MANDALAY RESOURCES

Management's Discussion & Analysis

For the year ended December 31, 2013

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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 consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the year ended December 31, 2013 and the Company's annual information form dated March 27, 2013 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

FOURTH QUARTER 2013 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Quantities of metal sold during the quarter were 12,578 ounces ("oz") gold ("Au"), 769,120 oz silver ("Ag") and 959 tonnes ("t") antimony ("Sb") compared to 11,214 oz Au, 891,145 oz Ag and 809 t Sb in 2012. Prices realized during the quarter were $1,216/oz for gold, $18.62/oz for silver and $9,836/t for antimony in 2013 versus $1,712/oz for gold, $30.10/oz for silver and $11,960/t for antimony in 2012.
- Revenues of $39.1 million (including adverse revenue adjustments of $1.1 million related to unsettled open shipments for the prior quarters), compared with $55.7 million in the fourth quarter of 2012 (including favorable revenue adjustments of $0.1 million related to unsettled open shipments for the prior quarters). Lower realized metal prices, partially offset by increased sales volumes, were responsible for the lower revenue. Income from mining operations before depletion and depreciation was $15.8 million compared with $29.3 million in 2012.
- Net income was $4.4 million ($0.01 per share) compared with $22.4 million ($0.07 per share) in the fourth quarter of 2012.

- Income after tax from underlying operations[1] was $4.9 million ($0.02 per share) compared with $16.9 million ($0.05 per share) in the fourth quarter of 2012.
- Cash cost[2] of production at Costerfield in the quarter was $850 per gold equivalent ounce ("Au Eq. oz") produced and the site all-in cost[2] was $1,085 per Au Eq. oz produced compared to $943 and $1,153, respectively in the fourth quarter of 2012. The cash cost of silver production at Cerro Bayo was $6.74 per oz Ag produced net of Au credits and the site all-in cost was $11.51 per oz Ag net of Au credits compared to $5.17 and $10.71 respectively in the fourth quarter of 2012.
- Dividends paid in the fourth quarter of 2013 were $3.0 million (C$0.0097 per share) compared to $3.2 million (C$0.01 per share) in corresponding quarter of prior year.
- During the fourth quarter of 2013, 1,197,700 common shares were purchased for $0.9 million (C$0.79/share) under the Company's 2012 and 2013 NCIB programs.
- At December 31, 2013, the Company had $33.47 million of cash and cash equivalents and held an undrawn $30 million revolving credit facility.

2. Operating Highlights

a. Consolidated Production and Sales

In the fourth quarter of 2013, Mandalay produced 12,117 oz Au, 878,542 oz Ag and 805 t Sb, representing 32,770 Au Eq. oz compared to 10,927 oz Au, 895,222 oz Ag and 785 t Sb, representing 33,537 Au Eq. oz during the fourth quarter of 2012.

During the year ended December 31, 2013, Mandalay delivered record metal production of 50,240 oz Au, 3,145,537 oz Ag and 3,275 t Sb representing a total 126,908 Au eq. oz compared to 107,941 Au eq. oz in the prior year. The Company also achieved record sales of 49,495 oz Au, 3,148,886 oz Ag, and 3,254 t Sb, representing a 126,095 Au Eq. oz sold in the year ended December 31, 2013 versus 103,105 Au Eq. oz in the prior year.

The production and sales records were the result of having a full year of operations at Cerro Bayo using the improved mining design that was implemented in 2012 and above budget production and grades of Costerfield.

[1] Income after tax from underlying operations is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 34 for further information.

[2] Cash cost and site all in costs are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" on page 34 for further information.

Saleable Production

Metal	Source	3 months to 31 December 2013	3 months to 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
Gold (oz)	Costerfield	6,845	5,907	28,758	18,036
	Cerro Bayo	5,272	5,020	21,482	17,089
	Total	**12,117**	**10,927**	**50,240**	**35,125**
Antimony (t)	Costerfield	**805**	**785**	**3,275**	**2,481**
Silver (oz)	Cerro Bayo	**878,542**	**895,222**	**3,145,537**	**2,911,595**
Average quarterly prices:					
Gold US$/oz		1,271	1,717		
Antimony US$/tonne		9,940	12,317		
Silver US$/oz		20.76	32.57		
Au Eq. (oz)[1]	Costerfield	13,143	11,539	52,911	37,075
	Cerro Bayo	19,627	21,998	73,997	70,866
	Total	**32,770**	**33,537**	**126,908**	**107,941**

[1] Au Eq. oz produced is calculated by multiplying the saleable quantities of Au, Ag, and Sb in the period by the respective average mark et prices of the commodities in the period, adding the three amounts to get "total contained value based on market price", and then di viding that total contained value by the average market price of Au in the period. Average Au price in the period is calculated as the av erage of the daily LME PM fixes in the period, with price on weekend days and holidays taken from the last business day; average Sb pr ice in the period is calculated as the average of the daily average of the high and low Rotterdam warehouse prices for all days in the pe riod, with price on weekend days and holidays taken from the last business day; average Ag price in the period is calculated as the aver age 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 businessday.The source for all prices is www.metalbulletin.com. Year-end Au Eq. oz is the total of the quarterly oz derived as above.

Sales

Metal	Source	3 months to 31 December 2013	3 months to 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
Gold (oz)	Costerfield	7,620	6,146	27,883	17,489
	Cerro Bayo	4,958	5,068	21,612	16,216
	Total	**12,578**	**11,214**	**49,495**	**33,705**
Antimony (t)	Costerfield	**959**	**809**	**3,254**	**2,395**
Silver (oz)	Cerro Bayo	**769,120**	**891,145**	**3,148,886**	**2,766,380**
Average quarterly prices:					
Gold US$/oz		1,271	1,717		
Antimony US$/tonne		9,940	12,317		
Silver US$/oz		20.76	32.57		
Au Eq. (oz)[2]	Costerfield	15,123	11,951	51,941	35,858
	Cerro Bayo	17,525	21,969	74,154	67,247
	Total	**32,648**	**33,920**	**126,095**	**103,105**

[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. Au Eq. values for 2012 have been re-calculated according to the above reporting policy. The source for all prices is www.metalbulletin.com, with price on weekend days and holidays taken from the last business day. Year-end Au Eq. oz is the total of the quarterly oz derived as above.

b. Costerfield Gold-Antimony Mine, Victoria, Australia

i. *Production* — Saleable Au production for the fourth quarter of 2013 was 6,845 oz versus 8,831 oz in the previous quarter and 5,907 oz in the fourth quarter of 2012. Saleable antimony production for the fourth quarter of 2013 was 805 t versus 966 t in the previous quarter and 785 t in the fourth quarter of 2012. Higher production in the current quarter compared to corresponding quarter of the previous year was mainly due to higher mine output and plant throughput and an increase in the percentage of gold produced in gravity concentrate. Anomalously high production was achieved in the third quarter of 2013 due to consumption of mined ore stockpiles.

ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the fourth quarter of 2013 was \$850 versus \$626 in the previous quarter and \$943 in the fourth quarter of 2012. The cash cost per oz in the fourth quarter of 2013 are lower compared to corresponding quarter of previous year due to combined impact of higher production, good total spending control and effect of lower currency exchange rates. The site all-in cost per Au eq. oz produced in the fourth quarter of 2013 was \$1,085, versus \$873 in the previous quarter and \$1,153 in the fourth quarter of 2012. The low costs of the third quarter of 2013 were due to the production impact of processing ore stockpiles.

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

i. *Production* —In the fourth quarter of 2013, Cerro Bayo produced 878,542 oz Ag and 5,272 oz Au versus 733,659 oz Ag and 5,611 oz Au in the previous quarter and 895,222 oz Ag and 5,020 oz Au in the fourth quarter of 2012. Higher silver production compared to the previous quarter was mainly due to higher silver grades (335.03 g/t in the fourth quarter of 2013 versus 265.70 g/t in the third quarter of 2013) while gold produced was lower due to lower tonnes processed compared to previous quarter (92,198 tonnes processed in the fourth quarter of 2013 versus 97,696 tonnes in the previous quarter). Ore production in the fourth quarter of 2013 was 90,860 tonnes versus 89,321 tonnes in the previous quarter. Lower silver production in the fourth quarter of 2013 compared to corresponding quarter of previous year was due to lower tonnes treated during the current quarter versus the prior year.

ii. *Operating Costs* —Cash cost per saleable oz Ag produced net of Au credits was \$6.74 in the fourth quarter of 2013 versus \$6.41 in the previous quarter and \$5.17 in the fourth quarter of 2012. Cash cost per oz was higher during the fourth quarter of 2013 principally due to reduced Au credits arising from lower Au price. The site all-in cost per oz Ag produced net of Au by-product credit was \$11.51 in the fourth quarter of 2013, versus \$12.05 in the previous quarter and \$10.71 in the fourth quarter of 2012.

3. Exploration

a. **<u>Cerro Bayo</u>**

Mandalay continued drilling at Cerro Bayo, completing 37,543 meters during 2013.

Results of this drilling are incorporated in the year-end 2013, independent estimate of Mineral Resources and Reserves and were published in the Company's press release dated February 13, 2014. Highlights include:

- replacement of 385,221 mined tonnes with 514,221 new reserve tonnes; and

- high-grade mineralization intersects in the Yasna and Fabiola veins some 500 m along strike from the current limits of Mineral Reserves (see press release of January 15, 2014). These intercepts are among the best delivered in the district under Mandalay ownership in terms of both grades and width. Drilling in 2014 is designed to determine the extent of these mineralized zones and start the process of conversion to ore reserves.

b. **Costerfield**

Mandalay completed 24,045 meters of drilling at Costerfield during 2013. Drilling in the first half of the year was undertaken to increase the Inferred Mineral Resources in N-lode and Cuffley lodes to support the Preliminary Economic Analysis (PEA) of the Cuffley development project. The strongly positive outcome of the PEA study showing a potential four year mine life, led to the decisions to: 1) extend capital development to Cuffley and drive along the vein for closely spaced sampling; and 2) focus on infill drilling in the second half of the year with the goal of converting as much of the PEA resource to Proven and Probable Reserves by the end of 2013 as possible.

The results of both the development sampling and drilling were incorporated in the independent year-end 2013 Mineral Resources and Reserves estimate published in the Company's press release dated February 13, 2014. Mineral Reserves of both gold and antimony more than doubled from the previous year's estimate, largely as a result of expanding and converting the Mineral Resource in the Cuffley lode to Mineral Reserves. As of the date of this MD&A, development on multiple levels of Cuffley is occurring and production from Cuffley is both budgeted and included in Company's production guidance for 2014.

c. **La Quebrada, Chile**

Preliminary engineering studies continued at La Quebrada.

FULL YEAR FINANCIAL HIGHLIGHTS

The following table summarizes the Company's financial results for the years ended December 31, 2013 and 2012:

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Revenue	166,905,598	171,805,623
EBITDA*	67,698,539	79,935,066
Income from mine operations	47,206,135	67,964,035
Net income	29,442,624	41,712,357
Total assets	199,163,936	185,290,684
Total liabilities	45,582,605	42,211,786
Income per share	0.09	0.14

*EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 34 for further information.

2013 results are compared to 2012 results in the table above. The results for 2013 are depressed due to lower prices realised, though compensated by higher volumes produced and sold at lower costs resulting from operational efficiencies and economies of scale.

1.0 DATE

This MD&A is dated as of February 18, 2014.

1.1 SUBSEQUENT EVENTS

Acquisition of Challacollo Silver Project

The Company entered into a definitive agreement to purchase the Challacollo silver project in northern Chile from Silver Standard Resources, Inc. on December 20, 2013 (see press release dated December 20, 2013). This transaction was subsequently completed on February 7, 2014 (see press release dated February 7, 2014).

Mandalay delivered to Silver Standard upon closing:

- US$7.5 million in cash; and
- 12 million common shares of Mandalay, valued at $US9,188,160 at a share price of $CAD0.85/share and $US/$CAD exchange rate of 0.9008.

Contingent consideration to be delivered to Silver Standard under the Share Purchase Agreement includes:

- five million common shares of Mandalay to be issued at the end of the first quarter in which commencement of commercial production at the Challacollo project occurs;
- an aggregate cash payment equal to the equivalent of 240,000 troy ounces of refined silver, payable in eight quarterly installments equal to the cash equivalent of 30,000 troy ounces of refined silver per quarter, based on the average silver price for each such quarter, beginning with the quarter immediately following the quarter in which commencement of commercial production at the Challacollo project occurs; and
- a 2% Net Smelter Returns royalty on silver sold or produced from the Challacollo project in excess of 36 million ounces, with a cap/buyout of US$5 million.

Quarterly Dividend

On February 18, 2013, the Board of Directors declared a dividend in the amount of C$0.0077 per share, payable on March 10, 2014 to shareholders of record as of February28, 2014.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company, the business of which is to acquire, discover, develop and produce mineral commodities. Its current emphasis is on gold, silver, antimony and copper in Australia and Chile. 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. Its exploration assets include the La Quebrada copper–silver exploration project near La Serena, Chile, and, as of February 7, 2014, the Challacollo silver project near Iquique, Chile, as well as district targets surrounding the Costerfield and Cerro Bayo mines.

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 on care and maintenance, the mine was restarted immediately and production has increased from an intial 170 tpd to about 400 tpd in late 2013. 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 sublevel spacing from 5 m to 10 m; replacing the underground mobile mining fleet; and introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput). 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 by the Company in August, 2010. Purchased while on care and maintenance, 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 1,200 tpd from three mines; and developing four highly competitive concentrate customers. With the completion of the Delia NW mine, Cerro Bayo completed its planned ramp-up to a nominal 1,200 tpd rate in the fourth quarter of 2012 and maintained this production rate throughout 2013. An increase in the production rate to about 1,400 tpd is planned for the end of the first quarter of 2014, facilitated by the commissioning of a second access into the Delia NW vein. Exploration (funded by mine operating cash flow) 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.

Challacollo

Challacollo is a 100%-owned silver project located near Iquique in Northern Chile. An independent 43-101 Mineral Resource estimate performed for Mandalay in connection with its acquisition of the project estimates that Challacollo contains 8 million oz Ag in the Indicated category and 24.3 million oz Ag in the Inferred category. The Company has begun a 12 month feasibility study on a potential underground mine and agitated leach operation.

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.

1.3 SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended December 31, 2013, and December 31, 2012:

	Three months ended December 31, 2013 $	Three months ended December 31, 2012 $
Revenue	39,058,143	55,699,764
Cost of sales	23,260,240	26,436,529
Income from mine operations before depreciation and depletion	15,797,903	29,263,235
Depreciation and depletion	6,899,974	5,853,654
Income from mine operations	8,897,929	23,409,581
Administration	1,828,383	419,591
Business development costs	49,702	-
EBITDA*	13,919,818	28,843,644
Finance costs, fx and others/(income)**	1,600,386	4,259,799
Income/(loss) before tax	5,419,458	18,730,191
Current tax expense	1,039,268	1,934,598
Deferred tax expense (recovery)	(54,876)	(5,579,573)
Net Income/(loss) after tax	4,435,066	22,375,166
Total assets	199,163,936	185,290,684
Total liabilities	45,582,605	42,211,786
Income per share	0.01	0.07

*EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 34 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 years ended December 31, 2013, December 31, 2012 and December 31, 2011:

	Year ended December 31, 2013 $	Year ended December 31, 2012 $	Year ended December 31, 2011 $
Revenue	166,905,598	171,805,623	92,163,852
Cost of sales	91,298,304	84,502,152	55,394,044
Income from mine operations before depreciation and depletion	75,607,294	87,303,471	36,769,808
Depreciation and depletion	28,401,159	19,339,436	11,872,581
Income from mine operations	47,206,135	67,964,035	24,897,227
Administration	7,293,373	7,368,405	4,756,220
Business development costs	615,382	-	-
EBITDA*	67,698,539	79,935,066	32,013,588
Finance costs, fx and others**	3,021,898	20,181,600	6,114,555
Income/(loss) before tax	36,275,482	40,414,030	14,026,452
Current tax expense	7,115,612	5,290,064	-
Deferred tax expense (recovery)	(282,754)	(6,588,391)	(4,450,865)
Net Income/(loss) after tax	29,442,624	41,712,357	18,477,317
Income per share	0.09	0.14	0.07
Dividend	10,809,678	3,200,544	-

*EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 34 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.

During the three month period ended March 31, 2013, the Company had determined that an adjustment was required to the amounts recorded as administrative expenses for its two operating mines, in order to have consistent presentation with its peer companies. As such, certain items previously recorded as administrative expenses are now recorded within cost of operations. The adjustment had no impact on the previously reported net income, basic and diluted income per share, consolidated statements of financial position, changes in equity, or cash flows.

Dividend

Mandalay's current policy is to pay 6% of the trailing quarter revenue as dividend.

Declaration date	Payable to shareholders of record at	Dividends declared	Total payment
		C$	$
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 TSX approved the Company's notice of intention to make an NCIB ("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 December 31, 2013, the Company repurchased 1,197,700 common shares at an average price of C$0.79 at a cost of C$949,012 under the 2012 and 2013 NCIB. During the year ended December 31, 2013, the Company repurchased 3,029,800 common shares at an average price of C$0.80 for total cost of C$2,452,177.

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

Details	**Average price C$**	**Shares**	**Warrants**
2011 NCIB (Oct 17, 2011 to Oct 16, 2012)			
Permitted to acquire		13,501,078	1,970,965
Acquired in 2011 (17 Oct to 31 Dec)	0.69	(449,500)	-
Acquired in 2012 (1 Jan to 16 Oct)	0.78	(2,185,660)	-
2012 NCIB (Oct 17, 2012 to Oct 16, 2013)			
Permitted to acquire		15,856,786	-
Acquired as of October 16, 2013	0.81	(2,335,100)	-
2013 NCIB (Oct 17, 2013 to Oct 16, 2014)			
Permitted to acquire		16,185,328	-
Acquired as of December 31, 2013	0.78	(694,700)	

EBITDA Reconciliation to Net Income

The table below reconciles EBITDA to reported net income for the three months and years ended December 31, 2013, and December 31, 2012. EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 34 for further information.

	Three months ended December 31, 2013 $	$	Three months ended December 31, 2012 $	$
Net Income/(loss)		4,435,066		22,375,166
Add: Non-cash and finance costs				
Depletion and depreciation	6,899,974		5,853,654	
Loss (gain) on disposal of property, plant and equipment	192,488		38,737	
Write off mineral properties/exploration and evaluation	249,755		1,152,081	
Share based compensation	395,676		464,945	
Interest and finance charges	242,479		480,069	
Fair value adjustments	495,721		1,795,747	
Current tax	1,039,268		1,934,598	
Deferred tax	(54,876)		(5,579,573)	
Foreign exchange (gain)/loss	94,841	9,555,326	193,220	6,333,478
		13,990,392		28,708,644
Add/(Less): Interest and (other income)/expenses	(70,574)	(70,574)	135,000	135,000
EBITDA		13,919,818		28,843,644
Add: Reclass of fair value adjustments related to financing warrants charged to admin cost		-		(1,657,000)
Underlying EBITDA from pure operating activities		13,919,818		27,186,644

	Year ended December 31, 2013 $	$	Year ended December 31, 2012 $	$
Net Income/(loss)		29,442,624		41,712,357
Add: Non-cash and finance costs				
Depletion and depreciation	28,401,159		19,339,436	
Loss (gain) on disposal of property, plant and equipment	321,115		(11,399)	
Write off mineral properties/exploration and evaluation	798,340		1,587,791	
Share based compensation	1,749,560		1,777,915	
Interest and finance charges	873,933		2,964,804	
Fair value adjustments	6,921		14,013,834	
Current tax	7,115,612		5,290,064	
Deferred tax	(282,754)		(6,588,391)	
Foreign exchange (gain)/loss	(334,043)	38,649,843	318,769	38,692,823
		68,092,467		80,405,180
Add/(Less): Interest and (other income)/expenses	(393,928)	(393,928)	(470,114)	(470,114)
EBITDA		67,698,539		79,935,066
Add: Reclass of fair value adjustments related to financing warrants charged to admin cost		-		-
Underlying EBITDA from pure operating activities		67,698,539		79,935,066

Fair-value adjustments

As at December 31, 2013, 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 December 31, 2013, no financing warrants were exercised. The Company recorded a fair value measurement gain of $28,084 for three months ended December 31, 2013. There were 982,100 financing warrants outstanding on December 31, 2013.

Currency option – In July, 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 loss of $604,660 for the three months ended December 31, 2013.

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

<u>Fair value and deferred tax adjustments impact on items in the statement of financial position</u>

	Before fair value and deferred tax adjustments [a]	Note	Fair value and deferred tax adjustments				As of December 31, 2013 [a]	As of December 31, 2012 [a]
			Q1 2013	Q2 2013	Q3 2013	Q4 2013		
	$		$	$	$	$	$	$
Assets								
Deferred tax	9,702,524	(b)	60,701	1,757,773	(1,590,596)	54,876	9,985,278	11,229,246
Liabilities								
Derivative Financial Instrument (currency options)	(54,705)	(c)	-	-	(189,827)	604,660	360,128	-
Derivative financial instrument (financing warrants)	841,896	(d)	(80,431)	(422,359)	122,962	(28,084)	433,984	2,219,707
Shareholders' equity								
Retained earnings/(deficit)	60,583,716		141,132	2,180,132	(1,523,731)	(521,700)	60,859,549	43,692,706

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax recovery of $54,876 for the three months ended December 31, 2013.

(c) The Company recorded fair value measurement loss relating to the currency option of $604,660 for the three months ended December 31, 2013.

(d) The Company recorded fair value measurement gain relating to financing warrants of $28,084 for the three months ended December 31, 2013.

<u>Fair value and deferred tax adjustments impact on items in the income statement for three months ended December 31, 2013, and December 31, 2012</u>

	December 31, 2013				December 31, 2012
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	6,181,925			6,181,925	21,334,227
Other items					
Interest and other income	70,574			70,574	(135,000)
Finance (costs)/income	(242,479)	(a)	(604,660)	(738,200)	(2,275,816)
		(b)	28,084		
Reclass of adjustment related to cash eltection options	80,855				
Foreign exchange gain (loss)	(94,841)			(94,841)	(193,220)
Net income/(loss) before tax	5,996,034		(576,576)	5,419,458	18,730,191
Current tax	(1,039,268)			(1,039,268)	(1,934,598)
Deferred tax		(c)	54,876	54,876	5,579,573
Net income/(loss)	4,956,766		(521,700)	4,435,066	22,375,166
Income (loss) per share					
Basic	0.02			0.01	0.07
Diluted	0.01			0.01	0.06

(a) The Company recorded fair value measurement loss relating to the currency option of $604,660 for the three months ended December 31, 2013.

(b) The Company recorded fair value measurement gain relating to financing warrants of $28,084 for the three months ended December 31, 2013.

(c) The Company recorded a deferred tax recovery of $54,876 for the three months ended December 31, 2013.

Fair value and deferred tax adjustments impact on items in the income statement for years ended December 31, 2013, and December 31, 2012

	December 31, 2013				December 31, 2012
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	36,428,365			36,428,365	57,241,323
Other items					
Interest and other income	393,928			393,928	470,114
Finance (costs)/income	(873,933)	(a)	(414,833)	(880,854)	(16,978,638)
		(b)	407,912		
Foreign exchange gain (loss)	334,043			334,043	(318,769)
Net income/(loss) before tax	36,282,403		(6,921)	36,275,482	40,414,030
Current tax	(7,115,612)			(7,115,612)	(5,290,064)
Deferred tax		(c)	282,754	282,754	6,588,391
Net income/(loss)	29,166,791		275,833	29,442,624	41,712,357
Income (loss) per share					
Basic	0.09			0.09	0.14
Diluted	0.09			0.09	0.11

(a) The Company recorded fair value measurement loss relating to the currency option of $414,833 for the year ended December 31, 2013.

(b) The Company recorded fair value measurement gain relating to financing warrants of $407,912 for the year ended December 31, 2013.

(c) The Company recorded a deferred tax recovery of $282,754for the year ended December 31, 2013.

1.4 RESULTS OF OPERATIONS

Three Months Ended December 31, 2013, compared to Three Months Ended December 31, 2012

During the three months ended December 31, 2013, the Company recorded net income of $4,435,066 (net of fair value measurement loss of $495,721 and deferred tax recovery of $54,876) compared to net income of $22,375,166 (net of fair value adjustment loss of $138,747 and deferred tax recovery of $5,579,573) during the three months ended December 31, 2012. Mandalay achieved EBITDA of

$13,919,818 for the quarter ended December 31, 2013, compared to $28,843,644 in the quarter ended December 31, 2012. The decrease in EBITDA was primarily due to the decrease in metal prices, partially offset by lower operating costs achieved due to operational efficiencies.

Administrative expenses for the quarter ended December 31, 2013, were $1,828,383 compared to $419,591 during the quarter ended December 31, 2012. Reclassification of fair value adjustment loss of financing warrants of $1,657,000 from administration expenses to loss/gain on derivative financial instruments resulted in lower net administration cost during the quarter ended December 31, 2012. During the three months ended December 31, 2013, administration expenses of $1,302,455 at Corporate included $877,194 in management fees, $49,779 in audit and internal review fees, $80,675 in travel expense, $101,766 in legal and accounting fees, $167,908 in investor relations and transfer agent and filing fees and $43,461 in consulting fees.

Capital expenditure in the fourth quarter of 2013, including capitalized depreciation and exploration, was $11,594,644. Of this, $4,517,963 was spent at Cerro Bayo, $6,883,233 was spent at Costerfield and $193,448 was spent at La Quebrada. By comparison, capital expenditure in the fourth quarter of 2012 was $13,170,050. The decrease in capital expenditure in the fourth quarter of 2013 relative to 2012 is mainly due to operations economizing on capital spending in response to the metal price environment, whereas during the 2012 quarter, the rate of exploration drilling and new mining equipment purchases were higher.

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

During the year ended December 31, 2013, the Company recorded a net income of $29,442,624 compared to net income of $41,712,357 during the year ended December 31, 2012.

During 2013, revenue was $166,905,598 versus $171,805,623 in 2012. Profit from mine operations during 2013 was $47,206,135 compared to $67,964,035 in 2012. Mine operating expenses in 2013 were $91,298,304 versus $84,502,152 in 2012. Depletion and depreciation expenses were $28,401,159 versus $19,339,436 in 2012. Administration expenses during 2013 were $7,293,373 compared to 7,368,405 in 2012.

The decrease in revenue was due to lower metal prices, largely offset by higher volumes of all metals sold at both the mines. Operating expenses, depletion and depreciation were higher in 2013 than in 2012 due to higher production and higher sales volumes at both mines.

During 2013, the Company invested $20,316,412 in capital development, $8,329,273 in exploration, and $14,068,227 in property, plant and equipment. The corresponding amounts for 2012 were $20,130,744 for capital development, $11,897,079 for exploration and $16,187,598 for property, plant and equipment. The nearly constant capital development spending across the years demonstrates the fully developed, sustainable state of the operations. Lower spending on property, plant and equipment in 2013 largely reflects timing variations on periodic major capital items such as tailings dam construction and evaporation facilities at Costerfield. The lower exploration spending in 2013 largely reflects the elimination of drilling contractors at Cerro Bayo in favor of purchasing two new rigs and bringing all drilling in-house.

Costerfield Results, Production, Sales and Costs for the Three Months Ended December 31, 2013

Costerfield generated revenue of $19,125,055 for the quarter ended December 31, 2013; income from mine operations before depreciation and depletion was $6,499,881 and EBITDA was $6,322,450 in the fourth quarter of 2013. Net income after tax was $685,571 and operating net income was $1,645,718 during the fourth quarter of 2013. For the quarter ended December 31, 2012, revenue was $20,327,243, income from mine operations before depreciation and depletion was $7,339,649, EBITDA was $6,654,523, net income after tax was $10,288,469 and operating net income was $11,652,168. Lower realized prices in 2013 were almost completely offset by higher metal sales in 2013 to yield nearly unchanged revenue. EBITDA was nearly unchanged as well, due to the impacts of: a full year of the blast-hole stoping with cemented rock fill mining method; a shift to higher proportion of stoping ore vs. development ore as the ramp-up in production to 400 tpd was completed; a shift to 10 m sublevels from 5 m sublevels reducing operating development costs; and fine crushing of mill feed lifting throughput while maintaining recoveries.

Costerfield financial results

	Three months ended December 31, 2013 $	Three months ended December 31, 2012 $
Revenue	19,125,055	20,327,243
Cost of sales	12,625,174	12,987,594
Income from mine operations before depreciation and depletion	6,499,881	7,339,649
Depreciation and depletion	3,101,976	1,953,529
Income from mine operations	3,397,905	5,386,120
Administration (1)	366,953	1,306,524
Business development costs	-	-
EBITDA (2)(4)	6,322,450	6,654,523
Finance costs, fx and others (3)	1,540,803	1,225,830
Income/(loss) before tax	1,490,149	2,853,766
Current tax expense	-	-
Deferred tax expense (recovery)	804,578	(7,434,703)
Operating net income/(loss) after tax(4)	1,645,718	11,652,168
Net income/(loss) after tax	685,571	10,288,469
Capital expenditure (5)	6,883,233	5,211,510

[1]Includes intercompany transfer pricing re-charge costs of $189,522 in 2013 and $621,398 in 2012.
[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 $438,735 in 2013 and $438,816 in 2012.
[4]EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16 “Non-IFRS measures” on page 34 for further information.
[5]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

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

	Three months ended December 31, 2013 $	Three months ended December 31, 2012 $
Net income/(loss) after tax	685,571	10,288,469
Add: Intercompany expenses		
Intercompany interest expense	331,890	303,485
Intercompany transfer pricing recharge costs	628,257	1,060,214
Operating net income/(loss) after tax	1,645,718	11,652,168

Costerfield operating statistics

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

	Unit	Year ended December 31, 2013	Year ended December 31, 2012	Three months ended December 31, 2013	Three months ended December 31, 2012	Three months ended September 30, 2013	Three months ended June 30, 2013	Three months ended March 31, 2013
Mining Production and Mining Cost								
Operating development	m	5,988	5,319	1,287	1,355	1,455	1,842	1,405
Mined ore	t	129,638	96,297	35,163	27,130	32,703	35,906	25,865
Ore mined Au grade	g/t	9.05	8.26	8.10	8.18	9.81	9.28	9.08
Ore mined Sb grade	%	4.18	4.33	3.75	3.70	4.41	3.94	4.80
Mined contained Au	oz	37,725	25,579	9,157	7,131	10,311	10,709	7,548
Mined contained Sb	t	5,418	4,166	1,318	1,004	1,443	1,415	1,242
Mining cost per tonne ore	$/t	205	282	192	245	185	194	263
Processing and Processing Cost								
Processed ore	t	128,859	94,187	34,352	31,916	36,094	31,836	26,578
Mill head grade Au	g/t	9.10	8.13	7.87	8.22	9.78	9.39	9.43
Mill head grade Sb	%	4.17	4.32	3.71	4.06	4.45	3.86	4.77
Recovery Au	%	89.98	89.06	90.22	88.54	90.17	89.67	89.80
Recovery Sb	%	95.37	95.89	94.74	95.17	95.58	95.36	95.91
Concentrate produced	dry t	9,586	7,191	2,270	2,276	2,832	2,199	2,285
Concentrate grade Au	g/t	89.19	90.33	82.46	88.32	93.67	93.52	86.14
Concentrate grade Sb	%	53.50	54.19	53.23	54.30	54.12	53.26	53.21
Saleable Au produced	oz	28,758	18,036	6,845	5,907	8,831	6,879	6,203
Saleable Sb produced	t	3,275	2,481	805	785	966	738	766
Saleable Au equivalent produced	oz	52,911	37,075	13,143	11,539	16,053	12,283	11,432
Processing cost per tonne ore	$/t	53.93	67.37	48.07	63.45	46.27	59.22	65.54
Sales								
Concentrate sold	dry t	9,660	6,921	2,844	2,324	2,286	2,292	2,238
Concentrate Au grade	g/t	88.26	89.87	85.90	86.76	91.00	90.17	86.48
Concentrate Sb grade	%	53.47	54.07	53.54	54.41	53.96	52.86	53.52
Au sold	oz	27,883	17,489	7,620	6,146	7,532	6,850	5,881
Sb sold	t	3,254	2,395	959	809	777	763	755
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed(1)	$/t	329.54	430.79	319.34	334.83	272.90	345.57	400.45
Site cash operating cost/tonne concentrate produced(1)	$/t	4,430	5,643	4,833	4,696	3,478	5,004	4,657
EBITDA/tonne ore milled(1)	$/t	207	202	184	209	250	132	266
EBITDA/tonne concentrate produced(1)	$/t	2,777	2,643	2,786	2,924	3,188	1,905	3,097
Cash cost per oz Au equivalent produced(1)(2)	$/oz	818.62	1,112.25	849.89	942.87	626.12	916.60	947.68
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,062.43	1,304.63	1,085.48	1,152.56	872.83	1,178.49	1,177.42
Capital Spending								
Capital development	m	1,734	1,720	411	472	481	404	438
Capital development cost	$000	9,731	7,964	2,665	2,050	2,017	2,847	2,202
Capital development cost/meter	$/m	5,611	4,631	6,479	4,342	4,195	7,046	5,028
Capital purchases	$000	7,773	7,871	3,224	1,850	1,915	654	1,980
Capitalized exploration	$000	4,765	5,133	995	1,312	1,132	1,414	1,224

[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" on page 34 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" on page 34 for further information.

Three months ended December 31, 2013, and December 31, 2012

The Costerfield mine completed 1,287 m of operating development in the fourth quarter of 2013 versus 1,355 m in 2012. This relatively stable development rate reflects the mine in its sustainable state. It produced more ore in 2013 than in 2012: 35,163 t versus 27,130 t. The mine grade of gold in 2013 was 8.10 g/t Au versus 8.18 g/t Au in 2012 while mine grade of antimony was 3.75% Sb in 2013 versus 3.70% Sb in 2012. Mining costs were $192/t in 2013 versus $245/t in the previous year. The increase in tonnage and the decrease in costs are due to combined impacts of better stope performance resulting from the refined cemented rock-fill long-hole stoping mining method, optimized ground control methods, relatively better cost control and economies of scale.

Capital development advance was 411 m in 2013 compared to 472 m in 2012; the cost in 2013 was $6,479/m versus $4,342/m in 2012. Capital development shifted in mid-2013 from completing the deepest planned levels in the Augusta lodes to initiating the drive to the Cuffley lode. Development had reached the lode by the end of the quarter and infrastructure was being completed prior to starting production in the first quarter of 2014.

In the fourth quarter of 2013, the Costerfield concentrator processed 34,352 t versus 31,916 t in the fourth quarter of 2012. The head grades of gold in 2013 were 7.87 g/t Au versus 8.22 g/t Au in 2012 while head grades of antimony were 3.71% in 2013 versus 4.06% in 2012. The plant achieved higher recoveries for gold in 2013: 90.22% versus 88.54% in 2012. It achieved lower recoveries for antimony: 94.74% in 2013 versus 95.17% in 2012. The higher plant throughput was due to higher feed rate from mine.

Concentrate production was 2,270 dry metric tonnes ("dmt") during the fourth quarter of 2013 versus 2,276 dmt for three months of 2012. Total saleable metal production in 2013 was 805 t Sb and 6,845 oz Au versus 785 t Sb and 5,907 oz Au for three months of 2012. Processing costs in 2013 were $48.07/t, significantly lower than the $63.45/t incurred during the prior year period due to greater volume treated. The improved throughput and a higher percentage of gold being recovered as gravity gold led to higher payable metal production in the fourth quarter of 2013 than in the fourth quarter of 2012.

During the fourth quarter of 2013, Costerfield sold 2,844 dmt of concentrate compared to 2,324 dmt in prior year period. A total of 7,620 oz of saleable Au and 959 t saleable Sb were sold in 2013 versus 6,146 oz of saleable Au and 809 t of saleable Sb in 2012. Record sales during the quarter were result of higher production and concentrate tonnes shipped from stock accumulated during the third quarter of 2013.

Site cash operating cost of ore processed was $319.34/t in the fourth quarter of 2013, compared to $334.83/t in the fourth quarter of 2012. The decline resulted from higher volumes and cost efficiencies. This translates into a lower cash cost per Au Eq. oz produced: $850/oz as compared to $943/oz in 2012 and lower site all-in cost per Au Eq. oz produced of $1,085/oz in 2013 compared to $1,153/oz in 2012.

During the fourth quarter of 2013, the Company invested $2,664,633 in capital development, $995,069 in exploration and $3,223,531 in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were $2,049,613, $1,311,987, and $1,849,910, respectively.

Years ended December 31, 2013, and December 31, 2012

The Costerfield mine completed 5,988 m of operating development in 2013 versus 5,319 min 2012. It produced 129,638 t of ore with grades of 9.05 g/t Au and 4.18% Sb in 2013 as compared to 96,297 t of ore with grades of 8.26 g/t Au and 4.33% Sb. This represents average mine production of 355 t/day during 2013 versus 264 t/day in 2012. Mining costs were $205/t in 2013 versus $282/t in 2012. Increased tonnages, lower dilution due to the refined cemented rock fill mining method and cost efficiency with economies of scale were the principal factors driving higher mine output at lower per tonne unit cost during 2013.

The capital development advance was approximately constant: 1,734 m in 2013 vs. 1,720 m in 2012. The cost per meter increased to $5,611/m from $4,631/m. The unit cost was higher in 2013 mainly due to completion of Augusta return air raise construction during the year ended December 31, 2013.

In the year ended December 31, 2013, the Costerfield concentrator processed 128,859 t of ore with grades of 9.10g/t Au and 4.17% Sb. This is a significant gain relative to the corresponding year-ago throughput of 94,187 t of ore with grades of 8.13 g/t Au and 4.32% Sb. The plant achieved 89.98% recovery of gold and 95.37% recovery of antimony in the 2013 period compared to 89.06% recovery of gold and 95.89% recovery of antimony in 2012. The improved tonnages and gold head grades in 2013 led to record saleable metal production in 2013. Concentrate production was 9,586 dry metric tonnes ("dmt") versus 7,191 dmt in 2012. During 2013, total saleable metal produced was 3,275t Sb and 28,758 oz Au versus 2,481 t Sb and 18,036 oz Au for 2012. Higher volumes resulted in lower processing costs in 2013 $53.93/t versus $67.37/t in 2012.

During the year ended December 31, 2013, Costerfield sold 9,660 dmt of concentrate compared to 6,921 dmt in 2012. Total metal sold during 2013 included 27,883 oz saleable Au and 3,254 t saleable Sb, significantly higher than 17,489 oz Au and 2,395 t Sb during the year ended December 31, 2012. Higher sales are due to greater production driven by higher tonnages and relatively higher gold grades.

Site cash operating cost was $329.54/t ore processed in 2013 versus $430.79/t in 2012. The lower operating costs and greater volumes led to a lower cost per gold equivalent ounce produced of $819 in 2013 as compared to $1,112 in 2012 and lower site all-in cost of $1,062/oz Au Eq. in 2013 versus $1,305/oz Au Eq. in 2012.

During the year ended December 31, 2013, the Company invested $9,731,365 in capital development, $4,764,873 in exploration, and $7,772,764 in property, plant and equipment. The corresponding amounts for 2012 were $7,964,203 for capital development, $5,132,931 for exploration and $7,870,833 for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended December 31, 2013

Cerro Bayo generated revenue of $19,933,088 for the quarter ended December 31, 2013. Income from mine operations before depreciation and depletion was $9,298,022, EBITDA was $8,949,525, net income after tax was $3,004,132 and operating net income was $3,702,092 for three months ended December 31, 2013. For the quarter ended December 31, 2012, revenue was $35,372,521, income from mine operations before depreciation and depletion was $21,923,586, EBITDA was $22,550,406, net income after tax was $12,791,487 and operating net income was $13,801,718. Lower values in fourth quarter of 2013 compared to fourth quarter of 2012 are due to combined impact of lower metal prices realized and comparatively lower volumes sold.

Cerro Bayo financial results

	Three months ended December 31, 2013 $	Three months ended December 31, 2012 $
Revenue	19,933,088	35,372,521
Cost of sales	10,635,066	13,448,935
Income from mine operations before depreciation and depletion	9,298,022	21,923,586
Depreciation and depletion	3,797,998	3,900,125
Income from mine operations	5,500,024	18,023,461
Administration (1)	583,495	70,571
EBITDA (2)(4)	8,949,525	22,550,406
Finance costs, fx and others (3)	864,036	1,371,675
Income/(loss) before tax	4,052,493	16,581,215
Current tax expense	1,039,268	1,934,598
Deferred tax expense (recovery)	9,093	1,855,130
Operating net income/(loss) after tax(4)	3,702,092	13,801,718
Net income/(loss) after tax	3,004,132	12,791,487
Capital expenditure (5)	4,517,963	7,227,303

[1]Includes intercompany transfer pricing recharge costs of $234,998 in 2013 and $697,391 in 2012.
[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 $462,962 in2013 and $312,840 in 2012.
[4]EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" on page 34 for further information.
[5]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

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

	Three months ended December 31, 2013 $	Three months ended December 31, 2012 $
Net income/(loss) after tax	3,004,132	12,791,487
<u>Add: Intercompany expenses</u>		
Intercompany interest expense	-	-
Intercompany transfer pricing recharge costs	697,960	1,010,231
Operating net income/(loss) after tax	3,702,092	13,801,718

Cerro Bayo operating statistics

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

	Unit	Year ended December 31, 2013	Year ended December 31, 2012	Three months ended December 31, 2013	Three months ended December 31, 2012	Three months ended September 30, 2013	Three months ended June 30, 2013	Three months ended March 31, 2013
Mining Production and Mining Cost								
Operating development	m	6,751	9,280	1,450	2,507	1,553	1,967	1,782
Mined ore	t	385,221	358,944	90,860	104,543	89,321	112,351	92,689
Ore mined Au grade	g/t	2.02	1.71	2.08	1.75	2.18	2.08	1.75
Ore mined Ag grade	g/t	288.00	284.96	337.40	305.53	269.64	307.76	233.30
Mined contained Au	oz	25,028	19,723	6,062	5,897	6,248	7,514	5,205
Mined contained Ag	oz	3,566,864	3,288,530	985,624	1,026,924	774,321	1,111,684	695,235
Mining cost per tonne ore	$/t	58.34	57.00	59.44	53.91	64.20	52.07	59.21
Processing and Processing Cost								
Processed ore	t	386,480	358,256	92,198	103,240	97,696	102,011	94,575
Mill head grade Au	g/t	2.02	1.70	2.09	1.75	2.07	2.17	1.75
Mill head grade Ag	g/t	288.22	284.79	335.03	305.97	265.70	318.68	232.99
Recovery Au	%	87.75	87.82	87.64	89.19	88.64	89.12	85.49
Recovery Ag	%	90.87	90.08	91.67	91.19	91.06	91.41	89.32
Concentrate produced	dry t	9,003	8,040	2,486	2,589	2,093	2,643	1,782
Concentrate grade Au	g/t	76.34	66.40	67.84	62.51	85.80	74.66	79.63
Concentrate grade Ag	g/t	11,262.38	11,374.11	11,390.91	11,193.11	11,300.51	11,246.55	11,062.35
Saleable Au produced	oz	21,482	17,089	5,272	5,020	5,611	6,167	4,432
Saleable Ag produced	oz	3,145,537	2,911,595	878,542	895,222	733,659	921,895	611,441
Saleable Au equivalent produced	oz	73,997	70,865	19,627	21,998	17,399	21,275	15,696
Processing cost per tonne ore	$/t	27.99	25.68	30.66	24.78	25.07	28.83	27.51
Sales								
Concentrate sold	dry t	8,977	7,841	2,208	2,592	2,701	2,272	1,796
Concentrate Au grade	g/t	77.01	66.60	71.83	63.05	83.91	76.74	73.33
Concentrate Ag grade	g/t	11,306.41	11,414.56	11,227.48	11,130.58	11,610.98	10,995.39	11,338.84
Au sold	oz	21,612	16,216	4,958	5,068	7,090	5,449	4,115
Ag sold	oz	3,148,886	2,766,380	769,120	891,145	973,107	774,923	631,736
Benchmark Unit Cost								
Site cash operating cost/ tonne ore processed(1)	$/t	103.36	101.27	106.34	97.54	100.96	100.56	105.94
Site cash operating cost/tonne concentrate produced(1)	$/t	4,437	4,512	3,944	3,889	4,713	3,881	5,624
EBITDA/tonne ore milled(1)	$/t	120	185	97	218	159	79	147
EBITDA/tonne concentrate produced(1)	$/t	5,153	8,261	3,600	8,710	7,433	3,031	7,787
Cash cost per oz Ag produced net of Au byproduct credit(1)(2)	$/oz	6.84	5.67	6.74	5.17	6.41	6.12	8.96
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	12.07	10.70	11.51	10.71	12.05	11.54	14.06
Capital Spending								
Capital development	m	2,837	1,904	947	400	528	774	588
Capital development cost	$000	10,585	12,167	3,152	3,063	2,520	2,732	2,181
Capital development cost/meter	$/m	3,731	6,392	3,327	7,667	4,771	3,532	3,712
Capital purchases	$000	6,291	7,909	578	2,803	1,051	1,034	3,628
Capitalized exploration	$000	2,518	4,466	788	1,361	310	625	795

[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" on page 34 for further information.

[3]Site all-in costper ounce of silver produced net of gold byproduct credit is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 34 for further information.

Three months ended December 31, 2013, and December 31, 2012

The Cerro Bayo mine produced 90,860 t of ore in 2013 versus 104,543 t of ore in 2012. Mine grades were 337.40 g/t for silver and 2.08 g/t for gold in 2013 versus 305.53 g/t for silver and 1.75 g/t for gold in 2012. During 2013, 1,450 m of operating development was completed versus 2,507 m in the 2012 comparable period. Mining cost in the fourth quarter of 2013 was $59.44/t, higher than $53.91/t in the fourth quarter of 2012, largely due to lower tonnes mined.

During the fourth quarter of 2013, the Cerro Bayo concentrator processed 92,198 t of ore with grades of 335.03 g/t Ag and 2.09 g/t Au, compared to 103,240 t of ore with grades of 305.97 g/t Ag and 1.75 g/t Au during the fourth quarter of 2012. Metallurgical recoveries during the fourth quarter of 2013 were 87.64% for Au and 91.67% for Ag versus 89.19% of Au and 91.19% of Ag in the prior year comparable period. During the 2013 quarter, optimization of the plant to fully realize the benefits of the flotation automation equipment installed earlier in the year continued.

Cerro Bayo produced 2,486 dmt of concentrate containing 878,542 oz saleable Ag and 5,272 oz saleable Au in the fourth quarter of 2013, as compared to 2,589 dmt of concentrate containing 895,222 oz saleable Ag and 5,020 oz saleable Au in the comparable 2012 period. The decrease in throughput impacted the processing costs during the fourth quarter of 2013: $30.66/t versus $24.78/t incurred in the fourth quarter of 2012.

During the fourth quarter of 2013, Cerro Bayo sold 2,208 dmt of concentrate containing 4,958 oz of saleable Au and 769,120 oz saleable Ag. Sales during the comparable quarter of 2012 were 2,592 dmt of concentrate containing 5,068 oz of saleable Au and 891,145 oz of saleable Ag. Lower production resulted in lower sales during the quarter.

Site cash operating cost was $106.34/t of ore processed in the fourth quarter of 2013, compared to $97.54/t in the fourth quarter of 2012. The increase in costs was largely driven by constant total expenditure combined with lower volume. Cash cost was $6.74/oz Ag net Au credit in the fourth quarter of 2013, higher than the $5.17/oz in the fourth quarter of 2012, mainly due to reduced gold credits arising from lower gold price. The site all-in cost was $11.51/oz Ag net of Au credit in the fourth quarter of 2013, versus $10.71/oz in the fourth quarter of 2012 due to higher cash costs per oz.

During the fourth quarter of 2013, the Company invested $3,151,853 in mine development versus $3,063,466 in 2012. The Company spent $578,067 for purchase of property, plant and equipment in 2013 versus $2,802,724 in 2012. It spent $788,043 on exploration versus $1,361,112 in the fourth quarter of 2012.

Years ended December 31, 2013, and December 31, 2012

The Cerro Bayo mine produced 385,221 t of ore in 2013 versus 358,944 t in 2012. This represents an average of 1,055 tpd in 2013 versus 983 tpd in 2012. The increase in tonnage is due to completion of the ramp-up of the Delia NW mine early in 2013. The mine completed 6,751 m of operating development in 2013 versus 9,280 m in the corresponding previous year when Delia NW was being developed. Gold and silver grades were 2.02 g/t Au and 288.00 g/t Ag for the year ended December 31, 2013, versus 1.71 g/t Au and 284.96 g/t Ag for year ended 2012. Mining cost in 2013 was $58.34/t, compared to $57.00/t for the year ended December 31, 2012.

During the year ended December 31, 2013, the Cerro Bayo concentrator processed 386,480 t of ore with grades of 288.22 g/t Ag and 2.02 g/t Au. During the year ended December 31, 2012, the concentrator processed 358,256 t of ore with grades of 284.79 g/t Ag and 1.70 g/t Au. Mine output and mill heads correspond quite closely because the mill has spare capacity and ore stockpiles are minimal, declining to zero during each month's maintenance period. The plant achieved 87.75% recovery of Au and 90.87% recovery of Ag in 2013 versus 87.82% of Au and 90.08% of Ag in 2012. Cerro Bayo produced 9,003 dmt of concentrate containing 3,145,537 oz of saleable Ag and 21,482 oz of saleable Au in 2013. Production for 2012 was 8,040 dmt of concentrate containing 2,911,595 oz saleable Ag and 17,089 oz saleable Au. Higher mine and mill output, higher ore grades and higher silver recovery rates were the major drivers of the record annual production during the year ended December 31, 2013. Processing costs for the year ended December 31, 2013 were $27.99/t versus $25.68/t during the comparative year ago period. Additional costs related to improvement, maintenance and the plant automation project were incurred during 2013. Plant operations were also temporarily curtailed for several days for repairs, installation and commissioning in 2013.

Higher production translated into higher concentrate sold during the year ended December 31, 2013: 8,977 dmt of concentrate containing 21,612 oz saleable Au and 3,148,886 oz saleable Ag versus 7,841 dmt of concentrate containing 16,216 oz Au and 2,766,380 oz Ag during the year ended December 31, 2012.

Site cash operating cost was $103.36/t of ore processed for the year ended December 31, 2013, versus $101.27/t for 2012. Cash cost was $6.84/oz Ag net Au credit in 2013, higher than the $5.67/oz for year ended December 31, 2012, mainly due to reduced gold credits arising from lower gold price. The site all-in cost was $12.07/oz Ag net Au credits in 2013, versus $10.70/oz in 2012.

During the year ended December 31, 2013, the Company invested $10,585,047 in capital mine development versus $12,166,541 in 2012, $6,291,208 for purchase of property, plant and equipment versus $7,908,693 and $2,517,634 versus $4,465,981 for exploration.

La Quebrada

Spending on exploration at La Quebrada was $189,193 during the fourth quarter of 2013. During the year the Company spent $1,046,766 versus $2,298,167 in 2012.

Markets- Currency Exchange Rates

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

CURRENCY	Average rate October 1, 2013 December 31, 2013	Average rate January 1, 2013 December 31, 2013	Average rate October 1, 2012 December 31, 2012	Average rate January 1, 2012 December 31, 2012
1A$ = C$	0.9735	0.9966	1.0295	1.0353
1A$ = US$	0.9279	0.9686	1.0386	1.0359
1 US$ = C$	1.0492	1.0294	0.9914	0.9996
1 US$ = Chilean Peso	516.62	495.24	477.77	486.23

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market gold, silver and antimony prices in the fourth quarter of 2013 were significantly lower relative to the fourth quarter of 2012. Realized prices were adversely impacted further by the application of the Company's policy for adjustments with respect to open concentrate shipments (see "Critical Accounting Policies - Revenue recognition" below). This resulted in realized prices in the fourth quarter of 2013 being lower than actual average market prices.

COMMODITY	Average price October 1, 2013 December 31, 2013	Average price January 1, 2013 December 31, 2013	Average price October 1, 2012 December 31, 2012	Average price January 1, 2012 December 31, 2012
Realized gold US$/oz[1]	1,216	1,331	1,712	1,675
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,271	1,410	1,717	1,668
Realized antimony US$/tonne[1]	9,836	9,956	11,960	12,513
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	9,940	10,336	12,317	12,846
Realized silver price US$/oz[1]	18.62	21.80	30.10	30.83
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	20.76	23.80	32.57	31.09

[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	December 31, 2013 $	September 30, 2013 $	June 30, 2013 $	March 31, 2013 $
Revenue	39,058,143	50,319,270	35,903,497	41,624,688
Income/(loss)	4,435,066	10,998,651	3,104,793	10,904,114
Income/(loss) per share - Basic	0.01	0.03	0.01	0.03
Income/(loss) per share - Diluted	0.01	0.03	0.01	0.03

Particulars	December 31, 2012 $	September 30, 2012 $	June 30, 2012 $	March 31, 2012 $
Revenue	55,699,764	48,847,630	46,538,713	20,719,516
Income/(loss)	22,375,166	9,011,008	19,246,828	(8,920,644)
Income/(loss) per share - Basic	0.07	0.03	0.07	(0.03)
Income/(loss) per share - Diluted	0.06	0.03	0.05	(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. The mark-to-market adjustments of the Company's silver and gold price protection program, which impacted financial results in 2012, did not impact the financial results in 2013. Financial results are impacted by the levels of gold, silver and antimony production, the costs associated with that production and the prices received for metal in concentrate and the quantity and value of any outstanding silver or gold puts that the Company has purchased to provide price insurance for future periods. Metal prices are determined using prevailing international prices for gold, silver and antimony. The Company's products are sold 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 13).

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 combined impact of changes in volumes, fluctuations in metal prices, changes in value of the unexpired portion of the Company's gold and silver puts during 2012 and variability in the Company's schedule of shipments from Cerro Bayo as a result of external factors such as the 2012 Aysen labour protests.

1.6 LIQUIDITY, SOLVENCY AND USES OF CASH

At December 31, 2013, the Company had working capital of $47,206,924 compared to $38,097,776 at December 31, 2012. The Company had cash and cash equivalents of $33,465,116 at December 31, 2013, as compared to $17,264,446 at December 31, 2012.

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

In the opinion of management, the Company's working capital at December 31, 2013, together with cash flows from operations, will be sufficient to support the Company's normal operating requirements through 2014. 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

On June 28, 2013, the Company amended the secured revolving credit facility with Bank of Montreal (BMO) that it originally entered into on May 30, 2012. Under the amendment, the facility's credit limit has been increased from US$20 million to US$30 million until June 30, 2014 and will reduce to US$20 million thereafter. In addition, the maturity date of the facility has been extended to June 30, 2015. The credit facility is for general corporate purposes, including working capital, capital expenditures and certain specified acquisitions. It is subject to an interest rate based on the lender's borrowing cost of the London Interbank Offered Rate (LIBOR) plus a variable margin of between 2.25% and 3.25%. Unused credit facility balances are subject to a standby fee at the rate of 0.75%. The credit facility is secured by all of the Company's assets. Mandalay is compliant with its financial covenants. No amounts were drawn under the credit facility as of December 31, 2013.

The Company had no outstanding debt as at December 31, 2013.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

The remuneration of directors and other members of key management personnel during the year was as follows:

	December 31, 2013	December 31, 2012
	$	$
Salaries and short-term benefits	**1,776,129**	1,561,687
Share-based payments	**851,784**	929,005
	2,627,912	2,490,692

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 apre-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 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 December 31, 2013, 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 Australia dollar and Chilean peso. The Company has entered into foreign exchange hedges to limit exposure to exchange rate fluctuations. Company's management assesses the Company's strategy towards its foreign exchange rate risk as needed, depending on market conditions.

Hedging Activities

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

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

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

1.12 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. During the 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 December 31, 2013. The Company's controls include policies and procedures that:

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

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

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

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

Internal control weakness	Potential impact of the weakness on the issuer's financial reporting and its ICFR	Current plan or actions being undertaken for remediating the potential material weakness
Complete segregation of duties	Accuracy and possible fraud	KPMG are the internal auditors since 2011. The following key financial controls were audited in 2013: • Payroll • Information technology • Sales cycle • Capital expenditure • Rehabilitation provision • IT controls They have not reported any material weakness. The Company will keep tightening its internal control procedures to further minimize the possibilities of financial loss due to oversight or collusion.
Collusion	Financial loss to the Company	

III. Limitation of Controls and Procedures

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

1.13 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 334,749,253 common shares issued and outstanding. The weighted average number of shares outstanding during the fourth quarter used for the calculation of per share results was 323,248,089.

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 C$	As of December 31, 2013	As of February 18, 2014	Expiry Date
1.13	4,287,500	4,287,500	March 18, 2018
0.83	3,972,500	3,972,500	March 9, 2017
0.76	450,000	450,000	July 4, 2016
0.7	490,000	490,000	December 2, 2016
0.58	370,000	370,000	April 11, 2016
0.56	3,392,500	3,392,500	March 11, 2016
0.335	100,000	100,000	September 16, 2015
0.33	300,000	300,000	October 6, 2015
0.31	50,000	50,000	September 7, 2015
0.26	1,110,000	1,110,000	August 26, 2015
0.255	1,550,000	1,550,000	December 7, 2014
Total	**16,072,500**	**16,072,500**	

During the quarter ended December 31, 2013, 110,000 options were exercised and 80,000 options were forfeited. There were 16,072,500 options outstanding as of December 31, 2013, which could result in issuance of shares.

Outstanding share purchase warrants that could result in the issuance of additional common shares as of December 31, 2013, and as of the date of this MD&A are as follows:

Exercise Price C$	As of December 31, 2013	As of February 18, 2014	Expiry Date
0.31	14,650,000	14,650,000	November 30, 2014
0.47	6,350,000	6,350,000	November 30, 2014
Total	**21,000,000**	**21,000,000**	

During the quarter ended December 31, 2013, no warrants were exercised. The number of warrants outstanding as of December 31, 2013, was 21,000,000.

During the three months ended June 30, 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 which are based on graduated vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company’s dividend declarations during the vesting period. The number of RSUs as at December 31, 2013 is as follows:

	Number of RSU awards
Balance, December 31, 2012	-
Granted	300,000
Dividend	6,560
Outstanding at December 31, 2013	**306,560**

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 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. *EBITDA* - The Company defines EBITDA as earnings before interest, taxes, non-cash charges/(income) and finance costs. Refer to page 12 for reconciliation between 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 13 and 14 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 16 and 20 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 2012 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. Values for 2012 have been re-calculated accordingly.

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.