MANDALAY RESOURCES

Management's Discussion & Analysis

For the quarter ended June 30, 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 condensed consolidated interim financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended June 30, 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 the following non-IFRS measures. Please refer to 1.17 Non-IFRS measures at the end of this MD&A for the list of measures and their definitions.

SECOND QUARTER 2013 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Revenues of $35.9 million (including adverse revenue adjustments of $2.8 million related to unsettled open shipments), compared with $46.5 million in 2012 (including adverse revenue adjustments of $0.8 million related to unsettled open shipments).
- Quantities sold in 2013 were 12,299 ounces ("oz") gold ("Au"), 774,923 oz silver ("Ag") and 763 tonnes ("t") antimony ("Sb") compared to 9,023 oz Au, 853,364 oz Ag and 608 t Sb in 2012. Prices realized were $1,200/oz for gold, $17.81/oz for silver and $9,628/t for antimony in 2013 versus $1,566/oz for gold, $28.68/oz for silver and $13,069/t for antimony in 2012.
- Income from mining operations before depletion and depreciation was $12.9 million compared with $23.8 million in 2012.
- Net income of $3.1 million ($0.01 per share), compared with $19.2 million ($0.07 per share) in 2012.
- Income after tax from underlying operations [(1)] of $0.7 million ($0.00 per share), compared with $15.3 million ($0.05 per share) in 2012.
- Cash cost of production at Costerfield in the quarter was $934 per gold equivalent ounce produced and the all-in cost was $1,178 per ounce gold equivalent produced. The cash cost of silver production at Cerro Bayo was $6.12 per ounce silver produced net of gold credits

and the all-in cost was $11.54 per ounce silver net of gold credits. Paid dividends of $2.4 million (C$0.00769 per share), compared to nil in 2012.

- 1,378,600 shares purchased for $1.1 million (C$0.83/share) under the Company's NCIB program.
- At June 30, 2013, the Company had $23.9 million of cash and cash equivalents and held an undrawn $30 million revolving credit facility.

(1) Income after tax from underlying operations is a non-IFRS performance measure. 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 financing warrants and cash election options, silver and gold put options, a silver note payable to Coeur d'Alene Mines Corporation and deferred tax expense or recovery. Income from underlying operations is presented here because the Company believes it is a useful indicator to evaluate the Company's performance. It should not be considered by an investor as an alternative to net income or cash flow as determined in accordance with IFRS. Refer to page 12 for reconciliation between income from underlying operations and income from operations.

2. Operating Highlights

a. Consolidated Production and Sales

In the second quarter of 2013, Mandalay produced 13,046 oz Au, 738 t Sb and 921,895 oz Ag, representing 33,558 gold equivalent ounces ("Au Eq. oz").

The Company sold 12,299 oz Au, 774,923 oz Ag and 763 t Sb in the second quarter of 2013 or 30,590 Au Eq. oz.

Saleable Production

Metal	Source	3 months to 30 June 2013	3 months to 30 June 2012	6 months to 30 June 2013	6 months to 30 June 2012
Gold (oz)	Costerfield	6,879	4,122	13,082	7,812
	Cerro Bayo	6,167	5,093	10,599	7,283
	Total	**13,046**	**9,215**	**23,681**	**15,095**
Antimony (t)	Costerfield	**738**	**612**	**1,504**	**1,101**
Silver (oz)	Cerro Bayo	**921,895**	**814,970**	**1,533,336**	**1,211,594**
Average quarterly prices:					
Gold US$/oz		1,415	1,614		
Antimony US$/tonne		10,365	13,574		
Silver US$/oz		23.19	29.39		
Au Eq. (oz)[1]	Costerfield	12,283	9,273	23,715	16,629
	Cerro Bayo	21,275	19,936	36,971	29,567
	Total	**33,558**	**29,209**	**60,686**	**46,196**

[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 business day. The source for all prices is www.metalbulletin.com.*

Sales

Metal	Source	3 months to 30 June 2013	3 months to 30 June 2012	6 months to 30 June 2013	6 months to 30 June 2012
Gold (oz)	Costerfield	6,850	4,063	12,731	7,447
	Cerro Bayo	5,449	4,960	9,564	6,244
	Total	**12,299**	**9,023**	**22,295**	**13,691**
Antimony (t)	Costerfield	**763**	**608**	**1,518**	**1,058**
Silver (oz)	Cerro Bayo	**774,923**	**853,364**	**1,406,659**	**1,071,424**
Average quarterly prices:					
Gold US$/oz		1,415	1,614		
Antimony US$/tonne		10,365	13,574		
Silver US$/oz		23.19	29.39		
Au Eq. (oz)[2]	Costerfield	12,441	9,173	23,474	15,927
	Cerro Bayo	18,149	20,503	33,902	25,877
	Total	**30,590**	**29,676**	**57,376**	**41,804**

[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 quarter, 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.

b. Costerfield Gold-Antimony mine, Victoria, Australia

i. *Production* — Saleable gold production for the second quarter of 2013 was 6,879 ozs versus 6,203 oz in the previous quarter and 4,122 oz in the second quarter of 2012. Saleable antimony production for the second quarter of 2013 was 738 t versus 766 t in the previous quarter and 612 t in the second quarter of 2012. The combined impact of ongoing improvement initiatives at the mine including the Cemented Rock Filling (CRF) stoping method controlling dilution and timing of high grade production and continued use of the mobile crusher enabled Costerfield to deliver a strong production quarter. The increased percentage of gold produced in gravity concentrate has further contributed to the amount of saleable gold production for the quarter.

ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the second quarter of 2013 was $934 versus $967 in the previous quarter and $1,052 in the second quarter of 2012. The lower cash cost per oz in the second quarter of 2013 was principally due to the greater mine output and mill throughput achieved and the consequent increase in metal volumes produced. The all-in cost per Au eq. oz produced in the second quarter of 2013 was $1,178 versus $1,177 in the previous quarter and $1,197 in the second quarter of 2012.

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

i. *Production* — In the second quarter of 2013, Cerro Bayo produced 921,895 oz Ag and 6,167 oz Au versus 611,441 oz Ag and 4,432 oz Au in the previous quarter and 814,970 oz Ag and 5,093 oz Au in the second quarter of 2012. As expected, Cerro Bayo's strong second quarter performance made up for lower production in the first quarter, which was related to the planned curtailment of plant operations during installation and commissioning of flotation automation equipment. Greater plant throughput, higher grades and metallurgical recoveries resulted in higher metal produced compared to previous quarters.

ii. *Operating Costs* —Cash cost per saleable ounce of silver produced in concentrate net of gold credits was $6.12 in the second quarter of 2013 versus $8.96 in the previous quarter and $4.12 in the second quarter of 2012. Cash cost per oz was lower compared to the prior quarter principally due to higher metal produced for the reasons mentioned above. Cost per oz in the second quarter of 2013 was higher than in the same quarter of 2012 due to reduced gold credits arising from lower gold price. The all in cost per ounce silver produced net of gold by-product was $11.54 in the second quarter of 2013, versus $14.06 in the previous quarter and $8.11 in the second quarter of 2012.

3. Exploration

a. **Cerro Bayo**

Mandalay continued drilling at Cerro Bayo with five diamond core rigs, completing 10,653 m in the second quarter of 2013.

b. **Costerfield**

Mandalay continued drilling at Costerfield with three diamond core rigs, completing 7,245 m in the second quarter of 2013. This drilling was mostly infill and extensional drilling on Cuffley and N-lodes, designed to increase the Company's level of confidence in the N lode and Cuffley ore reserves. The Company anticipates completing the preliminary economic analysis on Cuffley and releasing the results in the third quarter.

c. **La Quebrada, Chile**

Preliminary engineering studies continued at La Quebrada.

1.0 DATE

This MD&A is dated as of August 8, 2013.

1.1 SUBSEQUENT EVENTS

i) On July 14, 2013, the Company announced with profound regret a work related fatality occurred in the Fabiola mine at Cerro Bayo on July 14, 2013 (see press release dated July 15, 2013). Immediately upon the incident, all mining and processing operations were temporarily curtailed and investigations into the incident commenced. Once a thorough review of safe operating procedures at the mine was completed, normal mining and development operations resumed in Dagny and Delia Northwest mines on July 18, 2013; processing resumed on July 19, 2013 (see press release dated July 19, 2013). Ore production operations resumed in Fabiola on July 22, 2013 (see press release dated July 22, 2013), while as of the date of this MD&A, capital development in Fabiola remains curtailed pending completion of investigations into the accident at this site.

ii) On, August 8, 2013, in accordance with the Company's dividend policy, Mandalay's Board of Directors declared a quarterly dividend of $2,154,210 (6% of the trailing quarter's revenue), or C$0.0069 per share, payable on August 26, 2013, to shareholders of record as of August 19, 2013.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company, the business of which is to discover, develop and produce mineral commodities. Its current emphasis is on gold, silver, antimony and copper in Australia and Chile. The Company's business plan is to identify and acquire undervalued mineral assets at all stages of the value chain from exploration through to production. 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 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 2009. In the second quarter of 2013, the mine delivered 35,906 tonnes of ore with mine grades of 9.28 grames/tonne ("g/t") gold and 3.94% antimony.

Cerro Bayo

Cerro Bayo is a 100%-owned silver–gold mine located in the Aysen Province of southern Chile, purchased by the Company in 2010. Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. The mine completed its planned ramp-up in the fourth quarter of 2012. Processing throughput was curtailed modestly in the first quarter of 2013 due to the planned installation of flotation automation equipment; the automation project started to take effect during the second quarter of 2013. In the second quarter of 2013, the mine delivered 112,351 tonnes of ore with mine grades of 2.08 g/t gold and 307.76 g/t silver.

1.3 SELECTED QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended June 30, 2013, and June 30, 2012:

	Three months ended June 30, 2013 $	Three months ended June 30, 2012 $
Revenue	35,903,497	46,538,713
Cost of sales	23,049,711	22,697,438
Income from mine operations before depreciation and depletion	12,853,786	23,841,275
Depreciation and depletion	7,810,382	4,668,354
Income from mine operations	5,043,404	19,172,921
Administration	1,531,167	2,275,262
Business development costs	332,870	-
EBITDA	10,989,749	21,566,013
Finance costs, fx and others/(income)*	(368,156)	(2,584,837)
Income/(loss) before tax	3,547,523	19,482,496
Current tax expense	2,200,503	435,633
Deferred tax expense (recovery)	(1,757,773)	(199,965)
Net Income/(loss) after tax	3,104,793	19,246,828
Total assets	184,849,080	156,957,656
Total liabilities	39,810,925	43,450,588
Income per share	0.01	0.07

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

The following table sets forth the summary of financial results for the six months ended June 30, 2013, and June 30, 2012:

	Six months ended June 30, 2013 $	Six months ended June 30, 2012 $
Revenue	77,528,185	67,258,229
Cost of sales	43,042,734	36,019,151
Income from mine operations before depreciation and depletion	34,485,451	31,239,078
Depreciation and depletion	13,656,981	8,731,967
Income from mine operations	20,828,470	22,507,111
Administration	3,175,891	3,547,057
Business development costs	481,729	-
EBITDA	30,827,831	27,692,022
Finance costs, fx and others*	517,311	9,916,794
Income/(loss) before tax	16,653,539	9,043,260
Current tax expense	4,463,106	435,633
Deferred tax expense (recovery)	(1,818,474)	(1,718,557)
Net Income/(loss) after tax	14,008,907	10,326,184
Income per share	0.04	0.04

*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. 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 dividend policy is to pay 6% of the trailing quarter revenue as a dividend. There was no dividend paid in the corresponding quarter of 2012.

		Three months ended June 30, 2013	Three months ended June 30, 2012	Three months ended March 31, 2013	Three months ended December 31, 2012
Dividend paid	US$	2,435,070	-	3,197,278	3,200,544
Dividend paid per share	CDN$	0.00769	-	0.0100	0.0100

Normal Course Issuer Bid ("NCIB")

On October 15, 2012, the TSX approved the Company's notice of intention to make an NCIB ("2012 NCIB"). Pursuant to the 2012 NCIB, the Company may purchase for cancellation up to 15,856,786 common shares at prevailing market prices until October 16, 2013. The funding for any purchase pursuant to the NCIB will be financed out of the working capital of the Company.

During the three month ended June 30, 2013, the Company repurchased 1,378,600 common shares at an average price of C$0.83 at a cost of C$1,145,024 under the 2012 NCIB. During the six month ended June 30, 2013, the Company repurchased 1,378,600 common shares at an average price of C$0.83 for total cost of C$1,145,024.

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 June 30, 2013	0.83	(1,378,600)	-
Balance, June 30, 2013		14,478,186	-

EBITDA Reconciliation to Net Income

The Company defines EBITDA as earnings before interest, taxes and non-cash charges/(income). EBITDA is presented here because the Company believes it is a useful indicator of relative operating performance. EBITDA does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other issuers. EBITDA should not be considered by an investor as an alternative to net income or cash flow as determined in accordance with IFRS. The table below reconciles EBITDA to reported net income for three and six months ended June 30, 2013, and June 30, 2012.

	Three months ended June 30, 2013		**Three months ended June 30, 2012**	
	$	**$**	**$**	**$**
Net Income/(loss)		3,104,793		19,246,828
Add: Non-cash and finance costs				
Depletion and depreciation	7,810,382		4,668,354	
(Gain) Loss on disposal of property, plant and equipment	(68,035)		-	
Write off mineral properties/exploration and evaluation	548,585		-	
Share based compensation	469,028		469,447	
Interest and finance charges	187,766		1,125,280	
Fair value adjustments	(614,225)		(3,773,209)	
Current tax	2,200,503		435,633	
Deferred tax	(1,757,773)		(199,965)	
Foreign exchange (gain)/loss	(811,577)	7,964,654	(200,720)	2,524,820
		11,069,447		21,771,648
Add/(Less): Interest & (other income)/expenses	(79,698)	(79,698)	(205,635)	(205,635)
EBITDA		10,989,749		21,566,013

	Six months ended June 30, 2013		**Six months ended June 30, 2012**	
	$	**$**	**$**	**$**
Net Income/(loss)		14,008,907		10,326,184
Add: Non-cash and finance costs				
Depletion and depreciation	13,656,981		8,731,967	
(Gain) Loss on disposal of property, plant and equipment	88,363		-	
Write off mineral properties/exploration and evaluation	548,585		-	
Share based compensation	947,128		837,549	
Interest and finance charges	391,692		1,910,200	
Fair value adjustments	(444,755)		7,504,954	
Current tax	4,463,106		435,633	
Deferred tax	(1,818,474)		(1,718,557)	
Foreign exchange (gain)/loss	(834,613)	16,998,013	(59,853)	17,641,893
		31,006,920		27,968,077
Add/(Less): Interest & (other income)/expenses	(179,089)	(179,089)	(276,055)	(276,055)
EBITDA		30,827,831		27,692,022

Fair-value adjustments

As at June 30, 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 June 30, 2013, nil financing warrants were exercised. The Company recorded a fair value measurement gain of $422,359 for three months ended June 30, 2013. There were 982,100 financing warrants outstanding as on June 30, 2013.

Cash election options – In August 2012, the Company amended its stock option plan whereby option holders resident in Australia became entitled for a cash election option in addition to the existing share purchase option. As a result of the stock option plan amendment, the Company reclassified $197,356 from share option reserve to derivative financial instruments. Subsequently, the liability is remeasured at fair value. During the three month period ended June 30, 2013, the Company paid $43,534 in settlement of the exercised cash election of 100,000 options. The Company recorded a fair value measurement gain of $191,866 for three months ended June 30, 2013. There were 1,915,000 cash election options outstanding as on June 30, 2013.

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

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

	Before fair value and deferred tax adjustments	Note	Fair value and deferred tax adjustments Q2 2013	As of June 30, 2013	As of December 31, 2012
	$		$	$	$
Assets					
Deferred tax	9,971,525	(a)	1,757,773	11,729,298	11,229,246
Liabilities					
Derivative financial instrument (financing warrants)	1,027,666	(b)	(614,225)	413,441	2,219,707
Shareholders' equity					
Surplus/(deficit)	48,993,579		2,371,998	51,365,577	43,692,706

(a) The Company recorded a deferred tax recovery of $1,757,773 for the three months ended June 30, 2013.

(b) The Company recorded a fair value measurement gain relating to financing warrants of $422,359 and cash election options of $191,866 for the three months ended June 30, 2013.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended June 30, 2013, and June 30, 2012

	June 30, 2013				June 30, 2012
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	2,229,789			2,229,789	16,428,212
Other items					
Interest and other income	79,698			79,698	205,635
Finance (costs)/income	(187,766)	(a)	614,225	426,459	2,647,929
Foreign exchange gain (loss)	811,577			811,577	200,720
Net income/(loss) before tax	2,933,298		614,225	3,547,523	19,482,496
Current tax	(2,200,503)			(2,200,503)	(435,633)
Deferred tax		(b)	1,757,773	1,757,773	199,965
Net income/(loss)	732,795		2,371,998	3,104,793	19,246,828
Income (loss) per share					
Basic	0.00			0.01	0.07
Diluted	0.00			0.01	0.05

(a) The Company recorded a fair value measurement gain related to financing warrants of $422,359 and cash election options of $191,866 for the three months ended June 30, 2013.

(b) The Company recorded a deferred tax recovery of $1,757,773 for the three months ended June 30, 2013.

Fair value and deferred tax adjustments impact on items in the income statement for six months ended June 30, 2013, and June 30, 2012

	June 30, 2013				June 30, 2012
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	15,586,774			15,586,774	18,122,505
Other items					
Interest and other income	179,089			179,089	276,055
Finance (costs)/income	(391,692)	(a)	444,755	53,063	(9,415,153)
Foreign exchange gain (loss)	834,613			834,613	59,853
Net income/(loss) before tax	16,208,784		444,755	16,653,539	9,043,260
Current tax	(4,463,106)			(4,463,106)	(435,633)
Deferred tax		(b)	1,818,474	1,818,474	1,718,557
Net income/(loss)	11,745,678		2,263,229	14,008,907	10,326,184
Income (loss) per share					
Basic	0.04			0.04	0.04
Diluted	0.03			0.04	0.03

(a) The Company recorded a fair value measurement gain related to financing warrants of $502,790 and loss related to cash election options of $58,035 for the six months ended June 30, 2013.

(b) The Company recorded a deferred tax recovery of $1,818,474 for the six months ended June 30, 2013.

1.4 RESULTS OF OPERATIONS

Three Months Ended June 30, 2013, compared to Three Months Ended June 30, 2012

During the three months ended June 30, 2013, the Company recorded net income of $3,104,793 (net of fair value measurement gain of $614,225 and deferred tax recovery of $1,757,773) compared to net income of $19,246,828 (net of mark-to-market adjustments of $3,773,209 and deferred tax recovery of $199,965) during the three months ended June 30, 2012. Mandalay achieved EBITDA of $10,989,749 for the quarter ended June 30, 2013, compared to $21,566,013 in the quarter ended June 30, 2012. The decrease in net income and EBITDA was largely driven by lower metal prices realized, lower silver sales volumes and increase in closing stock as a result of shipping constraints experienced by port strikes and adverse weather conditions from the port of Chacabuco. The higher results of second quarter of 2012 represent catch up on production and sales recovering from the delays experienced in the first quarter 2012 due to labour protests in Aysen Province at Cerro Bayo.

Administrative expenses for the quarter ended June 30, 2013, were $1,531,167 compared to $2,275,262 during the quarter ended June 30, 2012. The administration expenses of $877,140 at Corporate included $356,618 in management fees, $86,533 in audit and internal review fees, $66,414 in travel expense, $76,239 in legal and accounting fees, $190,998 in investor relations and transfer agent and filing fees and $29,322 in consulting fees.

Capital expenditure in the second quarter of 2013, including capitalized depreciation and exploration, were $9,506,342. Of this, $4,391,996 was spent at Cerro Bayo, $4,915,844 was spent at Costerfield and $198,502 was spent at La Quebrada. By comparison, capital expenditures in the second quarter of 2012 were $11,543,181. The decrease in capital expenditure in the second quarter of 2013 relative to 2012 is mainly due to operations economizing on capital spending in response to the metal price environment.

Operating net income/(loss) after tax

Operating net income/(loss) after tax is a non-IFRS performance measure. 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. Operating net income is presented here because the Company believes it is a useful indicator of operating performance of each operation units. Operating net income does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other issuers. Operating net income should not be considered by an investor as an alternative to net income or cash flow as determined in accordance with IFRS. Refer to page 14 and 18 for a reconciliation of operating net income to reported net income for three months ended June 30, 2013, and June 30, 2012.

Costerfield Results, Production, Sales and Costs for the Three Months Ended June 30, 2013

Costerfield generated revenue of $15,822,010 for the quarter ended June 30, 2013. Income from mine operations before depreciation and depletion was $4,466,532 and EBITDA was $4,188,054 for 2013. Net income after fair value adjustments and deferred income tax was $839,879 and operating net income was $1,720,416 during 2013. For the quarter ended June 30, 2012 revenue was $14,124,851, income from mine operations before depreciation and depletion was $5,319,964, EBITDA was $5,149,974, net income after fair value adjustments and deferred income tax was $7,155,470 and operating net income was $7,373,897. Higher volumes sold during the quarter more than offset the decrease in prices realized; this translates into higher revenue than in the prior year quarter. Though higher volumes were sold in 2013 and cash cost per Au Eq. oz produced was lower in 2013, the lower prices realized resulted in lower EBITDA than the prior year quarter.

Costerfield financial results

	Three months ended June 30, 2013 $	Three months ended June 30, 2012 $
Revenue	15,822,010	14,124,851
Cost of sales	11,355,478	8,804,887
Income from mine operations before depreciation and depletion	4,466,532	5,319,964
Depreciation and depletion	3,139,610	1,379,693
Income from mine operations	1,326,922	3,940,271
Administration (1)	398,658	169,990
EBITDA (2)	4,188,054	5,149,974
Finance costs, fx and others (3)	489,399	(120,401)
Income/(loss) before tax	438,865	3,890,682
Current tax expense	-	-
Deferred tax expense (recovery)	(401,014)	(3,264,788)
Operating net income/(loss) after tax(4)	1,720,416	7,373,897
Net income/(loss) after tax	839,879	7,155,470
Capital expenditure (5)	4,915,844	5,794,515

[1]Includes intercompany transfer pricing re-charge costs of $120,180 in 2013 and nil 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 $434,873 in 2013 and nil in 2012.
[4]Operating net income/(loss) after tax excludes non operating items such as intercompany interest expenses and all intercompany transfer pricing corporate recharge costs.
[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 June 30, 2013 $	Three months ended June 30, 2012 $
Net income/(loss) after tax	839,879	7,155,470
Add: Intercompany expenses		
Intercompany interest expense	325,483	218,427
Intercompany transfer pricing Corporate recharge costs	555,054	-
Operating net income/(loss) after tax	1,720,416	7,373,897

Costerfield operating statistics

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

	Unit	Six months ended June 30, 2013	Six months ended June 30, 2012	Three months ended June 30, 2013	Three months ended June 30, 2012	Three months ended March 31, 2013
Mining Production and Mining Cost						
Operating development	m	3,246	2,594	1,842	1,335	1,405
Mined ore	t	61,772	43,807	35,906	24,714	25,865
Ore mined Au grade	g/t	9.19	8.39	9.28	8.34	9.08
Ore mined Sb grade	%	4.30	4.61	3.94	4.77	4.80
Mined contained Au	oz	18,257	11,813	10,709	6,625	7,548
Mined contained Sb	t	2,658	2,017	1,415	1,179	1,242
Mining cost per tonne ore	$/t	223	296	194	261	263
Processing and Processing Cost						
Processed ore	t	58,414	39,160	31,836	20,812	26,578
Mill head grade Au	g/t	9.41	8.37	9.39	8.33	9.43
Mill head grade Sb	%	4.27	4.59	3.86	4.77	4.77
Recovery Au	%	89.73	89.11	89.67	89.55	89.80
Recovery Sb	%	95.61	96.16	95.36	96.49	95.91
Concentrate produced	dry t	4,484	3,202	2,199	1,755	2,285
Concentrate grade Au	g/t	89.76	90.56	93.52	88.52	86.14
Concentrate grade Sb	%	53.23	53.91	53.26	54.53	53.21
Saleable Au produced	oz	13,082	7,812	6,879	4,122	6,203
Saleable Sb produced	t	1,504	1,101	738	612	766
Saleable Au equivalent produced	oz	23,715	16,629	12,283	9,273	11,432
Processing cost per tonne ore	$/t	62.10	68.22	59.22	66.39	65.54
Sales						
Concentrate sold	dry t	4,530	3,071	2,292	1,749	2,238
Concentrate Au grade	g/t	88.35	90.33	90.17	87.53	86.48
Concentrate Sb grade	%	53.19	53.79	52.86	54.29	53.52
Au sold	oz	12,731	7,447	6,850	4,063	5,881
Sb sold	t	1,518	1,058	763	608	755
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	370.54	479.37	345.57	452.59	400.45
Site cash operating cost/tonne concentrate produced(1)	$/t	4,827	5,862	5,004	5,368	4,657
EBITDA/tonne ore milled(1)	$/t	193	194	132	247	266
EBITDA/tonne concentrate produced(1)	$/t	2,512	2,370	1,905	2,932	3,097
Cash cost per oz Au equivalent produced(1)(2)	$/oz	949.87	1,162.80	934.04	1,052.44	966.88
All-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,177.98	1,316.65	1,178.49	1,197.30	1,177.42
Capital Spending						
Capital development	m	842	732	404	427	438
Capital development cost	$000	5,050	3,828	2,847	1,842	2,202
Capital development cost/meter	$/m	5,997	5,232	7,046	4,317	5,028
Capital purchases	$000	2,634	5,357	654	2,704	1,980
Capitalized exploration	$000	2,638	2,314	1,414	1,249	1,224

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

[2]Cash cost per ounce of gold equivalent produced is a non IFRS performance measure that is included in this MD&A because this statistic is a key performance measure under control of the operations that management uses to monitor performance, to assess how the mine is performing, and to plan and assess the overall effectiveness and efficiency of mining operations. This performance measure does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This performance measure should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. 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. Variations between the produced ounces and sold ounces in a reporting period are purely the result of the timing of shipments to customers.

[3]All-in cost per ounce of gold equivalent produced is a non IFRS performance measure that is included in this MD&A because the Company believes it is a useful indicator of overall operating cost incurred at operational units. All-in costs include total cash operating costs, depletion, depreciation, accretion and write-off of exploration and evaluation. This performance measure does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This performance measure should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. 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 all-in cost is then divided by the equivalent gold ounces produced to yield the all-in cost per equivalent ounce produced.

Three months ended June 30, 2013, and June 30, 2012

The Costerfield mine completed 1,842 m of operating development in the second quarter of 2013 versus 1,335 m in 2012. It produced more ore in 2013 than in 2012: 35,906 t versus 24,714 t. At the same time, the mine grades of gold were higher in 2013: 9.28 g/t Au versus 8.34 g/t Au in 2012 while mine grades of antimony were lower in 2013: 3.94% Sb versus 4.77% Sb in 2012. Mining costs were $194/t versus $261/t in the previous year. The increase in tonnage and mined grade and the decrease in costs are largely due to better stope performance resulting from the refined cemented rock-fill long-hole stoping mining method, introduction of N-lode as a significant ore contributor and relatively better cost control.

Capital development advance decreased to 404 m in 2013 from 427 m in 2012, the cost was $7,046/m versus $4,317/min 2012. The higher cost was primarily due to inclusion of $1.2 million in capital development costs for completion of the Augusta Return Air Raise (“RAR”) construction during the quarter.

In the second quarter of 2013, the Costerfield concentrator processed 31,836 t. This is significantly more tonnes than the 20,812 t it processed in the corresponding period of 2012. At the same time, the head grades of gold were higher in 2013: 9.39 g/t Au versus 8.33 g/t Au in 2012 while head grades of antimony were 3.86% in 2013 versus 4.77% in 2012. The plant achieved higher recoveries for gold in 2013: 89.67% versus 89.55% in 2012 and lower recoveries for antimony (95.36% in 2013 versus 96.49% in 2012). Gold grades improved principally due to the high grade of vein areas mined during the quarter. The higher plant throughput was the result of introduction and success of the mobile ore crusher, which enabled Costerfield to achieve evenly matched plant capacity to mine output. Concentrate production was 2,199 dry metric tonnes (“dmt”) containing 738 t saleable Sb and 6,879 oz saleable Au in 2013 versus 1,755 dmt containing 612 t Sb and 4,122 oz Au for three months of 2012. Processing costs in 2013 were $59.22/t, lower than the $66.39/t incurred during the prior year period due to higher tonnes treated.

The improved mine tonnages, throughput, grades and a higher percentage of gold being recovered as gravity gold led to significantly higher payable metal production in the second quarter of 2013 than in the second quarter of 2012: 6,879oz Au and 738 t Sb versus 4,122oz Au and 612 t Sb.

Site cash operating cost per tonne of ore processed was $345.57/t in the second quarter of 2013, compared to $452.59/t in the second quarter of 2012 mainly due to higher plant throughput. The greater metal production and savings in mining costs in the second quarter of 2013 led to a lower cash cost per gold equivalent ounce produced: $934/oz as compared to $1,052/oz in 2012. Higher tonnages and better grades are the major drivers of higher metal produced during the quarter. The lower cash cost translates into lower all-in cost per gold equivalent ounce producedof $1,178/oz in 2013 compared to $1,197/oz in 2012.

During the second quarter of 2013, the Company invested $2,847,371 in capital development, $1,414,048 in exploration and $654,425 in property, plant and equipment. The corresponding amounts for the prior year quarter were $1,841,578, $1,249,066, and $2,703,871, respectively.

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

The Costerfield mine completed 3,246 m of operating development in 2013 versus 2,594 m in 2012. It produced 61,772 t of ore containing 9.19 g/t Au and 4.30% Sb in 2013 as compared to 43,807 t of ore containing 8.39 g/t Au and 4.61% Sb. Mining costs were $223/t in 2013 versus $296/t in 2012. Increased tonnages and lower dilution due to the refined cemented rock fill mining method were the principal factors driving higher mine output at low cost per tonne during 2013.

The capital development advance improved in the 2013 to 842 m from 732 m in 2012, the cost per meter increased to $5,997/m from $5,232/m. The per meter cost was high in 2013 due to completion of Augusta RAR construction during the three months ended June 30, 2013.

In the six months ended June 30, 2013, the Costerfield concentrator processed 58,414 t of ore containing 9.41g/t Au and 4.27% Sb. This is a significant gain relative to the corresponding year-ago throughput of 39,160 t of ore containing 8.37 g/t Au and 4.59% Sb. The plant achieved 89.73% recovery of gold and 95.61% recovery of antimony in the 2013 period compared to 89.11% recovery of gold and 96.16% recovery of antimony in 2012. The improved tonnages and gold head grades in 2013 led to greater saleable metal production in 2013. Concentrate production was 4,484 dry metric tonnes ("dmt") containing 1,504 t saleable Sb and 13,082 oz saleable Au in 2013 versus 3,202 dmt containing 1,101 t Sb and 7,812 oz Au for six months of 2012. Processing costs were lower in 2013 than in 2012 as well: $62.10/t versus $68.22/t.

Site cash operating cost per tonne of ore processed was $370.54/t in 2013 versus $479.37/t in 2012. The lower operating costs led to a lower cost per gold equivalent ounce produced in 2013 ($950) as compared to 2012 ($1,163). The combination of strong production and better cost control has led to lower per unit costs during 2013 than 2012. This further converts into lower all-in cost per gold equivalent ounce produced in 2013 of $1,178/oz versus $1,317/oz in 2012.

During the six months ended June 30, 2013, the Company invested $5,049,756 in capital development, $2,638,119 in exploration, and $2,634,050 in property, plant and equipment. The corresponding amounts for 2012 were $3,828,284 for capital development, $2,313,648 for exploration and $5,357,222 for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended June 30, 2013

Cerro Bayo generated revenue of $20,081,487 for the quarter ended June 30, 2013. Income from mine operations before depreciation and depletion was $8,387,254, EBITDA was $8,011,704, net income after fair value adjustments and deferred tax income was $1,637,468 and operating net income was

$2,264,108 for three months ended June 30, 2013. For the quarter ended June 30, 2012 revenue was $32,413,862, income from mine operations before depreciation and depletion was $18,521,310, EBITDA was $17,827,796, net income after fair value adjustments and deferred income tax was $14,564,951 and operating net income was $14,564,951. These results are lower than in the second quarter of 2012 despite higher production due to lower metal prices realized and lower volumes sold as a result of port strikes and weather-related shipping delays experienced from the port of Chacabuco. Inventory is expected to return to normal levels as normal shipping schedules resume with improving weather over the next three months.

Cerro Bayo financial results

	Three months ended June 30, 2013 $	**Three months ended June 30, 2012 $**
Revenue	20,081,487	32,413,862
Cost of sales	11,694,233	13,892,552
Income from mine operations before depreciation and depletion	8,387,254	18,521,310
Depreciation and depletion	4,670,772	3,288,661
Income from mine operations	3,716,482	15,232,649
Administration (1)	515,882	693,514
EBITDA (2)	8,011,704	17,827,796
Finance costs, fx and others (3)	719,388	(3,526,272)
Income/(loss) before tax	2,481,212	18,065,407
Current tax expense	2,200,503	435,633
Deferred tax expense (recovery)	(1,356,759)	3,064,823
Operating net income/(loss) after tax(4)	2,264,108	14,564,951
Net income/(loss) after tax	1,637,468	14,564,951
Capital expenditure (5)	4,391,996	5,433,351

[1]Includes intercompany transfer pricing recharge costs of $140,332 in 2013 and nil 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 $486,308 in 2013 and nil in 2012.
[4]Operating net income/(loss) after tax excludes non operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs.
[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 June 30, 2013 $	**Three months ended June 30, 2012 $**
Net income/(loss) after tax	1,637,468	14,564,951
Add: Intercompany expenses		
Intercompany interest expense	-	-
Intercompany transfer pricing Corporate recharge costs	626,640	-
Operating net income/(loss) after tax	2,264,108	14,564,951

Cerro Bayo operating statistics

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

	Unit	Six months ended June 30, 2013	Six months ended June 30, 2012	Three months ended June 30, 2013	Three months ended June 30, 2012	Three months ended March 31, 2013
Mining Production and Mining Cost						
Operating development	m	3,749	4,294	1,967	2,375	1,782
Mined ore	t	205,041	159,772	112,351	86,112	92,689
Ore mined Au grade	g/t	1.93	1.71	2.08	2.08	1.75
Ore mined Ag grade	g/t	274.10	276.61	307.76	305.34	233.30
Mined contained Au	oz	12,718	8,765	7,514	5,771	5,205
Mined contained Ag	oz	1,806,919	1,420,887	1,111,684	845,351	695,235
Mining cost per tonne ore	$/t	55.30	58.18	52.07	56.87	59.21
Processing and Processing Cost						
Processed ore	t	196,586	157,890	102,011	98,914	94,575
Mill head grade Au	g/t	1.97	1.70	2.17	1.87	1.75
Mill head grade Ag	g/t	277.45	276.56	318.68	295.56	232.99
Recovery Au	%	87.37	86.74	89.12	87.96	85.49
Recovery Ag	%	90.40	89.25	91.41	89.64	89.32
Concentrate produced	dry t	4,424	3,323	2,643	2,274	1,782
Concentrate grade Au	g/t	76.66	68.98	74.66	70.84	79.63
Concentrate grade Ag	g/t	11,172.24	11,510.70	11,246.55	11,395.32	11,062.35
Saleable Au produced	oz	10,599	7,283	6,167	5,093	4,432
Saleable Ag produced	oz	1,533,336	1,211,594	921,895	814,970	611,441
Saleable Au equivalent produced	oz	36,971	29,567	21,275	19,936	15,696
Processing cost per tonne ore	$/t	28.20	26.88	28.83	25.41	27.51
Sales						
Concentrate sold	dry t	4,068	2,972	2,272	2,376	1,796
Concentrate Au grade	g/t	75.24	67.78	76.74	67.35	73.33
Concentrate Ag grade	g/t	11,147.00	11,677.11	10,995.39	11,636.95	11,338.84
Au sold	oz	9,564	6,244	5,449	4,960	4,115
Ag sold	oz	1,406,659	1,071,424	774,923	853,364	631,736
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	103.14	104.07	100.56	89.89	105.94
Site cash operating cost/tonne concentrate produced(1)	$/t	4,583	4,944	3,881	3,909	5,624
EBITDA/tonne ore milled(1)	$/t	111	142	79	180	147
EBITDA/tonne concentrate produced(1)	$/t	4,946	6,738	3,031	7,838	7,787
Cash cost per oz Ag produced net of Au byproduct credit(1)(2)	$/oz	7.22	6.42	6.12	4.12	8.96
All-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	12.52	11.39	11.54	8.11	14.06
Capital Spending						
Capital development	m	1,361	1,001	774	542	588
Capital development cost	$000	4,913	6,157	2,732	2,921	2,181
Capital development cost/meter	$/m	3,610	6,153	3,532	5,393	3,712
Capital purchases	$000	4,662	2,275	1,034	1,213	3,628
Capitalized exploration	$000	1,420	1,890	625	1,299	795

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

[2]The cash cost per ounce of silver produced net of gold byproduct credit is a non IFRS performance measures that is included in this MD&A because it is a key performance measure under control of the operations that management uses to monitor performance, to assess how the mine is performing, and to plan and assess the overall effectiveness and efficiency of mining operations. This performance measure does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This performance measure should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. 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.

[3]All-in cost per ounce of silver produced net of gold byproduct credit is a non IFRS performance measure that is included in this MD&A because the Company believes it is a useful indicator of overall operating cost incurred at operation units. This performance measure does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This performance measure should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. The all-in cost per silver ounce produced net of gold byproduct credit is calculated by adding depletion, depreciation, accretion and write-off of

exploration and evaluation to the cash cost net of gold byproduct credit as calculated in note 2 above and dividing the resultant number by the silver ounces produced in the period.

Three months ended June 30, 2013, and June 30, 2012

The Cerro Bayo mine produced 112,351 t of ore in 2013 versus 86,112 t of ore in 2012. This represents an average of 1,248 tpd in 2013 versus 957 tpd in 2012. Mine grades were 2.08 g/t for gold and 307.76 g/t for silver in 2013 versus 2.08 g/t for gold and 305.34 g/t for silver in 2012. During 2013, 1,967 m of operating development were completed versus 2,375 m in the 2012 comparable period. Mining cost per tonne in the second quarter of 2013 was $52.07/t, compared to $56.87/t in the second quarter of 2012.

During the second quarter of 2013, the Cerro Bayo concentrator processed 102,011 t of ore containing 318.68 g/t Ag and 2.17 g/t Au, compared to 98,914 t of ore with grades of 295.56 g/t Ag and 1.87 g/t Au during the second quarter of 2012. The plant achieved better recoveries of metal in the current period than in the prior year comparable period: 89.12% recovery of Au and 91.41% recovery of Ag versus 87.96% of Au and 89.64% of Ag. The greater plant recovery is partially the result of installation of plant automation project which has become fully operational during the second quarter of 2013.

Cerro Bayo produced 2,643 dmt of concentrate containing 921,895 oz saleable Ag and 6,167 oz saleable Au in the second quarter of 2013, as compared to 2,274 dmt of concentrate containing 814,970 oz saleable Ag and 5,093 oz saleable Au in the comparable 2012 period. Processing costs during the second quarter of 2013 were $28.83/t, higher than the $25.41/t incurred in the second quarter of 2012. Due to ball mill repair and other maintenance, the plant operated for fewer than average days, which resulted in higher cost per tonne in 2013.

During the second quarter of 2013, Cerro Bayo sold 2,272 dmt of concentrate, containing 5,449 oz of saleable Au and 774,923 oz saleable Ag. Sales during the comparable quarter of 2012 were 2,376 dmt of concentrate, containing 4,960 oz of saleable Au and 853,364 oz of saleable Ag. As mentioned earlier, the quarterly results were depressed compared to production due to shipping constraints experienced as a result of port strikes and weather conditions.

Site cash operating cost per tonne of ore processed was $100.56/t in the second quarter of 2013 versus $89.89/t in the second quarter of 2012. Cash cost per ounce silver produced net of gold by-product was $6.12/oz in the second quarter of 2013, higher than the $4.12/oz in the second quarter of 2012, mainly due to reduced gold credits arising from lower gold price. The all-in cost per ounce silver produced net of gold by-product was $11.54/oz in the second quarter of 2013, versus $8.11/oz in the second quarter of 2012 due to higher cash costs per oz.

During the second quarter of 2013, the Company invested $2,732,398 in mine development versus $2,921,296 in 2012. The Company spent $1,034,237 for purchase of property, plant and equipment in 2013 versus $1,213,086 in 2012. It spent $625,361 on exploration versus $1,298,969 in the second quarter of 2012.

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

Cerro Bayo mine produced 205,041 t of ore in 2013 versus 159,772 t in 2012. This represents an average of 1,139 tpd in 2013 versus 888 tpd in 2012. In addition, the mine completed 3,749 m of operating development in 2013 versus 4,294 m in the corresponding year-ago period. Gold and silver grades were 1.93 g/t Au and 274.10 g/t Ag for the six months ended June 30, 2013 versus 1.71 g/t Au and 276.61 g/t Ag for six months ended 2012. Mining cost per tonne in 2013 was $55.30/t, lower than $58.18/t for the six months ended June 30, 2012.

During the six months ended June 30, 2013, the Cerro Bayo concentrator processed 196,586 t of ore with grades of 277.45 g/t Ag and 1.97 g/t Au. During the six months ended June 30, 2012, the concentrator processed 157,890 t of ore with grades of 276.56 g/t Ag and 1.70 g/t Au. The plant achieved 87.37% recovery of Au and 90.40% recovery of Ag in 2013 versus 86.74% of Au and 89.25% of Ag in 2012. Cerro Bayo produced 4,424 dmt of concentrate containing 1,533,336 oz of saleable Ag and 10,599 oz of saleable Au in 2013. Production for the year-ago period was 3,323 dmt of concentrate containing 1,211,594 oz saleable Ag and 7,283 oz saleable Au. Processing costs for the six months ended June 30, 2013 were $28.20/t versus $26.88/t during the six months ended June 30, 2012. Additional costs related to improvement, maintenance and the plant automation project were incurred during 2013. Also the plant operations were temporarily curtailed for several days for repairs, installation and commissioning. These factors resulted into higher processing cost per tonne during 2013.

During the six months ended June 30, 2013, Cerro Bayo sold 4,068 dmt of concentrate, containing 9,564 oz saleable Au and 1,406,659 oz saleable Ag, significantly higher than 2,972 dmt of concentrate, containing 6,244 oz Au and 1,071,424 oz Ag during the six months ended June 30, 2012. Higher sales are due to greater production driven by higher tonnages, better recoveries and relatively higher mill grades during 2013.

Site cash operating cost per tonne of ore processed was $103.14/t for six months ended June 30, 2013, versus $104.07/t for the six months of 2012. Cash cost per ounce silver produced net of gold by-product was $7.22/oz in 2013, higher than the $6.42/oz for six months ended June 30, 2012 mainly due to reduced gold credits arising from lower gold price. The all in cost per ounce silver produced net of gold by-product was $12.52/oz in 2013, versus $11.39/oz in 2012for similar reasons.

During the six months ended June 30, 2013, the Company invested $4,913,437 in capital mine development versus $6,156,586 in 2012; $4,661,983 for purchase of property, plant and equipment versus $2,274,572; and $1,419,969 versus $1,889,856 for exploration.

La Quebrada

Spending on exploration at La Quebrada was $198,502 during the second quarter of 2013.

Markets- Currency Exchange Rates

The average currency exchange rates for the reporting period are summarized in the table below. During the reporting period, the Company did not enter any hedging arrangements for currency exchange rates.

Currency	Average rate April 1, 2013 June 30, 2013	Average rate January 1, 2013 June 30, 2013	Average rate April 1, 2012 June 30, 2012	Average rate January 1, 2012 December 31, 2012
1A$ = C$	1.0150	1.0308	1.0201	1.0353
1A$ = US$	0.9925	1.0151	1.0099	1.0359
1 US$ = C$	1.0233	1.0158	1.0104	0.9996
1 US$ = Chilean Peso	484.88	478.72	496.19	486.23

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. The prices of all the metals saw a significant decrease in the second quarter of 2013. Market prices for all the metals in the second quarter of 2013 were significantly lower compared to the second quarter of 2012. Realized prices were negatively impacted 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 significantly reduced realized prices in the second quarter compared to actual average market prices, because prices fell steadily throughout the quarter which led to downward price revisions on open concentrate sales contracts that had not yet been finally settled at quarter end. The revision to open sales contract pricing resulted in negative impact to revenue of $2.8 million relative to revenues that would have been achieved based on average quarterly pricing.

COMMODITY	Average price April 1, 2013 June 30, 2013	Average price January 1, 2013 June 30, 2013	Average rate April 1, 2012 June 30, 2012	Average rate January 1, 2012 December 31, 2012
Gold US$/Oz - Realized[1]	1,200	1,374	1,566	1,675
Gold- US$/Oz. Average London Daily PM close (Metal Bulletin)	1,415	1,522	1,614	1,668
Realized antimony US$/Tonne[1]	9,628	9,991	13,069	12,513
Antimony US$/Tonne- Rotterdam Warehouse (Metal Bulletin)	10,365	10,744	13,574	12,846
Realized silver price US$/oz	17.81	22.56	28.68	30.83
Silver US$/oz Average London Daily PM close	23.19	26.59	29.39	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	June 30, 2013 $	March 31, 2013 $	December 31, 2012 $	September 30, 2012 $
Revenue	35,903,497	41,624,688	55,699,764	48,847,630
Income/(loss)	3,104,793	10,904,114	22,375,166	9,011,008
Income/(loss) per share - Basic	0.01	0.03	0.07	0.03
Income/(loss) per share - Diluted	0.01	0.03	0.06	0.03

Particulars	June 30, 2012 $	March 31, 2012 $	December 31, 2011 $	September 30, 2011 $
Revenue	46,538,713	20,719,516	24,233,020	26,960,784
Income/(loss)	19,246,828	(8,920,644)	955,754	13,177,845
Income/(loss) per share - Basic	0.07	(0.03)	0.00	0.05
Income/(loss) per share - Diluted	0.05	(0.03)	0.00	0.04

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, will not occur in 2013 as all the put contracts have either been sold or expired. 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 recently entered into partial foreign exchange hedges to limit exposure to exchange rate fluctuations (as stated above).

The general trend of increasing metal sales volumes since financial year ended December, 2011, represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine. Volatility in resulting revenue and earnings is largely due to the changes in value of the unexpired portion of the Company's gold and silver puts 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 (and, in 2011, the Japanese earthquake which resulted in a customer Force Majeure). The Company expects this volatility to decline in the future as there are currently no put options in place for 2013 and we have established alternative shipping routes for Cerro Bayo concentrates to multiple customers.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At June 30, 2013, the Company had working capital of $39,742,736 compared to $38,480,236 at December 31, 2012. The Company had cash and cash equivalents of $23,902,056 at the end of the June 30, 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 June 30, 2013, together with cash flows from operations, will be sufficient to support the Company's normal operating requirements through 2013. 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.

The price of metal is one of the largest factor in determining profitability and cash flow from operations in a mining industry. Therefore, the financial performance of the Company has been, and is expected to continue to be, closely linked to the prices of its products. Given the challenges posed by current declining metal prices, management has been taking proactive steps that are intended to enable Mandalay to continue to achieve its cash flow objectives. These measures include tight discipline on capital expenditure, deferring non-essential capital expenditures.

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

On June 28, 2013, the Company amended the secured revolving credit facility 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 June 30, 2013.

The company has no outstanding debt as at June 30, 2013.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

As of June 30, 2013, the Company had no related party transactions.

1.10 PROPOSED TRANSACTIONS

None.

1.11 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 tradereceivables,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 aresatisfied:

- the significant risks and rewards of ownership have been transferred to the purchaser;

- the Company does not retain continuing managerial involvement to the degree usuallyassociated 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 cashandthe 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 metalcontained 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 QualifiedPersons as defined in accordance with Canadian SecuritiesAdministrators 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.

1.12 FINANCIAL 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 and long-term debt. The Company also periodically uses financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and antimony and against currency exchange rate fluctuations. See "Hedging Activities" below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at June 30, 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 the 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 recently 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. On July 25, 2013 the Company's Australian subsidiary entered into 50% participating forwards contract.

1.13 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 June 30, 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:

<table>
<tr><th>Internal control weakness</th><th>Potential impact of the weakness on the issuer’s financial reporting and its ICFR</th><th>Current plan or actions being undertaken for remediating the potential material weakness</th></tr>
<tr><td>Complete segregation of duties</td><td>Accuracy and possible fraud</td><td rowspan="2">KPMG are the internal auditors since 2011 and have tested the following key financial controls:
• Treasury and banking
• Hedging
• Purchase to pay
• Inventory
• Payroll
• 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.</td></tr>
<tr><td>Collusion</td><td>Financial loss to the Company</td></tr>
</table>

III. Limitation of Controls and Procedures

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur 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.

1.14 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 323,874,553 common shares issued and outstanding. The weighted average number of shares outstanding during the second quarter used for the calculation of per share results was 325,363,574.

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

Exercise Price CND$	As of June 30, 2013	As of August 8, 2013	Expiry Date
1.13	4,287,500	4,287,500	March 18, 2018
0.83	4,052,500	4,052,500	March 9, 2017
0.76	450,000	450,000	July 4, 2016
0.70	490,000	490,000	December 2, 2016
0.58	370,000	370,000	April 11, 2016
0.56	3,502,500	3,502,500	March 11, 2016
0.50	150,000	150,000	August 21, 2013
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	**16,412,500**	**16,412,500**	

During the quarter ended June 30, 2013 280,000 options were exercised. There were 16,412,500 options outstanding as of June 30, 2013, which could result in issuance of shares.

Outstanding share purchase warrants that could result in the issuance of additional common shares as of June 30, 2013, and as of the date of this MD&A are as follows:

Exercise Price CND$	As of June 30, 2013	As of August 8, 2013	Expiry Date
0.31	14,650,000	14,650,000	November 30, 2014
0.465	6,350,000	6,350,000	November 30, 2014
Total	**21,000,000**	**21,000,000**	

During the quarter ended June 30, 2013, no warrants were exercised. The number of warrants outstanding as of June 30, 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 graded vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company’s dividend declarations during the vesting period. The number of RSUs as at June 30, 2013 is as follows:

	Number of RSU awards
Balance, December 31, 2012	-
Granted	300,000
Outstanding at June 30, 2013	300,000

1.15 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

1.16 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.

1.17 NON-IFRS MEASURES

Non-IFRS performance measures are included in this MD&A because the Company believes it these are useful indicators to discuss and understand performance of the Company and its operation units. 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.

1. EBITDA is discussed on page 9. The Company defines EBITDA as earnings before interest, taxes and non-cash charges/(income).

2. Income after tax from underlying operations on page 12. 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 financing warrants and cash election options, silver and gold put options, a silver note payable to Coeur d'Alene Mines Corporation and deferred tax expense or recovery. Income from underlying operations is presented here because the Company believes it is a useful indicator to evaluate the Company's performance. It should not be considered by an investor as an alternative to net income or cash flow as determined in accordance with IFRS. Refer to page 12 for reconciliation between income from underlying operations and income from operations.

3. Operating net income/ (loss) after tax discussed on pages 13 and 18. 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.

4. Cash cost per ounce of gold equivalent produced discussed on page 15. 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.

5. All-in cost per ounce of gold equivalent produced on page 15. All-in costs include total cash operating costs, 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 all-in cost is then divided by the equivalent gold ounces produced to yield the all-in cost per equivalent ounce produced.

6. Cash cost per ounce of silver produced net of gold byproduct credit discussed on page 19. 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.

7. All-in cost per ounce of silver produced net of gold byproduct credit discussed on page 19. The all-in cost per silver ounce produced net of gold byproduct credit is calculated by adding depletion, depreciation, accretion and write-off of exploration and evaluation to the cash cost net of gold byproduct credit as calculated in note 2 above and dividing the resultant number by the silver ounces produced in the period.