MANDALAY RESOURCES

Management's Discussion & Analysis

For the quarter ended June 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 quarter ended June 30, 2014, and 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.

SECOND QUARTER 2014 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Quantities of metal sold during the quarter were 14,957 ounces ("oz") of gold ("Au"), 840,713 oz of silver ("Ag") and 879 tonnes ("t") of antimony ("Sb") compared to 12,299 oz Au, 774,923 oz Ag and 763 t Sb in the second quarter of 2013. Prices realized during the quarter were $1,292 per oz for gold, $20.29 per oz for silver and $9,664 per t for antimony in 2014 versus $1,200 per oz for gold, $17.81 per oz for silver and $9,628 per t for antimony in the same period in 2013.

- Revenues in the quarter were $44.9 million (including adverse revenue adjustments of $0.5 million related to unsettled open shipments from prior quarters) as compared with $35.9 million in the second quarter of 2013 (including adverse revenue adjustments of $2.8 million related to unsettled open shipments for the prior quarters). Higher realized metal prices and increased sales volumes resulted in higher revenue compared to the previous year quarter. Income from mining operations before depletion and depreciation was $18.5 million in the second quarter of 2014 compared with $12.9 million in the second quarter of 2013.

- Net income during the quarter was $4.9 million ($0.01 per share) compared with $3.1 million ($0.01 per share) in the second quarter of 2013.

- Income after tax from underlying operations (1) in the current quarter was $5 million ($0.01 per share) compared with $0.9 million ($0.00 per share) in the second quarter of 2013.

- The cash cost[2] of silver production at Cerro Bayo was $5.83 per oz Ag produced net of Au credits and the site all-in cost achieved was $12.08 per oz Ag net of Au credits compared to $6.12 and $11.54 respectively in the second quarter of 2013.

- Cash cost[2] of production at Costerfield in the quarter was $989 per gold equivalent ounce ("Au Eq. oz") produced and the site all-in cost[2] was $1,278 per Au Eq. oz produced compared to $917 and $1,178, respectively in the second quarter of 2013.

- Dividends paid in the second quarter of 2014 were $2.3 million (C$0.0074 per share) compared to $2.4 million (C$0.00769 per share) in corresponding quarter of the prior year.

- Capital expenditures during the second quarter of 2014 were $5 million at Cerro Bayo and $10 million at Costerfield compared to $4.4 million at Cerro Bayo and $4.9 million at Costerfield in the second quarter of 2013.

- At June 30, 2014, the Company had $69 million of cash and cash equivalent.

- On May 14, 2014 the Company announced that it has completed the 5.875% debt financing raising $60millon. The Company intends to use the net proceeds from the financing for general corporate purposes.

[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 second quarter of 2014, Mandalay produced 14,079 oz Au, 741,382 oz Ag and 855 t Sb, representing 31,739 Au Eq. oz. Production in the second quarter of 2013 was 13,046 oz Au, 921,895 oz Ag and 738 t Sb, representing 33,558 Au Eq. oz.

The increase in production at Costerfield was the result of higher tonnes mined and processed than in the previous year, reflecting the beginning of production from the Cuffley lode. Production at Cerro Bayo was impacted by lower silver grades realized in the 2014 period, partially offset by higher mining and processing rates in second quarter of 2014 compared to the same period of the previous year.

Saleable Production

Metal	Source	Three months to 30 June 2014	Three months to 30 June 2013	Six months ended 30 June 2014	Six months ended 30 June 2013
Gold (oz)	Costerfield	7,256	6,879	15,171	13,082
	Cerro Bayo	6,823	6,167	12,103	10,599
	Total	**14,079**	**13,046**	**27,274**	**23,681**
Antimony (t)	Costerfield	**855**	**738**	**1,713**	**1,504**
Silver (oz)	Cerro Bayo	**741,382**	**921,895**	**1,484,951**	**1,533,337**
Average quarterly prices:					
Gold US$/oz		1,289	1,415		
Antimony US$/tonne		9,602	10,365		
Silver US$/oz		19.63	23.19		
Au Eq. (oz)[1]	Costerfield	13,628	12,283	28,019	23,715
	Cerro Bayo	18,111	21,275	35,169	36,972
	Total	**31,739**	**33,558**	**63,188**	**60,687**

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

Sales

Metal	Source	Three months to 30 June 2014	Three months to 30 June 2013	Six months ended 30 June 2014	Six months ended 30 June 2013
Gold (oz)	Costerfield	7,298	6,850	14,344	12,731
	Cerro Bayo	7,659	5,449	12,463	9,564
	Total	**14,957**	**12,299**	**26,807**	**22,295**
Antimony (t)	Costerfield	**879**	**763**	**1,503**	**1,518**
Silver (oz)	Cerro Bayo	**840,713**	**774,923**	**1,612,829**	**1,406,659**
Average quarterly prices:					
Gold US$/oz		1,289	1,415		
Antimony US$/tonne		9,602	10,365		
Silver US$/oz		19.63	23.19		
Au Eq. (oz)2	Costerfield	13,847	12,441	25,604	23,474
	Cerro Bayo	20,460	18,149	37,493	33,902
	Total	**34,307**	**30,590**	**63,097**	**57,376**

[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 second quarter of 2014 was 7,256 oz versus 7,915 oz in the previous quarter and 6,879 oz in the second quarter of 2013. Saleable antimony production for the second quarter of 2014 was 855 t versus 858 t in the previous quarter and 738 t in the second quarter of 2013. Higher production in the current quarter compared to the corresponding quarter of the previous year was mainly due to higher mine output. Production during the second quarter of 2014 was low compared to the previous quarter due to comparatively lower tonnes processed.

ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the second quarter of 2014 was $989 versus $892 in the previous quarter and $917 in the second quarter of 2013. The higher cash cost per oz in the second quarter of 2014 was mainly due to factors relating to the transition to Cuffley lode mining 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 community issues surrounding potential antimony dispersion in crusher dust. The site all-in cost per Au eq. oz produced in the second quarter of 2014 was $1,278, versus $1,052 in the previous quarter and $1,178 in the second quarter of 2013.

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

i. *Production* —Cerro Bayo produced 741,382 oz Ag and 6,823 oz Au in the second quarter of 2014 versus 743,569 oz Ag and 5,280 oz Au in the previous quarter and 921,895 oz Ag and 6,167 oz Au in the second quarter of 2013. The variation in production quantities is mainly attributed to variation in ore grades processed during the respective quarters.

ii. *Operating Costs* —Cash cost per saleable oz Ag produced net of Au credits was $5.83 in the second quarter of 2014 versus $5.81 in the previous quarter and $6.12 in the second quarter of 2013. Cash cost per oz were lower in the second quarter of 2014 compared to corresponding quarter of 2013 principally due to higher gold credits achieved arising from a higher Au price and a more favorable Chilean Peso/US$ exchange rate. The site all-in cost per oz Ag produced net of Au by-product credit was $12.08 in the second quarter of 2014 versus $11.31 in the previous quarter and $11.54 in the second quarter of 2013.

3. Exploration

a. **Cerro Bayo**

Mandalay completed 17,570 meters of exploration drilling during the second quarter of 2014. Exploration activity in the second quarter was primarily focused on wide spaced drilling under Laguna Verde, proving several hundred meter strike extensions of the Fabiola, Yasna, and Coyita veins. On July 9, Mandalay announced the results of this drilling and that the balance of exploration efforts for 2014 would focus on infill drilling these extensions to add to Indicated Mineral Resource and Probable Mineral Reserves by the end of the year.

b. **Costerfield**

Mandalay completed 18,002 meters of drilling at Costerfield during the second 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.

c. **Challacollo**

Mandalay hired key staff for the Challacollo project during the second quarter of 2014, identified and contracted the key technical work for the feasibility study, and began drilling to convert the existing Inferred Mineral Resource on the project to Indicated Mineral Resource.

d. **La Quebrada, Chile**

La Quebrada is a non-core asset designated for sale and activities aimed towards completing the sale process occurred in the second quarter of 2014.

1.0 DATE

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

1.1 SUBSEQUENT EVENTS

Quarterly Dividend

On August 6, 2014, the Board of Directors declared a total dividend of US$ 2,693,278 or C$0.0086 per share, payable on August 28, 2014 to shareholders on record as of August 18, 2014.

Acquisition of Elgin Mining Inc.

On July 25, 2014, the Company and Elgin Mining Inc. ("Elgin") entered into an amended and restated arrangement agreement ("Amended and Restated Arrangement Agreement") with respect to the previously announced acquisition by Mandalay of all the outstanding common shares of Elgin for consideration consisting of C$0.37 cash or 0.4111 of a Mandalay common share per Elgin common share, capped at 50 million Mandalay shares and subject to pro ration. The Amended and Restated Arrangement Agreement increases the amount of cash consideration available to C$27 million (from C$25 million as previously disclosed) in order to accommodate any exercise of Elgin Mining's outstanding share purchase warrants ("Warrants") as a result of Elgin Mining's acceleration of the expiry date of its Warrants to August 26, 2014. As a result of such acceleration, no Warrants will be outstanding after the close of business on August 26, 2014.

On July 31, 2014, the Company completed a previously disclosed convertible bridge loan of C$5 million to Elgin.

Elgin used the proceeds of the loan to repay its existing loan from Sprott Resource Lending Partnership ("Sprott") and has now settled all outstanding reclamation obligations relating to its former coal operations in Kentucky.

The bridge loan bears interest at a rate of 10% per annum, has a term of six months, is convertible into Elgin common shares at Mandalay's election at a price of C$0.157 per share, and is secured by, among other things, a pledge of all of the shares of Elgin's Swedish subsidiaries (Björkdalsgruvan Aktiebolag and Björkdal Exploration AB).

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, antimony and copper 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. It is completing a feasibility study on its Challacollo silver project near Iquique, Chile, has entered into an agreement to acquire Elgin Mining with its operating Bjorkdal gold mine in Sweden, and 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 second 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 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.

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.

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 dore.

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 June 30, 2014, and June 30, 2013:

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $
Revenue	44,887,966	35,903,497
Cost of sales	26,373,099	23,049,711
Income from mine operations before depreciation and depletion	18,514,867	12,853,786
Depreciation and depletion	7,965,380	7,810,382
Income from mine operations	10,549,487	5,043,404
Administration	1,747,415	1,531,167
Business development costs	363,469	332,870
Adjusted EBITDA*	16,403,983	10,989,749
Finance costs, foreign exchange and others/(income)**	1,909,524	(368,156)
Income/(loss) before tax	6,529,079	3,547,523
Current tax expense	1,604,213	2,200,503
Deferred tax expense (recovery)	(10,967)	(1,757,773)
Net Income/(loss) after tax	4,935,833	3,104,793
Total assets	273,952,425	184,849,080
Total liabilities	98,737,431	39,810,925
Income per share	0.01	0.01

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

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

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

	Six months ended June 30, 2014 $	Six months ended June 30, 2013 $
Revenue	82,979,810	77,528,185
Cost of sales	46,748,629	43,042,734
Income from mine operations before depreciation and depletion	36,231,181	34,485,451
Depreciation and depletion	15,249,561	13,656,981
Income from mine operations	20,981,620	20,828,470
Administration	3,163,228	3,175,891
Business development costs	637,304	481,729
Adjusted EBITDA*	32,430,649	30,827,831
Finance costs, fx and others**	2,713,491	517,311
Income/(loss) before tax	14,467,597	16,653,539
Current tax expense	2,246,340	4,463,106
Deferred tax expense (recovery)	1,541,351	(1,818,474)
Net Income/(loss) after tax	10,679,906	14,008,907
Income per share	0.03	0.04

* 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 6% of the trailing quarter revenue as a dividend. The following table summarizes dividends paid by Mandalay in 2012, 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
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
2012				
	November 7, 2012	November 20, 2012	0.01	3,200,544

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 June 30, 2014, the Company repurchased nil common shares under 2013 NCIB.

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

Details	**Average price C$**	**Shares**
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 Jun)	0.77	(30,600)
Balance, June 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 six months ended June 30, 2014, and June 30, 2013. Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 32 for further information.

	Three months ended June 30, 2014		Three months ended June 30, 2013	
	$	$	$	$
Net Income/(loss)		4,935,833		3,104,793
Add: Non-cash and finance costs				
Depletion and depreciation	7,965,380		7,810,382	
Loss (gain) on disposal of property, plant and equipment	19,404		(68,035)	
Write off mineral properties/exploration and evaluation	387,463		548,585	
Share based compensation	543,965		277,162	
Interest and finance charges	755,917		187,766	
Fair value adjustments	148,040		(422,359)	
Current tax	1,604,213		2,200,503	
Deferred tax	(10,967)		(1,757,773)	
Foreign exchange (gain)/loss	75,508	11,488,923	(811,577)	7,964,654
		16,424,756		11,069,447
Add/(Less): Interest and (other income)/expenses	(20,773)	(20,773)	(79,698)	(79,698)
Adjusted EBITDA		16,403,983		10,989,749

	Six months ended June 30, 2014		Six months ended June 30, 2013	
	$	$	$	$
Net Income/(loss)		10,679,906		14,008,907
Add: Non-cash and finance costs				
Depletion and depreciation	15,249,561		13,656,981	
Loss (gain) on disposal of property, plant and equipment	24,970		88,363	
Write off mineral properties/exploration and evaluation	681,825		548,585	
Share based compensation	900,800		1,005,163	
Interest and finance charges	990,552		391,692	
Fair value adjustments	43,297		(502,790)	
Current tax	2,246,340		4,463,106	
Deferred tax	1,541,351		(1,818,474)	
Foreign exchange (gain)/loss	127,651	21,806,347	(834,613)	16,998,013
		32,486,253		31,006,920
Add/(Less): Interest and (other income)/expenses	(55,604)	(55,604)	(179,089)	(179,089)
Adjusted EBITDA		32,430,649		30,827,831

Fair-value adjustments

As at June 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 June 30, 2014, no financing warrants were exercised. The Company recorded a fair value measurement loss of $162,123 for three months ended June 30, 2014. There were 982,100 financing warrants outstanding on June 30, 2014.

Currency option – During the year ended December 31, 2013, the Company's Australian subsidiary entered into 50% participating forward contracts for A$33 million (A$3 million per month) starting August, 2013, and ending June, 2014. This allows the subsidiary to buy, monthly for 11 months starting August, 2013, A$3 million at U$1=A$1.07526 (the "contract rate"), if the Australian dollar is stronger than the contract rate, or A$1.5 million at the contract rate and A$1.5 million at the spot rate if Australian dollar is weaker than the contract rate. The derivative financial instruments are stated at fair value with any resulting gain or loss recognized in profit and loss. The Company recorded a fair value measurement gain of $14,083 for the three months ended June 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 had computed and allocated $4,633,984 relating to the exchange feature under the Loan as an exchangeable derivative in Q2, 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 Q2 2014	As of June 30, 2014 (a)	As of December 31, 2013 (a)
	$		$	$	$
Assets					
Deferred tax	8,803,784	(b)	10,967	8,814,751	9,985,278
Liabilities					
Derivative financial instrument (currency options)	14,083	(c)	(14,083)	-	360,128
Derivative financial instrument (financing warrants)	546,225	(d)	162,123	708,348	433,984
Shareholders' equity					
Retained earnings/(deficit)	66,984,195		(137,073)	66,847,122	60,859,549

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax recovery of $10,967 for the three months ended June 30, 2014.

(c) The Company recorded fair value measurement gain of $14,083 relating to the currency option for the three months ended June 30, 2014.

(d) The Company recorded fair value measurement loss of $162,123relating to financing warrants for the three months ended June 30, 2014.

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

	June 30, 2014				June 30, 2013
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	7,487,771			7,487,771	2,421,655
Other items					
Interest and other income	20,773			20,773	79,698
Finance (costs)/income	(755,917)	(a)	14,083	(903,957)	234,593
		(b)	(162,123)		
Foreign exchange gain (loss)	(75,508)			(75,508)	811,577
Net income/(loss) before tax	6,677,119		(148,040)	6,529,079	3,547,523
Current tax	(1,604,213)			(1,604,213)	(2,200,503)
Deferred tax		(c)	10,967	10,967	1,757,773
Net income/(loss)	5,072,906		(137,073)	4,935,833	3,104,793
Income (loss) per share					
Basic	0.01			0.01	0.01
Diluted	0.01			0.01	0.01

(a) The Company recorded fair value measurement gain of $14,083 relating to the currency option for the three months ended June 30, 2014.

(b) The Company recorded fair value measurement loss of $162,123 relating to financing warrants for the three months ended June 30, 2014.

(c) The Company recorded a deferred tax recovery of $10,967 for the three months ended June 30, 2014.

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

	June 30, 2014				June 30, 2013
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	15,573,493			15,573,493	15,528,739
Other items					
Interest and other income	55,604			55,604	179,089
Finance (costs)/income	(990,552)	(a)	225,658	(1,033,849)	111,098
		(b)	(268,955)		
Foreign exchange gain (loss)	(127,651)			(127,651)	834,613
Net income/(loss) before tax	14,510,894		(43,297)	14,467,597	16,653,539
Current tax	(2,246,340)			(2,246,340)	(4,463,106)
Deferred tax		(c)	(1,541,351)	(1,541,351)	1,818,474
Net income/(loss)	12,264,554		(1,584,648)	10,679,906	14,008,907
Income (loss) per share					
Basic	0.04			0.03	0.04
Diluted	0.03			0.03	0.04

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

(b) The Company recorded fair value measurement loss of $268,955 relating to financing warrants for the six months ended June 30, 2014.

(c) The Company recorded a deferred tax liability of $1,541,351 for the six months ended June 30, 2014.

1.4 RESULTS OF OPERATIONS

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

During the three months ended June 30, 2014, the Company recorded net income of $4,935,833 (net of fair value measurement loss of $148,083 and deferred tax recovery of $10,967) compared to net income of $3,104,793 (net of fair value measurement gain of $614,225 and deferred tax recovery of $1,757,773) during the three months ended June 30, 2013. Mandalay achieved adjusted EBITDA of $16,403,983 for the quarter ended June 30, 2014, compared to $10,989,749 in the quarter ended June 30, 2013. The increase in adjusted EBITDA and net income was principally due to the higher volumes sold and increase in metal prices resulting in higher revenue.

Administrative expenses for the quarter ended June 30, 2014, were $1,747,415 compared to $1,531,167 during the quarter ended June 30, 2013. During the three months ended June 30, 2014, administration expenses of $1,109,480 at Corporate included $275,982 in management fees, $111,153 in audit and internal review fees, $124,360 in travel expense, $186,289 in legal and accounting fees, $222,571 in investor relations and transfer agent and filing fees, $27,513 in consulting fees and $126,239 related to GST write off.

Capital expenditure in the second quarter of 2014, including capitalized depreciation and exploration, was $16,694,661. Of this amount, $5,045,227 was spent at Cerro Bayo, $9,981,302 at Costerfield, $260,843 at La Quebrada, $1,392,137 at Challacollo and $15,152 on others. By comparison, capital expenditure in the second quarter of 2013 was $9,506,342. The increase in capital expenditure in the second 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 June 30, 2014

Costerfield generated revenue of $17,953,216 for the quarter ended June 30, 2014. Income from mine operations before depreciation and depletion was $5,367,581, adjusted EBITDA was $5,272,173, net income after tax was $450,482 and operating net income was $1,318,917 during the period. For the quarter ended June 30, 2013, revenue was $15,822,010, income from mine operations before depreciation and depletion was $4,466,532, adjusted EBITDA was $4,188,054, net income after tax was $839,879 and operating net income was $1,720,416. Higher revenue during the second quarter of 2014 was principally driven by higher volumes sold. Adjusted EBITDA was higherdue to the combined impacts of higher revenue partially offset by higher costs associated with higher volumes.

Costerfield financial results

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $
Revenue	17,953,216	15,822,010
Cost of sales	12,585,635	11,355,478
Income from mine operations before depreciation and depletion	5,367,581	4,466,532
Depreciation and depletion	3,482,401	3,139,610
Income from mine operations	1,885,180	1,326,922
Administration (1)	196,534	398,658
Adjusted EBITDA (2)(4)	5,272,173	4,188,054
Finance costs, foreign exchange and others (3)	1,224,383	489,399
Income/(loss) before tax	464,263	438,865
Deferred tax expense (recovery)	13,781	(401,014)
Operating net income/(loss) after tax(4)	1,318,917	1,720,416
Net income/(loss) after tax	450,482	839,879
Capital expenditure (5)	9,981,304	4,915,844

[1]Includes intercompany transfer pricing re-charge costs of $101,126 in 2014 and $120,180 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 $440,684 in 2014 and $434,873 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 June 30, 2014 $	Three months ended June 30, 2013 $
Net income/(loss) after tax	450,482	839,879
Add: Intercompany expenses		
Intercompany interest expense	326,625	325,483
Intercompany transfer pricing recharge costs	541,810	555,054
Operating net income/(loss) after tax	1,318,917	1,720,416

Costerfield operating statistics

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

	Unit	Six months ended June 30, 2014	Six months ended June 30, 2013	Three months ended June 30, 2014	Three months ended June 30, 2013	Three months ended March 31, 2014
Mining Production and Mining Cost						
Operating development	m	2,362	3,246	1,241	1,842	1,121
Mined ore	t	80,038	61,772	41,539	35,906	38,499
Ore mined Au grade	g/t	8.11	9.19	8.08	9.28	8.15
Ore mined Sb grade	%	3.68	4.30	3.74	3.94	3.60
Mined contained Au	oz	20,882	18,257	10,792	10,709	10,090
Mined contained Sb	t	2,941	2,658	1,554	1,415	1,387
Mining cost per tonne ore	$/t	191	223	201	194	180
Processing and Processing Cost						
Processed ore	t	73,290	58,414	36,088	31,836	37,202
Mill head grade Au	g/t	8.34	9.41	8.37	9.39	8.31
Mill head grade Sb	%	3.74	4.27	3.84	3.86	3.65
Recovery Au	%	89.99	89.73	89.22	89.67	90.75
Recovery Sb	%	94.52	95.61	94.85	95.36	94.18
Concentrate produced	dry t	4,871	4,484	2,474	2,199	2,397
Concentrate grade Au	g/t	59.90	89.76	60.36	93.52	59.42
Concentrate grade Sb	%	53.21	53.23	53.14	53.26	53.29
Au produced in gravity concentrate	oz	8,227	2,268	3,827	1,349	4,400
Au produced in sulfide concentrate	oz	6,943	10,814	3,429	5,530	3,515
Saleable Au produced	oz	15,171	13,082	7,256	6,879	7,915
Saleable Sb produced	t	1,713	1,504	855	738	858
Saleable Au equivalent produced	oz	28,019	23,715	13,628	12,283	14,391
Processing cost per tonne ore	$/t	51.13	62.10	54.71	59.22	47.65
Sales						
Concentrate sold	dry t	4,477	4,530	2,633	2,292	1,844
Concentrate Au grade	g/t	58.44	88.35	57.99	90.17	59.08
Concentrate Sb grade	%	53.27	53.19	52.97	52.86	53.70
Au sold in gravity concentrate	oz	8,342	1,976	3,793	1,292	4,549
Au sold in sulfide concentrate	oz	6,002	10,755	3,505	5,558	2,497
Au sold	oz	14,344	12,731	7,298	6,850	7,046
Sb sold	t	1,503	1,518	879	763	624
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	334.96	370.54	367.37	345.57	303.53
Site cash operating cost/tonne concentrate produced(1)	$/t	5,040	4,827	5,360	5,004	4,711
Adjusted EBITDA/tonne ore milled(1)	$/t	162	193	146	132	177
Adjusted EBITDA/tonne concentrate produced(1)	$/t	2,437	2,512	2,131	1,905	2,753
Cash cost per oz Au equivalent produced(1)(2)	$/oz	892.15	949.87	989.44	916.60	892.15
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,161.90	1,177.98	1,278.22	1,178.49	1,051.76
Capital Spending						
Capital development	m	1,763	842	1,274	404	490
Capital development cost	$000	8,558	5,050	6,010	2,847	2,548
Capital development cost/meter	$/m	4,853	5,997	4,718	7,046	5,205
Capital purchases	$000	5,403	2,634	2,695	654	2,708
Capitalized exploration	$000	2,343	2,638	1,277	1,414	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 June 30, 2014 and June 30, 2013

The Costerfield mine completed 1,241 meters ("m") of operating development in the second quarter of 2014 versus 1,842 m in 2013. It mined a quarterly record amount of ore in the quarter at 41,539 t, versus 35,906 t in the second quarter of the previous year. The mined Au grade in 2014 was 8.08 grams per tonne ("g/t") versus 9.28 g/t in 2013, while the mined Sb grade was 3.74% in 2014 versus 3.94% in 2013. Mining costs were $201/t in 2014 versus $194/t in the previous year.

Capital development advance was 1,274 m in 2014 compared to 404 m in 2013; the cost in 2014 was $4,718/m versus $7,046/m in 2013. Capital development cost in 2013 is high because it includes $1.2 million for completion of the Augusta Return Air Raise ("RAR") construction during the quarter.

In the second quarter of 2014, the Costerfield concentrator processed 36,088 t of ore versus 31,836 t in the second quarter of 2013. The Au head grade in 2014 was 8.37 g/t versus 9.39 g/t in 2013 while the Sb head grade was 3.84% in 2014 versus 3.86% in 2013. The plant achieved recoveries of 89.22% Au and 94.85% Sb versus 89.67% Au and 95.36% Sb in 2013. The higher plant throughput resulted from higher feed rate from the mine. Processing costs in 2014 were $54.71/t, lower than the $59.22/t incurred during the prior year period, principally due to greater volume treated.

Concentrate production was 2,474 dry metric tonnes ("dmt") during the second quarter of 2014 versus 2,199 dmt for the corresponding three months of 2013. Total saleable metal production in 2014 was 855 t Sb and 7,256 oz Au versus 738 t Sb and 6,879 oz Au for the corresponding three months of 2013.

During the second quarter of 2014, Costerfield sold 2,633 dmt of concentrate compared to 2,292 dmt in the prior year period. A total of 7,298 oz Au and 879 t Sb were sold in 2014 versus 6,850 oz Au and 763 t Sb in 2013. The lower quantity of Au sold in sulfide concentrate (3,505 oz in 2014 versus 5,558 oz in 2013) was more than offset by more Au sold in gravity concentrate (3,793 oz in 2014 versus 1,292 oz in 2013), resulting in more total Au sold than in the prior year quarter.

Total site cash operating cost of ore processed was $367.37/t in the second quarter of 2014, compared to $345.57/t in the second 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 second quarter. This translates into a higher cash cost per Au Eq. oz produced ($989/oz in 2014 compared to $917/oz in 2013) and site all-in cost per Au Eq. oz produced ($1,278/oz in 2014 compared to $1,178/oz in 2013).

During the second quarter of 2014, the Company invested $6,009,504 in capital development, $1,277,124 in exploration and $2,694,674 in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were $2,847,371, $1,414,048 and $654,425 respectively. Higher capital advance during the second quarter of 2014 resulted in higher capital development expenditure compared to the prior year corresponding quarter. Property, plant and equipment expenditure during the second quarter of 2014 includes expenditure for the Reverse Osmosis water treatment plant.

Six months ended June 30, 2014, and June 30, 2013

The Costerfield mine completed 2,362 m of operating development in 2014 versus 3,246 m in 2013. It produced 80,038 t of ore containing 8.11 g/t Au and 3.68% Sb in 2014 as compared to 61,772 t of ore containing 9.19 g/t Au and 4.30% Sb. Mining costs were $191/t in 2014 versus $223/t in 2013. Inception of significant stoping production from the new 10 m stoping levels in N-lode, plus good stope performance were the principal factors driving higher mine output at lower cost per tonne during 2014.

The capital development advance improved significantly in 2014 to 1,763 m from 842 m in 2013 due to the employment of a contractor in 2014 to augment the in-house development crew. The cost per meter was $4,853 per m during 2014 compared to $5,997 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 six months ended June 30, 2014, the Costerfield concentrator processed 73,290 t of ore containing 8.34 g/t Au and 3.74% Sb. The corresponding year-ago throughput was 58,414 t of ore containing 9.41 g/t Au and 4.27% Sb. The plant achieved 89.99% recovery of gold and 94.52% recovery of antimony in the 2014 period compared to 89.73% recovery of gold and 95.61% recovery of antimony in 2013. The larger throughput led to greater saleable metal production in 2014. Concentrate production was 4,871 dmt in 2014 containing 1,713 t saleable Sb and 6,943 oz saleable Au in 2014, with an additional 8,227 oz saleable Au produced in gravity concentrate. In 2013, the corresponding production was 4,484 dmt of concentrate containing 1,504 t saleable Sb and 10,814 oz saleable Au plus 2,268 oz of saleable Au in gravity concentrate. Processing costs were lower in 2014 than in 2013: $51.13/t versus $62.10/t, mainly due to economies of scale.

Site cash operating cost per tonne of ore processed was $334.96/t in 2014 versus $370.54/t in 2013. The lower operating costs led to a lower cash cost in 2014 ($892/Au Eq. oz) as compared to 2013 ($950/Au Eq. oz), as well as lower all-in cost of $1,162/Au Eq. oz versus $1,178/Au Eq. Oz in 2013.

During the six months ended June 30, 2014, the Company invested $8,557,556 in capital development, $2,342,840 in exploration, and $5,402,950 in property, plant and equipment. The corresponding amounts for 2013 were $5,049,756 for capital development, $2,638,119 for exploration and $2,634,050 for property, plant and equipment.

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

Cerro Bayo generated revenue of $26,934,750 for the quarter ended June 30, 2014. Income from mine operations before depreciation and depletion was $13,147,286. Adjusted EBITDA was $12,604,760, net income after tax was $5,813,705 and operating net income was $6,564,725. For the quarter ended June 30, 2013, revenue was $20,081,487, income from mine operations before depreciation and depletion was $8,387,254. Adjusted EBITDA was $8,011,704, net income after tax was $1,637,468 and operating net income was $2,264,108. Greater revenue was due to greater metal volumes sold and higher metal prices realized.

Cerro Bayo financial results

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $
Revenue	26,934,750	20,081,487
Cost of sales	13,787,464	11,694,233
Income from mine operations before depreciation and depletion	13,147,286	8,387,254
Depreciation and depletion	4,482,979	4,670,772
Income from mine operations	8,664,307	3,716,482
Administration (1)	678,804	515,882
Adjusted EBITDA (2)(4)	12,604,760	8,011,704
Finance costs, foreign exchange and others (3)	592,333	719,388
Income/(loss) before tax	7,393,170	2,481,212
Current tax expense	1,604,213	2,200,503
Deferred tax expense (recovery)	(24,748)	(1,356,759)
Operating net income/(loss) after tax(4)	6,564,725	2,264,108
Net income/(loss) after tax	5,813,705	1,637,468
Capital expenditure (5)	5,045,227	4,391,996

1Includes intercompany transfer pricing recharge costs of $136,278 in 2014 and $140,332 in 2013.

2Does not include intercompany transfer pricing recharge costs.

3Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/(loss) on disposal of properties and intercompany transfer pricing recharge costs of $614,742 in 2014 and $486,308 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" on page 32 for further information.

5Includes capitalized depreciation on equipment.

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

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $
Net income/(loss) after tax	5,813,705	1,637,468
Add: Intercompany expenses		
Intercompany interest expense	-	-
Intercompany transfer pricing recharge costs	751,020	626,640
Operating net income/(loss) after tax	6,564,725	2,264,108

Cerro Bayo operating statistics

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

	Unit	Six months ended June 30, 2014	Six months ended June 30, 2013	Three months ended June 30, 2014	Three months ended June 30, 2013	Three months ended March 31, 2014
Mining Production and Mining Cost						
Operating development	m	3,171	3,749	1,708	1,967	1,464
Mined ore	t	222,618	205,041	117,403	112,351	105,216
Ore mined Au grade	g/t	2.06	1.93	2.23	2.08	1.86
Ore mined Ag grade	g/t	243.60	274.10	236.35	307.76	251.70
Mined contained Au	oz	14,710	12,718	8,425	7,514	6,284
Mined contained Ag	oz	1,743,550	1,806,919	892,123	1,111,684	851,427
Mining cost per tonne ore	$/t	51.70	55.30	52.26	52.07	51.08
Processing and Processing Cost						
Processed ore	t	218,965	196,586	114,296	102,011	104,668
Mill head grade Au	g/t	2.02	1.97	2.19	2.17	1.84
Mill head grade Ag	g/t	241.43	277.45	232.15	318.68	251.56
Recovery Au	%	87.06	87.37	86.90	89.12	87.25
Recovery Ag	%	90.55	90.40	90.08	91.41	91.03
Concentrate produced	dry t	4,085	4,424	2,001	2,643	2,084
Concentrate grade Au	g/t	94.44	76.66	108.72	74.66	80.73
Concentrate grade Ag	g/t	11,719.73	11,172.24	11,947.99	11,246.55	11,500.63
Saleable Au produced	oz	12,103	10,599	6,823	6,167	5,280
Saleable Ag produced	oz	1,484,951	1,533,337	741,382	921,895	743,569
Saleable Au equivalent produced	oz	35,169	36,972	18,111	21,275	17,058
Processing cost per tonne ore	$/t	26.98	28.20	28.09	28.83	25.76
Sales						
Concentrate sold	dry t	4,538	4,068	2,329	2,272	2,209
Concentrate Au grade	g/t	87.52	75.24	104.79	76.74	69.30
Concentrate Ag grade	g/t	11,456.12	11,147.00	11,635.28	10,995.39	11,267.19
Au sold	oz	12,463	9,564	7,659	5,449	4,804
Ag sold	oz	1,612,829	1,406,659	840,713	774,923	772,116
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	93.72	103.14	95.46	100.56	91.81
Site cash operating cost/tonne concentrate produced(1)	$/t	5,024	4,583	5,454	3,881	4,611
Adjusted EBITDA/tonne ore milled(1)	$/t	105	111	110	79	98
Adjusted EBITDA/tonne concentrate produced(1)	$/t	5,603	4,946	6,301	3,031	4,932
Cash cost per oz Ag produced net of Au byproduct credit	$/oz	5.82	7.22	5.83	6.12	5.81
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	11.69	12.52	12.08	11.54	11.31
Capital Spending						
Capital development	m	985	1,361	485	774	500
Capital development cost	$000	3,484	4,913	1,813	2,732	1,671
Capital development cost/meter	$/m	3,538	3,610	3,737	3,532	3,344
Capital purchases	$000	4,090	4,662	2,695	1,034	1,396
Capitalized exploration	$000	1,262	1,420	538	625	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 June 30, 2014 and June 30, 2013

During the second quarter, the Cerro Bayo mine produced 117,403 t of ore (at a rate of 1,350 tpd) versus 112,351 t of ore in 2013. Mined grades were 236.35 g/t Ag and 2.23 g/t Au in 2014 versus 307.76 g/t Ag and 2.08 g/t Au in 2013. During 2014, 1,708 m of operating development were completed versus 1,967 m in the 2013 period. Mining cost in the second quarter of 2014 was $52.26/t compared to $52.07/t in the second quarter of 2013.

During the second quarter of 2014, the Cerro Bayo concentrator processed 114,296 t of ore with grades of 232.15 g/t Ag and 2.19 g/t Au, compared to 102,011 t of ore with grades of 318.68 g/t Ag and 2.17 g/t Au during the second quarter of 2013. Metallurgical recoveries during the second quarter were 86.90% for Au and 90.08% for Ag in 2014 versus 89.12% for Au and 91.41% for Ag in the prior year comparable period. Higher plant throughput resulted in lower costs: $28.09/t in 2014 versus $28.83/t in 2013.

Cerro Bayo produced 2,001 dmt of concentrate containing 741,382 oz saleable Ag and 6,823 oz saleable Au in the second quarter of 2014, as compared to 2,643 dmt of concentrate containing 921,895 oz saleable Ag and 6,167 oz saleable Au in the comparable 2013 period.

During the second quarter of 2014, Cerro Bayo sold 2,329 dmt of concentrate containing 7,659 oz of saleable Au and 840,713 oz saleable Ag. Sales during the comparable quarter of 2013 were 2,272 dmt of concentrate, 5,449 oz of Au and 774,923 oz of Ag.

Total site cash operating cost was $95.46/t of ore processed in the second quarter of 2014, compared to $100.56 per t in the second quarter of 2013. The decrease in cost was largely driven by greater production and favorable currency exchange rates. In addition, the impact of higher Au credits arising from higher realized gold price further translated into a low cash cost of $5.83 per oz Ag net Au credit in the second quarter of 2014, compared to $6.12 per oz in the second quarter of 2013. Site all-in cost of $12.08 per oz Ag net of Au credit in the second quarter of 2014 was more than the $11.54 per oz reported in the second quarter of 2013.

During the second quarter of 2014, the Company invested $1,812,651 in mine development versus $2,732,398 in 2013. The Company spent $2,694,700 for the purchase of property, plant and equipment in 2014 versus $1,034,237 in 2013. The Company spent $537,876 on exploration versus $625,361 in the second quarter of 2013.

Six months ended June 30, 2013, and June 30, 2012:

Cerro Bayo mine produced 222,618 t of ore in 2014 versus 205,041 t in 2013. This represents an average of 1,230 tpd in 2014 versus 1,139 tpd in 2013. In addition, the mine completed 3,171 m of operating development in 2013 versus 3,749 m in the corresponding year-ago period. Mined grades were 2.06 g/t Au and 243.60 g/t Ag for the six months ended June 30, 2014 versus 1.93 g/t Au and 274.10 g/t Ag for the six months ended 2013. Mining cost per tonne in 2014 was $51.70/t, lower than the $55.30/t for the six months ended June 30, 2013.

During the six months ended June 30, 2014, the Cerro Bayo concentrator processed 218,965 t of ore with grades of 241.43 g/t Ag and 2.02 g/t Au. During the six months ended June 30, 2013, the concentrator processed 196,586 t of ore with grades of 277.45 g/t Ag and 1.97 g/t Au. The plant achieved 87.06%

recovery of Au and 90.55% recovery of Ag in 2014 versus 87.37% recovery of Au and 90.40%of Ag in 2013.

Cerro Bayo produced 4,085 dmt of concentrate containing 1,484,951 oz of saleable Ag and 12,103 oz of saleable Au in 2014. Production for the year-ago period was 4,424 dmt of concentrate containing 1,533,337 oz saleable Ag and 10,599 oz saleable Au. Processing costs for the six months ended June 30, 2014 were 26.98/t, lower than the $28.20/t during the six months ended June 30, 2013, mainly due to more tonnes processed.

During the six months ended June 30, 2014, Cerro Bayo sold 4,538 dmt of concentrate, 12,463 oz Au and 1,612,829 oz Ag, more than 4,068 dmt of concentrate, 9,564 oz Au and 1,406,659 oz Ag sold during the six months ended June 30, 2013.

Total site cash operating cost per tonne of ore processed was $93.72/t for the six months ended June 30, 2014, versus $103.14/t for the six months of 2013. Cash cost per ounce Ag produced net of Au by-product credit was $5.82 in 2014, lower than the $7.22 in the six months ended June 30, 2013. The all-in cost per ounce Ag produced net of Au byproduct credit was $11.69 in 2014, versus $12.52 in 2013.

During the six months ended June 30, 2014, the Company invested $3,483,619 in capital mine development versus $4,913,437 in 2013; $4,090,472 for purchase of property, plant and equipment versus $4,661,983; and $1,261,736 versus $1,419,969 for exploration.

Challacollo

During the second quarter of 2014 the Company spent $1,317,762 on exploration and $74,375 on property, plant and equipment.

La Quebrada

Spending on exploration at La Quebrada was $260,843 during the second quarter of 2014. The corresponding amount for the prior year quarter was $198,502.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate April 1, 2014 June 30, 2014	Average rate January 1, 2014 June 30, 2014	Average rate April 1, 2013 June 30, 2013	Average rate January 1, 2013 December 31, 2013
1A$ = C$	1.0170	1.0034	1.0150	0.9966
1A$ = US$	0.9326	0.9149	0.9925	0.9686
1 US$ = C$	1.0910	1.0971	1.0233	1.0294
1 US$ = Chilean Peso	554.67	553.41	484.88	495.24

The U.S. dollar has strengthened in relation to the Australian dollar, the Chilean peso and the Canadian dollar resulting in favorable impact on the financials of the Company.

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 second quarter of 2014 compared to the second quarter of 2013. Realized prices were favourably 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 second quarter of 2014 being marginally higher than relative average market prices.

COMMODITY	Average rate April 1, 2014 June 30, 2014	Average rate January 1, 2014 June 30, 2014	Average rate April 1, 2013 June 30, 2013	Average rate January 1, 2013 December 31, 2013
Realized gold US$/oz[1]	1,292	1,319	1,200	1,331
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,289	1,291	1,415	1,410
Realized antimony US$/tonne[1]	9,664	9,902	9,628	9,956
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	9,602	9,680	10,365	10,336
Realized silver price US$/oz[1]	20.29	20.29	17.81	21.80
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	19.63	20.05	23.19	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	June 30, 2014 $	March 31, 2014 $	December 31, 2013 $	September 30, 2013 $
Revenue	44,887,966	38,091,844	39,058,143	50,319,270
Income/(loss)	4,935,833	5,744,073	4,435,066	10,998,651
Income/(loss) per share - Basic	0.01	0.02	0.01	0.03
Income/(loss) per share - Diluted	0.01	0.02	0.01	0.03

Particulars	June 30, 2013 $	March 31, 2013 $	December 31, 2012 $	September 30, 2012 $
Revenue	35,903,497	41,624,688	55,699,764	48,847,630
Income/(loss)	3,104,793	10,904,114	22,375,166	9,011,008
Income/(loss) per share - Basic	0.01	0.03	0.07	0.03
Income/(loss) per share - Diluted	0.01	0.03	0.06	0.03

Since the acquisition of the Costerfield mine in December, 2009, and of the Cerro Bayo mine in August, 2010, the Company’s results have been, and are expected to continue to be, influenced by the operational results of the Costerfield and Cerro Bayo 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) and Chilean pesos (at Cero Bayo). The Company’s results will be impacted by exchange rate variations during the reporting periods. The Company has entered into partial foreign exchange hedges to limit exposure to exchange rate fluctuations (see section “Currency option” on page 11).

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. 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 June 30, 2014, the Company had working capital of $93,282,058 compared to $47,206,924 at December 31, 2013. The Company had cash and cash equivalents of $69,033,377 at June 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, 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

Bank of Montreal (BMO) borrowings

Mandalay cancelled its secured revolving corporate loan facility with Bank of Montreal on May 15, 2014. No amounts were drawn under the loan facility at the time of cancellation.

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.

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 pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.11FINANCIAL 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 June 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 second 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 June 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 341,726,367 common shares issued and outstanding. The weighted average number of shares outstanding during the second quarter used for the calculation of per share results was 336,328,188.

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 June 30, 2014	As of August 05, 2014	Expiry Date
0.98	4,435,000	4,395,000	March 24, 2019
1.13	4,137,500	4,112,500	March 18, 2018
0.83	3,797,500	3,797,500	March 9, 2017
0.70	400,000	250,000	December 2, 2016
0.76	350,000	350,000	July 4, 2016
0.58	370,000	370,000	April 11, 2016
0.56	3,080,000	3,080,000	March 11, 2016
0.26	770,000	770,000	August 26, 2015
0.31	50,000	50,000	September 7, 2015
0.33	300,000	300,000	October 6, 2015
0.255	900,000	900,000	December 07, 2014
Total	**18,590,000**	**18,590,000**	

During the quarter ended June 30, 2014, 1,293,500 options were exercised. There were 18,590,000 options outstanding as of June 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 June 30, 2014, and as of the date of this MD&A are as follows:

Exercise Price C$	As of June 30, 2014	As of August 05, 2014	Expiry Date
0.31	14,650,000	14,650,000	November 30, 2014
0.47	1,250,000	1,150,000	November 30, 2014
Total	**15,900,000**	**15,800,000**	

During the quarter ended June 30, 2014, no warrants were exercised. The number of warrants outstanding as of June 30, 2014, was 15,900,000.

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 June 30, 2014 is as follows:

	Number of RSU awards
Balance, December 31, 2013	306,560
Granted	4,968
Outstanding at June 30, 2014	311,528

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 10 and 11 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 12 and 13 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 page 14 and 18 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.