MANDALAY RESOURCES

Management's Discussion and Analysis

For the quarter ended June 30, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended June 30, 2015, and the Company's annual information form dated March 31, 2015 (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 ("U.S.") dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

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

SECOND QUARTER 2015 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Quantities of metal sold during the quarter were 27,308 ounces ("oz") of gold ("Au"), 685,703 oz of silver ("Ag") and 899 tonnes ("t") of antimony ("Sb") compared to 14,957 oz Au, 840,713 oz Ag and 879 t Sb in the second quarter of 2014.

- In gold equivalent ounces, Mandalay's sales in the second quarter totaled 43,233 oz of gold equivalent ("Au Eq.") versus 34,307 oz of Au Eq. in the same period in 2014.

- Prices realized during the quarter were $1,197 per oz for Au, $15.69 per oz for Ag and $8,186 per t for Sb in 2015 versus $1,292 per oz for Au, $20.29 per oz for Ag and $9,664 per t for Sb in the same period in 2014 (7.4% lower price for Au, 22.7% for Ag and 15.3% for Sb).

- Revenues in the quarter were $50.8 million, including favorable revenue adjustments of $0.3 million related to open sales contracts from prior quarters, compared with revenues of $44.9 million in the second quarter of 2014, including adverse revenue adjustments of $0.5 million related to open sales contracts for the prior quarters.

- Despite lower metal prices, income from mining operations before depletion and depreciation was $19.9 million in the second quarter of 2015 compared with $18.5 million in the second quarter of 2014. This largely reflects the contribution of Björkdal and significantly lower costs at Costerfield.

- Net profit during the quarter was $5.1 million ($0.01 per share) compared with net profit of $4.9 million ($0.01 per share) in the second quarter of 2014.

- Income after tax from underlying operations (1) in the current quarter was $6.4 million ($0.02 per share) compared with income after tax from underlying operations of $5.0 million ($0.01 per share) in the second quarter of 2014.

- During the quarter, cash cost(2) of silver produced at Cerro Bayo was $7.61 per oz Ag net of Au credits and the site all-in cost was $14.84 per oz Ag net of Au credits, compared to $5.83 and $12.08, respectively, in the second quarter of 2014. Cash cost of production at Costerfield for the quarter was $578 per Au Eq. oz produced and the site all-in cost was $795 per Au Eq. oz produced compared to $989 and $1,278, respectively in the second quarter of 2014. Cash cost of production at Björkdal per Au Eq. oz was $884 and the site all-in cost was $1,035 per Au Eq. oz. There is no prior period for Björkdal as the asset was acquired in September of 2014.

- Improved operational exchange rates and lower petroleum prices were significant contributors to lower costs in the quarter. The Australian $ averaged 0.7777/US$ vs 0.9326/US$ in the prior period. The Chilean Peso averaged 618/US$ vs 555/US$ in the prior period. The Swedish Kroner averaged 8.4158/US$ in the period vs 6.6007/US$ in the prior period. Petroleum price was 43% lower than in the prior period.

- Dividends paid in the second quarter of 2015 increased to $3.3 million (C$0.0101 per share) compared to $2.3 million (C$0.0074 per share) in the corresponding quarter of the prior year due to higher revenue in the comparable quarter.

- Capital expenditures during the second quarter of 2015 were $4.1 million at Cerro Bayo, $5.6 million at Costerfield and $4.3 million at Björkdal compared to $5.0 million at Cerro Bayo and $10.0 million at Costerfield in the second quarter of 2014.

- At June 30, 2015, the Company had $52.3 million of cash and cash equivalents.

(1) Income after tax from underlying operations is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.
(2)Cash cost and site all-in costs are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS Measures" for further information.

2. Operating Highlights

a. Consolidated Production and Sales

In the second quarter of 2015, Mandalay produced 26,418 oz Au, 597,489 oz Ag and 842 t Sb, representing 40,717 Au Eq. oz., a 28% increase over production in the second quarter of 2014 which was 14,079 oz Au, 741,382 oz Ag and 855 t Sb, representing 31,739 Au Eq. oz.

The addition of the Björkdal mine to Mandalay's portfolio contributed 11,494 Au Eq. oz to the increase in production of partly offset by lower production from Cerro Bayo due to lower grades and lower ore production volumes than in the prior period. The increase in production at Costerfield was the result of more tonnes of ore mined and processed than in the previous year at a higher grade.

Saleable Production

Metal	Source	Three months to 30 June 2015	Three months to 30 June 2014	Six Months to 30 June 2015	Six Months to 30 June 2014
Gold (oz)	Costerfield	9,563	7,256	19,979	15,171
	Cerro Bayo	5,361	6,823	10,366	12,103
	Bjorkdal	11,494	-	23,813	-
	Total	**26,418**	**14,079**	**54,158**	**27,274**
Antimony (t)	Costerfield	**842**	**855**	**1,811**	**1,713**
Silver (oz)	Cerro Bayo	**597,489**	**741,382**	**1,188,243**	**1,484,951**
Average quarterly prices:					
Gold US$/oz		1,192	1,289	-	-
Antimony US$/tonne		8,602	9,602	-	-
Silver US$/oz		16.41	19.63	-	-
Au Eq. (oz)1	Costerfield	15,638	13,628	32,505	28,019
	Cerro Bayo	13,585	18,111	26,675	35,169
	Bjorkdal	11,494	-	23,813	-
	Total	**40,717**	**31,739**	**82,993**	**63,188**

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

Sales

Metal	Source	Three months to 30 June 2015	Three months to 30 June 2014	Six Months to 30 June 2015	Six Months to 30 June 2014
Gold (oz)	Costerfield	9,703	7,298	19,526	14,345
	Cerro Bayo	5,732	7,659	12,816	12,463
	Bjorkdal	11,873	-	23,623	-
	Total	**27,308**	**14,957**	**55,965**	**26,807**
Antimony (t)	Costerfield	**899**	**879**	**1,680**	**1,503**
Silver (oz)	Cerro Bayo	**685,703**	**840,713**	**1,478,500**	**1,612,829**
Average quarterly prices:					
Gold US$/oz		1,192	1,289	-	-
Antimony US$/tonne		8,602	9,602	-	-
Silver US$/oz		16.41	19.63	-	-
Au Eq. (oz)[1]	Costerfield	16,190	13,847	31,216	25,604
	Cerro Bayo	15,170	20,460	33,105	37,493
	Bjorkdal	11,873	-	23,623	-
	Total	**43,233**	**34,307**	**87,944**	**63,097**

[1]Au Eq. oz sold is calculated by multiplying the quantities of Au, Ag, and Sb sold in the period by the respective average market prices of the commodities in the period, adding the three amounts to get a "total contained value based on market price", and then dividing that total contained value by the average market price of Au in the period. The source for all prices is www.metalbulletin.com, with price on weekend days and holidays taken from the last business day.

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

i. *Production* — Saleable Au production for the second quarter of 2015 was 9,563 oz versus 10,416 oz in the previous quarter and 7,256 oz in the second quarter of 2014. Saleable Sb production for the second quarter of 2015 was 842 t versus 969 t in the previous quarter and 855 t in the second quarter of 2014. Increased gold production in the current quarter compared to the corresponding quarter of the previous year was mainly due to increased mine output and higher gold grades.

ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the second quarter of 2015 was $578 versus $566 in the previous quarter and $989 in the second quarter of 2014. The lower cash cost in the second quarter of 2015 was due to high throughput and high grades of ore processed coupled with the completion of the move to 10 metre mining stopes from 5 metre stopes throughout the mine and consequent reduction in cost. The site all-in cost per Au eq. oz produced in the second quarter of 2015 was $795, versus $774 in the previous quarter and $1,278 in the second quarter of 2014.

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

i. *Production* — Cerro Bayo produced 597,489 oz Ag and 5,361 oz Au in the second quarter of 2015 versus 590,755 oz Ag and 5,005 oz Au in the previous quarter and 741,382 oz Ag and 6,823 oz Au in the second quarter of 2014. Production at Cerro Bayo was lower than in the prior year corresponding quarter mainly due to lower grades and tonnages of ore mined and processed as the bottom levels of Dagny and Fabiola mines were extracted.

ii. *Operating Costs* — Cash cost per saleable oz Ag produced net of Au credits was $7.61 in the second quarter of 2015 versus $10.09 in the previous quarter and $5.83 in the second quarter of 2014. Cash cost per oz was higher in the second quarter of 2015 compared to the corresponding quarter of 2014, principally due to lower production arising from lower plant head grades. The site all-in cost per oz Ag produced net of Au by-product credit was $14.84 in the second quarter of 2015 versus $17.61 in the previous quarter and $12.08 in the second quarter of 2014.

d. **Björkdal Gold Mine, Sweden**

i. *Production* — Björkdal produced 11,494 oz Au in the second quarter of 2015. This amount was slightly lower than the 12,319 oz produced in the prior quarter. There was no comparable production in the prior year period because the Company did not own the mine at the time. Production declined slightly from the first quarter to the second quarter because reconciled mill head grades declined from 1.37 to 1.30 g/t Au and gold recovery decreased from 90% to 88%.

ii. *Operating Costs* — Cash cost per saleable oz Au produced at Björkdal in the second quarter was $884 and the site all-in cost per saleable oz Au produced was $1,035, as compared to previous quarter of $797 and $940 respectively. These slightly higher costs reflect the slightly lower production in the current quarter.

3. Exploration

A detailed mid-year update of all exploration activity was released on July 29, 2015. The descriptions of exploration activity are a summary of the more detailed information reported in the mid-year exploration release.

a. Cerro Bayo

At Cerro Bayo, drilling under Laguna Verde is revealing the southeast and depth limits of the Coyita vein, with a large gap between the northwest and southeastern mineralized zones (already estimated as proven and probable reserves) still to be filled in during the second half of the year. The newly discovered Camila vein to the northeast of Coyita is also emerging as a target for infill drilling.

b. Costerfield

At Costerfield, infill and extensional drilling of the Cuffley lode above the King Cobra fault has delivered mineralized intercepts that are expected to support estimation of additional reserves at the end-of-year update. In addition, the extension of the Cuffley lode below the King Cobra fault is now demonstrated in two intercepts, spaced about 200 m apart along strike and 100 m apart down-dip.

c. Björkdal

At Björkdal, the Company is focused on rebuilding the fundamental geological understanding of the mineralized system, which increasingly appears to be contact metasomatic in origin, with multiple newly-recognized vein orientations. Abundant gold bearing intercepts in open pit and underground extensional drilling as well as in initial drilling at the Ronnberget target some 5 km to the east of the mine demonstrates not only that the known mineralized zones are open to extension but that the gold is widely distributed in the district.

d. Challacollo

At Challacollo, the feasibility study is nearly complete; identification of a suitable water source for the proposed operation being the significant remaining factor that is required prior to being able to complete the study. Mandalay has decided to postpone submitting the EIS application until the water source can be specified, giving the Company a period of time to optimize the project with further exploration, as well as plant, capital cost and operating cost refinements.

e. La Quebrada, Chile

La Quebrada is a non-core asset and accordingly, no exploration activities occurred in the second quarter of 2015.

1.0 DATE

This MD&A is dated as of 5th August, 2015.

1.1 SUBSEQUENT EVENTS

Quarterly Dividend

On August 5, 2015, the Board of Directors declared a dividend in the amount of $0.0074 per share (C$ 0.0098 per share), payable on 27th August, 2015 to shareholders of record as of 17th August, 2015.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company, the business of which is to acquire, discover, develop and produce mineral commodities. It currently produces Au, Ag and Sb in Australia, Chile, and Sweden. The Company uses its strong technical expertise and understanding of value creation to systematically increase the value of its assets through a disciplined approach of exploration, mining and processing optimization and operational efficiency. The Company's current producing assets are its Costerfield Au-

Sb mine in Victoria, Australia, its Cerro Bayo Ag-Au mine in Patagonia, Chile, and its Björkdal Au mine in northern Sweden. The Company is completing a feasibility study on its Challacollo Ag-Au project near Iquique, Chile. The Company conducts exploration on near-mine and district targets at its operating and feasibility stage projects.

The Company is currently holding its La Quebrada Cu-Ag project near La Serena, Chile, and its Lupin and Ulu Au projects in Nunavut, Canada for sale.

Costerfield

Costerfield is a 100%-owned Au-Sb mine located in the state of Victoria, Australia, that was purchased by the Company in late 2009. Acquired while on care and maintenance, the mine was restarted immediately. Production has increased from an initial 170 tonnes per day ("tpd") in 2009 to 420 tpd in the second quarter of 2015. The production increases (and associated unit cost reductions) are due principally to: a change in mining method from cut-and-fill to blast-hole stoping with cemented rock fill; increasing sub-level spacing from 5 m to 10 m; replacing the underground mobile mining fleet; introduction of a mobile crusher to decrease the particle size of mill feed (permitting high recoveries while increasing throughput) and construction of a new gold room which has increased the proportion of gold recovered to gravity concentrate. In addition, rigorous improvements in maintenance and production processes in the mine and plant have led to increases in equipment availability and utilization as well as in labor productivities. Exploration (funded by mine operating cash flow) has added reserves at a faster pace than depletion during Mandalay ownership, building an extended mine life.

Cerro Bayo

Cerro Bayo is a 100%-owned Ag-Au mine located in the Aysen Province of southern Chile, purchased while on care and maintenance in August, 2010. Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. Key to the financial performance of the restarted operation have been: shifting the mining method from shrinkage stoping to completely mechanized blast-hole open stoping; ramping up the operation to a total rate of 1,400 tpd from three mines; and developing four highly competitive concentrate customers. Exploration has added reserves at a faster pace than depletion during Mandalay ownership, building an extended mine life from a nominal three years to more than five today.

Björkdal

Björkdal is a 100% owned gold mine located in northern Sweden. It was acquired through the Company's acquisition of Elgin Mining on September 9, 2014. The operation currently produces from both an open pit mine and an underground mine. The concentrator currently process 3,500 tpd and has been permitted to expand to 4,300 tpd. Activities since the acquisition have been focused on: completing a new, independent estimation of Mineral Resources and Reserves; augmenting the geologic and sampling staff to provide for best-practice core logging, face mapping, and sampling; formulating an optimized life-of-mine plan balancing production from open pit and underground while reducing dilution in both;

establishing a local assay lab for fast exploration and grade control sample turnaround; and fundamental metallurgical surveys and ore sorting studies to improve plant performance.

Challacollo

Challacollo is a 100% owned Ag-Au deposit located in Region I, Northern Chile. Mandalay completed an independent NI 43-101 Mineral Resource estimate for this development property in conjunction with the acquisition, which was completed on February 7, 2014. Since then, the Company has completed: infill drilling to upgrade previously Inferred Mineral Resource to Indicated (filed on www.sedar.com on March 31, 2015); metallurgical studies; mine, plant and infrastructure design; and capital and operating costing.

While climatological, biological and cultural data collection are underway to support the permitting process, the permit application itself has been postponed until an adequate water supply can be secured.

La Quebrada

La Quebrada is a 100% owned Cu-Ag project located near La Serena, Chile. Mandalay completed a maiden Independent NI 43-101 Mineral Resource estimate for the property in 2012, and until Q2 2014 had been performing mining, metallurgical, engineering and financial studies while developing options for the project. It is currently held for sale.

Lupin/Ulu

The Lupin and Ulu Au projects in Nunavut, Canada were acquired with the Elgin acquisition and are currently held for sale as non-core assets. Lupin is a past-producing underground mine-mill complex on care and maintenance and Ulu is a nearby advanced exploration stage project. A non-binding agreement for the sale of Lupin and Ulu to WPC Resources, subject to completion of due diligence and financing, was announced on January 19, 2015.

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, 2015 and 2014:

	Three months ended June 30, 2015 ($'000)	Three months ended June 30, 2014 ($'000)
Revenue	50,793	44,888
Cost of sales	30,915	26,373
Income from mine operations before depreciation and depletion	19,878	18,515
Depreciation and depletion	9,344	7,965
Income from mine operations	10,534	10,550
Administration	1,636	1,748
Business development costs	2	364
Adjusted EBITDA*	18,240	16,403
Finance costs, foreign exchange and others/(income)**	1,855	1,909
Income/(loss) before tax	7,041	6,529
Current tax expense	355	1,604
Deferred tax expense (recovery)	1,613	(11)
Net Income/(loss) after tax	5,073	4,936
Total assets	363,213	273,952
Total liabilities	139,331	98,737
Income per share	0.01	0.01

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

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

The following table sets forth the summary of financial results for the six months ended June 30, 2015 and 2014:

	Six months ended June 30, 2015 ($'000)	Six months ended June 30, 2014 ($'000)
Revenue	107,572	82,980
Cost of sales	61,909	46,749
Income from mine operations before depreciation and depletion	45,663	36,231
Depreciation and depletion	18,968	15,249
Income from mine operations	26,695	20,982
Administration	3,038	3,164
Business development costs	118	638
Adjusted EBITDA*	42,507	32,429
Finance costs, fx and others**	504	2,713
Income/(loss) before tax	23,035	14,467
Current tax expense	1,581	2,246
Deferred tax expense (recovery)	3,897	1,541
Net Income/(loss) after tax	17,557	10,680
Income per share	0.04	0.03

* Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" for further information.
**Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation and gain/loss on disposal of properties, if any.

Dividend

Mandalay's current policy is to pay a quarterly dividend equal to an aggregate of 6% of the trailing quarter's revenue. The following table summarizes dividends paid by Mandalay in 2015 and 2014:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
2015				
	February 17, 2015	March 09, 2015	0.0121	3,976
	May 12, 2015	May 22, 2015	0.0101	3,308
				7,284
2014				
	February 18, 2014	March 10, 2014	0.0077	2,344
	May 05, 2014	May 26, 2014	0.0074	2,335
	August 06, 2014	August 28, 2014	0.0086	2,693
	November 06, 2014	November 27, 2014	0.0058	2,094
				9,466

Adjusted EBITDA Reconciliation to Net Income

The table below reconciles adjusted EBITDA to reported net income for the three months ended June 30, 2015 and 2014. Adjusted EBITDA is a non-IFRS performance measure. Refer to Section 1.16 "Non-IFRS Measures" on page 44 for further information.

	Three months ended June 30, 2015		**Three months ended June 30, 2014**	
	($'000)	**($'000)**	**($'000)**	**($'000)**
Net Income/(loss)		5,073		4,936
Add: Non-cash and finance costs				
Depletion and depreciation	9,344		7,965	
Loss (gain) on disposal of property, plant and equipment	136		19	
Write off mineral properties/exploration and evaluation	-		387	
Share based compensation	294		544	
Interest and finance charges	1,377		756	
Fair value adjustments	(297)		148	
Current tax	355		1,604	
Deferred tax	1,613		(11)	
Foreign exchange (gain)/loss	541	13,363	76	11,488
		18,436		16,424
Less: Interest and other income	(196)	(196)	(21)	(21)
Adjusted EBITDA		18,240		16,403

	Six months ended June 30, 2015		**Six months ended June 30, 2014**	
	($'000)	**($'000)**	**($'000)**	**($'000)**
Net Income/(loss)		17,557		10,680
Add: Non-cash and finance costs				
Depletion and depreciation	18,968		15,249	
Loss (gain) on disposal of property, plant and equipment	148		25	
Write off mineral properties/exploration and evaluation	-		681	
Share based compensation	577		901	
Interest and finance charges	2,656		991	
Fair value adjustments	(580)		43	
Current tax	1,581		2,246	
Deferred tax	3,897		1,541	
Foreign exchange (gain)/loss	(1,930)	25,317	128	21,805
		42,874		32,485
Less: Interest and other income	(367)	(367)	(56)	(56)
Adjusted EBITDA		42,507		32,429

Fair-value adjustments

As at June 30, 2015, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Conversion feature under debt financing – In May, 2014, the Company borrowed $60 million in a five-year debt financing at an interest rate of 5.875% from Gold Exchangeable Limited (“GEL”), an unaffiliated special purpose vehicle incorporated in Jersey. GEL raised the financing proceeds by way of a concurrent offering of five-year senior exchangeable bonds (the "Bonds") issued by Gold Exchangeable Limited (the “Issuer”), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the “Borrower”), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the “Loan”) which together mirror the principal terms of the Bonds. Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust (“Gold Shares”) based on the then-applicable exchange price. The initial exchange price is $149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of $1,556 per ounce. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which NAV of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder exercises its exchange rights, GEL will give notice to the Borrower, and the Borrower will be required to deliver the requisite number of Gold Shares to the Bondholder.

GEL may redeem the Bonds at its option:

- any time after June 13, 2017, if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30 consecutive trading day period; or
- any time, if $9 million or less principal amount of the Bonds remains outstanding.

The Borrower has equivalent redemption rights with respect to the Loan. If the Borrower exercise its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

The Company has computed and initially allocated $4.6 million to the value of derivative financial instruments associated with the Loan. As at June 30, 2015, the Company has recomputed the derivative portion of the Loan at $2.0 million. As a result there is a mark-to-market adjustment gain of $0.3 million in the quarter.

Marketable securities - With the acquisition of Elgin, the Company indirectly acquired marketable securities with the fair market value of $0.2 million as at June 30, 2015, recorded in trade and other receivables on the statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement loss of less than $0.1 million for the quarter ended June 30, 2015.

Oil derivative - On December 15, 2014, the Company entered into a crude oil call option for a notional amount of 120,000 barrels of crude oil at an exercise price of $60.50 per barrel. As at June 30, 2015, the derivative has a carrying value of $0.2 million recorded as derivative financial instruments in the consolidated financial statements.

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

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

	Before fair value and deferred tax adjustments [(a)]	Note	Fair value and deferred tax adjustments Q2 2015	As of June 30, 2015 [(a)]	As of December 31, 2014 [(a)]
	($'000)		($'000)	($'000)	($'000)
Assets					
Deferred tax	6,625	(b)	(1,613)	5,012	7,057
Marketable Securities	192	(c)	(5)	187	221
Derivative financial instrument (oil derivative)	201	(d)	12	213	552
Liabilities					
Derivative financial instrument (Five year exchangeable bonds)	1,660	(e)	290	1,950	2,854
Equity					
Retained earnings/(deficit)	81,794		(1,316)	80,478	70,205

(a) Values are net of foreign exchange translation.

(b) The Company recorded a deferred tax expense of $1,613,000 for the three months ended June 30, 2015.

(c) The Company recorded fair value measurement loss of $5,000 relating to marketable securities for the three months ended June 30, 2015.

(d) The Company recorded fair value measurement gain of $12,000 relating to a crude oil call option for the three months ended June 30, 2015.

(e) The Company recorded fair value measurement gain of $290,000 relating to the derivative portion of the five year exchangeable loan for the three months ended June 30, 2015

Fair value and deferred tax adjustments impact on items in the income statement for three months ended June 30, 2015 and 2014

	As of June 30, 2015				As of June 30, 2014
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	($'000)		($'000)	($'000)	($'000)
Income (loss) from operations	8,466			8,466	7,488
Other items					
Interest and other income	196			196	21
Finance (costs)/income	(1,377)			(1,080)	(904)
		(a)	(5)		
		(b)	290		
		(c)	12		
Foreign exchange gain (loss)	(541)			(541)	(76)
Net income/(loss) before tax	6,744		297	7,041	6,529
Current tax	(355)			(355)	(1,604)
Deferred tax		(d)	(1,613)	(1,613)	11
Net income/(loss)	6,389		(1,316)	5,073	4,936
Income (loss) per share					
Basic	$0.02			$0.01	$0.01
Diluted	$0.02			$0.01	$0.01

(a) The Company recorded fair value measurement loss of $5,000 relating to marketable securities for the three months ended June 30, 2015.

(b) The Company recorded fair value measurement gain of $290,000 relating to derivative portion of the five year exchangeable loan for the three months ended June 30, 2015

(c) The Company recorded fair value measurement gain of $12,000 relating to a crude oil call option for the three months ended June 30, 2015.

(d) The Company recorded a deferred tax expense of $1,613,000 for the three months ended June 30, 2015.

Fair value and deferred tax adjustments impact on items in the income statement for six months ended June 30, 2015 and 2014

	As of June 30, 2015				As of June 30, 2014
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	($'000)		($'000)	($'000)	($'000)
Income (loss) from operations	22,814			22,814	15,573
Other items					
Interest and other income	367			367	56
Finance (costs)/income	(2,656)	(a)	(18)	(2,076)	(1,034)
		(b)	903		
		(c)	(305)		
Foreign exchange gain (loss)	1,930			1,930	(128)
Net income/(loss) before tax	22,455		580	23,035	14,467
Current tax	(1,581)			(1,581)	(2,246)
Deferred tax		(e)	(3,897)	(3,897)	(1,541)
Net income/(loss)	20,874		(3,317)	17,557	10,680
Income (loss) per share					
Basic	$0.05			$0.04	$0.03
Diluted	$0.05			$0.04	$0.03

(a) The Company recorded fair value measurement loss of $18,000 relating to marketable securities for the six months ended June 30, 2015.

(b) The Company recorded fair value measurement gain of $903,000 million relating to derivative portion of the five year exchangeable loan for the six months ended June 30, 2015

(c) The Company recorded fair value measurement loss of $305,000 relating to a crude oil call option for the six months ended June 30, 2015.

(d) The Company recorded a deferred tax expense of $3,897,000 for the six months ended June 30, 2015.

1.4 RESULTS OF OPERATIONS

Three Months Ended June 30, 2015, compared to Three Months Ended June 30, 2014

During the three months ended June 30, 2015, the Company recorded net income of $5.1 million (net of fair value measurement gain of $0.3 million and deferred tax expense of $1.6 million). This is compared to net income of $4.9 million (net of fair value measurement loss of $0.1 million and deferred tax recovery of $0.01 million) during the three months ended June 30, 2014**.** Mandalay delivered adjusted EBITDA of $18.2 million for the quarter ended June 30, 2015, compared to $16.4 million in the quarter ended June 30, 2014. The increase in adjusted EBITDA and net income was principally due to larger volumes sold and better cost performance.

Administrative expenses for the quarter ended June 30, 2015 were $1.6 million compared to $1.7 million during the quarter ended June 30, 2014. During the three months ended June 30, 2015 administration expenses of $0.88 million at Corporate included $0.32 million in management fees net of transfer pricing, $0.1 million in audit and internal review fees, $0.08 million in travel expense, $0.15 million legal and accounting fees, $0.13 million in investor relations, transfer agent and filing fees, $0.02 million for Lupin and Ulu care and maintenance and $0.08 million in general administrative expenses and computer maintenance.

Capital expenditures in the second quarter of 2015, including capitalized depreciation and exploration, were $14.6 million. Of this amount $4.0 million was spent at Cerro Bayo, $5.6 million at Costerfield, $4.3 million at Björkdal, $0.68 million at Challacollo and $0.02 million at La Quebrada. By comparison, capital expenditures in the second quarter of 2014 were $16.7 million.

Costerfield Results, Production, Sales and Costs for the Three Months Ended June 30, 2015

Costerfield generated revenue of $19.3 million for the quarter ended June 30, 2015. Income from mine operations before depreciation and depletion was $10.1 million, adjusted EBITDA was $10.0 million, operating net income was $4.5 million and net income after tax was $3.6 million during the period. For the quarter ended June 30, 2014, revenue was $18.0 million, income from mine operations before depreciation and depletion was $5.4 million, adjusted EBITDA was $5.3 million, operating net income was $1.3 million and net income after tax was $0.5 million. Higher income from mine operations before depreciation and depletion as compared to previous quarter was due mostly to the combination of higher production and excellent cost control, which more than offset the decline in metal prices.

Costerfield financial results

	Three months ended June 30, 2015 ($'000)	Three months ended June 30, 2014 ($'000)
Revenue	19,334	17,953
Cost of sales	9,252	12,586
Income from mine operations before depreciation and depletion	10,082	5,367
Depreciation and depletion	3,390	3,482
Income from mine operations	6,692	1,885
Administration (1)	222	197
Adjusted EBITDA (2)(4)	9,948	5,271
Finance costs, foreign exchange and others (3)	961	1,224
Income/(loss) before tax	5,509	464
Deferred tax expense (recovery)	1,917	14
Operating net income/(loss) after tax(4)	4,450	1,319
Net income/(loss) after tax	3,592	450
Capital expenditure (5)	5,599	9,981

[1]Includes intercompany transfer pricing recharge costs of $88,131 in three months ended in June 30, 2015 and $101,126 in the same period of 2014.

[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 $442,983 in three months ended June 30, 2015 and $440,684 in the same period of 2014.

[4]Adjusted EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16 "Non-IFRS measures" for further information.

[5]Includes capitalized depreciation on equipment.

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

	Three months ended June 30, 2015 ($'000)	Three months ended June 30, 2014 ($'000)
Net income/(loss) after tax	3,592	450
Add: Intercompany expenses		
Intercompany interest expense	327	327
Intercompany transfer pricing recharge costs	531	542
Operating net income/(loss) after tax	4,450	1,319

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, 2015	Six months ended June 30, 2014	Three months ended June 30, 2015	Three months ended June 30, 2014	Three months ended March 31, 2015
Mining Production and Mining Cost						
Operating development	m	2,252	2,362	1,193	1,241	1,060
Mined ore	t	77,977	80,038	37,585	41,539	40,393
Ore mined Au grade	g/t	10.44	8.11	10.17	8.08	10.69
Ore mined Sb grade	%	3.96	3.68	4.06	3.74	3.88
Mined contained Au	oz	26,171	20,882	12,287	10,792	13,884
Mined contained Sb	t	3,091	2,941	1,524	1,554	1,567
Mining cost per tonne ore	$/t	143	191	142	201	144
Processing and Processing Cost						
Processed ore	t	76,585	73,290	37,984	36,088	38,601
Mill head grade Au	g/t	10.24	8.34	9.86	8.37	10.61
Mill head grade Sb	%	3.90	3.74	3.79	3.84	4.01
Recovery Au	%	89.47	89.99	88.98	89.22	89.91
Recovery Sb	%	94.99	94.52	94.99	94.85	95.00
Concentrate produced	dry t	5,220	4,871	2,517	2,474	2,704
Concentrate grade Au	g/t	78.89	59.90	81.45	60.36	76.51
Concentrate grade Sb	%	54.34	53.21	54.27	53.14	54.40
Au produced in gravity concentrate	oz	9,219	8,227	4,083	3,827	5,136
Au produced in sulfide concentrate	oz	10,760	6,943	5,480	3,429	5,280
Saleable Au produced	oz	19,979	15,171	9,563	7,256	10,416
Saleable Sb produced	t	1,811	1,713	842	855	969
Saleable Au equivalent produced	oz	32,505	28,019	15,638	13,628	16,867
Processing cost per tonne ore	$/t	38.80	51.13	40.91	54.71	36.72
Sales						
Concentrate sold	dry t	4,857	4,477	2,593	2,633	2,264
Concentrate Au grade	g/t	79.51	58.44	79.89	57.99	79.09
Concentrate Sb grade	%	54.35	53.27	54.35	52.97	54.36
Au sold in gravity concentrate	oz	9,450	8,342	4,219	3,793	5,231
Au sold in sulfide concentrate	oz	10,076	6,002	5,484	3,505	4,592
Au sold	oz	19,526	14,344	9,703	7,298	9,823
Sb sold	t	1,680	1,503	899	879	781
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	238.10	334.96	232.76	367.37	243.36
Site cash operating cost/tonne concentrate produced(1)	$/t	3,493	5,040	3,513	5,360	3,474
Adjusted EBITDA/tonne ore milled(1)	$/t	255	162	262	146	248
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,737	2,437	3,953	2,131	3,536
Cash cost per oz Au equivalent produced(1)(2)	$/oz	571.89	892.15	578.12	989.44	566.12
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	784.12	1,161.90	795.46	1,278.22	773.60
Capital Spending						
Capital development	m	1,480	1,763	738	1,274	742
Capital development cost	$000	6,461	8,558	3,288	6,010	3,173
Capital development cost/meter	$/m	4,366	4,853	4,455	4,718	4,277
Capital purchases	$000	3,570	5,403	2,005	2,695	1,566
Capitalized exploration	$000	607	2,343	305	1,277	301

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

[2]Cash cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16"Non-IFRS Measures" for further information.

[3]Site all-in cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.16"Non-IFRS Measures" for further information.

Three months ended June 30, 2015 and 2014

The Costerfield mine completed 1,193 metres (“m”) of operating development in the second quarter of 2015 versus 1,241 m in 2014. Less ore was mined in the 2015 quarter (37,585 t) than in the 2014 quarter (41,539 t) but with higher grades. The mined Au grade in 2015 was 10.17 grams per tonne (“g/t”) versus 8.08 g/t in 2014, while the mined Sb grade was 4.06% in 2015 versus 3.74%. Mining costs were significantly lower in the 2015 quarter ($142/t) than in the previous year period ($201/t), due principally to savings as mining was consolidated into N-lode and Cuffley at 10 m level spacing.

Capital development advance was 738 m in 2015 compared to 1,274 m 2014; the cost in 2015 was $4,455/m versus $4,718/m in 2014. The reason for reduced capital development cost in 2015 was a shift to a mining contractor to perform the work.

In the second quarter of 2015, the Costerfield concentrator processed 37,984 t of ore versus 36,088 t in the second quarter of 2014. Head grades were higher in the 2015 quarter. The Au head grade in 2015 was 9.86 g/t versus 8.37 g/t Au a year ago, while the Sb head grade was 3.79% in 2015 versus 3.84% in 2014. The plant achieved recoveries of 88.98% Au and 94.99% Sb versus 89.22% Au and 94.85% Sb in second quarter of 2014. Processing costs in second quarter of 2015 were $40.91/t, lower than the $54.71/t incurred during the prior year period.

Concentrate production was 2,517 dry metric tonnes (“dmt”) during the second quarter of 2015 versus 2,474 dry metric tonnes during the second quarter of 2014. Total saleable metal production in the second quarter of 2015 was 842 t Sb and 9,563 oz Au versus 855 t Sb and 7,256 oz Au in 2014.

During the second quarter of 2015, Costerfield sold 2,593 dmt of concentrate compared to 2,633 dmt in the prior year period. A total of 9,703 oz Au and 899 t Sb were sold in 2015 versus total of 7,298 oz Au and 879 t Sb.

Total site cash operating cost of ore processed was $232.76/t in the second quarter of 2015, compared to $367.37/t in the second quarter of 2014, mainly due to more tonnes processed with lower headcount. This translates into a lower cash cost per Au Eq. oz produced ($578/oz in second quarter of 2015 compared to $989/oz in prior year period) and lower AISC per Au Eq. oz produced ($795/oz in second quarter of 2015 compared to $1,278/oz in prior year period).

During the second quarter of 2015, the Company invested $3.3 million in capital development, $0.3 million in exploration and $2.0 million in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were $6.0 million, $1.3 million and $2.7 million respectively.

Six months ended June 30, 2015, and June 30, 2014

The Costerfield mine completed 2,252 m of operating development in 2015 versus 2,362 m in 2014. It produced 77,977 t of ore containing 10.44 g/t Au and 3.96% Sb in 2015 as compared to 80,038 t of ore containing 8.11 g/t Au and 3.68% Sb. Mining costs were $143/t in 2015 versus $191/t in 2014. Completion of the transition to the new 10 m stoping levels in N-lode and Cuffley lode, plus good stope performance, were the principal factors driving lower cost per tonne during 2015. Mine production in 2015 was intentionally held back relative to 2014 so as to curtail the build-up of mined ore stockpiles.

Capital development in 2015 was 1,480 m compared to 1,763 m in 2014. The cost per meter was $4,366 per m during 2015 compared to $4,853 per m in 2014, due in part to lower contractor costs than in-house costs in 2015.

In the six months ended June 30, 2015, the Costerfield concentrator processed 76,585 t of ore containing 10.24 g/t Au and 3.90% Sb. The corresponding year-ago throughput was 73,290 t of ore containing 8.34 g/t Au and 3.74% Sb. The plant achieved 89.47% recovery of gold and 94.99% recovery of Sb in the 2015 period compared to 89.99% recovery of gold and 94.52% recovery of Sb in 2014.

The larger throughput at higher head grade led to greater saleable metal production in 2015. Concentrate production was 5,220 dmt in 2015 containing 1,811 t saleable Sb and 10,760 oz saleable Au in 2015, with an additional 9,219 oz saleable Au produced in gravity concentrate. Concentrate production was 4,871 dmt in 2014 containing 1,713 t saleable Sb and 6,943 oz saleable Au in 2014, with an additional 8,227 oz saleable Au produced in gravity concentrate. Processing costs were lower in 2015 than in 2014: $38.8/t versus $51.13/t, mainly due to economies of scale.

Site cash operating cost per tonne of ore processed was $238.10/t in 2015 versus $334.96/t in 2014. The lower operating costs led to a lower cash cost in 2015 ($572/Au Eq. oz) as compared to 2014 ($892/Au Eq. oz), as well as lower all-in cost of $784/Au Eq. oz versus $1,162/Au Eq. Oz in 2014.

During the six months ended June 30, 2015, the Company invested $6.5 million in capital development, $0.6 million in exploration, and $3.6 million in property, plant and equipment. The corresponding amounts for 2014 were $8.6 million for capital development, $2.3 million for exploration and $5.4 million for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended June 30, 2015

Cerro Bayo generated revenue of $17.5 million for the quarter ended June 30, 2015. Income from mine operations before depreciation and depletion was $5.2 million. Adjusted EBITDA was $4.8 million, operating net income was $1.0 million, and net income after tax was $0.5 million. For the quarter ended June 30, 2014, revenue was $26.9 million, income from mine operations before depreciation and depletion was $13.1 million. Adjusted EBITDA was $12.6 million, operating net income was $6.6 million, and net income after tax was $5.8 million.

Cerro Bayo financial results

	Three months ended June 30, 2015 ($'000)	Three months ended June 30, 2014 ($'000)
Revenue	17,538	26,935
Cost of sales	12,377	13,787
Income from mine operations before depreciation and depletion	5,161	13,148
Depreciation and depletion	4,192	4,483
Income from mine operations	969	8,665
Administration (1)	532	679
Adjusted EBITDA (2)(4)	4,752	12,605
Finance costs, foreign exchange and others (3)	508	592
Income/(loss) before tax	(72)	7,394
Current tax expense	(100)	1,604
Deferred tax expense (recovery)	(456)	(25)
Operating net income/(loss) after tax (4)	1,020	6,566
Net income/(loss) after tax	484	5,815
Capital expenditure (5)	4,056	5,045

[1]Includes intercompany transfer pricing recharge costs of $123,255 in 2015 and $136,278 in 2014.
[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 disposal of properties and intercompany transfer pricing recharge costs of $412,623 in 2015 and $614,743 in 2014.
[4]See "Non-IFRS Measures" for further information.
[5]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, 2015 ($'000)	Three months ended June 30, 2014 ($'000)
Net income/(loss) after tax	484	5,815
<u>Add: Intercompany expenses</u>		
Intercompany transfer pricing recharge costs	536	751
Operating net income/(loss) after tax	1,020	6,566

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, 2015	Six months ended June 30, 2014	Three months ended June 30, 2015	Three months ended June 30, 2014	Three months ended March 31, 2015
Mining Production and Mining Cost						
Operating development	m	3,191	3,171	1,583	1,708	1,608
Mined ore	t	209,563	222,618	104,396	117,403	105,167
Ore mined Au grade	g/t	1.78	2.06	1.89	2.23	1.67
Ore mined Ag grade	g/t	199.98	243.60	200.33	236.35	199.63
Mined contained Au	oz	11,973	14,710	6,339	8,425	5,634
Mined contained Ag	oz	1,347,379	1,743,550	672,401	892,123	674,978
Mining cost per tonne ore	$/t	54.53	51.70	55.07	52.26	54.00
Processing and Processing Cost						
Processed ore	t	216,633	218,965	104,802	114,296	111,831
Mill head grade Au	g/t	1.77	2.02	1.90	2.19	1.65
Mill head grade Ag	g/t	196.26	241.43	204.82	232.15	188.24
Recovery Au	%	86.21	87.06	85.93	86.90	86.52
Recovery Ag	%	89.99	90.55	89.59	90.08	90.39
Concentrate produced	dry t	3,482	4,085	1,761	2,001	1,721
Concentrate grade Au	g/t	94.82	94.44	96.91	108.72	92.68
Concentrate grade Ag	g/t	10,987.66	11,719.73	10,918.57	11,947.99	11,058.38
Saleable Au produced	oz	10,366	12,103	5,361	6,823	5,005
Saleable Ag produced	oz	1,188,244	1,484,951	597,489	741,382	590,755
Saleable Au equivalent produced	oz	26,675	35,169	13,585	18,111	13,091
Processing cost per tonne ore	$/t	23.10	26.98	22.30	28.09	23.85
Sales						
Concentrate sold	dry t	4,249	4,538	1,974	2,329	2,275
Concentrate Au grade	g/t	96.03	87.52	92.45	104.79	99.14
Concentrate Ag grade	g/t	11,204	11,456	11,187	11,635	11,218
Au sold	oz	12,816	12,463	5,732	7,659	7,084
Ag sold	oz	1,478,500	1,612,829	685,703	840,713	792,797
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed(1)	$/t	87.40	93.72	88.29	95.46	86.56
Site cash operating cost/tonne concentrate produced(1)	$/t	5,437	5,024	5,253	5,454	5,625
Adjusted EBITDA/tonne ore milled(1)	$/t	60	105	45	110	73
Adjusted EBITDA/tonne concentrate produced(1)	$/t	3,718	5,603	2,698	6,301	4,762
Cash cost per oz Ag produced net of Au byproduct credit(1	$/oz	8.63	5.82	7.61	5.83	10.09
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	16.00	11.69	14.84	12.08	17.61
Capital Spending						
Capital development	m	1,203	985	754	485	450
Capital development cost	$000	4,005	3,484	2,526	1,406	1,479
Capital development cost/meter	$/m	3,329	3,538	3,352	2,899	3,290
Capital purchases	$000	2,684	4,090	768	2,695	1,916
Capitalized exploration	$000	1,279	1,262	761	944	518

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

[2]The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.16"Non-IFRS Measures" for further information.

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

Three months ended June 30, 2015 and 2014

During the second quarter, the Cerro Bayo mine produced 104,396 t of ore versus 117,403 t in the year-ago period. Mined grades were 200.33 g/t Ag and 1.89 g/t Au in 2015 versus 236.35 g/t Ag and 2.23 g/t Au in 2014. During 2015, 1,583 m of operating development were completed versus 1,708m in the 2014 comparable period. Mining cost in the second quarter of 2015 was $55.07/t compared to $52.26/t in the second quarter of 2014.

During the second quarter of 2015, the Cerro Bayo concentrator processed 104,802t of ore with grades of 204.82 g/t Ag and 1.90 g/t Au, compared to 114,296 t of ore with grades of 232.15 g/t Ag and 2.19 g/t Au during the second quarter of 2014. Metallurgical recoveries during the second quarter were 85.93% for Au and 89.59% for Ag in 2015 versus 86.90% for Au and 90.08% for Ag in the prior year period. Processing cost was $22.30/t in 2015 versus $28.09/t in 2014.

Cerro Bayo produced 1,761 dmt of concentrate containing 597,489 oz saleable Ag and 5,361 oz saleable Au in the second quarter of 2015, as compared to 2,001 dmt of concentrate containing 741,382 oz saleable Ag and 6,823 oz saleable Au in the comparable 2014 period.

During the second quarter of 2015, Cerro Bayo sold 1,974 dmt of concentrate containing 5,732 oz of saleable Au and 685,703 oz of saleable Ag. Sales during the comparable quarter of 2014 were 2,329 dmt of concentrate, 7,659 oz of Au and 840,713 oz of Ag.

Total site cash operating cost was $88.29/t of ore processed in the second quarter of 2015, compared to $95.46/t in the second quarter of 2014. However, because ore grades were lower in the 2015 quarter, there was an increase in cash cost to $7.61 per oz Ag net of Au credits from $5.83 oz in the second quarter of 2014. Site all-in cost rose to $14.84 per oz Ag net of Au credit in the second quarter of 2015 from $12.08/oz per reported in the second quarter of 2014.

During the second quarter of 2015, the Company invested $2.5 million in mine development versus $1.8 million in 2014. The Company spent $0.8 million for the purchase of property, plant and equipment in 2015 versus $2.7 million in 2014. The Company spent $0.8 million on exploration versus $0.5 million in the second quarter of 2014.

Six months ended June 30, 2015, and June 30, 2014

Cerro Bayo mine produced 209,563 t of ore in 2015 versus 222,618 t in 2014. In addition, the mine completed 3,191 m of operating development in 2014 versus 3,171 m in the corresponding year-ago period. Mined grades were 1.78g/t Au and 199.98 g/t Ag for the six months ended June 30, 2015 versus 2.06 g/t Au and 243.60 g/t Ag for the corresponding six months of 2014. Mining cost per tonne in 2015 was $54.53/t, higher than the $51.70/t for the six months ended June 30, 2014.

During the six months ended June 30, 2015, the Cerro Bayo concentrator processed 216,633 t of ore with grades of 196.26 g/t Ag and 1.77 g/t Au. During the six months ended June 30, 2014, the Cerro Bayo concentrator processed 218,965 t of ore with grades of 241.43 g/t Ag and 2.02 g/t Au. The plant achieved 86.21% recovery of Au and 89.99% recovery of Ag in 2015 versus 87.06% recovery of Au and 90.55%of Ag in 2014.

Cerro Bayo produced 3,482 dmt of concentrate containing 1,188,244 oz of saleable Ag and 10,366 oz of saleable Au in 2015. Production was 4,085 dmt of concentrate containing 1,484,951 oz of saleable Ag and

12,103 oz of saleable Au in 2014. Processing costs for the six months ended June 30, 2015 were $23.10/t, lower than the $26.98/t during the six months ended June 30, 2014.

During the six months ended June 30, 2015, Cerro Bayo sold 4,249 dmt of concentrate, 12,816 oz Au and 1,478,500 oz Ag, more than the 4,538 dmt of concentrate, 12,463 oz Au and 1,612,829 oz Ag sold during the six months ended June 30, 2014.

Total site cash operating cost per tonne of ore processed was $87.40/t for the six months ended June 30, 2015, versus $93.72/t for the six months of 2014. Cash cost per ounce Ag produced net of Au by-product credit was $8.63 in 2015, higher than the $5.82 in the six months ended June 30, 2014. The all-in cost per oz Ag produced net of Au byproduct credit was $16.00 in 2015, versus $11.69 in 2014.

During the six months ended June 30, 2015, the Company invested $4.0 million in capital mine development versus $3.5 million in 2014; $2.7 million for purchase of property, plant and equipment versus $4.0 million; and $1.3 million for exploration in both quarters.

Björkdal Results, Production, Sales and Costs for the three months ended on June 30, 2015

During second quarter, Björkdal generated revenue of $13.9 million. Income from mine operations before depreciation and depletion was $4.7 million. Adjusted EBITDA was $4.7 million and net income after tax and operating net income was $2.2 million.

Björkdal financial results

	Three months ended June 30, 2015 ($'000)
Revenue	13,921
Cost of sales	9,287
Income from mine operations before depreciation and depletion	4,634
Depreciation and depletion	1,735
Income from mine operations	2,899
Administration	-
Adjusted EBITDA [(1)]	4,634
Finance costs, foreign exchange and others	62
Income/(loss) before tax	2,837
Current tax expense	455
Deferred tax expense (recovery)	152
Operating net income/(loss) after tax [(1)]	2,230
Net income/(loss) after tax	2,230
Capital expenditure [(2)]	4,263

[1] Adjusted EBITDA and operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.16"Non-IFRS Measures" for further information.

[2]includes capitalized depreciation on equipment.

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

	Three months ended June 30, 2015 ($'000)
Net income/(loss) after tax	2,230
Add: Intercompany expenses	
Intercompany interest expense	-
Operating net income/(loss) after tax	2,230

Björkdal operating statistics

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

	Unit	Six months ended June 30, 2015	Three months ended June 30, 2015	Three months ended March 31, 2015
Mining Production and Mining Cost				
Operating development	m	2,540	1,084	1,456
Mined ore	t	623,952	320,258	303,694
Ore mined Au grade	g/t	1.39	1.39	1.39
Mined contained Au	oz	27,845	14,294	13,551
Mining cost per tonne ore	$/t	19.53	19.13	20.28
Processing and Processing Cost				
Processed ore	t	636,435	318,088	318,347
Mill head grade Au	g/t	1.33	1.30	1.37
Recovery Au	%	89	88	90
Concentrate produced	dry t	1,669	724	944
Concentrate grade Au	g/t	444	493	406
Saleable Au produced	oz	23,813	11,494	12,319
Processing cost per tonne ore	$/t	6.67	6.55	6.79
Sales				
Concentrate sold	dry t	1,644	732	911
Concentrate Au grade	g/t	447	504	401
Au sold	oz	23,623	11,873	11,750
Benchmark Unit Cost				
Site cash operating cost/ tonne ore processed(1)	$/t	30.48	30.91	30.05
Site cash operating cost/tonne concentrate produced(1)	$/t	11,624	13,573	10,127
Adjusted EBITDA/tonne ore milled(1)	$/t	19	15	23
Adjusted EBITDA/tonne concentrate produced(1)	$/t	7,071	6,397	7,589
Cash cost per oz Au equivalent produced(1)(2)	$/oz	840	884	797
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	987	1,035	940
Capital Spending				
Capital development (Underground)	m	460	300	160
Capital development (Open pit)	t	1,400,910	576,564	824,346
Capital development cost	$000	3,669	1,886	1,783
Capital purchases	$000	2,275	1,503	772
Capitalized exploration	$000	1,392	874	519

1Does not include intercompany transfer pricing recharge costs and business development costs.

2The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures .Refer to Section 1.16"Non-IFRS Measures" for further information.

3Site all-in cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measure. Refer to Section 1.16"Non-IFRS Measures" for further information.

Three months ended June 30, 2015

During the second quarter, Björkdal produced a combined 320,258 t of ore from the open pit and underground operations, with an average grade of 1.39 g/t Au. Also during the second quarter, 1,084 m of operating development were completed. Weighted average mining cost from the open pit and underground was $19.13/t.

During the period, the Björkdal concentrator processed 318,088 t of ore with grades of 1.30 g/t Au. Metallurgical recoveries during the second quarter were 88% for Au. Processing cost was $6.55/t.

Björkdal produced 11,494 oz saleable Au during the period and sold 11,873 oz of Au.

Total site cash operating cost was $30.91/t of ore processed. Cash cost per oz Au was $884 and all-in cost per oz was $1,035.

During the period, the Company invested $1.9 million in mine development, $1.5 million in property, plant and equipment and $0.9 million in exploration.

Six months ended on June 30, 2015

During the six months ended June 30, 2015, Björkdal produced a combined 623,952 t of ore from the open pit and underground operations with an average grade of 1.39 g/t Au. During year 2015, 2,540 m of operating development were completed. Weighted average mining cost from the open pit and underground was $19.53/t.

During the period, the Björkdal concentrator processed 636,435 t of ore with grades of 1.33 g/t Au. Metallurgical recoveries during the second quarter were 89% for Au. Processing cost was $6.67 per tonne ore.

Björkdal produced 23,813 oz saleable Au during the period and sold 23,623 oz of Au.

Total site cash operating cost was $3,048/t of ore processed. Cash cost per oz Au was $840 and all-in cost per oz was $987.

During the period, the Company invested $3.7 million in mine development, $2.3 million in property, plant and equipment and $1.4 million in exploration.

Challacollo

During the second quarter of 2015, the Company spent $0.7 million on exploration and feasibility study. Work completed to date by consultants on design of the underground mine, processing plant, tailing storage and project infrastructure has been completed. The development options being evaluated for Challacollo consists of the following components:

- Underground mine with ramp access for longhole open stoping to produce 1,800 tpd mill feed;

- Processing plant with 3-stage crushing, single-stage milling, agitated cyanide leach circuit, Merrill Crowe plant to produce a silver-gold doré and tailing filtration to recover water and cyanide;
- The extensive metallurgical testing program confirmed cyanidation as the most appropriate method and silver recovery to doré of 93%;
- Dry stack tailing storage facility;
- On-site infrastructure support facilities, to include camp accommodation for up to 250 people during the operating phase;
- Electrical power supply via connection to the SING grid; and
- New site access road (15km).

However, while the study has confirmed that water supply of 12 litres/second is required for the operation, as of June 30, 2015, a suitable source of water has yet to be developed. Alternatives being evaluated include a well field on the property and off-site water sources. While developing the water source, the Company is continuing the collection of environmental and cultural data to support an eventual permit application and is planning elements of project optimization studies.

La Quebrada and Lupin

Spending on care and maintenance at La Quebrada and Lupin, both held for sale, was $0.1 million during the second quarter of 2015. The corresponding amount for the prior year quarter was $0.3 million.

Markets - Currency Exchange Rates

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

CURRENCY	Average rate April 1, 2015 June 30, 2015	Average rate January 1, 2015 June 30, 2015	Average rate April 1, 2014 June 30, 2014	Average rate January 1, 2014 December 31, 2014
1A$ = C$	0.9562	0.9657	1.0170	0.9963
1A$ = US$	0.7777	0.7820	0.9326	0.9027
1 US$ = C$	1.2297	1.2354	1.0910	1.0557
1 US$ = Chilean Peso	618	622	555	571
1 US$ = SEK	8.4158	8.3792	6.6007	6.8399

The U.S. dollar has strengthened in relation to the Australian dollar, the Canadian dollar, the Chilean peso, and the Swedish Krona.

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market prices of Au, Ag, and Sb were lower in the second quarter of 2015 compared to the second quarter of 2014. Realized prices were impacted by the application of adjustments with respect to open concentrate shipments at forward prices (see “Critical Accounting Policies - Revenue recognition” below). This resulted in realized prices in the second quarter of 2015 being marginally higher than relative average market prices.

COMMODITY	Average rate April 1, 2015 June 30, 2015	Average rate January 1, 2015 June 30, 2015	Average rate April 1, 2014 June 30, 2014	Average rate January 1, 2014 December 31, 2014
Realized gold US$/oz[1]	1,197	1,235	1,292	1,253
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,192	1,205	1,289	1,265
Realized antimony US$/tonne[1]	8,186	8,168	9,664	9,341
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	8,602	8,360	9,602	9,440
Realized silver price US$/oz[1]	15.69	16.74	20.29	17.87
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	16.41	16.54	19.63	19.07

[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, 2015 ($'000)	March 31, 2015 ($'000)	December 31, 2014 ($'000)	September 30, 2014 ($'000)
Revenue	50,793	56,779	66,973	34,676
Income/(loss)	5,073	12,484	7,588	(692)
Income/(loss) per share - Basic	0.01	0.03	0.02	(0.00)
Income/(loss) per share - Diluted	0.01	0.03	0.02	(0.00)

Particulars	June 30, 2014 ($'000)	March 31, 2014 ($'000)	December 31, 2013 ($'000)	September 30, 2013 ($'000)
Revenue	44,888	38,092	39,058	50,320
Income/(loss)	4,936	5,744	4,435	10,999
Income/(loss) per share - Basic	0.01	0.02	0.01	0.03
Income/(loss) per share - Diluted	0.01	0.02	0.01	0.03

Since the acquisition of the Costerfield mine in December, 2009, and of the Cerro Bayo mine in August, 2010, and now the Björkdal mine in September, 2014, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield, Cerro Bayo and Björkdal mines. Financial results are impacted by the levels of Au, Ag, and Sb production, the costs associated with that production and the prices received for metal in concentrate. Metal prices are determined using prevailing international prices for Au, Ag, and Sb. The Company's products are priced in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield), Chilean pesos (at Cero Bayo) and Swedish Krona (at Björkdal). The Company's results will be impacted by exchange rate variations during the reporting periods.

The general trend of increasing metal sales volumes with time represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine and the acquisition of the Björkdal mine. Volatility in revenue and earnings over the past two years is due to the combined impact of changes in volumes, fluctuations in metal prices and timing of concentrate shipments.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At June 30, 2015, the Company had working capital of $29 million compared to $25 million at December 31, 2014. Had the five year exchangeable loan been classified as long term debt, working capital would have been $83 million as of June 30, 2015. The Company had cash and cash equivalents of $52 million at June 30, 2015, as compared to $49 million at December 31, 2014.

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

The Company continuously reviews operational results, expenditures and additional financial opportunities in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations.

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

Five year 5.875% debt financing

In May, 2014, the Company borrowed $60 million in a five-year loan at an interest rate of 5.875% from Gold Exchangeable Limited ("GEL"), an unaffiliated special purpose vehicle incorporated in Jersey.

GEL raised the financing proceeds by way of a concurrent offering of five-year senior exchangeable bonds (the "Bonds") issued by Gold Exchangeable Limited (the "Issuer"), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited (the "Borrower"), borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the "Loan") which together mirror the principal terms of the Bonds.

Beginning on June 23, 2014, each Bondholder has the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The initial exchange price is $149.99 per Gold Share, which, at the initial issuance date of the Bonds, was equivalent to a gold price of $1,556 per ounce.

The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which NAV of the SPDR Gold Trust or Gold Shares is calculated.

If a Bondholder exercises its exchange rights, GEL will give notice to the Borrower, and the Borrower will be required to deliver the requisite number of Gold Shares to the Bondholder.

As security for its obligations under the Bonds, GEL will be required to deposit into a custody account, in quarterly instalments over the fourth and fifth years of the term of the Bonds, the aggregate number of Gold Shares issuable upon exchange of the Bonds. Pursuant to the terms of the Loan, the Borrower will have to provide such Gold Shares to GEL.

The performance of the Borrower's obligations under the Loan is guaranteed by the Company. This guarantee is secured by second ranking pledge of all of the shares of Mandalay Resources Australia Pty Limited, which owns and operates Costerfield.

GEL may redeem the Bonds at its option:

- any time after June 13, 2017, if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30 consecutive trading day period; or

- any time, if $9 million or less principal amount of the Bonds remains outstanding.

The Borrower has equivalent redemption rights with respect to the Loan. If the Borrower exercises its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

The maturity date of the Loan is May 13, 2019. However, because the Bondholders have the right to exercise their exchange rights any time after June 23, 2014 (which would trigger a requirement for GEL to exercise its parallel exchange rights under the Loan), the Company has classified the Loan balance as a current liability. IFRS requires that the Company ignore the probability that holders will elect to convert in the next 12 months, even if the Company assesses such probability as remote. However, if holders did elect to convert the debt as of June 30, 2015, the Company would realize a gain of $8.8 million and the holders of the debt would realize a loss of $14.8 million based on the principal value of $60 million.

A summary of the loan balance, for accounting purposes, as at June 30, 2015 is as follows:

	$'000
Principal issued	60,000
Fund raising expenses	(2,992)
Fair value allocated to derivative	(4,634)
Debt as at May 13, 2014	52,374
Accretion	1,438
Interest payable	463
Debt balance as at June 30, 2015	54,275

For clarity, Company has provided some examples below to further explain the details of the exchangeable bond agreement, all of which exclude the interest that is payable on the principal until the date of redemption or maturity at the rate of 5.875%:

i) If all the bondholders were to exercise their right to redeem any time before the maturity date and assuming June 30, 2015, at a gold price of $1,171/oz (which is equivalent to US$112.37 per Gold Share), then the repayment cost to the Company will be approximately $45.1 million.

$60 million ÷ $1,556/oz × $1,171 = $45.1 million

ii) The repayment cost to the Company to repay the loan on maturity will be minimum $60 million.

iii) If the average price of gold during the escrow period is $1,700/oz (which is equivalent to US$ 163.13 per Gold Share) then repayment cost to the Company will be $65.6 million.

$60 million ÷ $1,556/oz × $1,700 = $65.6 million

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

During the quarter, expenses relating to the June 2015 C$18,400,000 secondary offering of common shares of the Company by a fund advised by West Face Capital Inc. (“West Face”) , totaling $0.2 million, were paid by Mandalay and are subsequently to be reimbursed from West Face, a related party of the Company.

1.10 CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, the recoverability of trade and other receivables, measurement of revenue and trade receivables, the proven and probable ore reserves and resources of mining properties and the related depletion and amortization amounts, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the assumptions used in the accounting for stock-based compensation, valuation of warrants, the provision for income and mining taxes and composition of future income and mining tax assets and liabilities, the expected economic lives of and the estimated future operating results and net cash flows from mining interests, the anticipated costs of reclamation and other closure cost obligations, the fair value measurement of derivative financial instruments and silver note, and the fair value of assets and liabilities acquired in business combinations.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of metals is recognized when all of the following conditions are satisfied:

- the significant risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Sales of certain commodities are provisionally priced such that the price is not settled until a pre-determined future date based on the market price at that time. Revenue on these sales is initially recognized (when the above criteria are met) at the current market price. Provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark-to-market adjustment is recognized in revenue.

Inventories

Finished goods, work-in-process and stockpiled ore are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labor, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form and the costs necessary to make the sale.

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 in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

Supplies are valued at the lower of average cost and net realizable value.

The estimates and assumptions used in the measurement of work-in-process inventories include saleable ounces of gold, silver and antimony and the gold, silver and antimony prices to be realized when the metal is sold. If these estimates or assumptions prove to be inaccurate, the Company could be required to write down the carrying amounts of its work-in-process inventories, which would reduce the Company's earnings and working capital.

Property, plant and equipment

Exploration and Evaluation

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

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash and the value of share considerations paid for the property and exploration costs incurred on the property. The recorded amount does 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 or perhaps just pre-resource exploration data 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 second tested for impairment and then reclassified to mining interests within property, plant and equipment.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all unrecoverable costs associated with the project are written off.

Mining Interests

Mining interests represent capitalized expenditures related to the development of mining properties, acquisition costs, capitalized borrowing costs, expenditures related to exploration and evaluation transferred in and estimated site closure and reclamation costs.

Capitalized costs are depleted using the unit-of-production method over the estimated economic life of the mine to which they relate.

Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and impairment charges.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Depreciation

Mining interests are depreciated using the unit-of-production method based on the estimated total recoverable metal contained in proven and probable reserves or proven, probable and measured and indicated resources, depending on the nature of the ore body, at the related mine when the production level intended by management has been reached.

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

- a significant utilization rate of plant capacity has been achieved;

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

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

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

Site closure and reclamation cost obligations

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for site closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third party industry specialists and discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.11 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. 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, 2015, the Company had no past overdue trade receivables.

The Company invests its excess cash principally in highly rated government and corporate debt securities. The Company has established guidelines related to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's audit committee and modified to reflect changes in market conditions.

The Company is subject to interest rate risk on its cash and cash equivalents and believes that its results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. Excess cash is invested in highly rated investment securities at fixed interest rates with varying terms to maturity but generally with maturities of three months or less from the date of purchase.

The Company reports its financial statements in U.S. dollars; however, the Company has extensive operations in the Australia, Chile and Sweden. As a consequence, the financial results of the Company's operations as reported in U.S. dollars are subject to changes in the value of the U.S. dollar relative to the Australian dollar, Chilean peso Swedish krona. The Company has at times entered into foreign exchange hedges to limit exposure to exchange rate fluctuations. The Company's management assesses the Company's strategy towards its foreign exchange rate risk as needed, depending on market conditions.

Hedging Activities

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

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;

- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold and silver by central banks and other holders;
- demand for jewelry containing gold and silver;
- industrial demand for antimony (mostly for flame retardants) versus supply, largely controlled by China; and
- Investment activity, including speculation, in gold and silver as commodities.

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

1.12 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. During the fourth 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, 2015. 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>Segregation of duties</td><td>Accuracy and possible fraud</td><td rowspan="2">KPMG are the internal auditors since 2011. Management has documented and taken adequate corrective actions to address the issues identified by auditors in each financial year.

The areas being covered during 2015 internal audit would be related to the following broad categories:
• Financial and management reporting, particularly in newly acquired Bjorkdal mines.
• Heath, safety and environment.</td></tr>
<tr><td>Collusion</td><td>Financial loss to the Company</td></tr>
</table>

III. Limitation of Controls and Procedures

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

1.13 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 409,452,672 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 409,903,789.

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, 2015	As of Aug 5, 2015	Expiry Date
$0.91	5,090,000	5,090,000	Mar 24, 2020
$0.93	120,000	120,000	Nov 6, 2019
$0.98	4,305,000	4,305,000	Mar 24, 2019
$1.13	3,942,500	3,942,500	Mar 18, 2018
$0.83	3,612,500	3,612,500	Mar 9, 2017
$0.70	250,000	250,000	Dec 2, 2016
$0.76	50,000	50,000	Jul 4, 2016
$0.58	370,000	370,000	Apr 11, 2016
$0.56	2,962,500	2,962,500	Mar 11, 2016
$0.33	300,000	300,000	Oct 6, 2015
$0.26	400,000	400,000	Aug 26, 2015
Total	**21,402,500**	**21,402,500**	

During the quarter ended June 30, 2015, 380,000 options were exercised. There were 21,402,500 options outstanding as of June 30, 2015, which could result in issuance of shares.

During 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs receive the Company's common shares at no cost at the end of vesting periods. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The number of RSUs as at June 30, 2015, is as follows:

	Number of RSU's
Balance, December 31, 2014	211,004
Granted	308,680
Redeemed	(73,166)
Outstanding at June 30, 2015	446,518

1.14 QUALIFIED PERSONS

Disclosures of a scientific or technical nature in this MD&A in respect of each of the Company's material mineral resource properties were prepared by, or under the supervision of, the "qualified persons" (as that term is defined in NI 43-101) listed below:

Project	Qualified Person	Relationship to Mandalay Resources
Costerfield	Chris Gregory	Employee
Björkdal	Chris Gregory	Employee
Cerro Bayo	Scott Manske	Employee
Challacollo	Scott Manske	Employee
La Quebrada	Ronald Luethe	Employee

1.15 FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mining industry risks; fluctuations in the market price of mineral commodities; project development; expansion targets and operational delays; environmental risks and hazards; requirement of additional financing; health and safety; uncertainty as to calculations of mineral deposit estimates; marketability; licenses and permits; title matters; governmental regulation of the mining industry; current global financial conditions; currency risk; uninsured risks; competition; repatriation of earnings; properties without known mineral reserves; dependence upon key management personnel and executives; dependence on major customers; infrastructure; litigation; potential volatility of market price of common shares; possible conflicts of interest of directors and officers of the Company; risk of dilution; payment obligations relating to properties; instability of political and economic environments; and integration of acquisitions.Specific reference is made to the Annual Information Form for a discussion of some of the factors underlying forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

1.16 NON-IFRS MEASURES

Non-IFRS performance measures are included in this MD&A because the Company believes these are useful indicators to discuss and understand performance of the Company and its operations. These performance measures do not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. These non-IFRS performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS.

Management uses adjusted EBITDA, income after tax from underlying operations and operating net income/(loss) after tax as measures of operating performance to assist in comparing the Company's ability to generate liquidity through operating cash flow to fund future working capital needs and fund future capital expenditures and to assist in measuring financial performance from period to period on a consistent basis. The Company believes that these measures are used by and are useful to investors and other users of the Company's financial statements in evaluating the Company's operating and cash performance because they allow for analysis of its financial results without regard to special, non-cash and other non-core items, which can vary substantially from company to company and over different periods.

The Company presents "cash cost" and "all-in sustaining costs" metrics for its gold and silver production because it believes that these measures assist investors and other users of the Company's financial statements in understanding the economics of the Company's gold and silver mining activities. Management also uses these metrics to assess Company's ability to meet short and long term financial objectives.

1. *Adjusted EBITDA*- The Company defines adjusted EBITDA as earnings before interest, taxes, non-cash charges/ (income) and finance costs. Refer to page 13 for reconciliation between adjusted EBITDA and net income.

2. *Income after tax from underlying operations*- The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 15-16 for reconciliation between income from underlying operations and income from operations.

3. *Operating net income/(loss) after tax*- The Company defines operating net income/(loss) after tax as net income after tax before non-operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs. Refer to pages 18, 22 and 26 for reconciliation between operating net income after tax and net income after tax.

4. *Cash cost per ounce of gold equivalent produced*- Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The total cash operating cost associated with the production of these equivalent ounces produced in the period is then divided by the equivalent gold ounces produced to yield the cash cost per equivalent ounce produced. The cash cost excludes royalty expenses.

5. *Site all-in sustaining cost per ounce of gold equivalent produced*- Site all-in costs include total cash operating costs, royalty expense, depletion, depreciation, accretion and write-off of exploration and evaluation. Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average

gold price in the period. The site all-in cost is then divided by the equivalent gold ounces produced to yield the site all-in cost per equivalent ounce produced.

6. *Cash cost per ounce of silver produced net of gold byproduct credit*- The cash cost per silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals ounces gold produced times the realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the silver ounces produced in the period. The cash cost excludes royalty expenses.

7. *Site all-in cost per ounce of silver produced net of gold byproduct credit*- The site all-in cost per silver ounce produced net of gold byproduct credit is calculated by adding royalty expenses, depletion, depreciation, accretion and write-off of exploration and evaluation to the cash cost net of gold byproduct credit as calculated in note 6 above and dividing the resultant number by the silver ounces produced in the period.