Condensed consolidated interim financial statements of

Mandalay Resources Corporation

June 30, 2014
(Unaudited)

Mandalay Resources Corporation
June 30, 2014

Table of contents

Mandalay Resources Corporation

Condensed consolidated interim statements of income
and comprehensive income
three and six months ended June 30, 2014 and 2013
(Expressed in U.S dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
Revenues	**44,887,966**	35,903,497	**82,979,810**	77,528,185
Cost of operations				
Cost of sales excluding depletion and depreciation (Note 14)	**26,373,099**	23,049,711	**46,748,629**	43,042,734
Depletion and depreciation	**7,965,380**	7,810,382	**15,249,561**	13,656,981
	34,338,479	30,860,093	**61,998,190**	56,699,715
Income from mine operations	**10,549,487**	5,043,404	**20,981,620**	20,828,470
Expenses				
Administration expense	**1,747,415**	1,531,167	**3,163,228**	3,175,891
Business development costs	**363,469**	332,870	**637,304**	481,729
Share-based compensation (Note 13 (b),(c) and (d))	**543,965**	277,162	**900,800**	1,005,163
Loss (gain) on disposal of property, plant and equipment	**19,404**	(68,035)	**24,970**	88,363
Write-off of exploration and evaluation (Note 7)	**387,463**	548,585	**681,825**	548,585
	3,061,716	2,621,749	**5,408,127**	5,299,731
Income from operations	**7,487,771**	2,421,655	**15,573,493**	15,528,739
Other income (expenses)				
Finance costs (Note 15)	**(755,917)**	(187,766)	**(990,552)**	(391,692)
(Loss) gain on derivative financial instruments (Note 16)	**(148,040)**	422,359	**(43,297)**	502,790
Interest and other income	**20,773**	79,698	**55,604**	179,089
Foreign exchange gain (loss)	**(75,508)**	811,577	**(127,651)**	834,613
	(958,692)	1,125,868	**(1,105,896)**	1,124,800
Income before income taxes	**6,529,079**	3,547,523	**14,467,597**	16,653,539
Income taxes expense (recovery) (Note 18)				
Current	**1,604,213**	2,200,503	**2,246,340**	4,463,106
Deferred	**(10,967)**	(1,757,773)	**1,541,351**	(1,818,474)
	1,593,246	442,730	**3,787,691**	2,644,632
Net income for the period	**4,935,833**	**3,104,793**	**10,679,906**	14,008,907
Other comprehensive income (loss)				
Item that may subsequently be reclassified to income (loss)				
Foreign currency translation	**1,493,074**	(7,242,706)	**3,067,449**	(7,482,236)
Comprehensive income (loss) for the period	**6,428,907**	(4,137,913)	**13,747,355**	6,526,671
Income per share (Note 19)				
Basic	**0.01**	0.01	**0.03**	0.04
Diluted	**0.01**	0.01	**0.03**	0.04
Weighted average number of common shares outstanding (Note 19)				
Basic	**340,919,659**	325,363,574	**336,328,188**	324,918,865
Diluted	**355,274,071**	342,319,557	**350,440,859**	344,384,413

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position
as at June 30, 2014 and December 31,2013
(Expressed in U.S dollars)
(Unaudited)

	June 30, 2014	December 31, 2013
	$	$
Assets		
Current assets		
Cash and cash equivalents	**69,033,377**	33,465,116
Trade and other receivables (Note 5)	**28,396,246**	18,579,577
Inventories (Note 6)	**19,645,594**	16,986,876
Prepaid expenses and other	**1,197,565**	636,953
	118,272,782	69,668,522
Non-current assets		
Reclamation and other deposits	**2,343,154**	2,252,579
Other receivables (Note 5)	**364,679**	359,383
Property, plant and equipment (Note 7)	**143,658,281**	113,757,705
Intangible assets (Note 8)	**498,778**	748,180
Deferred tax asset (Note 18)	**8,814,751**	9,985,278
	155,679,643	127,103,125
	273,952,425	196,771,647
Liabilities		
Current liabilities		
Trade and other payables (Note 9)	**15,115,438**	14,140,662
Current income tax liabilities	**1,459,278**	4,956,054
Provisions (Note 12)	**3,073,676**	2,570,770
Derivative financial instruments (Note 16)	**5,342,332**	794,112
	24,990,724	22,461,598
Non-current liabilities		
Five year exchangeable bonds (Note 11)	**52,460,475**	-
Reclamation and site closure costs	**17,702,068**	17,421,231
Provisions (Note 12)	**3,584,165**	3,307,487
	73,746,708	20,728,718
	98,737,432	43,190,316
Equity		
Share Capital (Note13)	**102,389,876**	89,779,961
Share option reserve (Note13)	**8,691,616**	8,438,580
Warrants reserve (Note13)	**804,418**	1,088,728
Foreign currency translation reserve	**(3,518,038)**	(6,585,487)
Retained earnings	**66,847,121**	60,859,549
	175,214,993	153,581,331
	273,952,425	196,771,647

Approved and authorized for issue by the Board on Aug 6, 2014.

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

(Signed) Robert Doyle
Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity
six months ended June 30, 2014 and 2013
(Expressed in U.S. dollars)
(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
		$	$	$	$	$	$
Balance, December 31, 2013	**322,779,853**	**89,779,961**	**8,438,580**	**1,088,728**	**(6,585,487)**	**60,859,549**	**153,581,331**
Stock options exercised (Note 13 (b))	1,592,500	1,008,730	(459,173)	-	-	-	**549,557**
Share-based compensation (Note 13 (c) and 13 (d))	-	-	712,209	-	-	-	**712,209**
Warrants exercised (Note 13 (e))	5,100,000	2,422,033	-	(284,310)	-	-	**2,137,723**
Normal course issuer bid (Note 13 (f))	(30,600)	(9,008)	-	-	-	(13,439)	**(22,447)**
Dividends paid (Note 13 (g))	-	-	-	-	-	(4,678,895)	**(4,678,895)**
Amendment of stock option plan (Note 10 (b))	-	-	-	-	-	-	**-**
Shares issued for Challacollo acquisition(Note 4)	12,000,000	9,188,160	-	-	-	-	**9,188,160**
Total comprehensive income for the period	-	-	-	-	3,067,449	10,679,906	**13,747,355**
Balance, June 30, 2014	**341,441,753**	**102,389,876**	**8,691,616**	**804,418**	**(3,518,038)**	**66,847,121**	**175,214,993**

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
		$	$	$	$	$	$
Balance, December 31, 2012	**322,187,153**	**88,634,701**	**7,332,054**	**1,251,752**	**2,167,685**	**43,692,706**	**143,078,898**
Stock options exercised (Note 13 (b))	862,500	508,427	(277,969)	-	-	-	**230,458**
Share-based compensation (Note 13 (c) and 13 (d))	-	-	913,540	-	-	-	**913,540**
Warrants exercised (Note 13 (e))	2,600,000	1,390,856	-	(163,024)	-	-	**1,227,832**
Normal course issuer bid (Note 13 (f))	(1,378,600)	(405,852)	-	-	-	(703,688)	**(1,109,540)**
Amendment of stock option plan (Note 10 (b))	-	-	(197,356)	-	-	-	**(197,356)**
Dividends paid (Note 13 (g))	-	-	-	-	-	(5,632,348)	**(5,632,348)**
Total comprehensive (loss) income for the period	-	-	-	-	(7,482,236)	14,008,907	**6,526,671**
Balance, June 30, 2013	**324,271,053**	**90,128,132**	**7,770,269**	**1,088,728**	**(5,314,551)**	**51,365,577**	**145,038,155**

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows
three and six months ended June 30, 2014 and 2013
(Expressed in U.S dollars)
(Unaudited)

	Three months ended	June 30,	Six months ended	June 30,
	2014	2013	**2014**	2013
	$	$	**$**	$
Operating activities				
Net income (loss) for the period	**4,935,833**	3,104,793	**10,679,906**	14,008,907
Adjustments to reconcile net income to net cash generated by operating activities				
Amortization of intangible assets	**124,701**	124,701	**249,402**	249,402
Depletion and depreciation	**7,972,659**	7,818,140	**15,264,035**	13,672,616
Share-based compensation	**543,965**	469,028	**900,800**	947,128
Loss (gain) on disposal of property, plant and equipment	**19,404**	(68,035)	**24,970**	88,363
Write-off of exploration and evaluation	**387,463**	548,585	**681,825**	548,585
Finance cost	**755,917**	187,766	**990,552**	391,692
Loss (gain) on derivative financial instruments	**147,186**	(422,359)	**(93,436)**	(502,790)
Interest and other income	**(20,773)**	(79,698)	**(55,604)**	(179,089)
Foreign exchange (gain) loss	**329,831**	(466,431)	**436,523**	(750,933)
Income tax expense	**1,593,246**	442,730	**3,787,691**	2,644,632
Change in non-cash operating working capital items				
Trade and other receivables	**(1,841,908)**	4,931,589	**(12,488,474)**	13,094,607
Inventories	**(603,984)**	(1,660,163)	**(2,254,576)**	(5,037,300)
Prepaid expenses and other	**395,748**	241,249	**(561,125)**	(456,707)
Trade and other payables	**(467,728)**	(618,609)	**1,688,863**	339,283
Provisions	**850,574**	662,002	**1,220,453**	915,428
Cash generated from operations	**15,122,134**	15,215,288	**20,471,805**	39,973,824
Income taxes paid	**(4,174,819)**	(4,879,489)	**(4,174,819)**	(4,879,489)
Interest and other income received	**20,773**	(57,269)	**55,604**	(97,902)
Interest paid	**(36,486)**	79,698	**(72,879)**	179,089
Net cash flows from operating activities	**10,931,602**	10,358,228	**16,279,711**	35,175,522
Investing activities				
Payment/(recovery) for reclamation deposit and others	**10,576**	(27,907)	**(18,531)**	90,400
Expenditure for property, plant and equipment	**(16,496,867)**	(9,268,771)	**(26,918,954)**	(21,492,847)
Proceeds on disposal of property, plant and equipment	**10,697**	99,389	**10,697**	99,389
Acquisition of Challacollo (Note 4)	**(268,512)**	-	**(7,769,512)**	-
Net cash flows used in investing activities	**(16,744,106)**	(9,197,289)	**(34,696,300)**	(21,303,058)
Financing activities				
Proceeds from borrowings	**57,008,448**		**57,008,448**	-
Issuance of common shares for cash	**434,366**	44,819	**2,687,280**	1,458,290
Purchase of common shares for cancellation	**-**	(1,109,540)	**(22,445)**	(1,109,540)
Exercise of stock options by cash election	**-**	(43,534)	**-**	(218,784)
Payment for settlement of financing warrants	**-**	-	**-**	(1,339,340)
Dividends paid	**(2,334,883)**	(2,435,070)	**(4,678,895)**	(5,632,348)
Net cash flows used in financing activities	**55,107,931**	(3,543,325)	**54,994,388**	(6,841,722)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(257,095)**	(356,727)	**(1,009,537)**	(393,132)
Increase (decrease) in cash and cash equivalents	**49,038,332**	(2,739,113)	**35,568,261**	6,637,610
Cash and cash equivalents, beginning of period	**19,995,045**	26,641,169	**33,465,116**	17,264,446
Cash and cash equivalents, end of period	**69,033,377**	23,902,056	**69,033,377**	23,902,056
Cash and cash equivalents are comprised of				
Cash	**69,033,377**	13,653,949	**69,033,377**	13,653,949
Cash equivalents	**-**	10,248,107	**-**	10,248,107
	69,033,377	23,902,056	**69,033,377**	23,902,056

See accompanying notes to the condensed consolidated interim financial statements.

1. Description of business and nature of operations

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

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

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Judgments made by management in the application of International Financial Reporting Standards ("IFRS") that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Note 2 (s), of the Company's audited consolidated financial statements for the year ended December 31, 2013.

In 2014 the Company prospectively changed its estimate for the depletion of its reserves at Costerfield in response to the development of the Cuffley ore body. As a result, the formula was changed to include proven, probable and measured and indicated resources. This change in estimate was made to better reflect the addition of resources relating to the Cuffley ore body in Costerfield. This change in formula, because it brings in estimates of future capital expenditures to convert resources to reserves, increases the measurement uncertainty and the complexity of this estimate.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at June 30, 2014.The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013.

New accounting pronouncement

(a) *<u>IFRS effective for annual periods beginning on or after January 1, 2014</u>*

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

3. Summary of significant accounting policies (continued)

New accounting pronouncement (continued)

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

- Amended standard IAS 32 *Financial Instruments: Presentation*

  The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities.

- New interpretation IFRIC 21 *Levies*

  The interpretation provides guidance on recognition of a liability for a levy imposed by a government.

(i) Effective for annual periods beginning on or after January 1, 2018

- Amended standard IFRS 7 *Financial Instruments: Disclosures*

  The amendments to IFRS 7 outlines the disclosures required when initially applying IFRS 9 Financial Instruments.

- New standard IFRS 9 *Financial Instruments*

  Replacement of IAS 39 Financial Instruments: Recognition and Measurement

(b) IFRS Effective for annual periods beginning on or after January 1, 2016

- New standard IFRS 15 *Revenue from contracts with customers*

  Replacement of IAS 11 Construction Contracts, IAS 19 Revenue Recognition, IFRIC 13 Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. Provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions.

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

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

- US$7.5 million in cash;
- 12 million common shares of the Company
- Five million common shares of the Company to be issued to SSR at the end of the quarter in which commercial production commences at the Challacollo project (the "Deferred Payment Share");
- an aggregate cash payment equal to the equivalent of 240,000 ounces of silver, payable in eight quarterly installments based on the average silver price for such quarter (i.e., cash payment equal to the equivalent of 30,000 ounces of silver for each quarter), beginning with the quarter immediately following the quarter in which commencement of commercial production occurs (the "Silver Delivery Consideration"); and
- a 2% Net Smelter Returns royalty on silver sold from the Project in excess of 36 million ounces, with a cap/buyout of US$5 million.

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

The Company determined that MSSC was not a business in accordance with IFRS 3, Business Combinations, and therefore it accounted for the acquisition as an asset acquisition rather than a

(Expressed in U.S. dollars)

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

business combination. The Deferred Payment Share and the Silver Delivery Consideration are considered to be contingent liabilities. These contingent liabilities have not been included in the purchase consideration, and shall only be recognized if and when the contingency in question is satisfied.

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

Particulars	Amount $
Initial cash payout	7,501,000
Issuance of 12 million shares	9,188,160
Acquisition cost	263,740
Purchase Consideration	**16,952,900**
Net assets acquired	
Net working capital acquired	594,513
Property, plant and equipment	16,358,387
Net identifiable assets	**16,952,900**

5. Trade and other receivables

Trade and other receivables are comprised of the following:

	June 30, 2014	December 31, 2013
	$	$
Trade receivables	**24,692,348**	16,706,381
Mark to market adjustment	**158,560**	-
VAT and other indirect tax receivables	**3,710,182**	1,930,994
Other receivables	**199,835**	301,585
	28,760,925	18,938,960
Less: non current portion	**364,679**	359,383
Current portion	**28,396,246**	**18,579,577**

The allowance for doubtful accounts was $Nil at June 30, 2014 and $Nil at December 31, 2013.

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

(Expressed in U.S. dollars)

6. Inventories

	June 30, 2014	December 31, 2013
	$	$
Finished goods	6,071,003	6,260,439
Work in progress and stockpiled ore	3,843,834	1,371,018
Consumables	9,730,757	9,355,419
	19,645,594	**16,986,876**

The amount of inventories recognized in cost of sales for three and six months ended June 30, 2014 is $34,338,479 and $ 61,998,190(2013 - $30,860,093 and $56,699,715).

There were no inventory write-downs or reversals of write-downs during the three and six months ended June 30, 2014 or 2013.

(Expressed in U.S. dollars)

7. Property, plant and equipment

Property, plant and equipment consist of the following:

	Mining interests			Plant and equipment			Exploration and evaluation			Total
	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	
	$	$	$	$	$	$	$	$	$	$
Cost										
As at December 31, 2013	41,868,994	43,993,129	-	26,447,695	34,472,116	586,121	5,164,448	5,788,204	14,363,937	172,684,644
Acquisition of Challacollo	-	-	-	-	-	-	-	-	16,358,387	16,358,387
Additions	12,142,971	3,483,618	-	1,817,536	4,469,915	129,176	2,342,839	1,261,736	2,084,828	27,732,619
Disposals	-	-	-	(174,983)	-	(379,443)	-	-	-	(554,426)
Reclassification to mining interest	2,387,125	2,034,149	-		-	-	(2,387,125)	(2,034,149)	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	(681,825)	-	-	(681,825)
Foreign exchange	1,929,112	-	-	1,555,436	-	(582)	512,309	-	(34,970)	3,961,305
As at June 30, 2014	**58,328,202**	**49,510,896**	**-**	**29,645,684**	**38,942,031**	**335,272**	**4,950,646**	**5,015,791**	**32,772,182**	**219,500,704**
Accumulated depreciation										
As at December 31, 2013	16,965,292	19,054,539	-	5,840,753	16,927,585	138,770	-	-	-	58,926,939
Expense	6,374,281	5,569,320	-	559,246	3,166,053	29,354	-	-	-	15,698,254
Disposals	-	-	-	(139,316)	-	-	-	-	-	(139,316)
Foreign exchange	984,255	-	-	372,303	-	(12)	-	-	-	1,356,546
As at June 30, 2014	**24,323,828**	**24,623,859**	**-**	**6,632,986**	**20,093,638**	**168,112**	**-**	**-**	**-**	**75,842,423**
Carrying value										
As at December 31, 2013	24,903,702	24,938,590	-	20,606,942	17,544,531	447,351	5,164,448	5,788,204	14,363,937	113,757,705
As at June 30, 2014	**34,004,374**	**24,887,037**	**-**	**23,012,698**	**18,848,393**	**167,160**	**4,950,646**	**5,015,791**	**32,772,182**	**143,658,281**

For three and six months ended June 30, 2014, Cerro Bayo's plant and equipment depreciation of $188,447 and $237,572 and at Costerfield $47,983and $66,817 were capitalized in mining interest (2013 –at Cerro Bayo $237,572 and $437,752).

(Expressed in U.S. dollars)

8. Intangible asset

In September 2012, the Company reached an agreement with its union workers in Chile and paid a lump-sum cash payment of $1,414,082 to secure the contract. This payment is recorded as an intangible asset and amortized over the contractual life of the three-year union agreement. The carrying amount of the union payment as at June 30, 2014 is $498,778 (December 31, 2013 - $748,180). Amortization expense for the three and six months ended June 30, 2014of $124,701 and $249,402 respectively (2013 - $124,701 and $249,402) is recorded as part of cost of sales.

9. Trades and other payables

	June 30, 2014	December 31, 2013
	$	$
Trade payables	**6,815,645**	4,311,337
Accrued liabilities	**7,199,518**	4,608,408
Cash election option liability	**278,733**	86,658
Mark to market adjustment	**21,301**	4,544,083
Payroll and other taxes payable	**800,241**	590,176
	15,115,438	14,140,662

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

Mark to market adjustment relates to revaluation of trade debtors.

10. 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.

11. 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"). 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.

(Expressed in U.S. dollars)

11. Five year exchangeable bonds (continued)

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.

GEL 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

Following is a summary of the Loan balance.

Particulars	**Amount** **$**
Five year exchangeable bonds	60,000,000
Less: Fund raising expenses	(2,991,522)
	57,008,478
Add: Accretion	85,981
Less: Exchangeable Derivative (Note 16)	(4,633,984)
Balance as at June 30, 2014	**52,460,475**

12. Provisions

	Employee benefit (i)	Severence payment (ii)	**Total**
	$	**$**	**$**
Balance, December 31, 2012	2,425,168	2,202,354	4,627,522
Additions	2,683,130	1,269,862	3,952,992
Amounts paid	(1,937,493)	(200,127)	(2,137,620)
Foreign exchange	(286,673)	(277,964)	(564,638)
Balance, December 31, 2013	2,884,132	2,994,125	5,878,257
Additions	1,629,989	428,534	2,058,523
Amounts paid	(1,012,875)	(171,648)	(1,184,523)
Foreign exchange	44,812	(139,228)	(94,416)
Balance, June 30, 2014	3,546,058	3,111,783	6,657,841
Less: current portion	3,073,676	-	3,073,676
Non-current portion	472,382	3,111,783	3,584,165

12. Provisions (continued)

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

(ii) Cerro Bayo provides for certain severance payments in accordance with statutory requirements.

13. Share capital

At June 30, 2014, the Company had unlimited authorized common shares without par value and 341,441,753 common shares outstanding (December 31, 2013 - 322,779,853 common shares). All outstanding shares are fully paid.

(a) Shares issued

For the three and six months ended June 30, 2014, the Company issued common shares upon exercise of share options and warrants by their holders (Note 13 (b) and (e)). 12 million common shares were issued on acquisition of MSSC. (Note 4)

(b) Stock options

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

The Company has amended its stock option plan whereby option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company’s share at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. As a result of this stock option plan amendment, the Company reclassified $197,356 from share option reserve to derivative financial instruments in 2013. Subsequently, the liability is re-measured at fair value. As at June 30, 2014, the liability is $278,733 (2013-$86,658).The Company recognized a fair value measurement gain/(loss) of $(67,120) and $(64,056) for the three and six months ended June 30, 2014 (2013 - $191,866 and $(58,035)) which is included in share-based compensation.

During the three months ended June 30, 2014, the Company paid $Nil upon exercise of Nil stock options under the cash election option. As at June 30, 2014, 2,530,000 stock options with the cash election option are outstanding.

(Expressed in U.S. dollars)

13. Share capital (continued)

(b) Stock options (continued)

	Number of options	Weighted average exercise price
		C$
Balance, December 31, 2012	13,630,000	0.57
Granted	4,287,500	1.13
Forfeited	(297,500)	0.54
Expired	(100,000)	0.50
Exercised-equity issuance	(1,022,500)	0.32
Exercised-cash election	(425,000)	0.56
Balance, December 31, 2013	16,072,500	0.73
Granted	4,435,000	0.98
Forfeited	(325,000)	1.03
Exercised-equity issuance	(1,592,500)	0.38
Balance, June 30, 2014	**18,590,000**	**0.82**

The following table summarizes information about the stock options outstanding at June 30, 2014:

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
350,000	2.01	0.76	350,000	0.76
370,000	1.78	0.58	370,000	0.58
3,080,000	1.70	0.56	3,080,000	0.56
300,000	1.27	0.33	300,000	0.33
50,000	1.19	0.31	50,000	0.31
770,000	1.16	0.26	770,000	0.26
900,000	0.44	0.26	900,000	0.26
400,000	2.42	0.70	400,000	0.70
3,797,500	2.69	0.83	-	0.83
4,137,500	3.72	1.13	-	1.13
4,435,000	4.73	0.98	-	0.98
18,590,000	**3.01**	**0.82**	**6,220,000**	**0.49**

(Expressed in U.S. dollars)

13. Share capital (continued)

(c) Share-based compensation

For the three and six months ended June 30, 2014, the Company recorded $433,359 and $757,310 (2013 - $469,028 and $947,128) as share-based compensation expense and recorded this amount in share option reserve. The value was determined using the Black-Scholes option pricing model. A weighted average grant-date fair value was C$0.98 and C$0.98 (2013 - C$1.13 and C$1.13) for the three and six months ended June 302014, and was calculated using the following weighted average assumption. Expected stock price volatility is based on the Company's historical share price volatility.

	Three and six months ended June 30, 2014	2013
Risk free interest rate	**1.06%**	1.13%
Expected dividend yield	**3.43%**	3.64%
Expected option life (years)	**5.00**	5.00
Expected stock price volatility	**63%**	81%
Expected annual forfeiture rate	**5%**	5%

(d) Restricted Share Unit Awards

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

The number of RSUs as at 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

For the three and six months ended June 30, 2014, the Company recorded $43,485 and $91,268, (2013 - $7,096 and $7,096) as share based compensation relating to RSUs.

(Expressed in U.S. dollars)

13. Share capital (continued)

(e) Share purchase warrants

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

	Number of warrants	Weighted average exercise price
		C$
Balance, January 1, 2013	23,600,000	0.37
Exercised	(2,600,000)	0.47
Balance, December 31, 2013	21,000,000	0.36
Exercised	(5,100,000)	0.47
Balance, June 30, 2014	**15,900,000**	**0.32**

The following table summarizes information about outstanding and exercisable share purchase warrants as at June 30, 2014:

Number of warrants	Exercise price	Expiry date
	C$	
1,250,000	0.47	November 30, 2014
14,650,000	0.31	November 30, 2014
15,900,000	**0.32**	

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

The following table summarizes the NCIB transactions during the six months ended June 30, 2014 respectively and year ended December 31, 2013. Purchases will be made at the discretion of the Company and the shares acquired under the NCIB will be cancelled upon purchase.

	Number of shares repurchased	Average price of repurchase	Cost of repurchase
		C$	C$
Six months ended June 30, 2014			
2013 NCIB	30,600	C$ 0.77	23,868
	30,600		23,868
Year ended December 31, 2013			
2013 NCIB	694,700	C$0.78	545,664
2012 NCIB	2,335,100	C$ 0.81	1,906,512
	3,029,800		2,452,176

(Expressed in U.S. dollars)

13. Share capital (continued)

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

	Life of plan		Maximum number of securities to be purchased over life of plan	Maximum number of securities to be purchased on a daily basis
	From	To		
2013 NCIB	October 17, 2013	October 16, 2014	16,185,328 common shares	44,990 common shares
2012 NCIB	October 17, 2012	October 16, 2013	15,856,786 common shares	57,089 common shares
2011 NCIB	October 17, 2011	October 16, 2012	13,501,078 common shares 1,970,965 warrants	53,433 common shares 6,084 warrants

(g) Dividends

On February 18, 2014 and May 5, 2014 the Board of Directors declared dividends in the amount of C$0.0077 and C$0.0074 per common share respectively, based on the Company's operating results for the three month periods ended December 31, 2013 and March 31, 2014 respectively, payable to shareholders of record as of February 28, 2014 and May 16, 2014. Total payments of $2,344,883 and $4,678,895 were made during the three and six months ended June 30, 2014 (2013 $2,435,070 and $5,632,348).

14. Cost of sales

The cost of sales for the three and six months ended June 30, 2014 and 2013 consists of:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	$	$	$	$
Raw materials and consumables	9,577,496	7,858,753	17,609,217	16,311,085
Salary and employee benefits	9,106,756	8,375,931	18,094,841	17,694,663
Contractors	967,811	1,082,774	1,802,148	1,918,359
Change in inventories	(116,997)	(522,703)	(2,568,754)	(3,177,758)
Royalty	656,668	214,196	1,102,892	433,725
Other	6,181,365	6,040,760	10,708,285	9,862,660
	26,373,099	**23,049,711**	**46,748,629**	**43,042,734**

(Expressed in U.S. dollars)

15. Finance costs

	Three months ended	June 30,	Six months ended	June 30,
	2014	2013	**2014**	2013
	$	$		
Interest on borrowings	**643,752**	89,816	**767,286**	175,616
Fair value adjustment on silver contract (Note 8 (c))	**-**	-	**-**	-
Accretion of reclamation and site closure costs	**112,165**	97,950	**223,266**	216,076
	755,917	187,766	**990,552**	391,692

16. Derivative financial instruments

(a) *Financing warrants*

During the year ended December 31, 2012, the Company reached an agreement to issue 3,050,000 warrants to specific service providers as considerations for financing and other services the Company received in prior years ("financing warrants").

These financing warrants have an exercise price of $0.31 and expire on November 30, 2014. The service providers have the ability to require the Company to settle in cash, based on the Company's share price at the date of settlement.

These financing warrants are accounted for as a liability and are marked to market at each period end until they are exercised or expire.

During the three and six months ended June 30, 2014, Nil and Nil financing warrants (2013 -1,647,000 and 1,647,000) were exercised with a cash settlement of $Nil and $Nil (2013 - $1,339,340 and $1,339,340). As at June 30, 2014, 982,100 financing warrants (December 31, 2013 - 982,100) valued at $708,348 (December 31, 2013 - $433,985) are outstanding. The Company recorded a fair value measurement gain (loss) of ($162,123) and $(268,955) for the three and six months ended June 30, 2014 (2013 - $422,359 and $502,790), which is reported in gain (loss) on derivative financial instruments.

(b) *Currency option*

On July 25, 2013 the Company's Australian subsidiary entered into 50% participating forward contracts for A$33 million (A$3 million per month) starting August 2013 and ending June 2014. These contracts allow the Company to buy, monthly for 11 months starting August 2013, A$3 million at US$1=A$1.07526 (the "contract rate"), if the Australian dollar is stronger than the contract rate, or A$1.5 million at the contract rate and A$1.5 million at the spot rate if the Australian dollar is weaker than the contract rate. The derivative financial instruments are stated at fair value with any resulting gain or loss recognized in profit or loss. The Company recorded a fair value measurement gain of $14,083 and $225,658 for three and six months ended June 30, 2014 (December 31, 2013 - $(414,833)).

The fair value of a currency option is determined by using the option pricing model based on an exchange spot rate and expected volatility which are considered to be level 2 inputs. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.

16. Derivative financial instruments (continued)

(c) Conversion feature under five year exchangeable bond.

The Company has valued the conversion feature of the five year exchangeable bonds (Note 11) using Black-Scholes and determined the value as at June 30, 2014 to be $4,633,984. The value was estimated using the following Level 2 assumptions: risk free rate of 1.71%; volatility of 18%, gold forward curve adjustment 1.24%.

17. Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables (non-provisional pricing portion), reclamation and other deposits, and trade and other payables approximate their carrying value due to the nature of these items. The fair value of the five year exchangeable bonds approximate their carrying value as it was recently issued.

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

As at June 30, 2014, provisional pricing feature of trade receivables, financing warrants, cash election option and the conversion feature under the five year exchangeable bonds are measured on a recurring basis and based on Level 2 inputs.

18. Income tax

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

During the three months ended June 30, 2014, the Company recognized $13,781 as deferred tax recovery for Costerfield, and $24,748 as deferred tax expense for Cerro Bayo. During the six months ended June 30, 2014, the Company recognized $1,541,351(June 30, 2013–$2,862,600) as a deferred tax recovery, which consists of $1,091,151 and $450,200 for Costerfield and Cerro Bayo, respectively (June 30, 2013 $2,340,537 and $522,063).

(Expressed in U.S. dollars)

19. Income per share

As at June 30, 2014, the weighted average number of common shares for the purpose of diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended June 30,		Six month ended June 30,	
	2014	2013	**2014**	2013
Basic weighted average number of shares outstanding	**340,919,659**	325,363,574	**336,328,188**	324,918,865
Effective of diluted securities			**-**	-
Stock options	**3,524,585**	4,112,163	**3,393,175**	5,333,167
Warrants	**10,519,195**	12,543,820	**10,410,293**	13,832,381
RSU	**310,632**	300,000	**309,203**	300,000
Diluted weighted average number of shares outstanding	**355,274,071**	342,319,557	**350,440,859**	344,384,413

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purpose of diluted income per share calculation because their exercise price exceeded the daily weighted average market values of the common shares for the three and six months ended June 30, 2014 of C$0.95 and C$0.93 (three and six months ended June 30, 2013- C$0.89 and C$1.05), respectively:

	Three months ended June 30		Six months ended June 30,	
	2014	2013	**2014**	2013
Stock options	**8,572,500**	**4,287,500**	**8,572,500**	**4,287,500**

(Expressed in U.S. dollars)

20. Segmented information

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

	Three months ended on June 30, 2014			
	Australia	Corporate	Chile	Total
	$	$	$	$
Revenue	17,953,216	-	26,934,750	44,887,966
Depletion and depreciation				
(including corporate offfice depreciation)	(3,482,401)	(7,280)	(4,482,979)	(7,972,660)
Income (loss) from operations	1,200,149	(1,621,834)	7,909,456	7,487,771
Other income (expense), except for fair value				
adjustment on derivatve financial warrants	(390,914)	(442,146)	22,408	(810,652)
Income (loss) for underlying operations	809,235	(2,063,980)	7,931,864	6,677,119
Fair value adjustments gain (loss)				
Currency Hedge Contract (Note 16 (b))	14,083	-	-	14,083
Financing warrants (Note 16 (a))	-	(162,123)		(162,123)
Total fair value adjustment	14,083	(162,123)	-	(148,040)
Net income (loss) before income tax	823,318	(2,226,103)	7,931,864	6,529,079
Current tax expense	-	-	(1,604,213)	(1,604,213)
Deferred tax recovery (expense)	(13,781)	-	24,748	10,967
Net income (loss)	809,537	(2,226,103)	6,352,399	4,935,833
Cash expenditures for property, plant and equipment	9,915,214	-	6,581,653	16,496,867
Total non-current assets as at June 30,2014	69,079,618	10,244,343	76,355,682	155,679,643
Total assets as at June 30,2014	81,203,585	72,332,665	120,416,175	273,952,425
Total liabilities as at June 30,2014	12,311,404	60,189,378	26,236,650	98,737,432

(Expressed in U.S. dollars)

20. Segmented information (continued)

	Six months ended on June 30, 2014			
	Australia	**Corporate**	**Chile**	**Total**
	$	**$**	**$**	**$**
Revenue	33,920,221	-	49,059,589	82,979,810
Depletion and depreciation	-	-	-	
(including corporate offfice depreciation)	(6,819,453)	(14,476)	(8,430,108)	(15,264,037)
Income (loss) from operations	3,984,269	(2,395,461)	13,984,685	15,573,493
Other income (expense), except for fair value				
adjustment on derivatve financial warrants	(593,850)	(344,572)	(124,177)	(1,062,599)
Income (loss) for underlying operations	3,390,419	(2,740,033)	13,860,508	14,510,894
Fair value adjustments gain (loss)				
Currency option (Note 16 (b))	225,658	-	-	225,658
Financing warrants (Note 16 (a))	-	(268,955)	-	(268,955)
Total fair value adjustment	225,658	(268,955)	-	(43,297)
Net income (loss) before income tax	3,616,077	(3,008,988)	13,860,508	14,467,597
Current tax expense	-	-	(2,246,340)	(2,246,340)
Deferred tax recovery (expense)	(1,091,151)	-	(450,200)	(1,541,351)
Net income (loss)	2,524,926	(3,008,988)	11,163,968	10,679,906
Cash expenditures for property, plant and equipment	16,189,275	-	10,729,679	26,918,954
Total non-current assets as at June 30,2014	69,079,618	10,244,343	76,355,682	155,679,643
Total assets as at June 30,2014	81,203,585	72,332,665	120,416,175	273,952,425
Total liabilities as at June 30,2014	12,311,404	60,189,378	26,236,650	98,737,432

(Expressed in U.S. dollars)

20. Segmented information (continued)

	Three months ended on June 30, 2013			
	Australia	Corporate	Chile	Total
	$	$	$	$
Revenue	15,822,010	-	20,081,487	35,903,497
Depletion and depreciation				
(including corporate offfice depreciation)	(3,139,610)	(7,758)	(4,670,772)	(7,818,140)
Income (loss) from operations	711,315	(1,024,129)	2,734,469	2,421,655
Other income (expense), except for fair value				
adjustment on derivatve financial warrants	(272,450)	1,229,216	(253,257)	703,509
Income (loss) for underlying operations	438,865	205,087	2,481,212	3,125,164
Fair value adjustments gain (loss)				
Financing warrants (Note 16 (a))	-	422,359		422,359
Total fair value adjustment	-	422,359	-	422,359
Net income (loss) before income taxes	438,865	627,446	2,481,212	3,547,523
Current tax expense	-	-	(2,200,503)	(2,200,503)
Deferred tax recovery (expense)	401,014	-	1,356,759	1,757,773
Net income (loss)	839,879	627,446	1,637,468	3,104,793
Cash expenditures for property, plant and equipment	4,915,844	-	4,352,927	9,268,771
Total non-current assets as at December 31,2013	58,413,564	10,297,546	58,392,015	127,103,125
Total assets as at December 31,2013	71,503,300	12,136,588	113,131,759	196,771,647
Total liabilities as at December 31,2013	8,241,464	2,575,077	32,373,775	43,190,316

(Expressed in U.S. dollars)

20. Segmented information (continued)

	Six months ended on June 30, 2013			
	Australia	Corporate	Chile	Total
	$	$	$	$
Revenue	33,191,503	-	44,336,682	77,528,185
Depletion and depreciation	-	-	-	
(including corporate office depreciation)	(5,722,978)	(15,635)	(7,934,003)	(13,672,616)
Income (loss) from operations	4,829,157	(2,420,376)	13,119,958	15,528,739
Other income (expense), except for				
fair value adjustment on Silver Contract				
and derivative financial instruments	(2,164,064)	6,000,929	(3,214,855)	622,010
Income (loss) from underlying operations	2,665,093	3,638,588	9,905,103	16,208,784
Fair value adjustment				
Financing warrants (Note 16 (a))	-	502,790	-	502,790
Total fair value adjustment	-	502,790	-	502,790
Net income (loss) before income tax	2,665,093	4,083,343	9,905,103	16,653,539
Current tax expense	-	-	(4,463,106)	(4,463,106)
Deferred tax recovery (expense)	(522,063)	-	2,340,537	1,818,474
Net income (loss)	2,143,030	4,083,343	7,782,534	14,008,907
Income (loss) per share				
Expenditures for property, plant and equipment	10,294,554	-	11,198,293	21,492,847
Total non-current assets as at December 31,2013	58,413,564	10,297,546	58,392,015	127,103,125
Total assets as at December 31,2013	71,503,300	12,136,588	113,131,759	196,771,647
Total liablilities as at December 31,2013	8,241,464	2,575,077	32,373,775	43,190,316

(Expressed in U.S. dollars)

20. Segmented information (continued)

For the three and six months ended June 30, 2014, the Company had four customers from which it earned more than 10% of its total revenue (2013 - three). Revenue from these customers is summarized as follows:

	Three month ended		**Six month ended**	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
	$	$	**$**	$
Costerfield (gold and antimony)				
Customer 1	**13,015,026**	14,213,693	**23,126,873**	30,783,693
Customer 2	**4,839,924**		**10,695,083**	
	17,854,950	14,213,693	**33,821,956**	30,783,693
Cerro Bayo (silver and gold)				
Customer 3	**12,865,268**	13,666,255	**27,418,302**	18,214,042
Customer 4	**10,506,065**	4,471,953	**15,005,705**	20,534,879
	23,371,333	18,138,208	**42,424,006**	38,748,921
Total	**41,226,283**	**32,351,901**	**76,245,962**	69,532,613

21. Subsequent events

From July 1, 2014 to August 6, 2014:

(a) On July 25, 2014, the Company and Elgin entered into an amended and restated arrangement agreement (“Amended and Restated Arrangement Agreement”) dated July 25, 2014 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, subject to pro ration, by way of plan of arrangement (the “Arrangement”). 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.

(b) On July 31, 2014 the Company advanced, by way of a previously disclosed convertible bridge loan, C$5 million to Elgin Mining Inc. ("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 option 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).

(c) 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 of record as of August 18, 2014.