Consolidated financial statements of

Mandalay Resources Corporation

December 31, 2014 and 2013

Mandalay Resources Corporation
December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mandalay Resources Corporation

We have audited the accompanying consolidated financial statements of **Mandalay Resources Corporation**, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Mandalay Resources Corporation** as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative information

The consolidated financial statements of **Mandalay Resources Corporation** for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 18, 2014.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 17, 2015

Mandalay Resources Corporation

Consolidated statements of income and comprehensive income

years ended December 31, 2014 and 2013

(Expressed in U.S dollars)

	2014	2013
	$'000	$'000
Revenue	**184,629**	166,906
Cost of operations		
Cost of sales excluding depletion and depreciation (Note 16)	**109,183**	91,298
Depletion and depreciation	**35,698**	28,402
	144,881	119,700
Income from mine operations	**39,748**	47,206
Expenses		
Administration (Note 17)	**9,193**	7,293
Business development costs	**1,818**	616
Share-based compensation (Note 14(b),(c) and (d))	**1,535**	1,750
Loss on disposal of property, plant and equipment	**226**	321
Write-off of exploration and evaluation (Note 7)	**2,545**	798
	15,317	10,778
Income from operations	**24,431**	36,428
Other income (expenses)		
Finance costs (Note 18)	**(3,903)**	(874)
Gain (loss) on derivative financial instruments (Note 19)	**1,552**	(7)
Interest and other income	**305**	394
Foreign exchange gain	**709**	334
	(1,337)	(153)
Income before income taxes	**23,094**	36,275
Income taxes expense (recovery) (Note 15)		
Current	**4,633**	7,116
Deferred	**885**	(283)
Income tax expense	**5,518**	6,833
Net income for the year	**17,576**	29,442
Other comprehensive income, net of tax		
Item that may subsequently be reclassified to net income (loss)		
Foreign currency translation	**(10,667)**	(8,753)
Comprehensive income for the year	**6,909**	20,689
Income per share (Note 20)		
Basic	**$0.05**	$0.09
Diluted	**$0.05**	$0.09
Weighted average number of common shares outstanding (Note 20)		
Basic ('000)	**357,732**	324,239
Diluted ('000)	**361,130**	342,297

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement

Mandalay Resources Corporation

Consolidated statements of financial position
as at December 31, 2014 and 2013
(Expressed in U.S dollars)

	2014	2013
	$'000	$'000
Assets		
Current assets		
Cash and cash equivalents	**49,004**	33,465
Trade and other receivables (Note 5)	**32,142**	18,580
Inventories (Note 6)	**27,663**	16,987
Prepaid expenses and other	**2,187**	637
Derivative financial instruments	**-**	-
	110,996	69,669
Non-current assets		
Reclamation and other deposits (Note 12)	**28,523**	2,253
Trade and other receivables (Note 5)	**343**	359
Restricted cash	**-**	-
Property, plant and equipment (Note 7)	**215,940**	113,758
Intangible asset (Note 8)	**249**	748
Unamortised expenses exchangeable bonds	**-**	-
Deferred tax asset (Note 15)	**9,050**	9,985
	254,105	127,103
	365,101	196,772
Liabilities		
Current liabilities		
Five year exchangeable bonds (Note 11)	**53,621**	-
Trade and other payables (Note 9)	**23,347**	14,141
Current portion of borrowings (Note 10)	**951**	-
Income taxes payable	**2,580**	4,956
Provisions (Note 13)	**2,707**	2,571
Derivative financial instruments (Note 19)	**2,854**	794
	86,060	22,462
Non-current liabilities		
Borrowings (Note 10)	**1,821**	-
Reclamation and site closure costs (Note 12)	**42,721**	17,421
Deferred tax liability (Note 15)	**11,967**	-
Provisions (Note 13)	**3,754**	3,307
	60,263	20,728
	146,323	43,190
Equity		
Share capital (Note 14)	**158,170**	89,780
Share option reserve (Note 14)	**8,896**	8,439
Warrants reserve (Note 14)	**-**	1,089
Foreign currency translation reserve	**(17,253)**	(6,585)
Retained earnings	**68,965**	60,859
	218,778	153,582
	365,101	196,772

Approved by the Board of Directors and authorized for issue on February 17, 2014.

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

(Signed) Robert Doyle
Robert Doyle, Director

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement

Mandalay Resources Corporation

Consolidated statements of changes in equity
years ended December 31, 2014 and 2013
(Expressed in U.S. dollars)

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
	('000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Balance, December 31, 2012	322,187	88,635	7,332	1,252	2,167	43,693	143,079
Net income	-	-	-	-	-	29,443	29,443
Other comprehensive loss for the year	-	-	-	-	(8,753)	-	(8,753)
Total comprehensive income	-	-	-	-	(8,753)	29,443	20,690
Stock options exercised (Note 14(b))	1,023	646	(333)	-	-	-	313
Share-based compensation (Note 14(c)(d))	-	-	1,637	-	-	-	1,637
Warrants exercised (Note 14(e))	2,600	1,391	-	(163)	-	-	1,228
Normal course issuer bid (Note 14(f))	(3,030)	(892)	-	-	-	(1,466)	(2,358)
Amendment of stock option plan (Note 14(b))	-	-	(197)	-	-	-	(197)
Dividends paid (Note 14(g))	-	-	-	-	-	(10,810)	(10,810)
Balance, December 31, 2013	322,780	89,780	8,439	1,089	(6,586)	60,860	153,582
Net income	-	-	-	-	-	17,576	17,576
Other comprehensive loss for the year	-	-	-	-	(10,667)	-	(10,667)
Total comprehensive income	-	-	-	-	(10,667)	17,576	6,909
Stock options exercised (Note 14(b))	3,005	2,029	(947)	-	-	-	1,082
Share-based compensation (Note 14(c)(d))	-	-	1,484	-	-	-	1,484
Warrants exercised (Note 14(e))	20,900	8,065	-	(1,081)	-	-	6,984
Normal course issuer bid (Note 14(f))	(31)	(9)	-	-	-	(13)	(22)
Dividends paid (Note 14(g))	-	-	-	-	-	(9,466)	(9,466)
Warrants expired (Note 14(e))	-	-	-	(8)	-	8	-
Acquisition of Challacollo (Note 3)	12,000	9,188	-	-	-	-	9,188
Acquisition of Elgin (Note 4)	50,000	49,037	-	-	-	-	49,037
Redemption of RSUs (Note 14(d))	104	80	(80)	-	-	-	-
Balance, December 31, 2014	**408,758**	**158,170**	**8,896**	**-**	**(17,253)**	**68,965**	**218,778**

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement

Mandalay Resources Corporation

Consolidated statements of cash flows
years ended December 31, 2014 and 2013
(Expressed in U.S dollars)

	2014	2013
	$'000	$'000
Operating activities		
Net income for the year	**17,576**	29,442
Adjustments to reconcile net income to net cash flows from operating activities		
Amortization of intangible assets	**499**	499
Depletion and depreciation	**35,753**	28,432
Share-based compensation	**1,535**	1,750
Loss (gain) on disposal of property, plant and equipment	**226**	321
Write-off of exploration and evaluation	**2,545**	798
Finance cost	**3,903**	874
Unrealized loss (gain) on derivative financial instruments	**(1,552)**	7
Interest and other income	**(305)**	(394)
Foreign exchange (gain) loss	**(19)**	(114)
Income tax expense	**5,518**	6,833
Change in non-cash operating working capital items		
Trade and other receivables	**(10,319)**	7,495
Inventories	**(5,444)**	(3,470)
Prepaid expenses and other	**(117)**	(58)
Trade and other payables	**2,219**	1,957
Provisions	**393**	1,505
Cash generated from operations	**52,411**	75,877
Income taxes paid	**(4,188)**	(4,879)
Interest and other income received	**305**	394
Interest paid	**(1,931)**	(261)
Net cash flows from operating activities	**46,597**	71,131
Investing activities		
Proceeds on derivative financial instruments	**-**	-
Payment/(recovery) for reclamation deposit and others	**(789)**	55
Expenditure for property, plant and equipment	**(53,883)**	(41,329)
Proceeds on disposal of property, plant and equipment	**552**	134
Acquisition of Challacollo (Note 3)	**(7,765)**	-
Acquisition of Elgin (Note 4)	**(23,263)**	-
Payment for intangible assets	**-**	-
Expenditure for reclamation and site closure costs	**-**	(129)
Net cash flows used in investing activities	**(85,148)**	(41,269)
Financing activities		
Proceeds from Borrowings	**-**	-
Proceeds from borrowings	**56,690**	-
Issuance of common shares for cash	**8,066**	1,541
Purchase of common shares for cancellation	**(22)**	(2,358)
Proceeds from Ulu option agreement	**22**	-
Exercise of stock options by cash election	**-**	(219)
Payment for settlement of financing warrants	**-**	(1,339)
Dividends paid (Note 14 (f))	**(9,466)**	(10,810)
Net cash flows used in financing activities	**55,290**	(13,185)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(1,200)**	(476)
Increase (decrease) in cash and cash equivalents	**15,539**	16,201
Cash and cash equivalents, beginning of the year	**33,465**	17,264
Cash and cash equivalents, end of year	**49,004**	33,465
Cash and cash equivalents are comprised of		
Cash	**49,004**	12,157
Cash equivalents	**-**	21,308
	49,004	33,465

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement

1. Description of business and nature of operations

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

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

2. Summary of significant accounting policies

These consolidated financial statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for the year ended December 31, 2014, using the significant accounting policies outlined below.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(a) Basis of consolidation

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

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

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

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

The principal subsidiaries of the Company as of December 31, 2014 and 2013 are as follows:

Subsidiary	Interest 2014	Interest 2013
	%	%
Mandalay Resources Australia Pty Ltd.[1]	**100**	**100**
Compania Minera Cerro Bayo Ltda[2]	**100**	**100**
Elgin Mining Inc.[3]	**100**	**-**
Mandalay Resources Finance Limited[4]	**100**	**-**

1 Mandalay Resources Australia Pty Ltd. ("MRA") was acquired on November 30, 2009. MRA owns the Costerfield gold and antimony mine in Australia.

2 Compania Minera Cerro Bayo Ltda ("Cerro Bayo") was acquired on August 10, 2010. Cerro Bayo owns the Cerro Bayo silver and gold mine and exploration projects in Chile.

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

4 Mandalay Resources Finance Limited ("MND Finance") was incorporated in Cayman Island on April 7, 2014. On May 13, 2014, MND Finance borrowed $60 million from Gold Exchangeable Limited at an interest rate of 5.875 percent (see note 11).

(b) Functional currency and foreign currency transactions

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

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

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

2. Summary of significant accounting policies (continued)

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

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

(c) Business combinations

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

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

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

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

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

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

(d) Cash and cash equivalents

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

2. Summary of significant accounting policies (continued)

(e) Inventories

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

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

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

(f) Property, plant and equipment

(i) <u>Exploration and evaluation</u>

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

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

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

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

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

(ii) <u>Mining interests</u>

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

Capitalized costs are depleted over the estimated economic life of the mine to which they relate using different method at each mine site as explained in depreciation (Note 2(f)(iv)) below.

2. Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(iii) Plant and equipment

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

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

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

(iv) Depreciation

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

Commercial production is considered to be commenced when operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a pre-determined period of time and there are indicators that these operating results 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 over their estimated useful lives, if shorter than the mine life otherwise they are depreciated on the unit-of-production basis.

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

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

2. Summary of significant accounting policies (continued)

(g) Impairment of non-financial assets

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

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

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

Impairment losses are recognized in income or loss.

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

(h) Borrowing costs

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

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

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

(i) Intangible assets

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

(j) Site closure and reclamation cost obligations

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

2. Summary of significant accounting policies (continued)

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

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

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

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

(k) Income taxes

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

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

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

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

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

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

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

Assumptions about the generation of future taxable income depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves,

2. Summary of significant accounting policies (continued)

(k) Income taxes (continued)

operating costs, closure and rehabilitation costs, capital expenditures, dividends and other capital management transactions). To the extent that future cash flows and taxable income differ significantly from these estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

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

(l) Employee benefits

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

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

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of metals is recognized when all of the following conditions are satisfied:

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

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

(n) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 14(c).

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

Equity-settled share-based payment transactions with related parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be

2. Summary of significant accounting policies (continued)

(n) Share-based payments (continued)

estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes option pricing model, further details of which are given in Note 14(b). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in stock-based compensation.

(o) Financial assets

Financial assets are classified into one of four categories:

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

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

(i) FVTPL financial assets

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

A financial asset is classified as held for trading if:

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

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

(ii) HTM investments

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

(iii) AFS financial assets

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

2. Summary of significant accounting policies (continued)

(o) Financial assets (continued)

(iv) Loans and receivables

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

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

(v) Effective interest rate method

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

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

(vi) Impairment of financial assets

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

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

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

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

(vii) Derecognition of financial assets

A financial asset is derecognized when:

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

2. Summary of significant accounting policies (continued)

(p) Financial liabilities or equity

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

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

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

(i) Other financial liabilities

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

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

(ii) Derecognition of financial liabilities

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

(iii) Financial Liabilities at FVTPL

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

(q) Income per share

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

Diluted income per share is computed similar to basic income per share except that (i) net income attributable to common shareholders is adjusted for fair value gains or losses of warrants (if dilutive) and (ii) the weighted average number of common shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants (if dilutive).

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

(r) Provisions

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

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

2. Summary of significant accounting policies (continued)

(s) Fair value measures

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

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

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

(t) Critical judgments and accounting estimates

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

Following are the items involving significant judgments:

- determination of functional currency (Note 2(b)); and
- recoverability of deferred income tax assets (Notes 2(k) and 15).

Following are the items involving significant estimates:

- measurement of revenue and accounts receivable (Notes 2(m),5 and 9);
- fair value measures (Notes 2(s) and 24);
- the fair value of assets and liabilities acquired in business combinations (Note 4);
- reserve estimates (see below); and
- the anticipated cost of reclamation and closure cost obligations (Notes 2(j) and 12).

<u>Reserve estimates</u>

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

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

2. Summary of significant accounting policies (continued)

(t) Critical judgments and accounting estimates (continued)

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

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

Changes in estimates are accounted for prospectively.

(u) New accounting pronouncements

(a) *IFRS standards effective for annual periods beginning on or after January 1, 2014*

Effective January 1, 2014, the Company adopted new and revised International Financial Reporting Standards that were issued by IASB. The application of the following standards has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

(i) Amended Standard IAS 32 - Financial Instruments: Presentation

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively.

(ii) Amended Standard IAS 39 — Financial Instruments: Recognition and Measurement

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

(iii) Interpretation : IFRIC 21 – Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

(iv) Amendment to IAS 36 - Impairment of Assets

The amendment clarifies the disclosures required in relation to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

2. Summary of significant accounting policies (continued)

(u) New accounting pronouncements (continued)

(b) Accounting standards issued but not yet effective

The Company has not early adopted these new and amended standards. The Company is currently assessing the impact of the following standards and plans to adopt the new standards on the required effective dates.

(i) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

(ii) IFRS 15 - Revenue from Contracts with Customers

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

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

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

(i) $7.5 million in cash;

(ii) 12 million common shares of the Company;

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

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

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

(vi) until all of the consideration is paid, the shares of MSSC and all of the present and future assets of MSSC are provided to SSR as security.

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

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

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

4. Acquisition of Elgin Mining Inc.

On September 9, 2014, the Company completed the acquisition of Elgin Mines Inc. (“Elgin”). Elgin is a Canadian-based company focused on the production at Björkdal gold mine in Sweden. In addition, Elgin’s portfolio includes the Lupin and Ulu gold properties located in Nunavut, Canada.

The Company acquired all of the issued and outstanding shares of Elgin for (i) $24.5 million (C$27 million) in cash; (ii) issuance of 50 million common shares of the Company; and (iii) $4.6 million (C$5 million) in cash to repay an existing Bridge loan of Elgin.

The transaction is being accounted for as a business combination with the Company identified as the acquirer. The acquisition has been accounted for on a preliminary basis taking into account the information available at the time these consolidated financial statements were prepared. The fair values related to property, plant and equipment, including stockpiled ore, disclosed above are preliminary as at December 31, 2014 due to the complexity of the acquisition and the inherent uncertain nature of valuing mining interests, plant and equipment and exploration and evaluation assets. No value has been allocated to goodwill in the preliminary purchase allocation as all incremental values have been allocated to the property, plant and equipment, specifically to exploration and evaluation assets. The purchase price allocation is preliminary and will be finalized upon the completion of a mine plan, which will utilize the Company’s recently issued reserve report, and the subsequent completion of a valuation completed by a third party valuator. It is expected these activities will be completed by the second quarter of 2015.

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

4. Acquisition of Elgin Mining Inc. (continued)

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

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

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

Since the date of acquisition, Elgin has contributed $18.8 million to the Company's revenue and $344,000 to the Company's net income. If the acquisition of Elgin had been completed on January 1, 2014, the consolidated statement of income for 2014 would have had revenue and net income of $224.8 million and $6.7 million, respectively.

5. Trade and other receivables

Trade and other receivables are comprised of the following:

	2014	2013
	($'000)	($'000)
Trade receivables (Note 23(b))	27,130	16,706
VAT and other indirect tax receivables	3,951	1,931
Other receivables	1,404	302
	32,485	18,939
Less: non-current portion	343	359
Total current portion	32,142	18,580

The allowance for doubtful accounts was $nil at December 31, 2014 and 2013.

6. Inventories

Inventories are comprised of the following:

	2014	2013
	($'000)	($'000)
Finished goods	11,567	6,260
Work in progress and stockpiled ore	4,089	1,371
Consumables	12,007	9,356
	27,663	16,987

The amount of inventories recognized in cost of sales for the year ended December 31, 2014 is $144,881,000 (2013 - $119,699,463).

During the year ended December 31, 2014, the Company recorded a provision of $nil (2013-$nil) to write down the value of the consumables to net realizable value.

Mandalay Resources Corporation

Notes to the consolidated financial statements

December 31, 2014 and 2013

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

7. Property, plant and equipment

	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Cost												
As at January 1, 2013	29,713	33,408	-	25,102	29,027	-	593	7,365	3,990	-	13,966	143,164
Additions	10,150	10,585	-	7,608	6,291	-	4	4,765	2,518	-	1,047	42,968
Disposals	-	-	-	(2,245)	(847)	-	-	-	-	-	-	(3,092)
Reclassification to mining interest	5,664	-	-	-	-	-	-	(5,664)	-	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	-	(79)	(720)	-	-	(799)
Foreign exchange	(3,658)	-	-	(4,018)	-	-	(11)	(1,223)	-	-	(648)	(9,558)
As at December 31, 2013	41,869	43,993		26,447	34,471		586	5,164	5,788	-	14,365	172,683
Acquisition	-	-	21,200	-	-	12,355	3,317	-	-	38,460	20,310	95,642
Additions	18,774	9,387	2,565	4,951	8,166	567	143	3,609	1,788	364	6,955	57,269
Disposals	-	-	-	(1,707)	-	-	(379)	-	-	(31)	(165)	(2,282)
Reclassification to mining interest	4,688	2,034	-	-	-	-	-	(4,688)	(2,034)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	-	(1,303)	(1,242)	-	-	(2,545)
Foreign exchange	(4,590)	-	(1,909)	(2,629)	-	(1,389)	(109)	(752)	-	(55)	(1,319)	(12,752)
As at December 31, 2014	**60,741**	**55,414**	**21,856**	**27,062**	**42,637**	**11,533**	**3,558**	**2,030**	**4,300**	**38,738**	**40,146**	**308,015**
Accumulated depreciation												
As at January 1, 2013	8,046	8,353	-	5,731	11,989	-	99	-	-	-	-	34,218
Expense	10,435	10,701	-	2,832	5,774	-	46	-	-	-	-	29,788
Disposals	-	-	-	(1,737)	(835)	-	-	-	-	-	-	(2,572)
Foreign exchange	(1,516)	-	-	(986)	-	-	(7)	-	-	-	-	(2,509)
As at December 31, 2013	16,965	19,054	-	5,840	16,928	-	138	-	-	-	-	58,925
Acquisition			-				-	-	-	-	-	-
Expense	13,285	12,702	1,532	2,086	6,240	1,131	162	-	-	-	-	37,138
Disposals	-	-	-	(948)	-	-	-	-	-	-	-	(948)
Foreign exchange	(2,325)	-	-	(705)	-	-	(10)	-	-	-	-	(3,040)
As at December 31, 2014	**27,925**	**31,756**	**1,532**	**6,273**	**23,168**	**1,131**	**290**	**-**	**-**	**-**	**-**	**92,075**
Carrying value												
As at January 1, 2013	21,666	25,055	-	19,371	17,039	-	494	7,365	3,990	-	13,966	108,945
As at December 31, 2013	24,904	24,939	-	20,607	17,544	-	448	5,164	5,788	-	14,365	113,758
As at December 31, 2014	**32,816**	**23,658**	**20,324**	**20,789**	**19,469**	**10,402**	**3,268**	**2,030**	**4,300**	**38,738**	**40,146**	**215,940**

For the year ended December 31, 2014, plant and equipment depreciation of Cerro Bayo of $659,672 (2013 - $1,357,199), and for Costerfield of $145,749 (2013 - $nil) was capitalized in mining interest. For the year ended December 31, 2014, the Company decided not to pursue certain exploration projects and recorded a write-off of $2,545,160 (2013 - $798,340).

7. Property, plant and equipment (continued)

(a) Exploration and evaluation - others

(i) La Quebrada

As part of a strategic review during 2014, the Company determined that La Quebrada is a non-core asset and therefore has suspended all exploration activities. Based on the Company's change in expected use of the property and continued search to sell the property, the Company has determined there was an indicator of impairment and performed an impairment test. Based on a review of the resources associated to the property and comparable property information, it was determined that the fair value less costs to sell was in excess of the property's carrying value and therefore no impairment was recorded for the year.

(b) Royalties

(i) Costerfield

The Company is required to pay a 2.75% NSR to the government in Australia. During the year ended December 31, 2014, the Company paid NSR in the amount of $830,420 (2013 - $850,835) which is recorded as part of cost of sales.

(ii) Cerro Bayo

The Company is required to pay to the former owner a 2% NSR on cumulative production in excess of 50,000 ounces of gold and 5,000,000 ounces of silver. During the year ended December 31, 2013, the production exceeded this threshold and the Company commenced paying the NSR. During the year ended December 31, 2014, the Company paid NSR in the amount of $1,489,325 (2013 - $767,638) which is recorded as part of cost of sales.

(iii) Björkdal

The Company is required to pay NSR 0.2% of the average gold price of the production, one fourth of that amount is to be paid to the government and the rest to the owners of the land.

8. Intangible assets

In June 2012, the Company reached an agreement with its union workers in Chile and paid a lump-sum cash payment of $1,414,082 to secure the contract. This payment is recorded as an intangible asset and amortized over the contractual life of the union agreement being three years. The carrying amount of the intangible asset as at December 31, 2014 is $249,376 (2013 - $748,180). Amortization expense of $498,804 (2013 - $498,804) is recorded as part of cost of sales.

9. Trade and other payables

	2014	2013
	($'000)	($'000)
Trade payables	**10,386**	4,311
Accrued liabilities	**8,626**	4,608
Cash election option (Note 14(b))	**125**	87
Mark to market adjustment (Note 24)	**2,373**	4,544
Payroll and other taxes payable	**1,837**	591
	23,347	14,141

The average credit period of purchases is one month. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

10. Borrowings

Equipment loans

The Company's wholly-owned Swedish subsidiary, Björkdalsgruvan AB, has a closing balance of $1.3 million for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures which bears variable interest at the 3-month STIBOR plus 2.16% per annum, is repayable in monthly installments plus interest, over a term of 39 to 42 months from the year ended December 31, 2014. The Equipment facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdalsgruvan AB also has equipment leases totaling $1.5 million. These leases financed 80% of the equipment purchase cost, bear interest at the 1-month STIBOR plus 2.05% per annum with monthly lease payments over a term of 39 to 42 months from the year ended December 31, 2014 and have an equipment buy-out option at the end of the lease term equal to 10% of the original equipment purchase cost.

	Less than 1 year	**Between 1- 5 years**	**Total**
	($'000)	($'000)	($'000)
Principal repayments of equipment loans	540	774	1,314
Minimum future lease payments for equipment leases	451	1,092	1,543
	991	1,866	2,857

11. Five year exchangeable bonds

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

Beginning on June 23, 2014, each Bond holder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The initial exchange price is US$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of US$1,556 per ounce. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which Net asset value (NAV) of the SPDR Gold Trust or Gold Shares is calculated.

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

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

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

$DSI = (1 / A) \times ((B / C) – D)$

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

The Issuer may redeem the Bonds at its option:

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

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

11. Five year exchangeable bonds (continued)

Following is a summary of the carrying amount of the five year exchangeable bonds:

	$'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**

As the Bond holder has the right to exchange the principal amount for Gold Shares any time after June 23, 2014, the Company has classified the carrying amount as 'Current liabilities' in the consolidated statement of financial position of the Company as at December 31, 2014.

12. Reclamation and site closure costs

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

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

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

	($'000)
Balance, December 31, 2012	17,146
Expenditure for reclamations	(129)
Change in estimated cash outflows	255
Accretion (Note 18)	436
Foreign exchange	(287)
Balance, December 31, 2013	17,421
Acquisition of Elgin (Note 4)	24,417
Expenditure for reclamations	(175)
Change in estimated cash outflows	2,144
Accretion (Note 18)	553
Foreign exchange	(1,639)
Balance at December 31, 2014	**42,721**

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

12. Reclamation and site closure costs (continued)

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

The total undiscounted amount of estimated cash flows required to settle the retirement obligations is $46,524,087 (2013 - $19,943,980).

The present value of the site closure and reclamation cost obligations for the Costerfield mine at December 31, 2014 is $2,735,557 (2013 - $1,965,307), calculated using a discount rate of 2.6% (2013 – 4.1%). The obligations are expected to be settled primarily in the years 2023 through 2024. The regulatory body in Australia requires reclamation deposits from the Company. As at December 31, 2014, the deposit amounted to $2,650,060 (2013 - $2,252,579) and is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Cerro Bayo mine at December 31, 2014 is $16,891,483 (2013 - $15,455,924), calculated using a discount rate of 1.3% (2013 – 2.38%). The obligations are expected to be settled in the years 2015 through 2022.

The present value of the site closure and reclamation cost obligations for the Björkdal mine at December 31, 2014 is $2,400,489 derived through an independent consultant.

The present value of the site closure and reclamation cost obligations for the Ulu/Lupin mine at December 31, 2014 is $20,693,204 (2013 - $nil), calculated using a discount rate of 1.8% (2013 – Nil). The obligations are expected to be settled by the end of 2021.Restricted cash amounting to $23,456,123 stands as a deposit against reclamation.

13. Provisions

	Employee benefits	Severence payments	Total
	(i)	(ii)	
	($'000)	($'000)	($'000)
Balance, December 31, 2012	2,425	2,202	4,627
Additions	2,683	1,270	3,953
Amounts paid	(1,937)	(200)	(2,137)
Foreign exchange	(286)	(278)	(564)
Balance, December 31, 2013	2,885	2,994	5,879
Additions	2,471	997	3,468
Amounts paid	(1,828)	(314)	(2,142)
Foreign exchange	(299)	(445)	(744)
Balance, December 31, 2014	3,229	3,232	6,461
Less: current portion	2,707	-	2,707
Total non-current portion	522	3,232	3,754

(i) MRA and Cerro Bayo provide for vacation provision for their current employees, in accordance with statutory requirements.

(ii) Cerro Bayo provides for certain severance payments that will be required at the end of the mine life in accordance with statutory requirements.

14. Share capital

At December 31, 2014, the Company had unlimited number of authorized common shares without par value and 408,758,095 common shares outstanding (2013 - 322,779,853 common shares). All outstanding common shares are fully paid.

(a) Shares issued

For the years ended December 31, 2014 and 2013, the Company issued its common shares upon exercise of share options and warrants by their holders and pursuant to the Company's warrant exchange offer (Note 14(b) and (e)). The Company also issued 12 million common shares in connection with the Challacollo acquisition (Note 3) and 50 million common shares were issued on acquisition of Elgin (Note 4).

(b) Stock options

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

14. Share capital (continued)

(b) Stock options (continued)

The Company has amended the stock option plan whereby option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. As a result of the plan amendment, the Company reclassified $197,356 from share option reserve to derivative financial instruments in 2013. Subsequently, the liability has been remeasured at fair value. As at December 31, 2014, the liability is $124,792 (2013 - $86,658). The Company recognized a fair value measurement gain of $285,677 for the year ended December 31, 2014 (2013 loss of $2,213), which is included in share-based compensation.

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

	2014	2013
Risk free interest rate	1.01%	0.96%
Expected dividend yield	3.75%	4.40%
Expected life of options in years	1.21	1.70
Expected stock price volatility	49.9%	53.70%
Expected forfeiture rate	0.00%	0.00%

During the year ended December 31, 2014, the Company paid $ Nil (2013 – $218,784) upon exercise of Nil (2013 – 425,000) stock options under the cash election option. As at December 31, 2014, 2,530,000 (2013 – 1,600,000) stock options with the cash election option are outstanding.

	Number of options	**Weighted average exercise price**
	('000)	C$
Balance, December 31, 2012	13,630	0.57
Granted	4,289	1.13
Forfeited	(298)	0.54
Expired	(100)	0.50
Exercised - equity issuance	(1,023)	0.32
Exercised - cash election option	(425)	0.56
Balance, December 31, 2013	16,073	0.73
Granted	4,555	0.98
Forfeited	(675)	1.01
Exercised-equity issuance	(3,005)	0.39
Balance, December 31, 2014	**16,948**	**0.85**

The weighted average share price at the time when the stock options were exercised during the year ended December 31, 2014 was C$1.00 (2013 – C$0.97).

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

14. Share capital (continued)

The following table summarizes information about the stock options outstanding at December 31, 2014:

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
50,000	1.51	0.76	50,000	0.76
370,000	1.28	0.58	370,000	0.58
3,067,500	1.20	0.56	3,067,500	0.56
300,000	0.77	0.33	300,000	0.33
770,000	0.66	0.26	770,000	0.26
250,000	1.92	0.70	250,000	0.70
3,772,500	2.19	0.83	-	0.83
3,942,500	3.22	1.13	-	1.13
4,305,000	4.23	0.98	-	0.98
120,000	4.85	0.93	-	0.93
16,947,500	**2.67**	**0.85**	**4,807,500**	**0.51**

(c) Share-based compensation

For the year ended December 31, 2014, the Company recorded $1,534,630 (2013 - $1,749,560) as share-based compensation expense and recorded this amount in share option reserve. The value was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C$0.98 (2013 - C$1.13) was calculated using the following weighted average assumption. Expected stock price volatility and option life is based on the Company's historical share price volatility.

	2014	2013
Risk free interest rate	**1.06%**	1.13%
Expected dividend yield	**3.43%**	3.64%
Expected option life (years)	**5.00**	5.00
Expected stock price volatility	**62.98%**	81.15%
Expected forfeiture rate	**5%**	5%

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

14. Share capital (continued)

(d) Restricted Share Units

During the year ended December 31, 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. The Company granted additional RSUs to directors during the year ended December 31, 2014. Under the RSU Plan, those directors granted RSUs will receive the Company's common shares at no cost at the end of the vesting period which are based on graded vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The RSU value is determined based on the fair value of the Company's share at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve.

The number of RSUs as at December 31, 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

For the year ended December 31, 2014, the company recorded $114,350 (2013 - $83,406) as share based compensation relating to RSUs.

(e) Share purchase warrants

A summary of the changes in share purchase warrants is presented below:

	Number of warrants	Weighted average exercise price
		C$
Balance, December 31, 2012	23,600	0.37
Exercised	(2,600)	0.47
Balance, December 31, 2013	21,000	0.36
Exercised	(20,900)	0.35
Cancelled	(100)	0.47
Balance, December 31, 2014	-	-

14. Share capital (continued)

(f) Normal Course Issuer Bid ("NCIB")

The following table summarizes the NCIB transactions during the year ended December 31, 2014 and 2013. Purchases will be made at the discretion of the Company and the shares acquired under the NCIB will be cancelled upon purchase.

	Number of shares repurchased	Average price of repurchase	Cost of repurchase
	('000)		($'000)
Year ended December 31, 2014			
2013 NCIB	31	C$ 0.77	24
	31		24
Year ended December 31, 2013			
2013 NCIB	695	C$ 0.78	546
2012 NCIB	2,335	C$ 0.81	1,907
	3,030		2,453

(g) Dividends

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

The details of the dividends paid are as follows:

	Declaration Date	Payable to shareholders of record at	Dividends declared	Total payment
			C$	$'000
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	0.01000	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	0.00970	3,026
				10,810

15. Income taxes

Income tax expense (recovery) consists of the following:

	2014	2013
	($'000)	($'000)
Current tax		
Income tax	**4,633**	7,116
Deferred tax		
Origination and reversal of temporary differences	**(1,020)**	(1,547)
Previously unrecognized tax loss or temporary difference used to reduce current tax expense	**1,905**	2,177
Previously unrecognized tax loss or temporary difference used to reduce deferred tax expense	**-**	(913)
	885	(283)

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

	2014	2013
	($'000)	($'000)
Income before income taxes	**23,095**	36,275
Canadian federal and provincial income tax rates	**26.5%**	26.5%
Income tax expense based on above rates	**6,120**	9,613
Increase (decrease) due to		
Non-deductible/(taxable) expenditures	**1,011**	(770)
Effect of different foreign tax rates on earnings of subsidiaries	**(616)**	(1,364)
Impact of lower tax rates on deferred income taxes	**(1,289)**	-
Increase (decrease) in unrecognized losses	**744**	(2,221)
Others	**(452)**	1,575
	5,518	**6,833**

The tax rates used for the 2014 and 2013 reconciliations above are the corporate tax rates applicable to Mandalay in the Canadian jurisdictions. The applicable tax rate changed was 26.5% in 2014 and 2013.

15. Income taxes (continued)

The components of deferred income taxes are as follows:

	2014	2013
	($'000)	($'000)
Deferred income tax assets		
Tax loss carryforwards	**7,000**	9,254
Deductible temporary differences and other:		
Reclamation and site closure costs	**4,463**	3,091
Provisions and accruals	**2,327**	2,407
Other	**(460)**	1,507
Deferred income tax assets	**13,330**	16,259
Deferred income tax liabilities		
Property, plant and equipment	**(16,247)**	(6,274)
Deferred income tax asset (liability), net	**(2,917)**	9,985
Deferred income tax asset	**9,050**	9,985
Deferred income tax liability	**(11,967)**	-
Deferred income tax asset (liability), net	**(2,917)**	9,985

The changes in the Company's net deferred income tax asset/liability for the year ended December 31 are as follows:

	2014	2013
	($'000)	($'000)
Opening net deferred income tax asset/liability	**9,985**	11,229
Elgin Acquisition	**(12,249)**	-
Income tax (expense)/recovery charged to earnings during the year	**(885)**	283
Foreign exchange	**232**	(1,527)
Ending net deferred income tax asset (liability)	**(2,917)**	**9,985**

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

	2014	2013
	($'000)	($'000)
Deferred income tax assets		
Tax loss carry forward	**8,749**	2,490
Deductible temporary differences:		
Derivative Financial instrument (Financing Warrants)	**-**	139
Financing costs	**151**	417
Other	**36**	31
Unrecognized deferred tax assets	**8,936**	3,077

At December 31, 2014, the Company has:

- Canadian income tax losses of approximately $ 33,417,000 (2013 - $11,914,968) that expire from 2015 through 2032;
- Australian loss carry forward of approximately $17,476,000 (2013 - $27,989,256) that can be carried forward indefinitely; and

15. Income taxes (continued)

- Chile loss carry forward of approximately $Nil (2013 - $947,045) that can be carried forward indefinitely.

16. Cost of sales

The cost of sales for the year ended December 31, 2014 and 2013 consists of:

	2014	2013
	($'000)	($'000)
Raw materials and consumables	40,517	31,291
Salary and employee benefits	37,464	36,302
Contractors	8,973	4,942
Change in inventories	(3,929)	(3,030)
Royalty	2,376	1,618
Other	23,782	20,175
	109,183	91,298

17. Administration expense

The administration expenses for the Company are broken down as follows:

	2014	2013
	($'000)	($'000)
Accounting and legal	**1,704**	1,171
Administrative and office	**3,576**	3,676
Consulting fee	**223**	195
Depreciation	**108**	31
Investor relations	**1,134**	561
Salaries	**1,916**	1,105
Travel and entertainment	**532**	554
Total	**9,193**	**7,293**

Included in cost of sales and administrative and office are the employee salary and benefit expenses of $37,464 and $3,576 (2013 - $37,937).

18. Finance costs

	2014	2013
	($'000)	($'000)
Interest on borrowings	698	438
Interest on five year exchangeable bonds (Note 11)	2,652	-
Accretion of reclamation and site closure costs (Note 12)	553	436
	3,903	874

Mandalay Resources Corporation

Notes to the consolidated financial statements

December 31, 2014 and 2013

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

19. Derivative financial instruments

The following table summarizes details for derivative financial instruments:

	2014	2013
	($'000)	($'000)
Fair value adjustments gain (loss)		
Currency hedge contract	**226**	(415)
Five year exchangeable bonds	**1,780**	-
Financing warrants	**(110)**	408
Oil derivative	**(176)**	-
Marketable securities	**(168)**	-
Total fair value adjustments	**1,552**	(7)

(a) Financing warrants

During the year ended December 31, 2012, the Company reached an agreement to issue 3,050,000 warrants to specific service providers as consideration for financing and other services the Company received in prior years ("financing warrants"). These financing warrants had an exercise price of $0.31 per warrant and expired on November 30, 2014.

These financing warrants were accounted for as a liability and were marked to market at each period end until they were exercised. The fair value of financing warrants is determined by referring to the market price of the Company's share which is considered to be level 1 input.

During the year ended December 31, 2014, 982,100 financing warrants (2013 – 1,647,000) were exercised with a cash settlement of $515,700 (2013 - $1,339,340). As at December 31, 2014, Nil (2013 – 982,100) financing warrants valued at $nil (2013 - $433,985) are outstanding and recorded in derivative financial instruments on the statement of financial position. The Company recorded a fair value measurement loss of $110,295 for the year ended December 31, 2014 (2013 - gain of $407,912), which is reported in gain (loss) on derivative financial instruments.

(b) Currency option ("Currency hedge contract")

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 allowed 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 was 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 was weaker than the contract rate. The derivative financial instruments were stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain of $225,658 for the year ended December 31, 2014 (2013 – loss of $414,833). As at December 31, 2014, the liability for currency hedge contract was Nil (2013 – 360,128) and is recorded in derivative financial instruments on the statement of financial position.

The fair value of a currency hedge contract was determined by using the option pricing model based on an exchange spot rate and expected volatility which are considered to be level 2 inputs.

19. Derivative financial instruments and other financial instruments (continued)

(c) Conversion feature under five year exchangeable bonds

The Company has valued the conversion feature of the five year exchangeable bonds (Note 11) using the Black Scholes option pricing model and determined the value of $4,633,984 at the date of May 13, 2014. For the year ended December 31, 2014, the derivative value of the conversion feature amounts to $2,854,032 and is recorded in derivative financial instruments on the consolidated statements of financial position. The Company recorded a fair value measurement gain of $1,779,952 for the year ended December 31, 2014.The value was estimated using the following Level 2 assumptions: risk free interest rate of 1.00%; volatility of 18%, gold forward curve adjustment of -0.43%.

(d) 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.

(e) 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.

20. Income per share

As at December 31, 2014, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	2014	2013
	('000)	('000)
Basic weighted average number of common shares outstanding	357,732	324,239
Effective of diluted securities		
Stock options	3,126	4,646
Warrants	-	13,245
RSUs	272	167
Diluted weighted average number of common shares outstanding	361,130	342,297

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of the diluted income per share calculation because the exercise price exceeded the daily weighted average market value of the common shares for the year ended December 31, 2014 of C$1.00 (2013 - C$0.97):

	2014	2013
Stock options	3,943	4,288

21. Segmented information

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

					2014
	Australia	**Chile**	**Sweden**	**Corporate**	**Total**
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**
Revenue	77,525	88,336	18,768	-	184,629
Depletion and depreciation					
(including corporate offfice depreciation)	(15,178)	(18,324)	(2,134)	(90)	(35,726)
Income (loss) from operations	11,682	17,481	2,662	(7,394)	24,431
Other income (expense), except for fair value					
adjustment on financial instruments	(857)	479	71	(2,582)	(2,889)
Income (loss) from underlying operations	10,825	17,960	2,733	(9,976)	21,542
Income for underlying operations per share					
Basic					$0.06
Diluted					$0.06
Fair value adjustments gain (loss)					
Currency hedge contract (Note 19(b))	226	-	-	-	226
Five year exchangeable bonds (Note 19)	-	-	-	1,780	1,780
Financing warrants (Note 19(a))	-	-	-	(110)	(110)
Marketable securities (Note 19(a))	-	-	-	(168)	(168)
Oil derivative (Note 19(d))	-	-		(176)	(176)
Total fair value adjustments	226	-	-	1,326	1,552
Income (loss) before income taxes	11,051	17,960	2,733	(8,650)	23,094
Current tax expense	-	(3,883)	(750)	-	(4,633)
Deferred tax recovery (expense)	(2,182)	1,778	(481)	-	(885)
Net income (loss)	8,869	15,855	1,502	(8,650)	17,576
Income per share					
Basic					$0.05
Diluted					$0.05
Cash expenditures for property, plant and equipment	26,243	24,144	3,496	-	53,883
Total non-current assets as at December 31, 2014	61,129	88,486	71,883	32,607	254,105
Total assets as at December 31, 2014	75,787	135,404	89,248	64,663	365,102
Total liabilities as at December 31, 2014	8,560	31,863	25,979	79,921	146,323

21. Segmented information (continued)

				2013
	Australia	**Chile**	**Corporate**	**Total**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Revenue	70,187	96,719	-	166,906
Depletion and depreciation	-	-	-	-
(including corporate office depreciation)	(12,873)	(15,529)	(32)	(28,434)
Currency Hedge Contract	-	-	-	-
Income (loss) from operations	12,246	29,265	(5,083)	36,428
Other income (expense), except for fair value				
adjustment on financial instruments	(976)	(516)	1,346	(146)
Income (loss) from underlying operations	11,270	28,749	(3,737)	36,282
Income from underlying operations per share				
Basic				$0.11
Diluted				$0.11
Fair value adjustments gain (loss)				
Currency hedge contract (Note 19(b))	(415)	-	-	(415)
Financing warrants (Note 19(a))	-	-	408	408
Total fair value adjustment	(415)	-	408	(7)
Net income (loss) before income tax	10,855	28,749	(3,329)	36,275
Current tax expense	-	(7,116)	-	(7,116)
Deferred tax recovery (expense)	(2,429)	1,843	869	283
Net income (loss)	8,426	23,476	(2,460)	29,442
Income per share				
Basic				$0.09
Diluted				$0.09
Expenditures for property, plant and equipment	21,847	19,482	-	41,329
Total non-current assets as at December 31, 2013	58,414	58,392	10,297	127,103
Total assets as at December 31, 2013	71,503	113,132	12,137	196,772
Total liablilities as at December 31, 2013	8,241	32,373	2,576	43,190

21. Segmented information (continued)

For the year ended December 31, 2014, the Company had four customers from whom it earned more than 10% of its total revenue (2013 - four). Revenue from these customers is summarized as follows:

	2014	2013
	($'000)	($'000)
MRA (gold and antimony)		
Customer 1	53,038	63,804
Customer 2	24,388	-
	77,426	63,804
Cerro Bayo (silver and gold)		
Customer 3	50,909	43,973
Customer 4	25,382	36,182
Customer 5	-	16,038
	76,291	96,193
Total	153,717	159,997

22. Capital management

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

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

Capital, as defined above, at December 31, 2014 and December 31, 2013 is summarized in the following table.

	2014	2013
	($'000)	($'000)
Equity	218,778	153,581
Five year exchangeable bonds (Note 11)	53,621	-
Long-term debt	1,821	-
	274,220	153,581
Cash and cash equivalents	(49,004)	(33,465)
	225,216	120,116

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

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

23. Financial risk management

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

(a) Credit risk

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

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

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

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

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold, silver and antimony trade receivables at December 31, 2014 is not considered to be high.

The Company's maximum exposure to credit risk at December 31, 2014 and December 31, 2013, is as follows:

	December 31, 2014	December 31, 2013
	($'000)	($'000)
Cash and cash equivalents	**49,004**	33,465
Trade and other receivables	**32,485**	18,939
Reclamation and other deposits	28,523	2,253
	110,012	54,657

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

(b) Aging of past due but not impaired receivables

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

23. Financial risk management (continued)

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

For the year ended December 31, 2014, substantially all of the Company's silver/gold/antimony production was sold to five customers (2013 - four) and there was no significant change in the credit quality of these customers over that time. Below is the information on the aging of the accounts receivable. There are neither past due amounts nor impaired trade receivables as at December 31, 2014 and 2013.

	2014	2013
	($'000)	($'000)
Less than 6 months	24,347	16,706
6 months or more	2,783	-
	27,130	16,706

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as outlined in Note 22.

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

					2014	2013
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total	Total
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Trade and other payables	23,347	-	-	-	23,347	14,141
Five year exchangeable bonds	60,000	-	-	-	60,000	-
Borrowings	951	1,821	-	-	2,772	-
Current income tax liabilities	2,580	-	-	-	2,580	4,956
	86,878	1,821	-	-	88,699	19,097

In the opinion of management, the working capital of $24,936 thousand at December 31, 2014, which is the current assets, net of the current liabilities, together with expected positive cash flows from operations, are sufficient to support the Company's normal operating requirements through its current reporting period. However, taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining production levels at its current operations.

23. Financial risk management (continued)

(d) Currency risk

The Company operates in Canada, Australia, Chile and Sweden. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars. The three main types of foreign exchange risk of the Company can be categorized as follows:

(i) Exposure to currency risk

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

				2014
	Australian dollar	**Canadian dollar**	**Chilean peso**	**Swedish Krona**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Cash and cash equivalents	**3,558**	**2,167**	**16,436**	**2,914**
Trade and other receivables	**1,599**	**319**	**21,828**	**8,739**
Reclamation and other deposits	**2,650**	**23,456**	**-**	**2,417**
Trade and other payables	**(4,557)**	**(3,999)**	**(10,635)**	**(7,861)**
Borrowings	**-**	**-**	**-**	**(2,772)**
Gross statement of financial position exposure	**3,250**	**21,943**	**27,629**	**3,437**

			2013
	Australian dollar	Canadian dollar	Chilean peso
	($'000)	($'000)	($'000)
Cash and cash equivalents	2,983	129	4,253
Trade and other receivables	534	48	4,043
Reclamation and other deposits	2,252	-	-
Trade and other payables	(4,172)	(2,054)	(3,283)
Borrowings	-	-	-
Gross statement of financial position exposure	1,597	(1,877)	5,013

A 10% strengthening of the U.S. dollar against the Australian dollar, Canadian dollar Chilean peso and Swedish krona would have increased (decreased) the Company's net monetary assets (liabilities) by an amount of $325,010 (2013 - $159,704) for the Australian dollar, $2,194,326 (2013 – ($187,690)) for the Canadian dollar, $2,762,883 (2013 - $501,282) for the Chilean peso and $343,670 for the Swedish krona. A weakening of the U.S. dollar would have an opposite impact of the same degree.

23. Financial risk management (continued)

(d) Currency risk

(ii) Translation exposure

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

(e) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate changes is limited as at December 31, 2014 since interest to be paid on the Bonds is fixed at 5.875%, interest on the Equipment Facility of Björkdalsgruvan AB bears variable interest at the 3-month STIBOR plus 2.16% per annum and equipment leases of Björkdalsgruvan AB bear interest at the 1-month STIBOR plus 2.05% per annum.

(f) Commodity price risk

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

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold by central banks and other holders;
- demand for jewelry containing gold, and/or silver;
- changes in industrial demand for silver and/or antimony;
- changes in supply of gold, silver, and/or antimony due to new mines being commissioned and existing minds being exhausted; and
- investment activity, including speculation, in gold, silver, and antimony as commodities.

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

24. Fair value measurement

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

24. Fair value measurement (continued)

At December 31, 2014 and December 31, 2013, the Company's financial assets and liabilities are categorized as follows:

2014	FVTPL	Loans and receivables	Other financial liabilities	Total
	($'000)	($'000)	($'000)	($'000)
Financial assets				
Cash and cash equivalents	-	49,004	-	49,004
Trade receivables	-	27,130	-	27,130
Other receivables	-	5,355	-	5,355
Reclamation and other deposits	-	28,523	-	28,523
Marketable securities	221	-	-	221
Oil derivative	552	-	-	552
Financial liabilities				
Trade and other payables	2,373	-	20,974	23,347
Five year exchangeable bonds	-	-	53,621	53,621
Borrowings	-	-	2,772	2,772
Derivative financial instruments	2,854	-	-	2,854

2013	FVTPL	Loans and receivables	Other financial liabilities	Total
	($'000)	($'000)	($'000)	($'000)
Financial assets				
Cash and cash equivalents	-	33,465	-	33,465
Trade receivables	-	16,706	-	16,706
Other receivables	-	2,233	-	2,233
Reclamation and other deposits	-	2,253	-	2,253
Financial liabilities				
Trade and other payables	4,544	-	9,597	14,141
Derivative financial instrument	794	-	-	794

24. Fair value measurement (continued)

At December 31, 2014 and 2013, the carrying values and the fair values of the Company's financial instruments are shown in the following table.

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

	2014		2013	
	Carrying value	**Fair value**	Carrying value	Fair value
	($'000)	**($'000)**	($'000)	($'000)
Financial assets				
Cash and cash equivalents	**49,004**	**49,004**	33,465	33,465
Trade receivable	**27,130**	**27,130**	16,706	16,706
Other receivables	**5,355**	**5,355**	2,233	2,233
Reclamation and other deposits	**28,523**	**28,523**	2,253	2,253
Marketable securities	**221**	**221**	-	-
Oil derivative	**552**	**552**	-	-
Financial liabilities				
Trade and other payables	**23,347**	**23,347**	9,597	9,597
Five year exchangeable bonds	**53,621**	**53,151**	-	-
Borrowings	**2,772**	**2,857**	-	-
Derivative financial instruments	**2,854**	**2,854**	794	794

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

As at December 31, 2014, the provisional pricing feature of trade receivables, other receivables, marketable securities and oil derivative are based on Level 1 input. Provisional pricing feature of trade and other payables, five year exchangeable bonds and derivative financial instruments are based on Level 1 input. Reclamation and other deposits and long term-debt are based on Level 2 input. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

25. Related party transactions

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	-

26. Commitments and contingencies

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

27. Subsequent events

(a) 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.

(b) Sale of Ulu/Lupin properties:

The Company has signed a non-binding Letter of Intent with WPC Resources for purchase of both the Lupin and Ulu properties. The following is the estimated purchase consideration:

(i) $3 million cash to be paid at the closing of the transaction;
(ii) WPC will issue 18 million common shares to the Company, scheduled as;
- 6 million shares upon the closing, and,
- 6 million shares on each of the next 2 anniversary dates of the closing.

(iii) WPC will offer the Company the opportunity to participate in any financing such that Mandalay may maintain at least a 10% equity interest in WPC. This right will expire on commencement of commercial production from either the Lupin or Ulu property.

This offer is mainly contingent on WPC raising financing and on the continuing care and maintenance permits for Lupin being received as anticipated in February 2015.

28. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2014 consolidated financial statements.