MANDALAY RESOURCES

Management's Discussion & Analysis

For the quarter ended March 31, 2012

CONTENTS

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 of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended March 31, 2012, the audited consolidated financial statements of the company for the year ended December 31,2011, the Management's Discussion and Analysis of such financial statements and the Company's annual information form dated March 31, 2012 (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.

FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

In the first quarter, the Company generated revenue of $20,719,516, profit from mining operations before depletion and depreciation of $8,890,896 and net loss of $8,920,644(negative $0.03per share). Net income is inclusive of non-cash, non-operating expense of$11,278,163 related to mark-to-market adjustment of silver and gold put options[1]("puts"),a silver note payable to Coeur d'Alene Mine Corporation (the "Silver Note") and deferred tax income of $1,518,592.Excluding non-cash and non-operating expense of $11,278,163 and deferred tax income of $1,518,592,profit from underlying operations for the first quarter was$838,927($0.00 per share).

For comparison, in the first quarter of 2011 the Company generated revenueof $16,609,053,profit from mining operations before depletion and depreciation of$9,103,525 and a net income of$2,407,240 (positive $0.01 per share).

In the first quarter, the Company delivered record gold and silver production from the Cerro Bayo mine in Aysen, Chile, since its restart by Mandalay in the third quarter of 2010. This was despite disruptions in the quarter due to public protests in the region that occurred in February and March. These protests interrupted both outbound and inbound shipments to the mine. The government of Chile has subsequently resolved the issues underlying the protests and shipment have resumed as normal from the end of March. We expect to catch up on ore processing and concentrate shipments

[1] These put options gives the Company the right, but not the obligation, to sell a specified amount of gold or silver at a specified price within a specified time.

in the second quarter of 2012.However, our financial results in the first quarter were significantly impacted by the delay in shipments of concentrate from Cerro Bayo.

2. **Operating Highlights**

a. Consolidated Production and Sales Results

In the first quarter of 2012, Mandalay produced 5,880 ounces (oz) of gold ("Au"), 489 tonnes (t) of antimony ("Sb") and 396,624 oz of silver ("Ag") representing 16,988 gold equivalent ounces("Au Eq. oz"), slightly more than in the fourth quarter of 2011. Silver production is a quarterly record.

Quarterly and Annual Saleable Production

Metal	Source	Q1, 2011	Q2, 2011	Q3, 2011	Q4, 2011	2011 Total	Q1 2012
Gold (oz)	Costerfield	4,528	2,856	2,057	2,803	**12,244**	3,690
	Cerro Bayo	1,450	1,552	1,567	2,109	**6,678**	2,190
	TOTAL	5,978	4,408	3,624	4,912	**18,922**	5,880
Antimony (t)	Costerfield	512	413	305	346	**1,576**	489
Silver (oz)	Cerro Bayo	339,366	284,324	299,679	395,296	**1,318,665**	396,624
Average quarterly prices							
Gold US$/oz		1,386	1,506	1,702	1,684		1,694
Antimony US$/tonne		14,141	15,899	14,893	13,891		12,692
Silver US$/oz		31.70	38.54	38.84	31.80		31.78
Au Eq. (oz)[1]	Costerfield	9,752	7,216	4,726	5,657	**27,351**	7,356
	Cerro Bayo	9,212	8,828	8,406	9,574	**36,020**	9,631
	Total	**18,964**	**16,044**	**13,132**	**15,231**	**63,370**	**16,988**

Quarterly and Annual Sales

Metal	Source	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011	Q1 2012
Gold (oz)	Costerfield	4,741	3,229	2,108	2,837	12,915	3,384
	Cerro Bayo	204	1,297	1,690	2,347	5,538	1,284
	TOTAL	4,945	4,526	3,798	5,184	18,453	4,668
Antimony (t)	Costerfield	476	433	279	352	1,540	450
Silver (oz)	Cerro Bayo	69,037	270,404	376,409	396,150	1,112,000	218,060
Average quarterly prices							
Gold US$/oz		1,499	1,469	1,814	1,734		1,715
Antimony US$/tonne		15,050	16,036	17,326	12,921		12,282
Silver US$/oz		29.41	39.85	40.50	27.00		32.97
Au Eq. (oz)[2]	Costerfield	9,521	7,955	4,773	5,460	27,709	6,604
	Cerro Bayo	1,559	8,632	10,093	8,516	28,801	5,475
	Total	**11,080**	**16,587**	**14,866**	**13,977**	56,510	**12,080**

1. Au Eq. oz produced is calculated by multiplying the saleable quantities of gold (Au), silver (Ag), and antimony (Sb) in the quarter 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 quarter. Average Au price in the quarter is calculated as the average of the daily LME PM fixes in the quarter, with price on weekend days and holidays taken from the last business day; average Sb price in the quarter is calculated as the average of the daily average of the high and low Rotterdam warehouse prices for all days in the quarter, with price on weekend days and holidays taken from the last business day; average Ag price in the quarter is calculated as the average of the daily London Broker's silver spot price for all days in the quarter, with price on weekend days and holidays taken from the last business day. The source for all prices is www.metalbulletin.com.

2. Au Eq. oz sold is calculated by dividing the total revenue with the realized gold price. Realized gold price is the weighted average of price realized in Costerfield and Cerro Bayo.

During the quarter ended March 31, 2012, the Company sold 4,668 oz gold (Au), 218,060 oz silver (Ag) and 450 t antimony (Sb). Silver and gold sales were significantly lower than production in the first quarter of 2012 because shipmentsfrom Cerro Bayowere delayed due to the closure of the port of Chacabuco, Chileas a result of civil unrest in Aysen province.

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

i. *Production* —Saleable gold production for the first quarter of 2012 was 3,690 oz versus 2,803 oz and 2,057 oz in the fourth and third quarter of 2011 respectively. Saleable antimony production for the first quarter of 2012 was 489t versus 346t and 305t in the fourth and third quarter of 2011 respectively. This significant increase in production relative to previous quarterswas due to operational improvements implemented by the new mine management. Improvements include the introduction of new elements to the mobile fleet, shifting of the mining method to cemented rock fill stoping, and planning and scheduling improvements.

ii. *Operating Costs* —Cash cost perounce of gold equivalent produced in the first quarter of 2012 was $1,301 versus $1,473and $1,702in the fourth and third quarter of 2011respectively.Cash cost per ounce in first quarter of 2012 relative to the fourth quarter of 2011 decreased principally due to higher production resulting from higher grades contained in ore processed as well as good cost control.

c. **Cerro Bayo Silver-Gold mine, Patagonia, Chil*e***

i*.* *Production* —During the first quarter of 2012, saleable silver production was 396,624 oz versus 395,296 oz and 299,679 oz in the fourth and third quarter of 2011 respectively. Saleable gold production in the first quarter of 2012 was 2,190 oz versus 2,109 oz and 1,567 oz in the fourth and third quarter of 2011 respectively. The generally upward trend in metal production was due to highermill head gradesand higher recovery rates.

ii. *Operating Costs* — Cash cost per saleable ounce of silver produced in concentrate for the first quarter of 2012 net of gold credits was $11.45 versus $16.72and $17.75 in the fourth and third quarter of 2011 respectively. The lower cost is due to higher silver and gold production in the first quarter which was mainly due to higher grades contained in ore processed and continued good cost control.

3. Exploration

During the quarter ended March 31, 2012:

- Drilling at Cerro Bayo focused on Delia North West (NW) and Delia South East (SE), where infill and extensional drilling continues. The overall rate of exploration drilling at Cerro Bayo was impacted during the quarter due to the Aysen protests which resulted in the suspension of contract drilling for approximately six weeks. Normal drilling rates resumed in April.

- Exploration continued with three rigs at Costerfield. The principle focus during the quarter was defining the limits of the Cuffley Lode discovery and infill drilling in the W and N lodes in the Augusta mine.

- Mandalay completed infill drilling of the Casa de Piedra target at the La Quebrada project. Logging and assaying of core is underway with the goal of completing a maiden resource on this project by the end of June 2012.

1.0 DATE

This MD&A is dated as of May 9, 2012.

1.1 SUBSEQUENT EVENTS

On April 2, 2012, the Company announced thatit had resumed shipping concentrate from Cerro Bayo upon cessation of civil protests in Aysen region (please refer to Mandalay news releases dated February 24, 2012 and March 9, 2012). The Company expects to catch up on all delayed shipments in the second quarter of 2012.

On April 11, 2012,Mandalay announced that West Face Capital Inc. ("West Face") has exercised 12,000,000 C$0.33 common share purchase warrants held by a fund managed by West Face (the "Fund") which were acquired by them in August 2010. With this transaction, West Face's control and the Fund's ownership in Mandalay is approximately 45.6% of current outstanding shares. After giving effect to this exercise West Face controls, and the Fund holds 13,973,955 warrants to purchase Mandalay shares at C$0.33 with an expiry date of August 6, 2012 and 128,883,045 common shares of Mandalay.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company whose business 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. Company's goal is to have four to five producing mines in its portfolio within the next three to four years. The Company's current producing assets are its Costerfield gold-antimony mine in Victoria, Australia and its Cerro Bayo silver-gold mine in Aysen, 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

The mine delivered recordperformance in the first quarter of 2012 producing 19,093 t versus 17,023t in fourth quarter of 2011 and 13,017t in the first quarter of 2011.Ore grades improved due to improved proportion of stoping production achieved as a result of the implementation of the cemented rock fill backfilling technique. Recovery rates improved due to good performance of newly installed cyclones and Knelson concentrator. Capital development rateswere somewhat impacted by difficult ground conditions associated with crossing the King Cobra fault. Operating cost per ounce of gold equivalentimproved largely as a result of higher volumes and better grades as well as the initial impact of replacing Mandalay'sold fleet of leased mine loaders with new company owned loaders on equipment rental and maintenance costs.

Cerro Bayo Mine

Cerro Bayo quickly rebounded from the impact of the Aysen civil protests and bythe end of March had resumed shipments. Catch-up shipments are scheduled for April and May through both the port of Chacabuco and the port of Lirquen. The Aysen protests also briefly interrupted the ramp-up of mine productiondue to delays in the delivery of fuel, explosives and other consumables. In total about eight days of mine production were lost during the quarter and about two weeks of concentrator operations.Gradescontinued to improveas the percentage of stoping ore continues to rise in proportion to development ore. Both the Fabiola and Dagny mines are now largely in steady state while the Delia NW mine is primarily producing development ore.Metallurgical recovery rates continued to improve both as a result of the higher ore grade and better control in the processing plant. As a result of the lost plant operating days discussed above, significant ore stockpiles were accumulated during the quarter. It is anticipated that these stockpiles will be consumed in the second quarter.

As a result of the Aysen protests, the rate of capital development was curtailed to focus limited supplies of explosives and other consumables on ore production. Mandalay expects to return to normal development rates in the second quarter. The reduced rate of capital development advance, due to high fixed costs, led to higher development costs per meter during the quarter.

1.3 SELECTED QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended March31, 2012 and 2011:

	Quarter ended March 31, 2012 $	Quarter ended March 31, 2011 $
Revenue	20,719,516	16,609,053
Cost of sales	11,828,620	7,505,528
Earnings from mine operations before depreciation and depletion	8,890,896	9,103,525
Depreciation and depletion	4,063,613	2,876,310
Income from mine operations	4,827,283	6,227,215
Administration	2,764,888	1,399,220
EBITDA	6,126,008	7,704,305
Finance costs, foreign exchange and others/(income)*	12,501,631	2,420,755
Income/(loss) before tax	(10,439,236)	2,407,240
Deferred tax	1,518,592	-
Income after tax	(8,920,644)	2,407,240
Total assets	136,631,567	109,170,133
Total liabilities	46,072,087	42,540,721
Income per share	(0.03)	0.01

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

EBITDA Reconciliation to Net Income

The Company defines EBITDA as earnings before interest, taxes and non-cash charges/(income). EBITDA is presented because the Company believes it is a useful indicator of relative operating performance. EBITDA does not have a meaning withinIFRS 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 the three months ended March 31, 2012 and 2011.

	Quarter ended March 31, 2012		Quarter ended March 31, 2011	
	$	$	$	$
Net Income/(loss)		(8,920,644)		2,407,240
Add: Non-cash and finance costs				
Depletion and depreciation	4,063,613		2,876,310	
Write off mineral properties	-		-	
Share based compensation	368,102		389,439	
Interest and finance charges	784,919		398,174	
Fair value adjustments	11,278,163		1,563,974	
Deferred tax	(1,518,592)		-	
Foreign exchange gain/(loss)	140,867	15,117,072	431,005	5,658,902
		6,196,428		8,066,142
Add/(Less): Interest & (other income)/expenses	(70,420)	(70,420)	(361,837)	(361,837)
EBITDA		6,126,008		7,704,305

Fair-value adjustments

As at March 31, 2012, the following items on the balance sheet were subject to fair-value adjustments in accordance with IAS 39:

a) *300,000silver puts with a strike price of $25/oz* had a fair value of $186,950 as at March 31, 2012. Fair value adjustments resulted in lossof$958,250 on the income statement for the firstquarter of 2012.

b) *900,000 silver puts with a strike price of $35/oz*had a fair value of $3,666,400 as at March 31, 2012. Fair value adjustments resulted in loss of $5,850,900 on the income statement for the first quarter of 2012.

c) *630,000 silver puts with a strike price of $30/oz* had a fair value of $931,770 as at March 31, 2012. Fair value adjustments resulted in loss of $2,839,900 on the income statement for the first quarter of 2012.

d) *14,400gold puts with a strike price of $1,400/oz*had a fair value of $183,413 as at March 31, 2012. Fair value adjustments resulted in loss of $1,208,584 on the income statement for the first quarter of 2012.

e) *Silver Note*. The Company's obligation to pay to Coeur d'Alene Mines Corporation the U.S dollar equivalent of 125,000 oz of silver in six equal installments commencing in the third quarter of 2011 was originally valued at the $18/oz silver price at the time the Company acquired Cerro Bayo. This obligation wasvalued at $1,871,741as at March 31, 2012based on silver prices at quarter end. At the end of the first quarter of 2012, the Company paid the third installment under the Silver Note of$651,292. The revaluation loss for the first quarter of 2012 is $420,529.

All the above items are non-cash, 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	As of March 31, 2012	As of December 31, 2011
			Q1 2012		
	$		$	$	$
Assets					
Derivative Financial Instrument	15,826,167	(a)	(10,857,634)	4,968,533	16,253,768
Deferred Tax	4,450,865	(b)	1,518,592	5,969,457	4,450,865
Liabilities					
Current portion of long-term debt	13,238,373	(c)	420,529	13,658,902	10,004,691
Shareholders' equity					
Surplus/(Deficit)	7,053,758		(9,759,571)	(2,705,813)	6,291,258

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement loss of $10,857,634 for three months ended March 31, 2012.

(b) The Company recorded a deferred tax asset of $1,518,592 for three months ended March 31, 2012.

(c) The Company adjusted the Silver Note to $1,871,841 as at March 31, 2012 based on updated forecast silver prices and time values, resulting in fair value measurement loss of $420,529 for three months ended March 31, 2012.

Fair value and Deferred tax adjustments impact on items in the income statement

	March 31, 2012				March 31, 2011
	Underlying operations	Note	Fair value and defered tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	1,694,293			1,694,293	4,438,556
Other items					
Interest and other income	70,420			70,420	38,370
Finance (costs)/income	(784,919)	(a)	(10,857,634)	(12,063,082)	(1,962,148)
		(b)	(420,529)		
Gain on disposal of property, plant and equipment	-			-	323,467
Foreign exchange gain (loss)	(140,867)		-	(140,867)	(431,005)
Net income/(loss) before tax	838,927		(11,278,163)	(10,439,236)	2,407,240
Deferred tax		(c)	1,518,592	1,518,592	-
Net income/(loss)	838,927		(9,759,571)	(8,920,644)	2,407,240
Income (loss) per share					
Basic	0.00			(0.03)	0.01
Diluted	0.00			(0.03)	0.01

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement loss of $10,857,634 for three months ended March 31, 2012.

(b) The Company adjusted the Silver Note to $1,871,841 as at March 31, 2012 based on updated forecast silver prices and time values, resulting in fair value measurement loss of $420,529 for three months ended March 31, 2012.

(c) The Company recorded a deferred tax asset of $1,518,592 for three months ended March 31, 2012.

1.4 RESULTS OF OPERATIONS

Three Months Ended March 31, 2012 compared to Three Months Ended March 31, 2011

During the three months ended March 31, 2012, the Company incurreda net loss of $8,920,644 (net of mark-to-market adjustments $11,278,163 and deferred tax income of $1,518,592) compared to net income of $2,407,240 during the three months ended March 31, 2011. Loss in the first quarter of 2012was due to negative mark-to-market adjustments of $11,278,163 anddeferred concentrateshipmentsfrom Cerro Bayo because the Port of Chacabuco was effectively closed for all of February and March due to civil unrest in Aysen.

Administrative expenses for the quarter ended March 31, 2012 were $2,764,888 compared to $1,399,220 during the quarter ended March 31, 2011. The main components of administration expenses in first quarter of 2012 were$939,203 atCosterfield, $944,946 at Cerro Bayo, and $880,738 at Corporate. By comparison, in the first quarter of 2011, administration expenses were $504,672at Costerfield, $13,332 at Cerro Bayo and $881,216 at Corporate. The increase in administration costs from the first quarter of 2011 to the first quarter of 2012 largely reflects the operations ramp-up at Cerro Bayo in 2011.

The Corporate portion of the administrative expenses consistedof $345,472 in management fees, $118,043 in audit fees (including internal review fees), $131,532 in travel expenditure, $54,462 in legal and accounting fees, $132,262 in investor relations and transfer agent and filing fees and $80,089 in consulting fees.

Capital expenditures in the first quarter of 2012, including capitalized depreciation,were $11,976,471. Of this, $4,887,663 was spent at Cerro Bayo: $3,235,290 for mine development and in-fill drilling, $1,061,486 for purchase of property, plant and equipment; and $590,887 for exploration. Costerfield spent $1,986,706 for decline development,$2,653,351 for property, plant and equipmentand $1,064,582 for exploration. In the quarter, $1,344,842 of capitalized exploration spending occurred at La Quebrada and $39,327 was spent for corporate purposes. By comparison, capital expenditures in the first quarterof 2011totaled $5,962,709. The increase in capital spending in the first quarter of 2012 relative to 2011 is a result of the mine equipment purchased at Costerfield and the significant increase in exploration activities at both mines.

Costerfield Results, Production, Sales, and Costs for the Three Months Ended March 31, 2012

Revenue was lower in the first quarter of 2012 than in the corresponding quarter of 2011 due to a combination of lower metal produced and lower metal prices.Cost of sales in the first quarter of 2012 increased due to higher mined and processed ore tones.Cash cost per Au equivalent ounce increased from $766 in firstquarter of 2011 to $1,301 in first quarter of 2012. This resulted in lower EBITDA and a lower net income for the quarter.

Costerfield financial results

	Quarter ended March 31, 2012 $	Quarter ended March 31, 2011 $
Revenue	11,282,888	14,292,520
Cost of sales	7,902,848	7,041,903
Earnings from mine operations before depreciation and depletion	3,380,040	7,250,617
Depreciation and depletion	1,279,590	1,414,771
Income from mine operations	2,100,450	5,835,846
Administration	939,203	504,672
EBITDA	2,440,837	6,745,944
Finance costs, foreign exchange and others*	714,239	30,468
Net Income	447,008	5,300,706
Capital expenditure**	5,704,639	2,428,361

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

** Capital expenditure includes additions net of disposals. It also includes capitalized depreciation onequipment..

Costerfield operating statistics

The following table summarizes certain aspects of production, sales, costs and capital development activities at Costerfield during the three months ended March 31, 2012, the three months ended December 31, 2011, the three months ended March 31, 2011 and the year ended December 31, 2011.

	Unit	Quarter ended March 31,2012	Quarter Ended December 31, 2011	Quarter Ended March 31, 2011	Year ended December 31,2011
Mining Production and Mining Cost					
Operating development	m	1,259	894	903	4,027
Mined ore	t	19,093	17,023	13,017	66,156
Ore mined Au grade	g/t	8.45	6.30	7.20	6.00
Ore mined Sb grade	%	4.39	3.78	5.80	3.97
Mined contained Au	oz	5,188	3,450	3,014	12,770
Mined contained Sb	t	838	643	755	2,626
Mining cost per tonne ore	$/t	337.01	303.04	274.00	271.78
Processing and Processing Cost					
Processed ore	t	18,348	16,344	18,618	71,973
Mill head grade Au	g/t	8.41	7.16	10.52	7.27
Mill head grade Sb	%	4.39	3.49	5.00	3.66
Recovery Au	%	88.62	88.11	86.50	86.32
Recovery Sb	%	95.78	94.13	88.50	92.27
Concentrate produced	dry t	1,447	1,012	1,671	4,706
Concentrate grade Au	g/t	93.03	102.18	100.79	96.10
Concentrate grade Sb	%	53.15	53.47	48.82	51.45
Saleable Au produced	oz	3,690	2,803	4,528	12,244
Saleable Sb produced	t	489	346	512	1,577
Saleable Au equivalent produced	oz	7,365	5,655	9,747	27,347
Processing cost per tonne ore	$/t	70.35	62.29	88.87	77.32
Sales					
Concentrate sold	dry t	1,322	1,029	1,543	4,682
Concentrate Au grade	g/t	94.03	101.77	100.87	96.20
Concentrate Sb grade	%	53.13	53.46	49.00	51.51
Au sold	oz	3,384	2,837	4,741	12,914
Sb sold	t	450	352	476	1,539
Benchmark Unit Cost					
Site cash operating cost/ tonne ore processed	$/t	509.76	495.63	401.00	410.70
Site cash operating cost/tonne concentrate produced	$/t	6,461.71	8,001.89	4,467.87	6,281.67
EBITDA/tonne ore milled	$/t	133.03	45.60	361.06	174.05
EBITDA/tonne concentrate produced	$/t	1,686.29	736.29	4,022.87	2,662.14
Cash cost per oz Au equivalent produced[1]	$/oz	1,300.71	1,473.31	765.94	1,117.12
Capital Spending					
Capital development	m	305	345	264	1,027
Capital development cost	$000	1,987	2,146	839	6,163
Capital development cost/meter	$/m	6,513	6,228	3,178	6,002
Capital purchases	$000	2,653	1,656	1,046	3,811
Capitalized exploration	$000	1,065	643	544	2,775

[1]The cash cost per ounce of gold equivalent produced is a non IFRS performance measure that is included in this MD&A because this statistics 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 antimony realized price divided by the gold realized price. 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.

During the three months ended March 31, 2012, the Costerfield mine completed1,259metres ("m") of operating development (a record) and produced 19,093t of ore (also a record). Mining cost in the first quarter of 2012 at $337/t was slightly higher than in the previous quarter, due to delayed impact of improvements made and paid for in the quarter, for example, moving to seven day mining.Ore grade was higher than in the previous quarters due to increased proportion of high grade stoping ore in mill feed, the result of continued refinement of the cemented rock fill stoping method and planning and scheduling improvements introduced late in 2011.

Capital development in the first quarter of 2012 was slightly lower as compared to fourth quarter of 2011due todifficult ground conditions encountered in crossing the King Cobra fault.

During the firstquarter of 2012, the Costerfieldconcentrator processed 18,348 t of ore with grades of 8.41 grams per tonne ("g/t") and 4.39% Sb. Throughput was higher than the previous quarter andgrades were significantly higher.The plant achieved 88.62% recovery of gold and 95.78% recovery of antimony;recovery rates have improved for both gold and antimony with continuing operational refinements since implementation of new cyclones and Knelson concentrator in 2011.The higher mill head grades and recovery rates in the first quarter of 2012 led to higher concentrate production relative to the previous threequarters. Concentrate production was1,447 dry metric tonnes ("dmt"), saleable antimony production was 489 t and saleable gold production was 3,690 oz. Processing costs were $70.35/t during the first quarter of 2012.

Higher metal in concentrate production volumes led to higher sales volumes for the first quarter of 450 t of antimony and 3,384 oz of gold in concentrate.

Site cash operating cost per tonne of ore processed was $510/t in the first quarter of 2012, higher than in previous quarters due to the impact of higher labor costs, (mostly increased staffing associated with the move to a seven day mining), higher costs associated with cemented rock fill stoping and general cost inflation in Australia.The highermetal production in the first quarter of 2012, however, led to a lower cost per gold equivalent ounce produced ($1,301/oz) as compared to the previous two quarters.

During the quarter, the Company invested $1,986,706 for decline development,$1,064,582 for exploration and $2,653,351 for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended March 31, 2012

Cerro Bayo generated record revenue of $9,436,629 for the quarter ended March 31, 2012, despite the reduced sales resulting from protest related shipping delays. Earnings from mine operations before depreciation and depletion were a record $5,510,856; net income before non-cash financial charges and deferred tax income was $1,392,554. The consolidated loss after financial charges and deferred tax income was $7,944,831.

Cerro Bayo financial results

	Quarter ended March 31, 2012 $	Quarter ended March 31, 2011 $
Revenue	9,436,629	2,316,533
Cost of sales	3,925,773	463,626
Earnings from mine operations before depreciation and depletion	5,510,856	1,852,907
Depreciation and depletion	2,784,023	1,461,539
Income from mine operations	2,726,833	391,368
Administration	944,946	13,331
EBITDA	4,565,910	1,839,576
Finance costs, foreign exchange and others*	11,245,310	54,313
Income/(loss) before tax	(9,463,423)	323,724
Deferred tax income	1,518,592	-
Net income/(loss) after tax	(7,944,831)	323,724
Capital expenditure**	4,887,663	3,101,179

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

**Capital expenditure includes additions net of disposals. It also includes capitalized depreciation on equipment.

Cerro Bayo operating statistics

The table below summarizes certain aspects of capital development activities, production, sales and costs from Cerro Bayo during the three months endedMarch 31, 2012, the three months ended December 31, 2011, the three months ended March 31, 2011 andthe year ended December 31, 2011.

	Unit	Quarter ended March 31,2012	Quarter Ended December 31, 2011	Quarter Ended March 31, 2011	Year ended December 31,2011
Mining Production and Mining Cost					
Operating development	m	1,919	2,254	1,027	5,518
Mined ore	t	73,660	76,140	36,089	207,783
Ore mined Au grade	g/t	1.26	1.08	0.93	1.06
Ore mined Ag grade	g/t	243.02	207.83	226.00	220.82
Mined contained Au	oz	2,993	2,643	1,079	7,104
Mined contained Ag	oz	575,536	508,771	262,224	1,475,189
Mining cost per tonne ore	$/t	59.72	64.12	52.00	61.00
Processing and Processing Cost					
Processed ore	t	58,976	77,104	59,874	270,456
Mill head grade Au	g/t	1.41	1.12	0.83	1.00
Mill head grade Ag	g/t	244.69	202.48	182.00	187.16
Recovery Au	%	84.70	78.40	90.00	82.50
Recovery Ag	%	88.59	81.76	90.00	84.50
Concentrate produced	dry t	1,049	966	1,498	3,942
Concentrate grade Au	g/t	64.95	67.90	28.90	52.69
Concentrate grade Ag	g/t	11,760.88	12,729.21	6,714.00	10,404.28
Saleable Au produced	oz	2,190	2,109	1,450	6,678
Saleable Ag produced	oz	396,624	395,296	339,366	1,318,665
Saleable Au equivalent produced	oz	9,845	9,572	9,204	36,007
Processing Cost per tonne ore	$/t	29.35	28.66	21.70	28.97
Sales					
Concentrate sold	dry t	595	1,240	304	3,582
Concentrate Au grade	g/t	69.46	60.85	22.00	49.97
Concentrate Ag grade	g/t	11,837.36	10,309.72	7,337.00	10,035.23
Au sold	oz	1,284	2,347	204	5,538
Ag sold	oz	218,060	396,150	69,037	1,112,000
Benchmark Unit Cost					
Site cash operating cost/ tonne ore processed	$/t	127.86	112.37	70.89	92.93
Site cash operating cost/tonne concentrate produced	$/t	7,188.76	8,969.78	2,833.00	6,375.42
EBITDA/tonne ore milled	$/t	77.41	44.70	26.00	83.13
EBITDA/tonne concentrate produced	$/t	4,352.57	3,568.03	1,055.00	5,703.09
Cash cost per oz Ag produced net of Au byproduct credit[1]	$/oz	11.45	16.72	8.56	14.29
Capital Spending					
Capital development	m	459	404	470	2,453
Capital development cost	$000	3,235	1,530	1,785	9,332
Capital development cost/meter	$/m	7,049	3,786	3,801	3,804
Capital purchases	$000	1,061	1,469	810	3,358
Capitalized exploration	$000	591	2,520	506	5,725

[1]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.

During the three months ended March 31, 2012, the Cerro Bayo mine produced 73,660 t of ore and completed 1,919 m of operating development, both good achievements in view of the eight days of lost mine operations due to the Aysen protests. Gold and silver grade of ore produced reached record levels as mine encountered rich parts of the veins and the proportion of stoping ore versus development ore increased during the first quarter of 2012.The high grades led to record contained gold and silver ounces mined for the quarter. Mining cost per tonne were lower in the first quarter of 2012than in the previous quarter, ($59.72/t, compared to $64.12/t)due tolower purchases of consumables during the first quarter of 2012 due to restricted deliveries associated with the protests.

During the first quarter of 2012, the Cerro Bayo concentrator processed 58,976 t of ore with grades of 244.69 g/t silver and 1.41 g/t gold. The plant achieved 84.70% recovery of gold and 88.59% recovery of silver. The plant produced 1,049 dmt of concentrate containing 396,624 oz of saleable silver and 2,190 oz of saleable gold. The record metal production in the first quarter of 2012 resulted from high mill head gradesdelivered from the mine. Processing cost during the first quarter of 2012 was $29/t, about average despite two weeks of curtailed operations during the protests.

Cerro Bayo generated record sales of 595 dmt of concentrate, containing 1,284 oz of gold and 218,060 oz of silver, during the first quarter of 2012. These quarterly results were depressed relative to production by shipping constraints experienced during the protests.

Site cash operating cost per tonne of ore processed was $128/t in the first quarter of 2012, higher than the two previous quarters due to lower ore processed during the quarter of protest constrained production. Cash cost per ounce silver produced net of gold by-product was $11.45/oz, lower than previous quarter mainly due to record production of 396,624 silver ounces.

During the first quarter of 2012, the Company invested $3,235,290 for mine development, $1,061,486 for purchase of property, plant and equipment and $590,887 for exploration. Spending on capital development and purchases are expected to continue at similar levels going forward.

La Quebrada

Spending on exploration at La Quebrada and the rest of Chile was $1,344,842.Infill drilling of Casa de Piedra was completed in March. Logging and assayingis in progress, and an initial resource estimation and independent NI 43-101 report are anticipated for completion in late second quarter, 2012.

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 January 1, 2012 March 31, 2012	Average rate October 1, 2011 December 31, 2011	Average rate January 1, 2011 December 31, 2011
1A$ = C$	1.0566	1.0358	1.0206
1A$ = US$	1.0556	1.0126	1.0325
1 US$ = C$	1.0011	1.0228	0.9891
1 US$ = Chilean Peso	488.65	511.61	483.63

Markets—Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market silver price was constant in the first quarter of 2012 relative to the fourth quarter of 2011 and the year-ago quarter. Market gold price was nearly unchanged relative to the fourth quarter of 2011 and significantly higher than the year-ago quarter. Market antimony price was slightly lower in the first quarter of 2012 than in both the previous quarter and the year-ago quarter. Realize gold, antimony and silver prices closely approximated their market prices as reported in Metal Bulletin.

COMMODITY	Average price January 1, 2012- March 31, 2012	Average price October 1, 2011- December 31, 2011	Average price January 1, 2011- March 31, 2011	Average price Janaury 1, 2011- December 31, 2011
Gold US$/Oz - Realized[1]	1,715	1,734	1,499	1,622
Gold- US$/Oz. Average London Daily PM close (Metal Bulletin)	1,694	1,686	1,384	1,572
Realized antimony US$/Tonne[1]	12,282	12,921	15,050	15,252
Antimony US$/Tonne- Rotterdam Warehouse (Metal Bulletin)	12,692	13,869	14,243	14,976
Realized silver price US$/oz	33	27	29	35
Silver US$/oz Average London Daily PM close	32	32	32	35

[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	March 31, 2012 $	December 31, 2011 $	September 30, 2011 $	June 30, 2011 $
Revenue	20,719,516	24,233,020	26,960,784	24,360,995
Income/(Loss)	(8,920,644)	955,754	13,177,845	1,936,478
Income/(Loss) per Share	(0.03)	0.00	0.05	0.01

Particulars	March 31, 2011 $	December 31, 2010 $	September 30, 2010 $	June 30, 2010 $
Revenue	16,609,053	8,322,097	4,303,930	5,035,912
Income/(Loss)	2,407,240	1,740,990	(464,749)	(2,554,913)
Income/(Loss) per Share	0.01	0.01	0.00	(0.03)

Since the acquisition of the Costerfield mine in December 2009, and of the Cerro Bayo mine in August 2010, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield and Cerro Bayo mines. These 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. Metal prices are determined 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 general trend of increasingrevenue from the quarter ended March 31, 2010 to the quarter ended March 31, 2012 represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine. This growing revenue trajectory was enhanced by generally increasing prices for gold, silver and antimony.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At March 31, 2012, the Company had working capital of $10,148,823 compared to $28,178,485 at December 31,2011. The working capital decrease was mainly due to the mark to market loss on the value of the puts of $10,857,634. The Company had cash and cash equivalents of $10,620,189 at the end of the March 31, 2012 as compared to $12,741,454 at December 31, 2011.

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 March 31, 2012, together with cash flows from operations, will be sufficient to support the Company's normal operating requirements through 2012. However, taking into consideration volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continually reviewing expenditures and additional financial opportunities in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations.

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

As at March 31, 2012, the Company has a Silver Note payable to Coeur D'Alene Mines Corporation in the U.S. dollar equivalent amount of 62,500ounces of silver due in three quarterly installments.

On December 23, 2010, the Companyentered into a two year C$10,000,000 loan facility secured by its assets that pays interest at 11% per annum.Against the loan as at March 31, 2012 there is deferred loan costs of US$447,630 (C$446,513) which will be amortized over the remaining period of the first tranche of C$5,000,000 (closed on December 23, 2010) and second tranche of C$5,000,000 (closed on February 1, 2011). In the fourth quarter of 2011, the Company repaid C$2,000,000 of this Sprott loan.During the quarter ended March 31, 2012, the Company re-borrowed $1,998,200 (C$2,000,000) of, amounts that had previously been repaid under the Sprott loan. This was done in anticipation of working capital demands caused by delayed shipments during the Aysen protests..

In addition, the Company has several equipment loans with interest rates ranging from 7.86% to 9.93% that are repayable over the next oneto three years. The total repayment requirements are as follows:

	Equipment loans	Sprott loan	Silver Contract	BCI Loan	Total
	$	$	$		$
2012	963,604	10,025,000	1,871,741	1,000,100	**13,860,445**
2013	895,197				**895,197**
2014	707,123				**707,123**
2015	122,492				**122,492**
Total	**2,688,416**	**10,025,000**	**1,871,741**	**1,000,100**	**15,585,257**

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

As of March 31, 2012, 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 these consolidated financial statements include, but are not limited to, the recoverability of trade and other receivables, measurement of revenue and trade receivable,the proven and probable ore reserves and resources and the related depletion and amortization, 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 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 usually
- associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the
- Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Sales of certain commodities are provisionally priced such that the price is not settled until apre-determined future date based on the market price at that time. Revenue on these sales is initially recognized (when the above criteria are met) at the current market price. Provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark to market adjustment isrecognized 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 and work-in-process inventories include saleable ounces of gold, silver and antimony and the gold, silver and antimony prices to be realized when the metal is sold. If these estimates or assumptions prove to be inaccurate, the Company could be required to write down the carrying amounts of its work-in-process inventories, which would reduce the Company's earnings and working capital.

Property, plant and equipment

Exploration and Evaluation

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

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash paid, the value of share considerations and exploration costs incurred. 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 irrecoverable 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 ounces contained in proven and probable reserves at the related mine when the production level intended by management has been reached.

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

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

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

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

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. 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 March 31, 2012, 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 andbelieves 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 does not currently enter into any foreign exchange hedges to limit exposure to exchange rate fluctuations. The Board of Directors 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 gold and silver. World gold and silver prices have historically fluctuated widely. World gold and silver prices are 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 jewellery containing gold and silver; and
- investment activity, including speculation, in gold and silver as commodities.

The Company's earnings and cash flow are also subject to price risk due to the fluctuation in the price of antimony. The primary factors affecting the antimony price are the demand for flame retardant chemicals made from antimony and Chinese primary antimony production.

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

The financial reporting impact of these hedges under IFRS will potentially produce non-cash earnings volatility on a quarterly basis because IFRS require that these hedges be valued at fair value each quarter. In the first quarter of 2012, the mark-to-market income on this hedge position was $10,857,634. It is not the Company's intent to trade these securities but to hold them to maturity as price protection for its future revenues, earnings and cash flows.

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 March 31, 2012 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 is implementing internal audit function within the Company. This is designed to further identify the gaps in internal control procedures and help create internal policy documents as necessary.

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

Internal control weakness	**Potential impact of the weakness on the issuer's financial reporting and its ICFR**	**Current plan or actions being undertaken for remediating the potential material weakness**
Complete segregation of duties	Accuracy and possible fraud	AppointedKPMG as internal auditors in Q4 2011. Self assessment questionnaires completed. Onsite internal audit to commence in second quarter of 2012.
Collusion	Financial loss to the Company	Will implement recommendation of the internal auditors in 2012.

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 has 282,518,075 common shares issued and outstanding. The weighted average number of shares outstanding during the first quarter used for the calculation of per share results was 270,221,988.

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 March 31, 2012	As of May9, 2012	Expiry Date
0.83	4,092,500	4,092,500	Mar 9, 2017
0.76	450,000	450,000	Jul 4, 2016
0.70	490,000	490,000	Dec 2, 2016
0.58	470,000	470,000	Apr 11, 2016
0.56	3,965,000	3,965,000	Mar 11, 2016
0.50	24,380	24,380	May 9, 2012
0.50	10,000	10,000	Jul 17, 2012
0.50	80,000	80,000	Nov 1, 2012
0.50	150,000	150,000	Aug 21, 2013
0.42	355,000	292,500	Jan 25, 2016
0.33	100,000	100,000	Sep 16, 2015
0.33	300,000	300,000	Oct 6, 2015
0.31	50,000	50,000	Sep 7, 2015
0.26	1,452,500	1,452,500	Aug 26, 2015
0.26	50,000	50,000	Aug 30, 2015
0.25	5,369,586	5,344,586	Dec 7, 2014
Total	**17,408,966**	**17,321,466**	

During the quarter ended March 31, 2012 the Company issued 4,092,500 stock options and had 17,408,966 options outstanding as of December 31, 2011 which could result in issuance of shares. 394,500 options were exercised during the first quarter of 2012.

Outstanding share purchase warrants that could result in the issuance of additional common shares at the date of this MD&Aare as follows:

Exercise Price CND$	As of March 31, 2012	As of May9, 2012	Expiry Date
0.465	42,665,000	42,640,000	Nov 30, 2014
0.465	1,600,000	1,600,000	Oct 15, 2014
0.33	39,419,312	27,396,312	Aug 6, 2012
0.31	19,950,000	19,950,000	Nov 30, 2014
0.20	1,000,000	1,000,000	Apr 22, 2014
0.20	600,000	600,000	Jul 22, 2014
Total	**105,234,312**	**93,186,312**	

During the quarter ended March 31, 2011, the number of warrants exercised was145,000 and the Company received $68,015 (C$67,425)for the warrants exercised. Thenumber of warrants outstanding as of March 31, 2012 was 105,234,312.

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; absence of dividends; 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.