATED PARTIES.....	33
1.10 CRITICAL ACCOUNTING POLICIES	34
1.11FINANCIAL INSTRUMENTS.....	38
1.12 OTHER MD&A REQUIREMENTS	40
1.13OUTSTANDING SHARES	42
1.14 QUALIFIED PERSONS.....	43
1.15 FORWARD LOOKING STATEMENTS.....	43
1.16 Non-IFRS MEASURES	44

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the year ended December 31, 2014, the Company's annual information form dated March 28, 2014 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

FOURTH QUARTER 2014 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Quantities of metal sold during the quarter were 33,107 ounces ("oz") of gold ("Au"), 1,087,776 oz of silver ("Ag") and 1,151 tonnes ("t") of antimony ("Sb") compared to 12,578 oz Au, 769,120 oz Ag and 959 t Sb in the fourth quarter of 2013. Prices realized during the quarter were \$1,199 per oz for Au, \$16.45 per oz for Ag and \$9,004 per t for Sb in 2014 versus \$1,216 per oz for Au, \$18.62 per oz for Ag and \$9,836 per t for Sb in the same period in 2013. During the quarter, Björkdal (in its first full quarter as part of Mandalay) sold 12,115 oz Au. Mandalay's sales for the quarter of 56,680 oz of gold equivalent (Au Eq.) and for the full year of 149,349 oz Au Eq. are period records.
- Revenues in the quarter of \$67.0 million (including adverse revenue adjustment of \$0.1 million related to unsettled open shipments from prior quarters), compared with revenues of \$39.1 million in the fourth quarter of 2013 including adverse revenue adjustments of \$1.1 million related to unsettled open shipments for the prior quarters.
- Revenues were also negatively impacted by lower realized metal prices relative to the previous year quarter of 0.3% per oz for Au, 17.6% per oz for Ag and 10.6% per t for Sb. Income from

mining operations before depletion and depreciation was \$25.7 million in the fourth quarter of 2014 compared with \$15.8 million in the fourth quarter of 2013.

- Net profit during the quarter was \$7.6 million (\$0.02 per share) compared with net profit of \$4.4 million (\$0.01 per share) in the fourth quarter of 2013.
- Profit after tax from underlying operations⁽¹⁾ in the current quarter was \$5.5 million (\$0.02 per share) compared with profit after tax from underlying operations of \$4.4 million (\$0.02 per share) in the fourth quarter of 2013.
- During the quarter, cash cost⁽²⁾ of silver produced at Cerro Bayo was \$3.95 per oz Ag net of Au credits and the site all-in cost was \$10.37 per oz Ag net of Au credits, compared to \$6.74 and \$11.51, respectively, in the fourth quarter of 2013. Cash cost⁽²⁾ of production at Costerfield in the quarter was \$ 607.84 per Au Eq. oz produced and the site all-in cost⁽²⁾ was \$ 884.47 per Au Eq. oz produced compared to \$ 849.89 and \$ 1,085.48, respectively in the fourth quarter of 2013. Cash cost⁽²⁾ of production at Björkdal per Au Eq. oz was \$901 and the site all-in cost⁽²⁾ was \$1,051 per Au Eq. oz.
- Dividends paid in the fourth quarter of 2014 were \$2.1 million (C\$0.0058 per share) compared to \$3.0 million (C\$0.0097 per share) in corresponding quarter of the prior year.
- Capital expenditures during the fourth quarter of 2014 were \$4.5 million at Cerro Bayo, \$3.7 million at Costerfield and \$2.9 million at Björkdal compared to \$4.5 million at Cerro Bayo and \$6.9 million at Costerfield in the fourth quarter of 2013.
- At December 31, 2014, the Company had \$49 million of cash and cash equivalents.

⁽¹⁾ Income after tax from underlying operations is a non-IFRS performance measure. Refer to Section 1.16 “Non-IFRS Measures” for further information.

⁽²⁾Cash cost and site all-in costs are non-IFRS performance measures. Refer to Section 1.16 “Non-IFRS Measures” for further information.

2. Operating Highlights

a. Consolidated Production and Sales

In the fourth quarter of 2014, Mandalay produced 31,636 oz Au, 1,021,189 oz Ag and 926 t Sb, representing 52,601 Au Eq. oz. Production in the fourth quarter of 2013 was 12,117 oz Au, 878,542 oz Ag and 805 t Sb, representing 32,770 Au Eq. oz.

The increase in production at Costerfield was the result of more tonnes of ore mined and processed than in the previous year, and at higher grade as production from the Cuffley Lode ramped up. Production at Cerro Bayo increased due to higher grades realized in the fourth quarter of 2014 compared to the same period of the previous year and due to the ramping up of

throughput rate to a nominal 1400 tonnes/day (“t/d”) from the previous year’s 1200 t/d. The addition of the Björkdal mine to the Mandalay portfolio in 2014 contributed production of 14,549 oz Au to the total.

Saleable Production

Metal	Source	Three months to 31 December 2014	Three months to 31 December 2013	Year ended 31 December 2014	Year ended 31 December 2013
Gold (oz)	Costerfield	11,126	6,845	35,751	28,758
	Cerro Bayo	9,052	5,272	27,600	21,482
	Bjorkdal	11,458	-	14,549	-
	Total	31,636	12,117	77,900	50,240
Antimony (t)	Costerfield	926	805	3,639	3,275
Silver (oz)	Cerro Bayo	1,021,189	878,542	3,329,519	3,145,537
Average quarterly prices:					
Gold US\$/oz		1,199	1,271		
Antimony US\$/tonne		9,004	9,940		
Silver US\$/oz		16.45	20.76		
Au Eq. (oz) ¹	Costerfield	18,078	13,143	62,889	52,911
	Cerro Bayo	23,065	19,627	77,372	73,997
	Bjorkdal	11,458	-	14,549	-
	Total	52,601	32,770	154,810	126,908

¹ Au Eq. oz produced is calculated by multiplying the saleable quantities of Au, Ag and Sb in the period by the respective average market price of the commodities in the period, adding the three amounts to get “total contained value based on market price”, and then dividing that total contained value by the average market price of Au in the period. Average Au price in the period is calculated as the average of the daily LME PM fixes in the period, with price on weekend days and holidays taken from the last business day; average Sb price in the period is calculated as the average of the high and low Rotterdam warehouse prices for all days in the period, with price on weekend days and holidays taken from the last business day; average Ag price in the period is calculated as the average of the daily London Broker’s silver spot price for all days in the period, with price on weekend days and holidays taken from the last business day. The source for all prices is www.metalbulletin.com.

Sales

Metal	Source	Three months to 31 December 2014	Three months to 31 December 2013	Year ended 31 December 2014	Year ended 31 December 2013
Gold (oz)	Costerfield	12,098	7,620	35,333	27,883
	Cerro Bayo	8,894	4,958	25,278	21,612
	Bjorkdal	12,115	-	15,409	-
	Total	33,107	12,578	76,020	49,495
Antimony (t)	Costerfield	1,151	959	3,506	3,254
Silver (oz)	Cerro Bayo	1,087,776	769,120	3,168,211	3,148,886
Average quarterly prices:					
Gold US\$/oz		1,199	1,271		
Antimony US\$/tonne		9,004	9,940		
Silver US\$/oz		16.45	20.76		
Au Eq. (oz) ²	Costerfield	20,744	15,123	61,496	51,941
	Cerro Bayo	23,821	17,525	72,444	74,154
	Bjorkdal	12,115	-	15,409	-
	Total	56,680	32,648	149,349	126,095

²Au Eq. oz sold is calculated by multiplying the quantities of Au, Ag, and Sb sold in the period by the respective average market prices of the commodities in the period, adding the three amounts to get a “total contained value based on market price”, and then dividing that total contained value by the average market price of Au in the period. The source for all prices is www.metalbulletin.com, with price on weekend days and holidays taken from the last business day.

b. Costerfield Gold-Antimony Mine, Victoria, Australia

- i. *Production* — Saleable Au production for the fourth quarter of 2014 was 11,126 oz versus 9,454 oz in the previous quarter and 6,845 oz in the fourth quarter of 2013. Saleable Sb production for the fourth quarter of 2014 was 926 t versus 1,000 t in the previous quarter and 805 t in the fourth quarter of 2013. Higher production in the current quarter compared to the corresponding quarter of the previous year was mainly due to greater mine output.
- ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the fourth quarter of 2014 was \$608 versus \$747 in the previous quarter and \$850 in the fourth quarter of 2013. The lower cash cost in the fourth quarter of 2014 was due to high throughput and high grades of ore processed coupled with the completion of the move to 10 meter mining stopes from 6 meter stopes throughout the time. The site all-in cost per Au eq. oz produced in the fourth quarter of 2014 was \$885, versus \$1,047 in the previous quarter and \$1,086 in the fourth quarter of 2013.

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

- i. *Production* —Cerro Bayo produced 1,021,189 oz Ag and 9,052 oz Au in the fourth quarter of 2014 versus 823,379 oz Ag and 6,445 oz Au in the previous quarter and 878,542 oz Ag and 5,272 oz Au in the fourth quarter of 2013. The increase in production quantities is mainly due to operating for a full quarter at the 1400 tpd mining and processing rate and improved ore grades mined and processed compared to the prior quarters.
- ii. *Operating Costs* —Cash cost per saleable oz Ag produced net of Au credits was \$3.95 in the fourth quarter of 2014 versus \$6.26 in the previous quarter and \$6.74 in the fourth quarter of 2013. Cash cost per oz was lower in the fourth quarter of 2014 compared to the corresponding quarter of 2013 was principally due higher production from what is essentially a fixed cost operation. The site all-in cost per oz Ag produced net of Au by-product credit was \$10.37 in the fourth quarter of 2014 versus \$12.23 in the previous quarter and \$11.51 in the fourth quarter of 2013.

d. Björkdal Gold Mine, Sweden

- i. *Production* —Björkdal produced 11,458 oz Au in the fourth quarter.
- ii. *Operating Costs* — Cash cost per saleable oz Au produced at Björkdal in the fourth quarter was \$901 and the site all-in cost per saleable oz Au produced was \$1,051.

3. Exploration

a. Cerro Bayo

Mandalay completed 6,848 meters (“m”) of resource infill drilling in the fourth quarter during the fourth quarter of 2014. Exploration activity in the third and fourth quarter were exclusively focused on infill drilling the extensions of the Coyita and Yasna veins under Laguna Verde, where previous high grade intercepts had been obtained in widely spaced drill holes as presented in a press release dated July 9, 2014; the goal was to add Resources and Reserves to the Cerro Bayo position by the end of 2014.

b. Costerfield

Mandalay completed 2,093 m of drilling at Costerfield during the fourth quarter of 2014. The efforts focused on extending and infilling Mineral Resources and Mineral Reserves on the Cuffley lode and N-lode.

c. Björkdal

Bjorkdal has an ongoing drill program to extend and infill resources in the open pit and underground mines, as well as test new targets in the district. During the quarter, approximately 3,898 m were drilled, with the results still pending. As part of the post-transaction integration process, Mandalay has retained an independent third party to estimate Mineral Resources and Reserves for year-end 2014, with the results anticipated in February, 2015.

d. Challacollo

In the fourth quarter, Mandalay completed 520 meters of exploration drilling on the Lolon vein to support the ongoing feasibility study. It also completed the first round of drilling to test for extensions to the Lolon vein and new veins in the district. The feasibility study was advanced, with infrastructure, water, power, and metallurgical studies underway. Baseline environmental and cultural data collection to support the permitting process continued.

e. La Quebrada, Chile

La Quebrada is a non-core asset and accordingly, no exploration activities occurred in the fourth quarter of 2014.

FULL YEAR FINANCIAL HIGHLIGHTS

The following table summarizes the Company’s financial results for the years ended December 31, 2014 and 2013:

	Year ended December 31, 2014 (\$'000)	Year ended December 31, 2013 (\$'000)
Revenue	184,629	166,906
Adjusted EBITDA*	64,435	67,699
Income before depletion and depreciation from Mine operation	75,446	75,608
Net income	17,576	29,442
Total Assets	365,101	196,772
Total Liabilities	146,323	43,190
Income per share	0.05	0.09

*Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 “Non-IFRS Measures” on page 42 for further information.

1.0 DATE

This MD&A is dated as of February 17, 2015.

1.1 SUBSEQUENT EVENTS

Quarterly Dividend

On February 17, 2015, the Board of Directors declared a total dividend of US\$ 4,018,360, or \$0.0098 per share (C\$ 0.0121 per share), payable on March 09, 2015 to shareholders of record as of February 27, 2015.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

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

The Company is currently holding its La Quebrada copper–silver project near La Serena, Chile, and its Lupin and Ulu gold projects in Nunavut, Canada, for sale.

Costerfield

Costerfield is a 100%-owned Au-Sb mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Acquired while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day (“tpd”) in 2009 to 460 tpd in the fourth quarter

of 2014. The production increases (and associated unit cost reductions) are due principally to: a change in mining method from cut-and-fill to blast-hole stoping with cemented rock fill; increasing sub-level spacing from 6 m to 10 m; replacing the underground mobile mining fleet; introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput) and construction of a new gold room which has increased the proportion of gold recovered to gravity concentrate. In addition, rigorous improvements in maintenance and production processes in the mine and plant have led to increases in equipment availability and utilization as well as in labor productivities. Exploration (funded by mine operating cash flow) has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life.

Cerro Bayo

Cerro Bayo is a 100%-owned Ag-Au mine located in the Aysen Province of southern Chile, purchased while on care and maintenance in August, 2010. Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. Key to the financial performance of the restarted operation have been: shifting the mining method from shrinkage stoping to completely mechanized blast-hole open stoping; ramping up the operation to a total rate of 1,400 tpd from three mines; and developing four highly competitive concentrate customers. Exploration has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life from a nominal three years to more than five today.

Björkdal

Björkdal is a 100% owned gold mine located in northern Sweden. It was acquired through the Company's acquisition of Elgin Mining on September 9th 2014. The operation currently produces from both an open pit mine and an underground mine. The concentrator currently process 3,500 tpd and has been permitted to expand to 4,300 tpd. Activities since the acquisition have been focused on: completing a new, independent estimation of Mineral Resources and Reserves; formulating and optimized life-of-mine plan balancing production from open pit and underground while reducing dilution in both; establishing a local assay lab for fast exploration and grade control sample turnaround; and fundamental metallurgical surveys and ore sorting studies to improve plant performance.

Challacollo

Challacollo is a 100% owned Ag-Au deposit located in Region I, Northern Chile. Mandalay completed an independent NI 43-101 Mineral Resource estimate for this development property in conjunction with the acquisition, which was completed on February 7, 2014. Since then, it has hired the core management team for the project and has embarked on a feasibility study for an underground mine and leach processing plant producing silver-gold ore, due later in the first half of 2015.

La Quebrada

La Quebrada is a 100% owned copper- silver project located near La Serena, Chile. Mandalay completed a maiden Independent NI 43-101 Mineral Resource estimate for the property in 2012, and since then has

been performing mining, metallurgical, engineering and financial studies while developing options for the project. It is currently held for sale.

Lupin/Ulu

The Lupin and Ulu Au projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project. A non-binding agreement for the sale of Lupin and Ulu to WPC Resources, subject to completion of due diligence and financing, was announced on January 19, 2015.

1.3 SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended December 31, 2014 and 2013:

	Three months ended December 31, 2014 (\$'000)	Three months ended December 31, 2013 (\$'000)
Revenue	66,973	39,058
Cost of sales	41,252	23,260
Income from mine operations before depreciation and depletion	25,721	15,798
Depreciation and depletion	10,911	6,900
Income from mine operations	14,810	8,898
Administration	4,090	1,828
Business development costs	168	50
Adjusted EBITDA*	21,463	13,920
Finance costs, foreign exchange and others/(income)**	1,615	1,600
Income/(loss) before tax	8,937	5,419
Current tax expense	1,861	1,039
Deferred tax expense (recovery)	(512)	(55)
Net Income/(loss) after tax	7,588	4,435
Total assets	365,101	196,772
Total liabilities	146,323	43,190
Income per share	0.02	0.01

*Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

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

The following table sets forth the summary of financial results for the year ended December 31, 2014 and 2013:

	Year ended December 31, 2014 (\$'000)	Year ended December 31, 2013 (\$'000)	Year ended December 31, 2012 (\$'000)
Revenue	184,629	166,906	171,806
Cost of sales	109,183	91,298	84,502
Income from mine operations before depreciation and depletion	75,446	75,608	87,303
Depreciation and depletion	35,698	28,402	19,339
Income from mine operations	39,748	47,206	67,964
Administration	9,193	7,293	7,368
Business development costs	1,818	616	-
Adjusted EBITDA*	64,435	67,699	79,935
Finance costs, fx and others**	5,643	3,022	20,182
Income/(loss) before tax	23,094	36,275	40,414
Current tax expense	4,633	7,116	5,290
Deferred tax expense (recovery)	885	(283)	(6,588)
Net Income/(loss) after tax	17,576	29,442	41,712
Income per share	0.05	0.09	0.14

* Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

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

Dividend

Mandalay's current policy is to pay a quarterly dividend equal in an aggregate amount equal to 6% of the trailing quarter's revenue. The following table summarizes dividends paid by Mandalay in 2013 and 2014:

Declaration date	Payable to shareholders of record at	Dividends declared	Total payment
		C\$	(\$'000)
2014			
February 18, 2014	March 10, 2014	0.0077	2,344
May 05, 2014	May 26, 2014	0.0074	2,335
August 06, 2014	August 28, 2014	0.0086	2,693
November 06, 2014	November 27, 2014	0.0058	2,094
			9,466
2013			
February 20, 2013	March 7, 2013	0.01	3,197
May 14, 2013	May 24, 2013	0.00769	2,435
August 8, 2013	August 19, 2013	0.00690	2,151
November 5, 2013	November 25, 2013	0.0097	3,026
			10,809

Normal Course Issuer Bid ("NCIB")

On October 10, 2013, the Toronto Stock Exchange (TSX) approved the Company's notice of intention to make a Normal Course Issuer Bid (the "2013 NCIB"). Pursuant to the 2013 NCIB, the Company may purchase for cancellation up to 16,185,328 common shares at prevailing market prices in the 12-month

period commencing October 17, 2013 and ending on October 16, 2014. The purchase price for any shares purchased pursuant to the NCIB is financed from the Company's working capital.

The Company did not purchase any common shares under the 2013 NCIB for period from 1st October, 2014 to 16th October, 2014. The NCIB stands terminated on October 16, 2014, and was not renewed.

The following table summarizes the Company's recent NCIB activity.

Details	Average price C\$	Shares	Warrants
2012 NCIB (Oct 17, 2012 to Oct 16, 2013)			
Permitted to acquire		15,856,786	-
Acquired in 2013 (1 Jan to 16 Oct)	0.81	(2,335,100)	
2013 NCIB (Oct 17, 2013 to Oct 16, 2014)			
Permitted to acquire		16,185,328	-
Acquired in 2013 (17 Oct to 31 Dec)	0.78	(694,700)	-
Acquired in 2014 (1 Jan to 17 Oct)	0.77	(30,600)	-
Expired	-	(15,460,028)	-

Adjusted EBITDA Reconciliation to Net Income

The table below reconciles adjusted EBITDA to reported net income for the three months and year ended December 31, 2014 and 2013. Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 42 - 44 for further information.

	Three months ended December 31, 2014		Three months ended December 31, 2013	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Net Income/(loss)		7,588		4,435
Add: Non-cash and finance costs				
Depletion and depreciation	10,911		6,900	
Loss (gain) on disposal of property, plant and equipment	138		192	
Write off mineral properties/exploration and evaluation	1,863		250	
Share based compensation	210		396	
Interest and finance charges	1,651		242	
Fair value adjustments	(1,562)		496	
Current tax	1,861		1,039	
Deferred tax	(512)		(55)	
Foreign exchange (gain)/loss	(516)	14,044	95	9,555
		21,632		13,990
Add/(Less): Interest and (other income)/expenses	(169)	(169)	(71)	(71)
Adjusted EBITDA		21,463		13,920

	Year ended December 31, 2014		Year ended December 31, 2013	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Net Income/(loss)		17,576		29,442
Add: Non-cash and finance costs				
Depletion and depreciation	35,698		28,402	
Loss (gain) on disposal of property, plant and equipment	226		321	
Write off mineral properties/exploration and evaluation	2,545		798	
Share based compensation	1,535		1,750	
Interest and finance charges	3,903		874	
Fair value adjustments	(1,552)		7	
Current tax	4,633		7,116	
Deferred tax	885		(283)	
Foreign exchange (gain)/loss	(709)	47,164	(334)	38,651
		64,740		68,093
Add/(Less): Interest and (other income)/expenses	(305)	(305)	(394)	(394)
Adjusted EBITDA		64,435		67,699

Fair-value adjustments

As at December 31, 2014, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Financing warrants – During the year ended December 31, 2012, the Company issued 3,050,000 ‘financing’ warrants to specific service providers in consideration for financing and other services that the Company received in prior years. Each financing warrant entitles the holder to receive from the Company a cash payment equal to the difference between the exercise price of the warrant and the market price of the Company’s common shares at the time of exercise. No common shares are issuable upon the exercise of the warrants. These financing warrants are accounted as a liability and are marked to market at the end of each period until they are exercised or expire. During the three months ended December 31, 2014, all the financing warrants were exercised. The Company recorded a fair value measurement gain of \$110 thousand for year ended December 31, 2014. There were no financing warrants outstanding on December 31, 2014.

Currency option – On July 25, 2013 the Company’s Australian subsidiary entered into 50% participating forward contracts for A\$33 million (A\$3 million per month) starting August, 2013, and ending June, 2014. These contracts allow the Company to buy, monthly for 11 months starting August, 2013, A\$3 million at US\$1=A\$1.07526 (the “contract rate”), if the Australian dollar is stronger than the contract rate, or A\$1.5 million at the contract rate and A\$1.5 million at the spot rate if the Australian dollar is weaker than the contract rate. The derivative financial instruments are stated at fair value with any resulting gain or loss recognized in profit or loss. The Company recorded a fair value measurement gain of \$225,658 for the year ended December 31, 2014. As at December 31, 2014, the liability for the currency option was Nil and the forward contracts are expired.

Conversion feature under debt financing – In May, 2014, the Company borrowed \$60 million in a five-year debt financing at an interest rate of 5.875% from Gold Exchangeable Limited (“GEL”), an unaffiliated special purpose vehicle incorporated in Jersey. GEL raised the financing proceeds by way of a concurrent offering of five year senior exchangeable bonds (the “Bonds”) issued by Gold Exchangeable Limited (the “Issuer”), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the “Borrower”), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the “Loan”) which together mirror the principal terms of the Bonds. Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust (“Gold Shares”) based on the then-applicable exchange price. The initial exchange price is 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 NAV of the SPDR Gold Trust or Gold Shares is calculated.

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

GEL may redeem the Bonds at its option:

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

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

The Company has computed and initially allocated \$4,633,984 to the value of derivative financial instruments associated with the bonds. As at December 31, 2014, the Company has recomputed the derivative portion of the Exchangeable Bonds at \$2,854,032. As a result there is a mark-to-market adjustment gain of \$1,779,952.

Marketable securities - In context of Elgin acquisition Company acquired marketable securities amounting to \$221,430 as at December 31, 2014 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 \$167,555 for the year ended December 31, 2014.

Oil derivative - On December 15, 2014, the Company entered into a crude oil call for a notional amount of 120,000 barrel of crude oil at an exercise price of \$60.50 per barrel. As at December 31, 2014 the derivative has a carrying value of \$552,431 recorded in prepaid in the consolidated financial statements.

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

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

	Before fair value and deferred tax adjustments ^(a)	Note	Fair value and deferred tax adjustments				As of December 31, 2014 ^(a)	As of December 31, 2013 ^(a)
			Q1 2014	Q2 2014	Q3 2014	Q4 2014		
			(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Assets								
Deferred tax	10,959	(b)	(1,552)	11	144	(512)	9,050	9,985
Marketable Securities	388	(c)	-	-	(38)	(129)	221	637
Derivative financial instrument (oil derivative)	728	(g)	-	-	-	(176)	552	-
Liabilities								
Derivative financial instrument (currency options)	27,059	(d)	(212)	(14)	-	-	-	360
Derivative financial instrument (financing warrants)	(110)	(e)	107	162	(72)	(87)	-	434
Derivative financial instrument (Five year exchangeable bonds)	4,634	(f)	-	-	-	(1,780)	2,854	-
Equity								
Retained earnings/(deficit)	65,503		1,657	(159)	(110)	2,074	68,965	60,859

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax recovery of \$512k for the three months ended December 31, 2014.

(c) The Company recorded fair value measurement loss of \$129k relating to marketable securities for the three months ended December 31, 2014

(d) The Company recorded fair value measurement gain of \$Nil relating to the currency option for the three months ended December 31, 2014.

(e) The Company recorded fair value measurement gain of \$87 relating to financing warrants for the three months ended December 31, 2014.

(f) The Company recorded fair value measurement gain of \$1.8 million relating to derivative portion of five year exchangeable bonds for the three months ended December 31, 2014

(g) The Company recorded fair value measurement loss of \$ 176k relating to Oil derivative for three months ended December 31, 2014.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended December 31, 2014 and 2013

	December 31, 2014				December 31, 2013
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	(\$'000)		(\$'000)	(\$'000)	(\$'000)
Income (loss) from operations	8,341			8,341	6,182
Other items					
Interest and other income	169			169	71
Finance (costs)/income	(1,651)	(a)	87	(89)	(738)
		(b)	(129)		
		(c)	1,780		
		(e)	(176)		
Foreign exchange gain (loss)	516			516	(95)
Net income/(loss) before tax	7,375		1,562	8,937	5,419
Current tax	(1,861)			(1,861)	(1,039)
Deferred tax		(d)	512	512	55
Net income/(loss)	5,514		2,074	7,588	4,435
Income (loss) per share					
Basic	\$0.02			\$0.02	\$0.01
Diluted	\$0.02			\$0.02	\$0.01

(a) The Company recorded fair value measurement gain of \$87k relating to financing warrants for the three months ended December 31, 2014.

(b) The Company recorded fair value measurement loss of \$129k relating to marketable securities for the three months ended December 31, 2014

(c) The Company recorded fair value measurement gain of \$1.8 million relating to derivative portion of five year exchangeable bonds for the three months ended December 31, 2014

(d) The Company recorded a deferred tax recovery of \$ 512k for the three months ended December 31, 2014.

(e) The Company recorded fair value measurement loss of \$ 176k relating to Oil derivative for three months ended December 31, 2014.

Fair value and deferred tax adjustments impact on items in the income statement for year ended December 31, 2014 and 2013

	December 31, 2014				December 31, 2013
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	(\$'000)		(\$'000)	(\$'000)	(\$'000)
Income (loss) from operations	24,431			24,431	36,428
Other items					
Interest and other income	305			305	394
Finance (costs)/income	(3,903)	(a) (b) (c) (d) (f)	226 (110) (168) 1,780 (176)	(2,352)	(881)
Foreign exchange gain (loss)	709			709	334
Net income/(loss) before tax	21,542		1,552	23,094	36,275
Current tax	(4,633)			(4,633)	(7,116)
Deferred tax		(e)	(885)	(885)	283
Net income/(loss)	16,909		667	17,576	29,442
Income (loss) per share					
Basic	\$0.05			\$0.05	\$0.09
Diluted	\$0.05			\$0.05	\$0.09

- (a) The Company recorded fair value measurement gain of \$226k relating to the currency option for the year ended December 31, 2014.
- (b) The Company recorded fair value measurement loss of \$110k relating to financing warrants for the year ended December 31, 2014.
- (c) The Company recorded fair value measurement loss of \$168k relating to marketable securities for the year ended December 31, 2014
- (d) The Company recorded fair value measurement gain of \$1.8 million relating to derivative portion of five year exchangeable bonds for the year ended December 31, 2014
- (e) The Company recorded a deferred tax expense of \$0.9 million for the year ended December 31, 2014.
- (f) The Company recorded fair value measurement loss of \$ 176k relating to Oil derivative for year ended December 31, 2014.

1.4 RESULTS OF OPERATIONS

Three Months Ended December 31, 2014, compared to Three Months Ended December 31, 2013

During the three months ended December 31, 2014, the Company recorded a net income of \$7,588 thousand (net of fair value measurement gain of \$1,562 thousand and deferred tax recovery of \$512 thousand). This is compared to net income of \$4,435 thousand (net of fair value measurement loss of \$495 thousand and deferred tax recovery of \$55 thousand) during the three months ended December 31, 2013. Mandalay delivered adjusted EBITDA of \$21,463 thousand for the quarter ended December 31, 2014, compared to \$13,920 thousand in the quarter ended December 31, 2013. The increase in adjusted EBITDA and net income was principally due to the larger volumes sold.

Administrative expenses for the quarter ended December 31, 2014, were \$4,090 thousand compared to \$1,828 thousand during the quarter ended December 31, 2013. During the three months ended December 31, 2014, administrative expenses of \$2,894 thousand at Corporate included \$1,774 thousand for management fees, \$107 thousand for audit, \$105 thousand for travel expense, \$159 thousand for legal and accounting fees, \$192 thousand for investor relations and transfer agent and filing fees, \$138 thousand for consulting fees and \$391 thousand related to GST write-off and \$28 thousand in general administrative expenses and computer maintenance.

Capital expenditure in the fourth quarter of 2014, including capitalized depreciation and exploration, was \$13,067 thousand. Of this amount, \$4,451 thousand was spent at Cerro Bayo, \$3,729 thousand at

Costerfield, \$2,898 thousand at Björkdal, \$100 thousand at La Quebrada, and \$1,889 thousand at Challacollo. By comparison, capital expenditure in the fourth quarter of 2013 was \$11,596 thousand. The increase in capital expenditure in the fourth quarter of 2014 relative to 2013 was due to the addition of Björkdal to the portfolio during the year and to expenditure incurred for the Challacollo feasibility project.

Year Ended December 31, 2014 compared to Year Ended December 31, 2013

During the year ended December 31, 2014, the Company recorded a net income of \$17,576 thousand compared to net income of \$29,442 thousand during the year ended December 31, 2013.

During 2014, revenue was \$184,629 thousand versus \$166,906 thousand in 2013. Profit from mine operations during 2014 was \$39,748 thousand compared to \$47,206 thousand in 2013. Mine operating expenses in 2013 were \$109,183 thousand versus \$91,298 thousand in 2013. Depletion and depreciation expenses were \$35,698 thousand versus \$28,402 thousand in 2013. Administration expenses during 2014 were \$9,193 thousand compared to \$7,293 thousand in 2013.

The increase in revenue was due to greater volumes of all metals sold at both existing mines and addition of the Björkdal gold mine, partly offset by lower metal prices. Operating expenses, depletion and depreciation were greater in 2014 than in 2013 due to greater production and sales volumes at both mines and addition of the Björkdal gold mine.

During 2014, the Company invested \$23,803 thousand in capital development, \$14,265 thousand in exploration, and \$16,650 thousand in property, plant and equipment. The corresponding amounts for 2013 were \$20,316 thousand for capital development, \$8,329 thousand for exploration and \$14,068 thousand for property, plant and equipment.

Costerfield Results, Production, Sales and Costs for the Three Months Ended December 31, 2014

Costerfield generated revenue of \$24,729 thousand for the quarter ended December 31, 2014. Income from mine operations before depreciation and depletion was \$11,245 thousand, adjusted EBITDA was \$11,038 thousand, net income after tax was \$4,699 thousand and operating net income was \$5,335 thousand during the period. For the quarter ended December 31, 2013, revenue was \$19,125 thousand, income from mine operations before depreciation and depletion was \$6,500 thousand, adjusted EBITDA was \$6,322 thousand, net income after tax was \$686 thousand and operating net income was \$1,646 thousand. Greater revenue during the fourth quarter of 2014 was principally driven by greater volumes sold that more than offset lower metal prices.

Costerfield financial results

	Three months ended December 31, 2014	Three months ended December 31, 2013
	(\$'000)	(\$'000)
Revenue	24,729	19,125
Cost of sales	13,484	12,625
Income from mine operations before depreciation and depletion	11,245	6,500
Depreciation and depletion	4,323	3,102
Income from mine operations	6,922	3,398
Administration ⁽¹⁾	298	367
Business development costs	-	-
Adjusted EBITDA ⁽²⁾⁽⁴⁾	11,038	6,322
Finance costs, foreign exchange and others ⁽³⁾	1,162	1,541
Income/(loss) before tax	5,461	1,490
Deferred tax expense (recovery)	763	805
Operating net income/(loss) after tax ⁽⁴⁾	5,335	1,646
Net income/(loss) after tax	4,699	686
Capital expenditure ⁽⁵⁾	3,729	6,883

¹Includes intercompany transfer pricing re-charge costs of \$91k in 2014 and \$189k in 2013.

²Does not include intercompany transfer pricing recharge costs.

³Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/loss on disposals of properties and intercompany transfer pricing recharge costs of \$572k in 2014 and \$439k in 2013.

⁴Adjusted EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS measures" for further information.

⁵Includes capitalized depreciation on equipment.

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

	Three months ended December 31, 2014	Three months ended December 31, 2013
	(\$'000)	(\$'000)
Net income/(loss) after tax	4,699	686
<u>Add: Intercompany expenses</u>		
Intercompany interest expense	(26)	332
Intercompany transfer pricing recharge costs	662	628
Operating net income/(loss) after tax	5,335	1,646

Costerfield operating statistics

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

	Unit	Year ended December 31, 2014	Year ended December 31, 2013	Three months ended December 31, 2014	Three months ended December 31, 2013	Three months ended September 30, 2014	Three months ended June 30, 2014	Three months ended March 31, 2014
Mining Production and Mining Cost								
Operating development	m	5,062	5,988	1,395	1,287	1,305	1,241	1,121
Mined ore	t	167,145	129,638	43,112	35,163	43,995	41,539	38,499
Ore mined Au grade	g/t	9.09	9.05	10.02	8.10	9.95	8.08	8.15
Ore mined Sb grade	%	3.80	4.18	3.76	3.75	4.05	3.74	3.60
Mined contained Au	oz	48,844	37,725	13,888	9,157	14,074	10,792	10,090
Mined contained Sb	t	6,345	5,418	1,622	1,318	1,782	1,554	1,387
Mining cost per tonne ore	\$/t	176	205	154	192	170	201	180
Processing and Processing Cost								
Processed ore	t	149,338	128,859	37,030	34,352	39,017	36,088	37,202
Mill head grade Au	g/t	9.55	9.10	11.48	7.87	9.99	8.37	8.31
Mill head grade Sb	%	3.98	4.17	4.13	3.71	4.29	3.84	3.65
Recovery Au	%	89.96	89.98	90.98	90.22	88.79	89.22	90.75
Recovery Sb	%	94.58	95.37	94.76	94.74	94.51	94.85	94.18
Concentrate produced	dry t	10,500	9,586	2,660	2,270	2,969	2,474	2,397
Concentrate grade Au	g/t	64.44	89.19	74.41	82.46	62.95	60.36	59.42
Concentrate grade Sb	%	53.56	53.50	54.47	53.23	53.30	53.14	53.29
Au produced in gravity concentrate	oz	19,305	7,922	6,012	1,834	5,066	3,827	4,400
Au produced in sulfide concentrate	oz	16,446	20,836	5,114	5,011	4,388	3,429	3,515
Saleable Au produced	oz	35,751	28,758	11,126	6,845	9,454	7,256	7,915
Saleable Sb produced	t	3,639	3,275	926	805	1,000	855	858
Saleable Au equivalent produced	oz	62,889	52,911	18,078	13,143	16,792	13,628	14,391
Processing cost per tonne ore	\$/t	49.79	53.93	43.72	48.07	53.04	54.71	47.65
Sales								
Concentrate sold	dry t	10,400	9,660	3,352	2,844	2,570	2,633	1,844
Concentrate Au grade	g/t	63.48	88.26	69.36	85.90	64.59	57.99	59.08
Concentrate Sb grade	%	53.52	53.47	54.51	53.54	52.65	52.97	53.70
Au sold in gravity concentrate	oz	19,422	5,043	6,272	1,128	4,808	3,793	4,549
Au sold in sulfide concentrate	oz	15,911	22,840	5,826	6,492	4,083	3,505	2,497
Au sold	oz	35,333	27,883	12,098	7,620	8,891	7,298	7,046
Sb sold	t	3,506	3,254	1,151	959	852	879	624
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed ⁽¹⁾	\$/t	319.27	329.54	292.39	319.34	315.32	367.37	303.53
Site cash operating cost/tonne concentrate produced ⁽¹⁾	\$/t	4,541	4,430	4,070	4,833	4,144	5,360	4,711
Adjusted EBITDA/tonne ore milled ⁽¹⁾	\$/t	196	207	302	184	158	146	177
Adjusted EBITDA/tonne concentrate produced ⁽¹⁾	\$/t	2,782	2,777	4,199	2,786	2,078	2,131	2,753
Cash cost per oz Au equivalent produced ⁽¹⁾⁽²⁾	\$/oz	771.56	818.62	607.84	849.89	746.62	989.44	771.56
Site all-in cost/oz Au eq. oz produced ⁽¹⁾⁽³⁾	\$/oz	1,035.52	1,062.43	884.47	1,085.48	1,046.66	1,278.22	1,051.76
Capital Spending								
Capital development	m	2,741	1,734	58	411	920	1,274	490
Capital development cost	\$000	14,274	9,731	666	2,665	5,050	6,010	2,548
Capital development cost/meter	\$/m	5,208	5,611	11,544	6,479	5,492	4,718	5,205
Capital purchases	\$000	8,536	7,773	2,647	3,224	486	2,695	2,708
Capitalized exploration	\$000	3,609	4,765	415	995	850	1,277	1,066

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

²Cash cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

³Site all-in cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.

Three months ended December 31, 2014 and 2013

The Costerfield mine completed 1,395 meters ("m") of operating development in the fourth quarter of 2014 versus 1,287 m in 2013. Mined ore in the quarter was 43,112 t, versus 35,163 t in the fourth quarter

of the previous year. The mined Au grade in 2014 was 10.02 grams per tonne (“g/t”) versus 8.10 g/t in 2013, while the mined Sb grade was 3.76% in 2014 versus 3.75% in 2013. Mining costs were \$154/t in 2014 versus \$192/t in the previous year.

Capital development advance was 58 m in 2014 compared to 411 m in 2013; the cost in 2014 was \$11,544/m versus \$6,479/m in 2013. The high cost in 2014 was due to the winding up of the capital development contract.

In the fourth quarter of 2014, the Costerfield concentrator processed 37,030 t of ore versus 34,352 t in the fourth quarter of 2013. The Au head grade in 2014 was 11.48 g/t versus 7.87 g/t in 2013 while the Sb head grade was 4.13% in 2014 versus 3.71% in 2013. The plant achieved recoveries of 90.98% Au and 94.76% Sb versus 90.22% Au and 94.74% Sb in 2013. The greater plant throughput resulted from higher output from the mine. Processing costs in 2014 were \$43.72/t, lower than the \$48.07/t incurred during the prior year period.

Concentrate production was 2,660 dry metric tonnes (“dmt”) during the fourth quarter of 2014 versus 2,270 dmt for the corresponding three months of 2013. Total saleable metal production in the fourth quarter of 2014 was 926 t Sb and 11,126 oz Au versus 805 t Sb and 6,845 oz Au for the corresponding three months of 2013.

During the fourth quarter of 2014, Costerfield sold 3,352 dmt of concentrate compared to 2,844 dmt in the prior year period. A total of 12,098 oz Au and 1,151 t Sb were sold in 2014 versus 7,620 oz Au and 959 t Sb in 2013. The lower quantity of Au sold in sulfide concentrate (5,826 oz in 2014 versus 6,492 oz in 2013) was more than offset by more Au sold in gravity concentrate (6,272 oz in 2014 versus 1,128 oz in 2013), resulting in more total Au sold than in the prior year quarter. Au payables are higher for Au in gravity concentrate than for Au in flotation concentrate.

Total site cash operating cost of ore processed was \$292.39/t in the fourth quarter of 2014, compared to \$319.34/t in the fourth quarter of 2013, mainly due to more tonnes processed. This translates into a lower cash cost per Au Eq. oz produced (\$607.84/oz in 2014 compared to \$849.89/oz in 2013) and site all-in cost per Au Eq. oz produced (\$884.47/oz in 2014 compared to \$1,085.48/oz in 2013).

During the fourth quarter of 2014, the Company invested \$666 thousand in capital development, \$415 thousand in exploration and \$2,647 thousand in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were \$2,665 thousand, \$995 thousand and \$3,224 thousand respectively.

Years ended December 31, 2014 and 2013

The Costerfield mine completed 5,062 m of operating development in the twelve months ended December 31, 2014 versus 5,988 m in the comparable period in 2013. It produced 167,145 t of ore containing 9.09 g/t Au and 3.80% Sb in 2014 as compared to 129,638 t of ore containing 9.05 g/t Au and 4.18% Sb. Mining costs were \$176/t in 2014 versus \$205/t in 2013.

The capital development advance improved significantly in 2014 to 2,741 m from 1,734 m in 2013 due to the employment of a contractor in the first three quarters of 2014 to augment the in-house development crew. The cost per meter was \$5,208 per m during 2014 compared to \$5,611 per m in 2013, due in part to lower contractor costs than in-house costs in 2014 and the one-off costs of the Augusta return air raise in 2013.

In the year ended December 31, 2014, the Costerfield concentrator processed 149,338 t of ore containing 9.55 g/t Au and 3.98% Sb. The corresponding year-ago throughput was 128,859 t of ore containing 9.10 g/t Au and 4.17% Sb. The plant achieved 89.96% recovery of Au and 94.58% recovery of Sb in the 2014 period compared to 89.98% recovery of Au and 95.37% recovery of Sb in 2013. The greater tonnage of processed ore led to greater saleable metal production in 2014.

Flotation concentrate production was 10,500 dmt in 2014 containing 3,639 t saleable Sb and 35,751 oz saleable Au in 2014, with an additional 19,305 oz saleable Au produced in gravity concentrate. In 2013, the corresponding production was 9,586 dmt of flotation concentrate containing 3,275 t saleable Sb and 28,758 oz saleable Au plus 7,922 oz of saleable Au in gravity concentrate. Processing costs were lower in 2014 than in 2013: \$49.79/t versus \$53.93/t, mainly due to economies of scale.

Total site cash operating cost was \$319/t ore processed in 2014 versus \$330/t in 2013. The lower operating cost in 2014 was mainly due to more processed ore compared to 2013 in a largely fixed-cost operation. This resulted in lower cash cost in 2014 (\$772/Au Eq. oz) as compared to 2013 (\$819/Au Eq. oz), as well as lower all-in cost of \$1,036/Au Eq. oz versus \$1,062/Au Eq. Oz in 2013.

During the year ended December 31, 2014, the Company invested \$14,274 thousand in capital development, \$3,609 thousand in exploration, and \$8,536 thousand in property, plant and equipment. The corresponding amounts for 2013 were \$9,731 thousand for capital development, \$4,765 thousand for exploration and \$7,773 thousand for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended December 31, 2014

Cerro Bayo generated revenue of \$27,472 thousand for the quarter ended December 31, 2014. Income from mine operations before depreciation and depletion was \$10,234 thousand. Adjusted EBITDA was \$9,245 thousand, net income after tax was \$3,698 thousand and operating net income was \$4,467 thousand. For the quarter ended December 31, 2013, revenue was \$19,933 thousand, income from mine operations before depreciation and depletion was \$9,298 thousand. Adjusted EBITDA was \$8,950 thousand, net income after tax was \$3,004 thousand, and operating net income was \$3,702 thousand. Greater revenue was due to greater metal volumes sold.

Cerro Bayo financial results

	Three months ended December 31, 2014	Three months ended December 31, 2013
	(\$'000)	(\$'000)
Revenue	27,472	19,933
Cost of sales	17,238	10,635
Income from mine operations before depreciation and depletion	10,234	9,298
Depreciation and depletion	5,007	3,798
Income from mine operations	5,226	5,500
Administration ⁽¹⁾	1,135	583
Adjusted EBITDA ⁽²⁾⁽⁴⁾	9,245	8,950
Finance costs, foreign exchange and others ⁽³⁾	1,164	864
Income/(loss) before tax	2,928	4,052
Current tax expense	1,068	1,039
Deferred tax expense (recovery)	(1,839)	9
Operating net income/(loss) after tax ⁽⁴⁾	4,467	3,702
Net income/(loss) after tax	3,698	3,004
Capital expenditure ⁽⁵⁾	4,451	4,518

¹Includes intercompany transfer pricing recharge costs of \$146k in 2014 and \$235k in 2013.

²Does not include intercompany transfer pricing recharge costs.

³Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties and intercompany transfer pricing recharge costs of 623k in 2014 and \$463k in 2013.

⁴ Adjusted EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

⁵Includes capitalized depreciation on equipment.

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

	Three months ended December 31, 2014	Three months ended December 31, 2013
	(\$'000)	(\$'000)
Net income/(loss) after tax	3,698	3,004
<u>Add: Intercompany expenses</u>		
Intercompany transfer pricing recharge costs	769	698
Operating net income/(loss) after tax	4,467	3,702

Cerro Bayo operating statistics

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

	Unit	Year ended December 31, 2014	Year ended December 31, 2013	Three months ended December 31, 2014	Three months ended December 31, 2013	Three months ended September 30, 2014	Three months ended June 30, 2014	Three months ended March 31, 2014
Mining Production and Mining Cost								
Operating development	m	6,719	6,751	1,698	1,450	1,850	1,708	1,464
Mined ore	t	459,802	385,221	116,991	90,860	120,192	117,403	105,216
Ore mined Au grade	g/t	2.16	2.02	2.47	2.08	2.07	2.23	1.86
Ore mined Ag grade	g/t	255.92	288.00	273.99	337.40	261.14	236.35	251.70
Mined contained Au	oz	32,000	25,028	9,288	6,062	8,003	8,425	6,284
Mined contained Ag	oz	3,783,248	3,566,864	1,030,584	985,624	1,009,115	892,123	851,427
Mining cost per tonne ore	\$/t	53.51	58.34	58.41	59.44	52.09	52.26	51.08
Processing and Processing Cost								
Processed ore	t	452,429	386,480	134,274	92,198	99,190	114,296	104,668
Mill head grade Au	g/t	2.19	2.02	2.39	2.09	2.30	2.19	1.84
Mill head grade Ag	g/t	258.97	288.22	265.50	335.03	288.83	232.15	251.56
Recovery Au	%	88.65	87.75	89.96	87.64	89.93	86.90	87.25
Recovery Ag	%	91.61	90.87	92.34	91.67	92.66	90.08	91.03
Concentrate produced	dry t	9,383	9,003	2,968	2,486	2,331	2,001	2,084
Concentrate grade Au	g/t	93.70	76.34	97.14	67.84	88.03	108.72	80.73
Concentrate grade Ag	g/t	11,439.71	11,262.38	11,092.89	11,390.91	11,390.58	11,947.99	11,500.63
Saleable Au produced	oz	27,600	21,482	9,052	5,272	6,445	6,823	5,280
Saleable Ag produced	oz	3,329,519	3,145,537	1,021,189	878,542	823,379	741,382	743,569
Saleable Au equivalent produced	oz	77,372	73,997	23,065	19,627	19,138	18,111	17,058
Processing cost per tonne ore	\$/t	27.77	27.99	24.58	30.66	33.85	28.09	25.76
Sales								
Concentrate sold	dry t	9,004	8,977	3,145	2,208	1,320	2,329	2,209
Concentrate Au grade	g/t	89.44	77.01	90.07	71.83	94.51	104.79	69.30
Concentrate Ag grade	g/t	11,344	11,306	11,149	11,227	11,420	11,635	11,267
Au sold	oz	25,278	21,612	8,894	4,958	3,921	7,659	4,804
Ag sold	oz	3,168,211	3,148,886	1,087,776	769,120	467,606	840,713	772,116
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed ⁽¹⁾	\$/t	96.93	103.36	89.74	106.34	113.75	95.46	91.81
Site cash operating cost/tonne concentrate produced ⁽¹⁾	\$/t	4,674	4,437	4,060	3,944	4,841	5,454	4,611
Adjusted EBITDA/tonne ore milled ⁽¹⁾	\$/t	85	120	72	97	59	110	98
Adjusted EBITDA/tonne concentrate produced ⁽¹⁾	\$/t	4,097	5,153	3,276	3,600	2,504	6,301	4,932
Cash cost per oz Ag produced net of Au byproduct credit ⁽¹⁾	\$/oz	5.30	6.84	3.95	6.74	6.26	5.83	5.81
Site all-in cost net of gold credit /oz Ag produced ⁽¹⁾⁽³⁾	\$/oz	11.36	12.07	10.37	11.51	12.23	12.08	11.31
Capital Spending								
Capital development	m	2,220	2,837	652	947	583	485	500
Capital development cost	\$000	6,839	10,585	2,207	3,152	1,654	1,406	1,571
Capital development cost/meter	\$/m	3,081	3,731	3,384	3,327	2,840	2,899	3,144
Capital purchases	\$000	7,413	6,291	1,350	578	1,972	2,695	1,396
Capitalized exploration	\$000	3,464	2,518	894	788	802	944	824

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

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

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

Three months ended December 31, 2014 and, 2013

During the fourth quarter, the Cerro Bayo mine produced 116,991 t of ore versus 90,860 t of ore in 2013. Mined grades were 273.99 g/t Ag and 2.47 g/t Au in 2014 versus 337.40 g/t Ag and 2.08 g/t Au in 2013. During 2014, 1,698 m of operating development were completed versus 1,450 m in the 2013 period. Mining cost in the fourth quarter of 2014 was \$58.41/t compared to \$59.44/t in the fourth quarter of 2013.

During the fourth quarter of 2014, the Cerro Bayo concentrator processed 134,274 t of ore with grades of 265.50 g/t Ag and 2.39 g/t Au, compared to 92,198 t of ore with grades of 335.03 g/t Ag and 2.09 g/t Au during the fourth quarter of 2013. Metallurgical recoveries during the fourth quarter were 89.96% for Au

and 92.34% for Ag in 2014 versus 87.64% for Au and 91.67% for Ag in the prior year period. Processing cost per tonne ore was \$24.58/t in 2014 versus \$30.66/t in 2013.

Cerro Bayo produced 2,968 dmt of concentrate containing 1,021,189 oz saleable Ag and 9,052 oz saleable Au in the fourth quarter of 2014, as compared to 2,486 dmt of concentrate containing 878,542 oz saleable Ag and 19,627 oz saleable Au in the comparable 2013 period.

During the fourth quarter of 2014, Cerro Bayo sold 3,145 dmt of concentrate containing 8,894 oz of saleable Au and 1,087,776 oz saleable Ag. Sales during the comparable quarter of 2013 were 2,208 dmt of concentrate, 4,958 oz of Au and 769,120 oz of Ag. Greater volumes sold were mainly due to delayed shipments from the previous quarters.

Total site cash operating cost was \$89.74/t of ore processed in the fourth quarter of 2014, compared to \$106.34 per t in the fourth quarter of 2013 mainly due to more tonnes processed in the largely fixed cost operation. This has resulted in decrease of cash cost to \$3.95 per oz Ag net of Au credits in the fourth quarter of 2014, compared to \$6.74 per oz in the fourth quarter of 2013. Site all-in cost of \$10.37 per oz Ag net of Au credit in the fourth quarter of 2014 was lower than the \$11.51 per oz reported in the fourth quarter of 2013.

During the fourth quarter of 2014, the Company invested \$2,207 thousand in mine development versus \$3,152 thousand in 2013. The Company spent \$1,350 thousand for the purchase of property, plant and equipment in 2014 versus \$578 thousand in 2013. The Company spent \$894 thousand on exploration versus \$788 thousand in the fourth quarter of 2013.

Year ended December 31, 2014 and 2013:

Cerro Bayo mine produced 459,801 t of ore in 2014 versus 385,221 t in 2013. In addition, the mine completed 6,719 m of operating development in 2014 versus 6,751 m in the previous year. Mined grades were 2.16 g/t Au and 255.92 g/t Ag for the year ended December 31, 2014 versus 2.02 g/t Au and 288.00 g/t Ag for the year ended 2013. Mining cost in 2014 was \$53.51/t, lower than the \$58.34/t for the year ended December 31, 2013.

During the year ended December 31, 2014, the Cerro Bayo concentrator processed 452,429 t of ore with grades of 258.97 g/t Ag and 2.19 g/t Au. During the year ended December 31, 2013, the concentrator processed 386,480 t of ore with grades of 288.22 g/t Ag and 2.02 g/t Au. The plant achieved 88.65% recovery of Au and 91.61% recovery of Ag in 2014 versus 87.75% recovery of Au and 90.87% of Ag in 2013.

Cerro Bayo produced 9,383 dmt of concentrate containing 3,329,519 oz of saleable Ag and 27,600 oz of saleable Au in 2014. Production for the year-ago period was 9,003 dmt of concentrate containing 3,145,537 oz saleable Ag and 21,482 oz saleable Au. Processing costs for the year ended December 31, 2014 were 27.77/t, lower than the \$27.99/t during the year ended December 31, 2014.

During the year ended December 31, 2014, Cerro Bayo sold 9,004 dmt of concentrate, 25,278 oz Au and 3,168,211 oz Ag, more than the 8,977 dmt of concentrate, 21,612 oz Au and 3,148,886 oz Ag sold during the year ended December 31, 2013.

Total site cash operating cost was \$96.93/t per tonne ore processed for the year ended December 31, 2014, versus \$103.36/t for the year of 2013. Cash cost per ounce Ag produced net of Au by-product credit was \$5.30 in 2014, lower than the \$6.84 in the previous year. The all-in cost per ounce Ag produced net of Au byproduct credit was \$11.36 in 2014, versus \$12.07 in 2013.

During the year ended December 31, 2014, the Company invested \$6,839 thousand in capital mine development versus \$10,585 thousand in 2013; \$7,413 thousand for purchase of property, plant and equipment versus \$6,291 thousand; and \$3,464 thousand versus \$2,517 thousand for exploration.

Björkdal Results, Production, Sales and Costs for the three months ended on December 31, 2014

During fourth quarter, Björkdal generated revenue of \$14,772 thousand for the three months ended on December 31, 2014. Income from mine operations before depreciation and depletion was \$4,243 thousand. Adjusted EBITDA was \$4,243 thousand, net income after tax was \$1,294 thousand and operating net income was \$1,211 thousand.

Björkdal financial results

	Three months ended December 31, 2014 (\$'000)
Revenue	14,772
Cost of sales	10,529
Income from mine operations before depreciation and depletion	4,243
Depreciation and depletion	1,548
Income from mine operations	2,695
Adjusted EBITDA ⁽¹⁾	4,243
Finance costs, foreign exchange and others	44
Income/(loss) before tax	2,650
Current tax expense	792
Deferred tax expense (recovery)	564
Operating net income/(loss) after tax ⁽¹⁾	1,211
Net income/(loss) after tax	1,294
Capital expenditure ⁽²⁾	3,495

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

²Includes capitalized depreciation on equipment.

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

	Three months ended December 31, 2014 (\$'000)
Net income/(loss) after tax	1,294
<u>Add: Intercompany expenses</u>	
Intercompany interest expense	(83)
Operating net income/(loss) after tax	1,211

Björkdal operating statistics

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

	Unit	September 10, 2014 to December 31, 2014	Three months ended December 31, 2014
Mining Production and Mining Cost			
Operating development	m	1,915	1,577
Mined ore	t	420,044	347,075
Ore mined Au grade	g/t	1.32	1.33
Mined contained Au	oz	17,826	14,785
Mining cost per tonne ore	\$/t	17	17
Processing and Processing Cost			
Processed ore	t	412,847	333,839
Mill head grade Au	g/t	1.23	1.23
Recovery Au	%	88%	88%
Concentrate produced	dry t	1,000	824
Concentrate grade Au	g/t	453	432
Saleable Au produced	oz	14,549	11,458
Processing cost per tonne ore	\$/t	6.94	7
Sales			
Concentrate sold	dry t	1,084	815
Concentrate Au grade	g/t	442	463
Au sold	oz	15,409	12,115
Benchmark Unit Cost			
Site cash operating cost/ tonne ore processed ⁽¹⁾	\$/t	29	30
Site cash operating cost/tonne concentrate produced ⁽¹⁾	\$/t	12,122	12,114
Adjusted EBITDA/tonne ore milled ⁽¹⁾	\$/t	11.76	12.23
Adjusted EBITDA/tonne concentrate produced ⁽¹⁾	\$/t	4,939	5,148
Cash cost per oz Au equivalent produced ⁽¹⁾⁽²⁾	\$/oz	870	901
Site all-in cost/oz Au eq. oz produced ⁽¹⁾⁽³⁾	\$/oz	1,024	1,051
Capital Spending			
Capital development	m	271	197
Capital development cost	\$000	2,690	2,094
Capital development cost/meter	\$/m	9,941	10,651
Capital purchases	\$000	567	567
Capitalized exploration	\$000	238	238

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

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

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

Three months ended December 31, 2014

During the fourth quarter, Björkdal produced a combined 347,075 t of ore from the open pit and underground operations with an average grade of 1.33 g/t Au. During fourth quarter of 2014, 1,577 m of operating development were completed. Weighted average mining cost from the open pit and underground was \$17/t.

During the period, the Björkdal concentrator processed 333,839 t of ore with grades of 1.23 g/t Au. Metallurgical recoveries during the fourth quarter were 88% for Au. Processing cost was \$7.02/t ore.

Björkdal produced 11,458 oz saleable Au during the period and sold 12,115 oz of Au.

Total site cash operating cost was \$30/t of ore processed

During the period, the Company invested \$2,094 thousand in mine development, \$567 thousand in property, plant and equipment and \$238 thousand in exploration.

From September 10, 2014 to December 31, 2014

Björkdal produced a combined 420,044 t of ore from the open pit and underground operations. The average grade of this material was 1.32 g/t Au in 2014. During 2014, 1,915 m of operating development were completed. Weighted average mining cost from the open pit and underground was \$17/t.

During the period, the Björkdal concentrator processed 412,847 t of ore with grades of 1.23 g/t Au. Metallurgical recoveries were 88% for Au. Processing cost per tonne ore was \$6.94/t.

Björkdal produced 14,549 oz saleable Au during the period and sold 15,409 oz of Au.

Total site cash operating cost was \$29/t of ore processed

During the period, the Company invested \$2,690 thousand in mine development, \$567 thousand in property, plant and equipment and \$238 thousand in exploration

Challacollo

During the fourth quarter of 2014 the Company spent \$1,889 thousand on exploration and feasibility study. The program to infill the previously Inferred Mineral Resource was completed as was the first round of target testing drilling seeking extensions to the main Lolon vein shoot and entirely new veins. Metallurgical testing is underway, and power, infrastructure, and water supply studies are on track. Base line environmental, archaeological, and social data collection to support the permitting process was begun. Completion of the feasibility study is anticipated for the second quarter of 2015.

La Quebrada

Spending on care and maintenance at La Quebrada was \$100 thousand during the fourth quarter of 2014. The corresponding amount for the prior year quarter was \$129 thousand.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate	Average rate	Average rate	Average rate
	October 1, 2014 December 31, 2014	January 1, 2014 December 31, 2014	October 1, 2013 December 31, 2013	January 1, 2013 December 31, 2013
1A\$ = C\$	0.9716	0.9963	0.9735	0.9966
1A\$ = US\$	0.8559	0.9027	0.9279	0.9686
1 US\$ = C\$	1.1356	1.0557	1.0492	1.0294
1 US\$ = Chilean Peso	598	571	517	495
1 SEK = 1 US\$	0.1347	0.1462	0.1537	0.1536

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

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of gold, silver and antimony were lower in the fourth quarter of 2014 compared to the fourth quarter of 2013. Realized prices were impacted by the application of adjustments with respect to open concentrate shipments at forward prices (see "Critical Accounting Policies - Revenue recognition" below). This resulted in realized prices in the fourth quarter of 2014 being marginally higher than relative average market prices.

COMMODITY	Average price	Average price	Average price	Average price
	October 1, 2014 December 31, 2014	January 1, 2014 December 31, 2014	October 1, 2013 December 31, 2013	January 1, 2013 December 31, 2013
Realized gold US\$/oz ¹	1,213	1,253	1,216	1,331
Gold- US\$/oz - Average London Daily PM close (Metal Bulletin)	1,199	1,265	1,271	1,410
Realized antimony US\$/tonne ¹	8,793	9,341	9,836	9,956
Antimony US\$/tonne - Rotterdam Warehouse (Metal Bulletin)	9,004	9,440	9,940	10,336
Realized silver price US\$/oz ¹	15.34	17.87	18.62	21.80
Silver US\$/oz - Average London Daily PM close (Metal Bulletin)	16.45	19.07	20.76	23.80

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

1.5 SUMMARY OF QUARTERLY RESULTS

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

Particulars	December 31, 2014 (\$'000)	September 30, 2014 (\$'000)	June 30, 2014 (\$'000)	March 31, 2014 (\$'000)
Revenue	66,973	34,676	44,888	38,092
Income/(loss)	7,588	(692)	4,936	5,744
Income/(loss) per share - Basic	0.02	(0.00)	0.01	0.02
Income/(loss) per share - Diluted	0.02	(0.00)	0.01	0.02

Particulars	December 31, 2013 (\$'000)	September 30, 2013 (\$'000)	June 30, 2013 (\$'000)	March 31, 2013 (\$'000)
Revenue	39,058	50,320	35,903	41,625
Income/(loss)	4,435	10,999	3,105	10,904
Income/(loss) per share - Basic	0.01	0.03	0.01	0.03
Income/(loss) per share - Diluted	0.01	0.03	0.01	0.03

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

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

1.6 LIQUIDITY, SOLVENCY AND USES OF CASH

At December 31, 2014, the Company had working capital of \$24,937 thousand compared to \$47,207 thousand at December 31, 2013. The change in working capital is mainly due to classification of the five year 5.875% gold bonds as a current liability. The Company had cash and cash equivalents of \$ 49,004 thousand at December 31, 2014, as compared to \$ 33,465 thousand at December 31, 2013.

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

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

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five year 5.875% debt financing

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

GEL raised the financing proceeds by way of a concurrent offering of five year senior exchangeable bonds (the “Bonds”) issued by Gold Exchangeable Limited (the “Issuer”), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the “Borrower”), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the “Loan”) which together mirror the principal terms of the Bonds.

Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust (“Gold Shares”) based on the then applicable exchange price. The initial exchange price is 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 NAV of the SPDR Gold Trust or Gold Shares is calculated.

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

As security for its obligations under the Bonds, GEL will be required to deposit into a custody account, in quarterly instalments over the fourth and fifth years of the term of the Bonds, the aggregate number of Gold Shares issuable upon exchange of the Bonds. Pursuant to the terms of the Loan, the Borrower will have to provide such Gold Shares to GEL.

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

GEL may redeem the Bonds at its option:

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

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

The maturity date of the Loan is May 13, 2019. However, because the Bondholders have the right to exercise their exchange rights any time after June 23, 2014 (which would trigger a requirement for GEL to exercise its parallel exchange rights under the Loan), the Company has classified the Loan balance as a current liability. IFRS requires that the Company ignore the probability that holders will elect to convert in the next 12 months, even if the Company assesses such probability as remote. However, if holders did elect to convert the debt as of December 31, 2014, the Company would realize a gain of \$10.0 million and the holders of the debt would realize a loss of \$13.5 million based on the principal value of \$60 million.

A summary of the Loan balance as at December 31, 2014 is as follows:

	\$'000
Principal issued	60,000
Fund raising expenses	(2,992)
Fair value allocated to derivative	(4,634)
Debt as at May 13, 2014	52,374
Accretion	777
Interest payable	470
Debt balance as at December 31, 2014	53,621

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

- i) If all the bondholders were to exercise their right to redeem any time before the maturity date and assuming December 31, 2014, at a gold price of \$1,206/oz (which is equivalent to US\$113.58 per Gold Share), then the repayment cost to the Company will be approximately \$46.9 million.

$$\$60 \text{ million} \div \$1,556/\text{oz} \times \$1,206 = \$46.5 \text{ million}$$

- ii) The repayment cost to the Company to repay the loan on maturity will be minimum \$60 million.
- iii) If the average price of gold during the escrow period is \$1,700/oz (which is equivalent to US\$ 160.10 per Gold Share) then repayment cost to the Company will be \$65.6 million.

$$\$60 \text{ million} \div \$1,556/\text{oz} \times \$1,700 = \$65.6 \text{ million}$$

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

Key management personnel compensation

The remuneration of directors and other members of key management personnel during the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
	(\$'000)	(\$'000)
Salaries and short-term benefits	1,675	1,776
Share-based payments	874	852
	2,549	2,628

The CFO of the Company is the director of SKS Business Services, which provides accounting services to the Company as per the contract.

	2014	2013
	(\$'000)	(\$'000)
Administration expense		
SKS Business Services	15	-

1.10 CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

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

Sales of certain commodities are provisionally priced such that the price is not settled until a pre-determined future date based on the market price at that time. Revenue on these sales is initially recognized (when the above criteria are met) at the current market price. Provisionally priced sales are

marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark-to-market adjustment is recognized in revenue.

Inventories

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

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

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

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

Property, plant and equipment

Exploration and Evaluation

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

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

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

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

intended that these will be developed and be put into production when the current source of ore is exhausted or to replace the reduced output.

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

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

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

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

- a significant utilization rate of plant capacity has been achieved;

- a significant portion of available funding is directed towards operating activities;
- a pre-determined, reasonable period of time of stable operation has passed; and
- a development project significant to the primary business objective of the Company has been completed and significant milestones have been achieved.

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

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

Site closure and reclamation cost obligations

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

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.11 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, reclamation and other deposits, derivative financial instruments, trade and other payables. The Company also periodically uses financial instruments to protect itself against future downward fluctuations in the

prices of gold, silver and antimony and against currency exchange rate fluctuations. See “Hedging Activities” below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company’s accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at December 31, 2014, the Company had no past overdue trade receivables.

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

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

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

Hedging Activities

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

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

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

1.12 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. During the fourth quarter of 2011, the Company finished implementing Sage AccPac Enterprise Resource Planning (ERP) software to strengthen internal control and reporting. Sage AccPac implementation combined with improvements in the monthly close process provides information to the senior management for appropriate decision making.

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the quarter ended December 31, 2014. The Company's controls include policies and procedures that:

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

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

With the help of Sage AccPac ERP system that the Company implemented in 2011, the Company has been implementing complete segregation of duties. It has appointed KPMG to conduct an internal audit review of the Company. This is designed to further identify the gaps in internal control procedures and help create internal policy documents as necessary.

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

Internal control weakness	Potential impact of the weakness on the issuer's financial reporting and its ICFR	Current plan or actions being undertaken for remediating the potential material weakness
Segregation of duties	Accuracy and possible fraud	<p>KPMG are the internal auditors since 2011. Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year. During 2014, the following internal audit activities were completed:</p> <ul style="list-style-type: none"> • Enterprise risk management • Life of Mine (planning, reporting and monitoring) • Rotables and repairs including offsite repairs and critical spares/stock. • Inventory. <p>The areas proposed to be covered during 2015 internal audit would be related to the following broad categories:</p> <ul style="list-style-type: none"> • Financial and management reporting. • Health, safety and environment.
Collusion	Financial loss to the Company	

III. Limitation of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

1.13 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 408,758,095 common shares issued and outstanding. The weighted average number of shares outstanding during the fourth quarter used for the calculation of per share results was 343,941,170.

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

Exercise Price CND\$	As of December 31, 2014	As of February 17, 2015	Expiry Date
0.93	120,000	120,000	06 November, 2019
0.98	4,305,000	4,305,000	24 March, 2019
1.13	3,942,500	3,942,500	18 March, 2018
0.83	3,772,500	3,772,500	09 March, 2017
0.70	250,000	250,000	02 December, 2016
0.76	50,000	50,000	04 July, 2016
0.58	370,000	370,000	11 April, 2016
0.56	3,067,500	3,067,500	11 March, 2016
0.33	300,000	300,000	05 October, 2015
0.26	770,000	770,000	26 August, 2015
Total	16,947,500	16,947,500	

During the quarter ended December 31, 2014, 800,000 options were exercised. There were 16,947,500 options outstanding as of December 31, 2014, which could result in issuance of shares.

During the quarter ended December 31, 2014, 15,600,000 warrants were exercised. The number of warrants outstanding as of December 31, 2014, was Nil.

During 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs receive the Company's common shares at no cost at the end of vesting periods. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The number of RSUs as at December 31, 2014 is as follows:

	Number of RSU awards
Balance, December 31, 2012	-
Granted	300,000
Redeemed	6,560
Balance, December 31, 2013	306,560
Granted	8,286
Redeemed	(103,842)
Outstanding at December 31, 2014	211,004

1.14 QUALIFIED PERSONS

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

Project	Qualified Person	Relationship to Mandalay Resources
Costerfield	Chris Gregory	Employee
Bjorkdal	Chris Gregory	Employee
Cerro Bayo	Scott Manske	Employee
La Quebrada	Ronald Luethe	Employee

1.15 FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mining industry risks; fluctuations in the market price of mineral commodities; project development; expansion targets and operational delays; environmental risks and hazards; requirement of additional financing; health and safety; uncertainty as to calculations of mineral deposit estimates; marketability; licenses and permits; title matters; governmental regulation of the mining industry; current global financial conditions; currency risk; uninsured risks; competition; repatriation of earnings; properties without known mineral reserves; dependence upon key management personnel and executives; dependence on major customers; infrastructure; litigation; potential volatility of market price of common shares; possible conflicts of interest of directors and officers of the Company; risk of dilution; payment obligations relating to properties; instability of political and economic environments; and integration of acquisitions. Specific reference is made to the Annual Information Form for a discussion of some of the factors underlying forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such

statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

1.16 NON-IFRS MEASURES

Non-IFRS performance measures are included in this MD&A because the Company believes these are useful indicators to discuss and understand performance of the Company and its operations. These performance measures do not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These non-IFRS performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS.

Management uses adjusted EBITDA, income after tax from underlying operations and operating net income/(loss) after tax as measures of operating performance to assist in comparing the Company's ability to generate liquidity through operating cash flow to fund future working capital needs and fund future capital expenditures and to assist in measuring financial performance from period to period on a consistent basis. The Company believes that these measures are used by and are useful to investors and other users of the Company's financial statements in evaluating the Company's operating and cash performance because they allow for analysis of its financial results without regard to special, non-cash and other non-core items, which can vary substantially from company to company and over different periods.

The Company presents "cash cost" and "all-in costs" metrics for its gold and silver production because it believes that these measures assist investors and other users of the Company's financial statements in understanding the economics of the Company's gold and silver mining activities. Management also uses these metrics to assess Company's ability to meet short and long term financial objectives.

1. *Adjusted EBITDA* - The Company defines adjusted EBITDA as earnings before interest, taxes, non-cash charges/(income) and finance costs. Refer to page 12-13 for reconciliation between adjusted EBITDA and net income.
2. *Income after tax from underlying operations* - The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 15 for reconciliation between income from underlying operations and income from operations.
3. *Operating net income/(loss) after tax* -The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs. Refer to pages 18, 22 and 25 for reconciliation between operating net income after tax and net income after tax.
4. *Cash cost per ounce of gold equivalent produced*-Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The total cash operating cost associated with the production of these equivalent ounces produced in the period is then divided by the equivalent gold ounces produced to yield the cash cost per equivalent ounce produced. The cash cost excludes royalty expenses.

5. *Site all-in cost per ounce of gold equivalent produced*-Site all-in costs include total cash operating costs, royalty expense, depletion, depreciation, accretion and write-off of exploration and evaluation. Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The site all-in cost is then divided by the equivalent gold ounces produced to yield the site all-in cost per equivalent ounce produced.
6. *Cash cost per ounce of silver produced net of gold byproduct credit*-The cash cost per silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals ounces gold produced times the realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the silver ounces produced in the period. The cash cost excludes royalty expenses.
7. *Site all-in cost per ounce of silver produced net of gold byproduct credit*-The site all-in cost per silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, depletion, depreciation, accretion and write-off of exploration and evaluation to the cash cost net of gold byproduct credit as calculated in note 6 above and dividing the resultant number by the silver ounces produced in the period.