MANDALAY RESOURCES

Management's Discussion & Analysis

September 30, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the condensed consolidated interim financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the three and nine months ended September 30, 2014, the Company's annual information form dated March 28, 2014 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

THIRD QUARTER 2014 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- On September 9, 2014, the Company completed its acquisition of Elgin Mining Inc. ("Elgin") in exchange for consideration consisting of 50 million common shares of the Company, CDN$27 million cash and CDN$5 million to repay an Elgin bridge loan. Elgin's primary asset is the Björkdal gold mine in northern Sweden ("Björkdal"). The results for Elgin from the date of acquisition forward are included in the Company's financial results for the three and nine months ended September 30, 2014.

- Quantities of metal sold during the quarter were 16,106 ounces ("oz") of gold ("Au"), 467,606 oz of silver ("Ag") and 852 tonnes ("t") of antimony ("Sb") compared to 14,622 oz Au, 973,107 oz Ag and 777 t Sb in the third quarter of 2013. Prices realized during the quarter were $1,224 per oz for gold, $15.43 per oz for silver and $9,090 per t for antimony in 2014 versus $1,363 per oz for gold, $23.21 per oz for silver and $10,034 per t for antimony in the same period in 2013. Quantities of metal sales from Cerro Bayo were impacted in the third quarter by two missed shipments at quarter end due to inclement weather at the port of Chabuco. These shipments will be caught up in the fourth quarter of 2014.

Revenues in the quarter of $34.7 million were negatively impacted by about US$12 million due to the delayed shipments noted above and adverse revenue adjustments of $0.6 million related to unsettled open shipments from prior quarters. This compares with revenues of $50.3 million in the third quarter of 2013 (including favorable revenue adjustments of $4.5 million related to unsettled open shipments for the prior quarter). Revenues were also negatively impacted by lower realized metal prices relative to the previous year quarter of 10% per oz for gold, 33% per oz for silver and 9% per t for antimony. Income from mining operations before depletion and depreciation was $13.5 million in the third quarter of 2014 compared with $25 million in the third quarter of 2013.

- Net loss during the quarter was $0.7 million ($0.00 per share) compared with net profit of $11 million ($0.03 per share) in the third quarter of 2013. Net income was impacted by the lower revenue in the quarter as well as US$0.9 million in one-time transaction expenses associated with the Company's acquisition of Elgin Mining.

- Loss after tax from underlying operations (1) in the current quarter was $0.9 million ($0.00 per share) compared with profit after tax from underlying operations of $12.5 million ($0.04 per share) in the third quarter of 2013.

- Cash cost(2) of silver production at Cerro Bayo was $6.26 per oz Ag produced net of Au credits and the site all-in cost achieved was $12.23 per oz Ag net of Au credits compared to $6.41 and $12.05 respectively in the third quarter of 2013.

- Cash cost(2) of production at Costerfield in the quarter was $747 per gold equivalent ounce ("Au Eq. oz") produced and the site all-in cost(2) was $1,047 per Au Eq. oz produced compared to $626 and $873, respectively in the third quarter of 2013.

- Cash cost(2) of production at Björkdal for the period September 10th, 2014 to September 30th, 2014 per gold equivalent ounce ("Au Eq. oz") produced was $706 and the site all-in cost(2) was $852 per Au Eq. oz produced.

- Dividends paid in the third quarter of 2014 were $2.7 million (C$0.0086 per share) compared to $2.2 million (C$0.0069 per share) in corresponding quarter of the prior year.

- Capital expenditures during the third quarter of 2014 were $4.4 million at Cerro Bayo, $6.4 million at Costerfield and $0.6 million at Björkdal compared to $3.9 million at Cerro Bayo and $5 million at Costerfield in the third quarter of 2013.

- At September 30, 2014, the Company had $45 million of cash and cash equivalent.

(1) Income after tax from underlying operations is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.
(2)Cash cost and site all-in costs are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

2. Operating Highlights

a. Consolidated Production and Sales

In the third quarter of 2014, Mandalay produced 18,990 oz Au, 823,379 oz Ag and 1,000 t Sb, representing 39,021 Au Eq. oz. Production in the third quarter of 2013 was 14,442 oz Au, 733,659 oz Ag and 966 t Sb, representing 33,452 Au Eq. oz.

The increase in production at Costerfield was the result of more tonnes mined and processed than in the previous year at higher grade, reflecting commencement of production from the Cuffley lode. Production at Cerro Bayo increased due to higher grades realized in the 2014 period compared to the same period of the previous year. The addition of the Björkdal mine for 20 days in the quarter increased gold production by 3,091 oz.

Saleable Production

Metal	Source	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Gold (oz)	Costerfield	9,454	8,831	24,625	21,913
	Cerro Bayo	6,445	5,611	18,548	16,210
	Björkdal	3,091	-	3,091	-
	Total	**18,990**	**14,442**	**46,264**	**38,123**
Antimony (t)	Costerfield	**1,000**	**966**	**2,713**	**2,470**
Silver (oz)	Cerro Bayo	**823,379**	**733,659**	**2,308,330**	**2,266,995**
Average quarterly prices:					
Gold US$/oz		1,281	1,328		
Antimony US$/tonne		9,405	9,928		
Silver US$/oz		19.76	21.33		
Au Eq. (oz)[1]	Costerfield	16,792	16,053	44,811	39,768
	Cerro Bayo	19,138	17,399	54,307	54,370
	Björkdal	3,091	-	3,091	-
	Total	**39,021**	**33,452**	**102,209**	**94,138**

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

Sales

Metal	Source	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Gold (oz)	Costerfield	8,891	7,532	23,235	20,263
	Cerro Bayo	3,921	7,090	16,384	16,654
	Björkdal	3,294	-	3,294	-
	Total	**16,106**	**14,622**	**42,913**	**36,917**
Antimony (t)	Costerfield	**852**	**777**	**2,355**	**2,295**
Silver (oz)	Cerro Bayo	**467,606**	**973,107**	**2,080,435**	**2,379,766**
Average quarterly prices:					
Gold US$/oz		1,281	1,328		
Antimony US$/tonne		9,405	9,928		
Silver US$/oz		19.76	21.33		
Au Eq. (oz)[2]	Costerfield	15,148	13,344	40,752	36,818
	Cerro Bayo	11,130	22,727	48,623	56,629
	Björkdal	3,294	-	3,294	-
	Total	**29,572**	**36,071**	**92,669**	**93,447**

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

b. **Costerfield Gold-Antimony Mine, Victoria, Australia**

i. *Production* — Saleable Au production for the third quarter of 2014 was 9,454 oz versus 7,256 oz in the previous quarter and 8,831 oz in the third quarter of 2013. Saleable antimony production for the third quarter of 2014 was 1,000 t versus 855 t in the previous quarter and 966 t in the third quarter of 2013. Greater production in the current quarter compared to the corresponding quarter of the previous year was mainly due to greater mine output.

ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the third quarter of 2014 was $747 versus $989 in the previous quarter and $626 in the third quarter of 2013. The higher cash cost per oz in the third quarter of 2014 relative to the third quarter of 2013 was mainly due to factors relating to the transition to mining in the Cuffley lode and the cost of managing water flows in advance of the commissioning of the new Reverse Osmosis water treatment plant. Additional costs were incurred in managing the environmental community issues surrounding potential antimony dispersion in crusher dust, which has subsequently largely been resolved. The site all-in cost per Au eq. oz produced in the third quarter of 2014 was $1,047, versus $1,278 in the previous quarter and $873 in the third quarter of 2013.

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

i. *Production* —Cerro Bayo produced 823,379 oz Ag and 6,445 oz Au in the third quarter of 2014 versus 741,382 oz Ag and 6,823 oz Au in the previous quarter and 733,659 oz Ag and 5,611 oz Au in the third quarter of 2013. The variation in production quantities is mainly attributed to operating for a full quarter at the 1400 tpd mining rate and improved ore grades processed compared to the prior quarters.

ii. *Operating Costs* —Cash cost per saleable oz Ag produced net of Au credits was $6.26 in the third quarter of 2014 versus $5.83 in the previous quarter and $6.41 in the third quarter of 2013. Cash cost per oz was lower in the third quarter of 2014 compared to the corresponding quarter of 2013 principally due to higher gold credits achieved arising from more gold production and a more favorable Chilean Peso/US$ exchange rate. Cash cost in the third quarter of 2014 were higher than the second quarter of 2014 due to costs associated with major concentrator maintenance. The site all-in cost per oz Ag produced net of Au by-product credit was $12.23 in the third quarter of 2014 versus $12.08 in the previous quarter and $12.05 in the third quarter of 2013.

d. **Björkdal Gold Mine, Sweden**

i. *Production* —Björkdal produced 3,091 oz Au from September 10, 2014 to September 30, 2014.

ii. *Operating Costs* — Cash cost per saleable oz Au at Björkdal from September 10, 2014 to September 30, 2014 was $706 and the site all-in cost per oz Au produced was $852.

3. Exploration

a. Cerro Bayo

Mandalay completed 6,647 meters of exploration drilling during the third quarter of 2014. Exploration activity in the third quarter was exclusively focused on infill drilling the extensions of the Coyita and Yasna veins under Laguna Verde, where previous high grade intercepts had been obtained in widely spaced drill holes as presented in a press release dated July 9, 2014. Drilling in the fourth quarter will continue this infill program with the goal of adding Resources and Reserves at the year-end Resources and Reserves update.

b. Costerfield

Mandalay completed 4,263 meters of drilling at Costerfield during the third quarter of 2014. The primary efforts consisted of infill and extensional drilling with the purpose of expanding Mineral Resources and Mineral Reserves on the Cuffley lode and N-lode, as well as testing high priority new targets in the district. Underground drilling to define further resources on Cuffley will continue in the fourth quarter.

c. Björkdal

Bjorkdal has an ongoing drill program to extend and infill resources in the open pit and underground mines, as well as test new targets in the district. During the post-transaction period of September 10 to September 30, approximately 1036 m were drilled, with the results still pending. As part of the post-transaction integration process, Mandalay has retained an independent third party to estimate Mineral Resources and Reserves for year-end 2014. Resource modeling work is underway.

d. **Challacollo**

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

e. **La Quebrada, Chile**

La Quebrada is a non-core asset designated for sale and accordingly no exploration activities occurred in the third quarter of 2014.

1.0 DATE

This MD&A is dated as of November 6, 2014.

1.1 SUBSEQUENT EVENTS

Quarterly Dividend

On November 6, 2014, the Board of Directors declared a total dividend of US$ 0.0051 or C$0.0058 per share, payable on November 27, 2014 to shareholders of record as of November 17, 2014.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

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

Costerfield

Costerfield is a 100%-owned gold–antimony mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Purchased while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day ("tpd") in 2009 to 460 tpd in the third quarter of 2014. The production increases (and associated unit cost reductions) are due principally to: a change in mining method from cut-and-fill to blast-hole stoping with cemented rock fill; increasing sub-level spacing from 5 m to 10 m; replacing the underground mobile mining fleet; introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput) and construction of new gold room which has increased the proportion of gold recovered to gravity concentrate. In addition, rigorous improvements in maintenance and production processes in the mine and plant have led to increases in equipment availability and utilization as well as in labor productivities. Exploration (funded by mine operating cash flow) has added reserves at a faster pace than depletion during Mandalay ownership, building profitable mine life.

Cerro Bayo

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

Björkdal

Björkdal is a 100% owned gold mine located in northern Sweden. It was acquired through the Company's acquisition of Elgin on September 9th 2014. The operation currently produces from both an open pit mine and an underground mine. The concentrator currently process 3,500 tpd and has been permitted to expand to 4,300 tpd. Current activities since the acquisition have been focused on optimization of the underground mine with the emphasis on reducing dilution, completion of a new life of mine reserve and extraction plan and optimization of concentrator performance.

Challacollo

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

La Quebrada

La Quebrada is a 100% owned copper-silver project located near La Serena, Chile. Mandalay completed a maiden Independent NI 43-101 Mineral Resource estimate for the property in 2012, and since then has been performing mining, metallurgical, engineering and financial studies while developing options for the project. Recently declared as a non-core asset, La Quebrada is for sale.

1.3 SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended September 30, 2014 and2013:

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $
Revenue	34,676,076	50,319,270
Cost of sales	21,183,074	24,995,330
Income from mine operations before depreciation and depletion	13,493,002	25,323,940
Depreciation and depletion	9,537,388	7,844,204
Income from mine operations	3,955,614	17,479,736
Administration	1,939,410	2,289,099
Business development costs	1,012,976	83,951
Adjusted EBITDA*	10,540,616	22,950,890
Finance costs, foreign exchange and others/(income)**	1,312,967	904,201
Income/(loss) before tax	(309,739)	14,202,485
Current tax expense	526,109	1,613,238
Deferred tax expense (recovery)	(144,270)	1,590,596
Net Income/(loss) after tax	(691,578)	10,998,651
Total assets	351,768,210	195,241,707
Total liabilities	136,357,002	40,096,132
Income per share	(0.00)	0.03

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

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

The following table sets forth the summary of financial results for the nine months ended September 30, 2014 and 2013:

	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Revenue	117,655,886	127,847,455
Cost of sales	67,931,703	68,038,064
Income from mine operations before depreciation and depletion	49,724,183	59,809,391
Depreciation and depletion	24,786,949	21,501,185
Income from mine operations	24,937,234	38,308,206
Administration	5,102,638	5,464,990
Business development costs	1,650,280	565,680
Adjusted EBITDA*	42,971,265	53,778,721
Finance costs, fx and others**	4,026,458	1,421,512
Income/(loss) before tax	14,157,858	30,856,024
Current tax expense	2,772,449	6,076,344
Deferred tax expense (recovery)	1,397,081	(227,878)
Net Income/(loss) after tax	9,988,328	25,007,558
Income per share	0.03	0.08

* Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.
**Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

Dividend

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

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	$
2014				
	February 18, 2014	March 10, 2014	0.0077	2,344,012
	May 05, 2014	May 26, 2014	0.0074	2,334,883
	August 06, 2014	August 28, 2014	0.0086	2,693,278
				7,372,173
2013				
	February 20, 2013	March 7, 2013	0.01	3,197,278
	May 14, 2013	May 24, 2013	0.00769	2,435,070
	August 8, 2013	August 19, 2013	0.00690	2,151,365
	November 5, 2013	November 25, 2013	0.0097	3,025,965
				10,809,678

Normal Course Issuer Bid ("NCIB")

On October 10, 2013, the Toronto Stock Exchange (TSX) approved the Company's notice of intention to make a Normal Course Issuer Bid (the "2013 NCIB"). Pursuant to the 2013 NCIB, the Company may purchase for cancellation up to 16,185,328 common shares at prevailing market prices in the 12-month period commencing October 17, 2013 and ending on October 16, 2014. The purchase price for any shares purchased pursuant to the NCIB is financed from the Company's working capital.

During the three months ended September 30, 2014, the Company did not purchase any common shares under the 2013 NCIB. Mandalay Resources Corporation has not renewed its NCIB program authority with the Ontario Stock Exchange post its expiry on Oct 16, 2014 as its current primary form of returning capital to shareholders in now dividend payments.

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

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

Adjusted EBITDA Reconciliation to Net Income

The table below reconciles adjusted EBITDA to reported net income for the three and nine months ended September 30, 2014 and 2013. Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 40-41 for further information.

	Three months ended September 30, 2014		Three months ended September 30, 2013	
	$	$	$	$
Net Income/(loss)		(691,578)		10,998,651
Add: Non-cash and finance costs				
Depletion and depreciation	9,537,388		7,844,204	
Loss (gain) on disposal of property, plant and equipment	62,873		40,264	
Share based compensation	423,526		429,576	
Interest and finance charges	1,262,039		239,762	
Fair value adjustments	(34,098)		(66,865)	
Current tax	526,109		1,613,238	
Deferred tax	(144,270)		1,590,596	
Foreign exchange (gain)/loss	(320,505)	11,313,062	405,729	12,096,504
		10,621,484		23,095,155
Add/(Less): Interest and (other income)/expenses	(80,868)	(80,868)	(144,265)	(144,265)
Adjusted EBITDA		10,540,616		22,950,890

	Nine months ended September 30, 2014		Nine months ended September 30, 2013	
	$	$	$	$
Net Income/(loss)		9,988,328		25,007,558
Add: Non-cash and finance costs				
Depletion and depreciation	24,786,949		21,501,185	
Loss (gain) on disposal of property, plant and equipment	87,843		128,627	
Write off mineral properties/exploration and evaluation	681,825		548,585	
Share based compensation	1,324,326		1,434,739	
Interest and finance charges	2,252,591		631,454	
Fair value adjustments	9,199		(569,655)	
Current tax	2,772,449		6,076,344	
Deferred tax	1,397,081		(227,878)	
Foreign exchange (gain)/loss	(192,854)	33,119,409	(428,884)	29,094,517
		43,107,737		54,102,075
Add/(Less): Interest and (other income)/expenses	(136,472)	(136,472)	(323,354)	(323,354)
Adjusted EBITDA		42,971,265		53,778,721

Fair-value adjustments

As at September 30, 2014, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Financing warrants – During the year ended December 31, 2012, the Company issued 3,050,000 'financing' warrants to specific service providers as consideration for financing and other services that the Company received in prior years. Each financing warrant entitles the holder to receive from the Company a cash payment equal to the difference between the exercise price of the warrant and the market price of the Company's common shares at the time of exercise. No common shares are issuable upon the exercise of the warrants. These financing warrants are accounted as a liability and are marked to market at the end of each period until they are exercised or expire. During the three months ended September 30, 2014, no financing warrants were exercised. The Company recorded a fair value measurement loss of $72,157 for three months ended September 30, 2014. There were 982,100 financing warrants outstanding on September 30, 2014.

Conversion feature under debt financing – In May, 2014 the Company borrowed $60 million in five-year debt financing at an interest rate of 5.875% from Gold Exchangeable Limited (“GEL”), an unaffiliated special purpose vehicle incorporated in Jersey. GEL raised the financing proceeds by way of a concurrent offering of five year senior exchangeable bonds (the "Bonds") issued by Gold Exchangeable Limited (the “Issuer”), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the “Borrower”), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the “Loan”) which together mirror the principal terms of the Bonds. Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust (“Gold Shares”) based on the then-applicable exchange price. The initial exchange price is US$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of US$1,556 per ounce. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which NAV of the SPDR Gold Trust or Gold Shares is calculated.

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

GEL may redeem the Bonds at its option:

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

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

The Company has computed and allocated $3,837,497 relating to the exchange feature under the Loan as an exchangeable derivative as at September 30, 2014.

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

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

	Before fair value and deferred tax adjustments [(a)]	Note	Fair value and deferred tax adjustments Q3 2014	As of September 30, 2014 [(a)]	As of December 31, 2013 [(a)]
	$		$	$	$
Assets					
Deferred tax	(3,176,883)	(b)	144,270	(3,032,613)	9,985,278
Prepaid expenses and other	1,890,246	(c)	(38,059)	1,852,187	636,953
Liabilities					
Derivative financial instrument (currency options)	-	(d)	-	-	360,128
Derivative financial instrument (financing warrants)	676,755	(e)	(72,157)	604,598	433,984
Shareholders' equity					
Retained earnings/(deficit)	63,245,838		216,427	63,462,265	60,859,549

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax recovery of $144,270 for the three months ended September 30, 2014.

(c) The Company recorded fair value measurement gain of $Nil relating to the currency option for the three months ended September 30, 2014.

(d) The Company recorded fair value measurement loss of $38,056 relating to marketable securities for the three months ended September 30, 2014

(e) The Company recorded fair value measurement gain of $72,157 relating to financing warrants for the three months ended September 30, 2014.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended September 30, 2014 and 2013

	September 30, 2014				September 30, 2013
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	516,829			516,829	14,636,846
Other items					
Interest and other income	80,868			80,868	144,265
Finance (costs)/income	(1,262,039)			(1,227,941)	(172,897)
		(a)	72,157		
		(b)	(38,059)		
Foreign exchange gain (loss)	320,505			320,505	(405,729)
Net income/(loss) before tax	(343,837)		34,098	(309,739)	14,202,485
Current tax	(526,109)			(526,109)	(1,613,238)
Deferred tax		(c)	144,270	144,270	(1,590,596)
Net income/(loss)	(869,946)		178,368	(691,578)	10,998,651
Income (loss) per share					
Basic	- 0.00			(0.00)	0.03
Diluted	(0.00)			(0.00)	0.03

(a) The Company recorded fair value measurement gain of $72,157 relating to financing warrants for the three months ended September 30, 2014.

(b) The Company recorded fair value measurement loss of $38,056 relating to marketable securities for the three months ended September 30, 2014

(c) The Company recorded a deferred tax recovery of $144,270 for the three months ended September 30, 2014.

<u>Fair value and deferred tax adjustments impact on items in the income statement for nine months ended September 30, 2014 and 2013</u>

	September 30, 2014				September 30, 2013
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	16,090,322			16,090,322	30,165,585
Other items					
Interest and other income	136,472			136,472	323,354
Finance (costs)/income	(2,252,591)	(a)	225,658	(2,261,790)	(61,799)
		(b)	(196,798)		
		(c)	(38,059)		
Foreign exchange gain (loss)	192,854			192,854	428,884
Net income/(loss) before tax	14,167,057		(9,199)	14,157,858	30,856,024
Current tax	(2,772,449)			(2,772,449)	(6,076,344)
Deferred tax		(d)	(1,397,081)	(1,397,081)	227,878
Net income/(loss)	11,394,608		(1,406,280)	9,988,328	25,007,558
Income (loss) per share					
Basic	0.03			0.03	0.08
Diluted	0.03			0.03	0.07

(a) The Company recorded fair value measurement gain of $$225,658 relating to the currency option for the nine months ended September 30, 2014.

(b) The Company recorded fair value measurement loss of $234,857 relating to financing warrants for the nine months ended September 30, 2014.

(c) The Company recorded fair value measurement loss of $38,056 relating to marketable securities for the three months ended September 30, 2014

(d) The Company recorded a deferred tax liability of $1,397,081 for the nine months ended September 30, 2014.

1.4 RESULTS OF OPERATIONS

Three Months Ended September 30, 2014, compared to Three Months Ended September 30, 2013

During the three months ended September 30, 2014, the Company recorded a net loss of $691,578 (net of fair value measurement gain of $34,098 and deferred tax expense of $144,270) compared to net income of $10,998,651 (net of fair value measurement gain of $44,045 and deferred tax expense of $1,590,596) during the three months ended September 30, 2013. Mandalay achieved adjusted EBITDA of $10,540,616 for the quarter ended September 30, 2014, compared to $22,950,890 in the quarter ended September 30, 2013. The decrease in adjusted EBITDA and net income was principally due to the lower volumes sold due to deferred shipments from Cerro Bayo and a decrease in metal prices resulting in lower revenue.

Administrative expenses for the quarter ended September 30, 2014 were $1,939,410 compared to $2,289,099 during the quarter ended September 30, 2013. During the three months ended September 30, 2014, administration expenses of $1,020,821 at Corporate included $275,381 in management fees, $111,310 in audit and internal review fees, $127,971 in travel expense, $72,904 in legal and accounting fees, $283,712 in investor relations and transfer agent and filing fees, $27,552 in consulting fees and $112,137 related to GST write off.

Capital expenditure in the third quarter of 2014, including capitalized depreciation and exploration, was $14,297,259. Of this amount, $4,428,392 was spent at Cerro Bayo, $6,386,701 at Costerfield, $596,449 at

Björkdal, $128,629 at La Quebrada, $2,753,847 at Challacollo and $3,241 on others. By comparison, capital expenditure in the third quarter of 2013 was $9,161,300. The increase in capital expenditure in the third quarter of 2014 relative to 2013 was largely due to higher capital expenditure incurred at Costerfield for capital development and plant and equipment and exploration expenditure incurred for the Challacollo project acquired in the first quarter of 2014.

Costerfield Results, Production, Sales and Costs for the Three Months Ended September 30, 2014

Costerfield generated revenue of $18,875,947 for the quarter ended September 30, 2014. Income from mine operations before depreciation and depletion was $6,378,073, adjusted EBITDA was $6,170,027, net income after tax was $771,534 and operating net income was $1,662,995 during the period. For the quarter ended September 30, 2013, revenue was $17,869,985, income from mine operations before depreciation and depletion was $9,204,052, adjusted EBITDA was $8,984,742, net income after tax was $3,024,349 and operating net income was $3,934,279. Higher revenue during the third quarter of 2014 was principally driven by higher volumes sold that more than offset lower metal prices. Adjusted EBITDA was lower due to higher costs associated with higher volumes of metal produced and sold.

Costerfield financial results

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $
Revenue	18,875,947	17,869,985
Cost of sales	12,497,874	8,665,933
Income from mine operations before depreciation and depletion	6,378,073	9,204,052
Depreciation and depletion	4,035,435	4,047,963
Income from mine operations	2,342,638	5,156,089
Administration (1)	299,374	303,097
Business development costs	-	43,736
Adjusted EBITDA (2)(4)	6,170,027	8,984,742
Finance costs, foreign exchange and others (3)	943,736	682,741
Income/(loss) before tax	1,099,528	4,126,515
Deferred tax expense (recovery)	327,994	1,102,166
Operating net income/(loss) after tax(4)	1,662,995	3,934,279
Net income/(loss) after tax	771,534	3,024,349
Capital expenditure (5)	6,386,611	5,063,844

[1]Includes intercompany transfer pricing re-charge costs of $91,328 in 2014 and $127,523 in 2013.

[2]Does not include intercompany transfer pricing recharge costs.

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/loss on disposals of properties and intercompany transfer pricing recharge costs of $463,809 in 2014 and $452,663 in 2013.

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

[5]Includes capitalized depreciation on equipment.

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

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $
Net income/(loss) after tax	771,534	3,024,349
Add: Intercompany expenses		
Intercompany interest expense	336,325	329,743
Intercompany transfer pricing recharge costs	555,136	580,187
Operating net income/(loss) after tax	1,662,995	3,934,279

Costerfield operating statistics

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

	Unit	Nine months ended September 30, 2014	Nine months ended September 30, 2013	Three months ended September 30, 2014	Three months ended September 30, 2013	Three months ended June 30, 2014	Three months ended March 31, 2014
Mining Production and Mining Cost							
Operating development	m	3,667	4,702	1,305	1,455	1,241	1,121
Mined ore	t	124,033	94,475	43,995	32,703	41,539	38,499
Ore mined Au grade	g/t	8.77	9.41	9.95	9.81	8.08	8.15
Ore mined Sb grade	%	3.81	4.34	4.05	4.41	3.74	3.60
Mined contained Au	oz	34,956	28,568	14,074	10,311	10,792	10,090
Mined contained Sb	t	4,724	4,100	1,782	1,443	1,554	1,387
Mining cost per tonne ore	$/t	183	210	170	185	201	180
Processing and Processing Cost							
Processed ore	t	112,307	94,508	39,017	36,094	36,088	37,202
Mill head grade Au	g/t	8.91	9.55	9.99	9.78	8.37	8.31
Mill head grade Sb	%	3.93	4.34	4.29	4.45	3.84	3.65
Recovery Au	%	89.52	89.90	88.79	90.17	89.22	90.75
Recovery Sb	%	94.51	95.60	94.51	95.58	94.85	94.18
Concentrate produced	dry t	7,840	7,316	2,969	2,832	2,474	2,397
Concentrate grade Au	g/t	61.05	91.27	62.95	93.67	60.36	59.42
Concentrate grade Sb	%	53.25	53.58	53.30	54.12	53.14	53.29
Au produced in gravity concentrate	oz	13,293	3,962	5,066	1,694	3,827	4,400
Au produced in sulfide concentrate	oz	11,332	17,951	4,388	7,137	3,429	3,515
Saleable Au produced	oz	24,625	21,913	9,454	8,831	7,256	7,915
Saleable Sb produced	t	2,713	2,470	1,000	966	855	858
Saleable Au equivalent produced	oz	44,811	39,768	16,792	16,053	13,628	14,391
Processing cost per tonne ore	$/t	51.79	56.05	53.04	46.27	54.71	47.65
Sales							
Concentrate sold	dry t	7,047	6,816	2,570	2,286	2,633	1,844
Concentrate Au grade	g/t	60.68	89.24	64.59	91.00	57.99	59.08
Concentrate Sb grade	%	53.05	53.45	52.65	53.96	52.97	53.70
Au sold in gravity concentrate	oz	13,151	3,915	4,808	1,939	3,793	4,549
Au sold in sulfide concentrate	oz	10,085	16,348	4,083	5,593	3,505	2,497
Au sold	oz	23,235	20,263	8,891	7,532	7,298	7,046
Sb sold	t	2,356	2,295	852	777	879	624
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed(1)	$/t	328.14	333.25	315.32	272.90	367.37	303.53
Site cash operating cost/tonne concentrate produced(1)	$/t	4,701	4,305	4,144	3,478	5,360	4,711
Adjusted EBITDA/tonne ore milled(1)	$/t	161	215	158	250	146	177
Adjusted EBITDA/tonne concentrate produced(1)	$/t	2,301	2,774	2,078	3,188	2,131	2,753
Cash cost per oz Au equivalent produced(1)(2)	$/oz	837.61	808.28	746.62	626.12	989.44	837.61
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,118.72	1,054.81	1,046.66	872.83	1,278.22	1,051.76
Capital Spending							
Capital development	m	2,683	1,323	920	481	1,274	490
Capital development cost	$000	13,608	7,067	5,050	2,017	6,010	2,548
Capital development cost/meter	$/m	5,072	5,342	5,492	4,195	4,718	5,205
Capital purchases	$000	5,889	4,549	486	1,915	2,695	2,708
Capitalized exploration	$000	3,193	3,770	850	1,132	1,277	1,066

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

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

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

Three months ended September 30, 2014 and 2013

The Costerfield mine completed 1,305 meters ("m") of operating development in the third quarter of 2014 versus 1,455 m in 2013. It mined a quarterly record amount of ore in the quarter at 43,995 t, versus 32,703 t in the third quarter of the previous year. The mined Au grade in 2014 was 9.95 grams per tonne ("g/t") versus 9.81 g/t in 2013, while the mined Sb grade was 4.05% in 2014 versus 4.41% in 2013. Mining costs were $170/t in 2014 versus $185/t in the previous year.

Capital development advance was 920 m in 2014 compared to 481 m in 2013; the cost in 2014 was $5,492/m versus $4,195/m in 2013.

In the third quarter of 2014, the Costerfield concentrator processed 39,017 t of ore versus 36,094 t in the third quarter of 2013. The Au head grade in 2014 was 9.99 g/t versus 9.78 g/t in 2013 while the Sb head grade was 4.29% in 2014 versus 4.45% in 2013. The plant achieved recoveries of 88.79% Au and 94.51% Sb versus 90.17% Au and 95.58% Sb in 2013. The higher plant throughput resulted from higher feed rate from the mine. Processing costs in 2014 were $53.04/t, higher than the $46.27/t incurred during the prior year period.

Concentrate production was 2,969 dry metric tonnes ("dmt") during the third quarter of 2014 versus 2,832 dmt for the corresponding three months of 2013. Total saleable metal production in 2014 was 1,000 t Sb and 9,454 oz Au versus 966 t Sb and 8,831 oz Au for the corresponding three months of 2013.

During the third quarter of 2014, Costerfield sold 2,570 dmt of concentrate compared to 2,286 dmt in the prior year period. A total of 8,891 oz Au and 852 t Sb were sold in 2014 versus 7,532 oz Au and 777 t Sb in 2013. The lower quantity of Au sold in sulfide concentrate (4,083 oz in 2014 versus 5,593 oz in 2013) was more than offset by more Au sold in gravity concentrate (4,808 oz in 2014 versus 1,939 oz in 2013), resulting in more total Au sold than in the prior year quarter.

Total site cash operating cost of ore processed was $315.32/t in the third quarter of 2014, compared to $272.90/t in the third quarter of 2013. The higher operating costs were partly attributable to spending to mitigate issues related to possible Sb dispersion into the environment that arose in the first quarter and were largely resolved in the third quarter. This translates into a higher cash cost per Au Eq. oz produced ($747/oz in 2014 compared to $626.12/oz in 2013) and site all-in cost per Au Eq. oz produced ($1,047/oz in 2014 compared to $872.83/oz in 2013).

During the third quarter of 2014, the Company invested $5,050,159 in capital development, $850,470 in exploration and $485,981 in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were $2,016,976, $1,131,685 and $1,915,183 respectively. Higher capital advance during the third quarter of 2014 resulted in higher capital development expenditure compared to the prior year corresponding quarter. Property, plant and equipment expenditure during the third quarter of 2014 includes expenditure for the Reverse Osmosis water treatment plant.

Nine months ended September 30, 2014 and 2013

The Costerfield mine completed 3,667 m of operating development in the nine months ended September 30, 2014 versus 4,702 m in the comparable period in 2013. It produced 124,033 t of ore containing 8.77 g/t Au and 3.81% Sb in 2014 as compared to 94,475 t of ore containing 9.41 g/t Au and 4.34% Sb. Mining costs were $183/t in 2014 versus $210/t in 2013.

The capital development advance improved significantly in 2014 to 2,683 m from 1,323 m in 2013 due to the employment of a contractor in 2014 to augment the in-house development crew. The cost per meter was $5,072 per m during 2014 compared to $5,342 per m in 2013, due in part to lower contractor costs than in-house costs in 2014 and the one-off costs of the Augusta return air raise in 2013.

In the nine months ended September 30, 2014, the Costerfield concentrator processed 112,307 t of ore containing 8.91 g/t Au and 3.93% Sb. The corresponding year-ago throughput was 94,508 t of ore containing 9.55 g/t Au and 4.34% Sb. The plant achieved 89.52% recovery of gold and 94.51% recovery of antimony in the 2014 period compared to 89.90% recovery of gold and 95.60% recovery of antimony in 2013. The larger throughput led to greater saleable metal production in 2014. Concentrate production was 7,840 dmt in 2014 containing 2,713 t saleable Sb and 11,332 oz saleable Au in 2014, with an additional 13,293 oz saleable Au produced in gravity concentrate. In 2013, the corresponding production was 7,316 dmt of concentrate containing 2,470 t saleable Sb and 17,951 oz saleable Au plus 3,962 oz of saleable Au in gravity concentrate. Processing costs were lower in 2014 than in 2013: $51.79/t versus $56.05/t, mainly due to economies of scale.

Total site cash operating cost per tonne of ore processed was $328.14/t in 2014 versus $333.25/t in 2013. The higher operating costs associated with lower grade tonnes led to a higher cash cost per gold equivalent ounce in 2014 ($837/Au Eq. oz) as compared to 2013 ($808/Au Eq. oz), as well as higher all-in cost of $1,119/Au Eq. oz versus $1,055/Au Eq. Oz in 2013.

During the nine months ended September 30, 2014, the Company invested $13,607,715 in capital development, $3,193,310 in exploration, and $5,888,931 in property, plant and equipment. The corresponding amounts for 2013 were $7,066,732 for capital development, $3,769,804 for exploration and $4,549,233 for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended September 30, 2014

Cerro Bayo generated revenue of $11,804,067 for the quarter ended September 30, 2014. Income from mine operations before depreciation and depletion was $6,458,526. Adjusted EBITDA was $5,836,463, net income after tax was $208,625 and operating net income was $673,550. For the quarter ended September 30, 2013, revenue was $32,449,285, income from mine operations before depreciation and depletion was $16,119,888. Adjusted EBITDA was $15,555,069, net income after tax was $8,502,426 and operating net income was $9,392,219. Lower revenue was due to low metal volumes sold because of delayed shipments and lower metal prices realized.

Cerro Bayo financial results

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $
Revenue	11,804,067	32,449,285
Cost of sales	5,345,541	16,329,397
Income from mine operations before depreciation and depletion	6,458,526	16,119,888
Depreciation and depletion	4,886,978	3,796,241
Income from mine operations	1,571,548	12,323,647
Administration (1)	773,915	735,727
Adjusted EBITDA (2)(4)	5,836,463	15,555,069
Finance costs, foreign exchange and others (3)	409,825	983,826
Income/(loss) before tax	387,808	10,604,094
Current tax expense	568,210	1,613,238
Deferred tax expense (recovery)	(389,027)	488,430
Operating net income/(loss) after tax(4)	673,550	9,392,219
Net income/(loss) after tax	208,625	8,502,426
Capital expenditure (5)	4,428,392	3,880,537

[1]Includes intercompany transfer pricing recharge costs of $150,898 in 2014 and $170,908 in 2013.

[2]Does not include intercompany transfer pricing recharge costs.

[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties and intercompany transfer pricing recharge costs of $297,522 in 2014 and $718,885 in 2013.

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

[5]Includes capitalized depreciation on equipment.

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

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $
Net income/(loss) after tax	208,625	8,502,426
Add: Intercompany expenses		
Intercompany transfer pricing recharge costs	464,925	889,793
Operating net income/(loss) after tax	673,550	9,392,219

Cerro Bayo operating statistics

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

	Unit	Nine months ended September 30, 2014	Nine months ended September 30, 2013	Three months ended September 30, 2014	Three months ended September 30, 2013	Three months ended June 30, 2014	Three months ended March 31, 2014
Mining Production and Mining Cost							
Operating development	m	5,021	5,302	1,850	1,553	1,708	1,464
Mined ore	t	342,811	294,361	120,192	89,321	117,403	105,216
Ore mined Au grade	g/t	2.06	2.00	2.07	2.18	2.23	1.86
Ore mined Ag grade	g/t	249.75	272.75	261.14	269.64	236.35	251.70
Mined contained Au	oz	22,712	18,966	8,003	6,248	8,425	6,284
Mined contained Ag	oz	2,752,665	2,581,240	1,009,115	774,321	892,123	851,427
Mining cost per tonne ore	$/t	51.84	58.00	52.09	64.20	52.26	51.08
Processing and Processing Cost							
Processed ore	t	318,155	294,282	99,190	97,696	114,296	104,668
Mill head grade Au	g/t	2.11	2.00	2.30	2.07	2.19	1.84
Mill head grade Ag	g/t	256.21	273.55	288.83	265.70	232.15	251.56
Recovery Au	%	88.03	87.79	89.93	88.64	86.90	87.25
Recovery Ag	%	91.29	90.62	92.66	91.06	90.08	91.03
Concentrate produced	dry t	6,415	6,517	2,331	2,093	2,001	2,084
Concentrate grade Au	g/t	92.11	79.58	88.03	85.80	108.72	80.73
Concentrate grade Ag	g/t	11,600.15	11,213.30	11,390.58	11,300.51	11,947.99	11,500.63
Saleable Au produced	oz	18,548	16,210	6,445	5,611	6,823	5,280
Saleable Ag produced	oz	2,308,331	2,266,995	823,379	733,659	741,382	743,569
Saleable Au equivalent produced	oz	54,307	54,370	19,138	17,399	18,111	17,058
Processing cost per tonne ore	$/t	29.12	27.16	33.85	25.07	28.09	25.76
Sales							
Concentrate sold	dry t	5,859	6,769	1,320	2,701	2,329	2,209
Concentrate Au grade	g/t	89.10	78.70	94.51	83.91	104.79	69.30
Concentrate Ag grade	g/t	11,447.91	11,332.16	11,419.69	11,610.98	11,635.28	11,267.19
Au sold	oz	16,384	16,654	3,921	7,090	7,659	4,804
Ag sold	oz	2,080,435	2,379,766	467,606	973,107	840,713	772,116
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed(1)	$/t	99.96	102.42	113.75	100.96	95.46	91.81
Site cash operating cost/tonne concentrate produced(1)	$/t	4,958	4,625	4,841	4,713	5,454	4,611
Adjusted EBITDA/tonne ore milled(1)	$/t	90	127	59	159	110	98
Adjusted EBITDA/tonne concentrate produced(1)	$/t	4,477	5,745	2,504	7,433	6,301	4,932
Cash cost per oz Ag produced net of Au byproduct credit(1	$/oz	5.87	6.92	6.26	6.41	5.83	5.81
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	11.81	12.32	12.23	12.05	12.08	11.31
Capital Spending							
Capital development	m	1,567	1,889	583	528	485	500
Capital development cost	$000	5,504	7,433	2,021	2,520	1,813	1,671
Capital development cost/meter	$/m	3,512	3,934	3,469	4,771	3,737	3,344
Capital purchases	$000	6,061	5,713	1,972	1,051	2,695	1,396
Capitalized exploration	$000	1,697	1,730	435	310	538	724

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

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

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

Three months ended September 30, 2014 and, 2013

During the third quarter, the Cerro Bayo mine produced 120,192 t of ore (at a rate of 1,335 tpd) versus 89,321 t of ore in 2013. Mined grades were 261.14 g/t Ag and 2.07 g/t Au in 2014 versus 269.64 g/t Ag and 2.18 g/t Au in 2013. During 2014, 1,850 m of operating development were completed versus 1,553 m in the 2013 period. Mining cost in the third quarter of 2014 was $52.09/t compared to $64.20/t in the third quarter of 2013.

During the third quarter of 2014, the Cerro Bayo concentrator processed 99,190 t of ore with grades of 288.83 g/t Ag and 2.30 g/t Au, compared to 97,696 t of ore with grades of 265.70 g/t Ag and 2.07 g/t Au during the third quarter of 2013. Metallurgical recoveries during the third quarter were 89.93% for Au and 92.66% for Ag in 2014 versus 88.64% for Au and 91.06% for Ag in the prior year comparable period. Processing cost per tonne ore was $33.85/t in 2014 versus $25.07/t in 2013. Due to a ball mill bearing failure the plant worked for 11 days in August resulting in higher costs during the third quarter of 2014. The plant had resumed normal performance during the start of September month.

Cerro Bayo produced 2,331 dmt of concentrate containing 823,379 oz saleable Ag and 6,445 oz saleable Au in the third quarter of 2014, as compared to 2,093 dmt of concentrate containing 733,659 oz saleable Ag and 5,611 oz saleable Au in the comparable 2013 period.

During the third quarter of 2014, Cerro Bayo sold 1,320 dmt of concentrate containing 3,921 oz of saleable Au and 467,606 oz saleable Ag. Sales during the comparable quarter of 2013 were 2,701 dmt of concentrate, 7,090 oz of Au and 973,107 oz of Ag. Low volume sold was mainly due to delayed shipments.

Total site cash operating cost was $113.75/t of ore processed in the third quarter of 2014, compared to $100.96 per t in the third quarter of 2013. Site operating costs include higher mining costs related to higher tonnes mined in the third quarter of 2014 compared to lower absolute mining costs associated with lower tonnes mined in the third quarter of 2013, this has resulted in higher site cash operating cost per tonne in the third quarter of 2014 compared to the corresponding quarter of previous year. Cash cost decreased to $6.26 per oz in the third quarter of 2014, compared to $6.41 per oz in the third quarter of 2013. Site all-in cost of $12.23 per oz Ag net of Au credit in the third quarter of 2014 was more than the $12.05 per oz reported in the third quarter of 2013.

During the third quarter of 2014, the Company invested $2,020,770 in mine development versus $2,519,757 in 2013. The Company spent $1,972,368 for the purchase of property, plant and equipment in 2014 versus $1,051,158 in 2013. The Company spent $435,253 on exploration versus $309,622 in the third quarter of 2013.

Nine months ended September 30, 2014 and 2013:

Cerro Bayo mine produced 342,811 t of ore in 2014 versus 294,361 t in 2013. This represents an average of 1,270 tpd in 2014 versus 1,090 tpd in 2013. In addition, the mine completed 5,021 m of operating development in 2014 versus 5,302 m in the corresponding year-ago period. Mined grades were 2.06 g/t Au and 249.75 g/t Ag for the nine months ended September 30, 2014 versus 2.00 g/t Au and 272.75 g/t Ag for the nine months ended 2013. Mining cost per tonne in 2014 was $51.84/t, lower than the $58/t for the nine months ended September 30, 2013.

During the nine months ended September 30, 2014, the Cerro Bayo concentrator processed 318,155 t of ore with grades of 256.21 g/t Ag and 2.11 g/t Au. During the nine months ended September 30, 2013, the concentrator processed 294,282 t of ore with grades of 273.55 g/t Ag and 2.00 g/t Au. The plant achieved 88.03% recovery of Au and 91.29% recovery of Ag in 2014 versus 87.79% recovery of Au and 90.62% of Ag in 2013.

Cerro Bayo produced 6,415 dmt of concentrate containing 2,308,331 oz of saleable Ag and 18,548 oz of saleable Au in 2014. Production for the year-ago period was 6,517 dmt of concentrate containing 2,266,995 oz saleable Ag and 16,210 oz saleable Au. Processing costs for the nine months ended September 30, 2014 were 29.12/t, higher than the $27.16/t during the nine months ended September 30, 2013, mainly due to a ball mill bearing failure occurred in August.

During the nine months ended September 30, 2014, Cerro Bayo sold 5,859 dmt of concentrate, 16,384 oz Au and 2,080,435 oz Ag, less than 6,769 dmt of concentrate, 16,654 oz Au and 2,379,766 oz Ag sold during the nine months ended September 30, 2013. Lower quantity sold was mainly due to delayed shipments.

Total site cash operating cost per tonne of ore processed was $99.96/t for the nine months ended September 30, 2014, versus $102.42/t for the nine months of 2013. Cash cost per ounce Ag produced net of Au by-product credit was $5.87 in 2014, lower than the $6.92 in the nine months ended September 30, 2013. The all-in cost per ounce Ag produced net of Au byproduct credit was $11.81 in 2014, versus $12.32 in 2013.

During the nine months ended September 30, 2014, the Company invested $5,504,389 in capital mine development versus $7,433,194 in 2013; $6,062,840 for purchase of property, plant and equipment versus $5,713,141; and $1,696,989 versus $1,729,591 for exploration.

Björkdal Results, Production, Sales and Costs for the Period September 10 to September 30, 2014

Björkdal generated revenue of $3,996,062 for the period September 10 to September 30, 2014. Income from mine operations before depreciation and depletion was $656,404. Adjusted EBITDA was $656,404, net income after tax was $207,221 and operating net income was $233,456.

Björkdal financial results

	September 10 to 30, 2014 $
Revenue	3,996,062
Cost of sales	3,339,658
Income from mine operations before depreciation and depletion	656,404
Depreciation and depletion	585,638
Income from mine operations	70,766
Adjusted EBITDA [(1)]	656,404
Finance costs, foreign exchange and others	(11,117)
Income/(loss) before tax	81,883
Current tax expense	(42,100)
Deferred tax expense (recovery)	(83,237)
Operating net income/(loss) after tax[(1)]	233,456
Net income/(loss) after tax	207,220
Capital expenditure [(2)]	596,449

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

[2]Includes capitalized depreciation on equipment.

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

	September 10 to 30, 2014 $
Net income/(loss) after tax	207,221
Add: Intercompany expenses	
Intercompany interest expense	26,235
Operating net income/(loss) after tax	233,456

Björkdal operating statistics

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

	Unit	September 10 to 30, 2014
Mining Production and Mining Cost		
Operating development	m	338
Mined ore	t	72,969
Ore mined Au grade	g/t	1.26
Mined contained Au	oz	2,956
Mining cost per tonne ore	$/t	19
Processing and Processing Cost		
Processed ore	t	79,008
Mill head grade Au	g/t	1.39
Recovery Au	%	89
Concentrate produced	dry t	176
Concentrate grade Au	g/t	553
Saleable Au produced	oz	3,091
Processing cost per tonne ore	$/t	6.48
Sales		
Concentrate sold	dry t	269
Concentrate Au grade	g/t	387
Au sold	oz	3,294
Benchmark Unit Cost		
Site cash operating cost/ tonne ore processed(1)	$/t	28
Site cash operating cost/tonne concentrate produced(1)	$/t	12,397
Adjusted EBITDA/tonne ore milled(1)	$/t	8.31
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,727
Cash cost per oz Au equivalent produced(1)(2)	$/oz	706
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	852
Capital Spending		
Capital development	m	74
Capital development cost	$000	596
Capital development cost/meter	$/m	8,060

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

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

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

September 10 to 30, 2014

From September 10 to 30, 2014, Björkdal produced a combined 72,969 t of ore from the open pit and underground operations. The average grade of this material was 1.26 g/t Au in 2014. During 2014, 338 m of operating development were completed. Weighted average mining cost from the open pit and underground was $19/t.

During the period, the Björkdal concentrator processed 79,008 t of ore with grades of 1.39 g/t Au. Metallurgical recoveries during the third quarter were 89% for Au. Processing cost per tonne ore was $6.48/t.

Björkdal produced 3,091 oz saleable Au during the period and sold 3,294oz of Au.

Total site cash operating cost was $28/t of ore processed

During the period, the Company invested $596,448 in mine development.

Challacollo

During the third quarter of 2014 the Company spent $2,752,213 on exploration and feasibility study and $1,634 on property, plant and equipment. The program to infill the previously Inferred Mineral Resource was completed as was the first round of target testing drilling seeking extensions to the main Lolon vein shoot and entirely new veins. Metallurgical testing is underway, and power, infrastructure, and water supply studies are on track. Base line environmental, archaeological, and social data collection to support the permitting process was begun.

La Quebrada

Spending on exploration at La Quebrada was $128,629 during the third quarter of 2014. The corresponding amount for the prior year quarter was $216,919.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate July 1, 2014 September 30, 2014	Average rate January 1, 2014 September 30, 2014	Average rate July 1, 2013 September 30, 2013	Average rate January 1, 2013 December 31, 2013
1A$ = C$	1.0065	1.0044	0.9515	0.9966
1A$ = US$	0.9244	0.9181	0.9162	0.9686
1 US$ = C$	1.0890	1.0293	1.0384	1.0294
1 US$ = Chilean Peso	578	562	507	495
1 SEK = 1 US$	0.1439	0.1500	0.1527	0.1536

The U.S. dollar has strengthened in relation to the Australian dollar, the Chilean peso and the Canadian dollar resulting in favorable financial impact that offset some of the negative impact of lower metal prices.

Markets - Commodity Prices

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

COMMODITY	Average rate July 1, 2014 September 30, 2014	Average rate January 1, 2014 September 30, 2014	Average rate July 1, 2013 September 30, 2013	Average rate January 1, 2013 December 31, 2013
Realized gold US$/oz[1]	1,224	1,284	1,363	1,331
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,281	1,288	1,328	1,410
Realized antimony US$/tonne[1]	9,090	9,608	10,034	9,956
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	9,405	9,587	9,928	10,336
Realized silver price US$/oz[1]	15.43	19.20	23.21	21.80
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	19.76	19.95	21.33	23.80

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

1.5 SUMMARY OF QUARTERLY RESULTS

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

Particulars	September 30, 2014 $	June 30, 2014 $	March 31, 2014 $	December 31, 2013 $
Revenue	34,676,076	44,887,966	38,091,844	39,058,143
Income/(loss)	(691,578)	4,935,833	5,744,073	4,435,066
Income/(loss) per share - Basic	(0.00)	0.01	0.02	0.01
Income/(loss) per share - Diluted	(0.00)	0.01	0.02	0.01

Particulars	September 30, 2013 $	June 30, 2013 $	March 31, 2013 $	December 31, 2012 $
Revenue	50,319,270	35,903,497	41,624,688	55,699,764
Income/(loss)	10,998,651	3,104,793	10,904,114	22,375,166
Income/(loss) per share - Basic	0.03	0.01	0.03	0.07
Income/(loss) per share - Diluted	0.03	0.01	0.03	0.06

Since the acquisition of the Costerfield mine in December, 2009, and of the Cerro Bayo mine in August, 2010, and now the Björkdal mine in September of 2014, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield, Cerro Bayo and Björkdal mines. Financial results are impacted by the levels of Au, Ag, and Sb production, the costs associated with that production and the prices received for metal in concentrate. Metal prices are determined using prevailing international prices for Au, Ag, and Sb. The Company's products are priced in

U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield), Chilean pesos (at Cero Bayo) and Swedish Kroners (Björkdal). The Company's results will be impacted by exchange rate variations during the reporting periods.

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

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At September 30, 2014, the Company had working capital of $15,106,193 compared to $47,206,924 at December 31, 2013. The change in working capital is mainly due to classification of the five year 5.875% gold bonds as current liability. The Company had cash and cash equivalents of $45,227,691 at September 30, 2014, as compared to $33,465,116 at December 31, 2013.

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

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

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five year 5.875% debt financing

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

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

Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The initial exchange price is US$149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of US$1,556 per ounce.

The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which NAV of the SPDR Gold Trust or Gold Shares is calculated.

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

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

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

GEL may redeem the Bonds at its option:

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

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

The maturity date of the Loan is May 13, 2019.

The Company's Five year exchangeable bonds and related derivative financial instruments are classified as current liabilities because, pursuant to the terms of the bond agreement, holders have the free and clear right to exchange the debt into shares of SPDR Gold Trust any time after June 23, 2014. IFRS requires that the Company ignore the probability that holders will elect to convert in the next 12 months, even if the Company assesses such probability as remote. However, if holders did elect to convert the debt as of September 30, 2014, the Company would realize a gain of $10.8 million and the holders of the debt would realize a loss of $13.1 million based on the principal value of $60 million.

A summary of the Loan balance as at September 30, 2014 is as follows:

Particulars	Amount $
Original principal amount of Loan	60,000,000
Less: Fund raising expenses	(2,991,522)
	57,008,478
Add: Accretion	201,497
Add: Interest payable	470,000
Less: Exchangable Derivative	(3,837,497)
Balance as at September 30, 2014	**53,842,478**

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

i) If all the bondholders were to exercise their right to redeem any time before the maturity date and assuming September 30, 2014 gold price of $1,216/oz (which is equivalent to US$117.21 per Gold Share), then the repayment cost to the Company will be approximately $46.9million.

$60 million ÷ $1,556/oz × $1,216 = $46.9 million

ii) The repayment cost to the Company to repay the loan on maturity will be minimum $60 million.

iii) If the average price of gold during the escrow period is $1,700/oz (which is equivalent to US$ 163.87 per Gold Share) then repayment cost to the Company will be $65.6 million.

$60million ÷ $1,556/oz × $1,700 = $65.6 million

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

The Company had no related party transactions.

1.10 CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

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

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

Inventories

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

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

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

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

Property, plant and equipment

Exploration and Evaluation

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

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

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

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

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

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

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

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

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

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

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

Site closure and reclamation cost obligations

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

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.11FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, reclamation and other deposits, derivative financial instruments, trade and other payables. The Company also periodically uses financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and antimony and against currency exchange rate fluctuations. See "Hedging Activities" below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at September 30, 2014, the Company had no past overdue trade receivables.

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

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

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

Hedging Activities

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

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

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

1.12OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

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

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the quarter ended September 30, 2014. The Company's controls include policies and procedures that:

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

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

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

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

<table>
<tr><th>Internal control weakness</th><th>Potential impact of the weakness on the issuer's financial reporting and its ICFR</th><th>Current plan or actions being undertaken for remediating the potential material weakness</th></tr>
<tr><td>Complete segregation of duties</td><td>Accuracy and possible fraud</td><td rowspan="2">KPMG are the internal auditors since 2011. Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year.

The areas proposed to be covered during 2014 internal audit would be related to the following broad categories:
• Financial and management reporting.
• Enterprise risk management.
• Heath, safety and environment.
• Life of Mine (planning, reporting and monitoring).
• Rotables and repairs including off site repairs and critical spares/stock.</td></tr>
<tr><td>Collusion</td><td>Financial loss to the Company</td></tr>
</table>

III. Limitation of Controls and Procedures

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

1.13OUTSTANDING SHARES

As of the date of this MD&A, the Company had 408,358,095 common shares issued and outstanding. The weighted average number of shares outstanding during the third quarter used for the calculation of per share results was 356,785,504.

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

Exercise Price CND$	As of September 30, 2014	As of November 06, 2014	Expiry Date
0.98	4,345,000	4,345,000	March 24, 2019
1.13	4,112,500	4,112,500	March 18, 2018
0.83	3,772,500	3,772,500	March 9, 2017
0.70	250,000	250,000	December 2, 2016
0.76	50,000	50,000	July 4, 2016
0.58	370,000	370,000	April 11, 2016
0.56	3,067,500	3,067,500	March 11, 2016
0.26	770,000	770,000	August 26, 2015
0.33	300,000	300,000	October 6, 2015
0.255	800,000	400,000	December 07, 2014
Total	**17,837,500**	**17,437,500**	

During the quarter ended September 30, 2014, 612,500 options were exercised. There were 17,837,500 options outstanding as of September 30, 2014, which could result in issuance of shares.

Outstanding share purchase warrants that could result in the issuance of additional common shares as of September 30, 2014, and as of the date of this MD&A are as follows:

Exercise Price C$	As of September 30, 2014	As of November 06, 2014	Expiry Date
0.31	14,650,000	-	November 30, 2014
0.47	1,050,000	100,000	November 30, 2014
Total	**15,700,000**	**100,000**	

During the quarter ended September 30, 2014, 200,000 warrants were exercised. The number of warrants outstanding as of September 30, 2014, was 15,700,000.

During 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs receive the Company's common shares at no cost at the end of vesting periods. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The number of RSUs as at September 30, 2014 is as follows:

	Number of RSU awards
Balance, December 31, 2013	306,560
Granted ,	6,978
Exercised	(69,228)
Outstanding at September 30, 2014	244,310

1.14 QUALIFIED PERSONS

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

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

1.15 FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mining industry risks; fluctuations in the market price of mineral commodities; project development; expansion targets and operational delays; environmental risks and hazards; requirement of additional financing; health and safety; uncertainty as to calculations of mineral deposit estimates; marketability; licenses and permits; title matters; governmental regulation of the mining industry; current global financial conditions; currency risk; uninsured risks; competition; repatriation of earnings; properties without known mineral reserves; dependence upon key management personnel and executives; dependence on major customers; infrastructure; litigation; potential volatility of market price of common shares; possible conflicts of interest of directors and officers of the Company; risk of dilution; payment obligations relating to properties; instability of political and economic environments; and integration of acquisitions.Specific reference is made to the Annual Information Form for a discussion of some of the factors underlying forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

1.16 NON-IFRS MEASURES

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

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

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

1. *Adjusted EBITDA* - The Company defines adjusted EBITDA as earnings before interest, taxes, non-cash charges/(income) and finance costs. Refer to page 12-13 for reconciliation between adjusted EBITDA and net income.

2. *Income after tax from underlying operations* - The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 15 for reconciliation between income from underlying operations and income from operations.

3. *Operating net income/(loss) after tax* -The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs. Refer to pages 17, 21 and 25 for reconciliation between operating net income after tax and net income after tax.

4. *Cash cost per ounce of gold equivalent produced*-Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The total cash operating cost associated with the production of these equivalent ounces produced in the period is then divided by the equivalent gold ounces produced to yield the cash cost per equivalent ounce produced. The cash cost excludes royalty expenses. Values for 2013 have been re-calculated accordingly.

5. *Site all-in cost per ounce of gold equivalent produced*-Site all-in costs include total cash operating costs, royalty expense, depletion, depreciation, accretion and write-off of exploration and evaluation. Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The site all-in cost is then divided by the equivalent gold ounces produced to yield the site all-in cost per equivalent ounce produced.

6. *Cash cost per ounce of silver produced net of gold byproduct credit*-The cash cost per silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals ounces gold produced times the realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the silver ounces produced in the period. The cash cost excludes royalty expenses.

7. *Site all-in cost per ounce of silver produced net of gold byproduct credit*-The site all-in cost per silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, depletion, depreciation, accretion and write-off of exploration and evaluation to the cash cost net of gold byproduct credit as calculated in note 6 above and dividing the resultant number by the silver ounces produced in the period.