MANDALAY RESOURCES

Management's Discussion & Analysis

For the quarter ended September 30, 2013

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes to the condensed consolidated interim financial statements of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended September 30, 2013,and the Company's annual information form dated March 27, 2013 (the "AIF"), as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com.The Company's reporting currency is the United States dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

This MD&A contains reference to non-IFRS measures. Please refer to Section 1.17 "Non-IFRS Measures" at the end of this MD&A for the list of these measures and their definitions.

THIRD QUARTER 2013 FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

- Revenues of $50.3 million (including favorable revenue adjustments of $4.5 million related to unsettled open shipments for prior period), compared with $48.8 million in 2012 (including favorable revenue adjustments of $2.1 million related to unsettled open shipments for prior period).
- Quantities sold during the quarter were 14,622 ounces ("oz") gold ("Au"), 973,107 oz silver ("Ag") and 777tonnes ("t") antimony ("Sb") compared to 8,800 oz Au, 803,810 oz Ag and 528 t Sb in 2012. Prices realized were $1,363/oz for gold, $23.21/oz for silver and $10,034/t for antimony in 2013 versus $1,730/oz for gold, $33.34/oz for silver and $12,918/t for antimony in 2012.
- Income from mining operations before depletion and depreciation was $25.3 million compared with $26.8 million in 2012.
- Net income was $10.9 million ($0.03 per share), compared with $9.0 million ($0.03 per share) in 2012.
- Income after tax from underlying operations [(1)] was $12.5 million ($0.04 per share), compared with $16.1 million ($0.05 per share) in 2012.
- Cash cost[(1)] of production at Costerfield in the quarter was $626 per gold equivalent ounce ("Au Eq. oz") produced and the site all-in cost [(1)] was $873 per Au Eq. oz produced. The cash cost[(1)] of silver production at Cerro Bayo was $6.41 per oz Ag produced net of Au credits and the site all-in cost[(1)] was $12.05 per oz Ag net of Au credits.

[(1)] Income after tax from underlying operations, cash cost and site all in costs are non-IFRS performance measures. Refer to Section 1.17 "Non-IFRS Measures" on page 33 for further information.

- Paid dividends were $2.2 million (C$0.0069 per share), compared to nil in 2012.
- 453,500 shares were purchased for $0.34 million (C$0.79/share) under the Company's 2012 NCIB program.
- At September 30, 2013, the Company had $27.7 million of cash and cash equivalents and held an undrawn $30 million revolving credit facility.

2. Operating Highlights

a. Consolidated Production and Sales

In the third quarter of 2013, Mandalay produced 14,442oz Au, 733,659 oz Ag and 966 t Sb, representing 33,452 Au Eq. oz.

The Company sold 14,622 oz Au, 973,107 oz Ag and 777 t Sb in the third quarter of 2013 or 36,071 Au Eq. oz, all record quantities.

Saleable Production

Metal	Source	3 months to 30 September 2013	3 months to 30 September 2012	9 months to 30 September 2013	9 months to 30 September 2012
Gold (oz)	Costerfield	8,831	4,317	21,913	12,129
	Cerro Bayo	5,611	4,787	16,210	12,069
	Total	**14,442**	**9,104**	**38,123**	**24,198**
Antimony (t)	Costerfield	**966**	**594**	**2,470**	**1,696**
Silver (oz)	Cerro Bayo	**733,659**	**804,779**	**2,266,995**	**2,016,373**
Average quarterly prices:					
Gold US$/oz		1,328	1,654		
Antimony US$/tonne		9,928	12,784		
Silver US$/oz		21.33	29.83		
Au Eq. (oz)[1]	Costerfield	16,053	8,906	39,768	25,536
	Cerro Bayo	17,399	19,300	54,370	48,867
	Total	**33,452**	**28,206**	**94,138**	**74,403**

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

Sales

Metal	Source	3 months to 30 September 2013	3 months to 30 September 2012	9 months to 30 September 2013	9 months to 30 September 2012
Gold (oz)	Costerfield	7,532	3,896	20,263	11,343
	Cerro Bayo	7,090	4,904	16,654	11,148
	Total	**14,622**	**8,800**	**36,917**	**22,491**
Antimony (t)	Costerfield	**777**	**528**	**2,295**	**1,586**
Silver (oz)	Cerro Bayo	**973,107**	**803,810**	**2,379,766**	**1,875,235**
Average quarterly prices:					
Gold US$/oz		1,328	1,654		
Antimony US$/tonne		9,928	12,784		
Silver US$/oz		21.33	29.83		
Au Eq. (oz)[1]	Costerfield	13,344	7,980	36,818	23,907
	Cerro Bayo	22,727	19,400	56,629	45,278
	Total	**36,071**	**27,380**	**93,447**	**69,185**

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

b. Costerfield Gold-Antimony mine, Victoria, Australia

i. *Production* — Saleable Au production for the third quarter of 2013 was 8,831 oz versus 6,879 oz in the previous quarter and 4,317 oz in the third quarter of 2012. Saleable antimony production for the third quarter of 2013 was 966 t versus 738 t in the previous quarter and 594 t in the third quarter of2012. Both gold and antimony production established quarterly records. The higher production was the result of more tonnes processed at higher grades driven by several improvement initiatives undertaken at the mine and plant, including the Cemented Rock Filling (CRF) stoping method and continued use of the mobile crusher. The increased percentage of gold produced in gravity concentrate has further contributed to the amount of saleable gold production for the quarter.

ii. *Operating Costs* — Cash cost per Au Eq. oz produced in the third quarter of 2013 was $626 versus $917 in the previous quarter and $1,279 in the third quarter of 2012. The lower cash cost per oz in the third quarter of 2013 was due to combined impact of higher volumes produced delivering economies of scale, good total spending control and effect of lower currency exchange rates. The site all-in cost per Au eq. oz produced in the third quarter of 2013 was $873, versus $1,178 in the previous quarter and $1,479 in the third quarter of 2012.

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

i. *Production* — In the third quarter of 2013, Cerro Bayo produced 733,659 oz Ag and 5,611oz Au versus 921,895 oz Ag and 6,167 oz Au in the previous quarter and 804,779 oz Ag and 4,787oz Au in the third quarter of 2012. Cerro Bayo has performed as expected, given the temporary curtailment of operations associated with the fatality experienced during the quarter. The comparatively higher production during second quarter of 2013 was on account of catch up on production from the first quarter (due to planned curtailment of processing for installation of flotation automation equipment). The third quarter of 2013 was a record shipment month compared to all prior quarters.

ii. *Operating Costs* — Cash cost per saleable oz Ag produced in concentrate net of Au credits was $6.41 in the third quarter of 2013 versus $6.12 in the previous quarter and $5.00 in the third quarter of 2012. Cash cost per oz was higher compared to the prior quarter mainly due to lower production for the reasons mentioned above and increase in selling costs associated with higher concentrate volume sold during the quarter. Cost per oz in the third quarter of 2013 was higher than in the same quarter of 2012 principally due to reduced Au credits arising from lower Au price. The site all-in cost per oz Ag produced net of Au by-product credit was $12.05 in the third quarter of 2013, versus $11.54 in the previous quarter and $9.54 in the third quarter of 2012.

3. Exploration

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

Infill and extension drilling at Cerro Bayo continued to delineate additional mineralization along the veins that are currently being mined or planned to be mined in the near future. New target drill testing has continued to generate information on new veins that will be followed up going forward. At the end of the quarter, Mandalay provided an update on drilling results generated by the ongoing exploration program (see press release dated September 30, 2013 for full update).

b. **<u>Costerfield</u>**

During the third quarter of 2013, Mandalay completed a Preliminary Economic Analysis ("PEA") of the Cuffley mine life extension, demonstrating enlarged Mineral Resources net of depletion relative to previously announced, year-end 2012 Mineral Resources and suggesting a four-year mine life with total potential saleable production of approximately 214,000 oz Au Eq. and an after tax net present value of approximately $67 million at a gold price of $1,300/oz, an antimony price of $9,500/t, a 0.9 US Dollar per Australian Dollar exchange rate, and a discount rate of 5% (see press release dated September 10, 2013 for full update).

The PEA is preliminary in nature and includes Inferred Mineral Resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves, and there is no certainty that the PEA based on these Mineral Resources will be realized. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.

c. **<u>La Quebrada, Chile</u>**

Preliminary engineering studies continued at La Quebrada.

1.0 DATE

This MD&A is dated as of November 5, 2013.

1.1 SUBSEQUENT EVENTS

i. On October 10, 2013, the Toronto Stock Exchange (TSX) approved the Company's notice of intention to make a normal course issuer bid (NCIB). Pursuant to the NCIB, the Company may purchase up to 16,185,328 common shares, issued and outstanding as of October 3, 2013. Purchase will be made, at the discretion of the Company at prevailing market prices, commencing October 17, 2013 and ending October 16, 2014. Pursuant to TSX policies, daily purchases made by the Company will not exceed 44,990 common shares. The shares acquired under the NCIB will be cancelled upon their purchase. The funding for any purchase pursuant to the NCIB will be financed out of the working capital of the Company.

ii. On November 5, 2013, the Board of Directors declared a dividend in the amount of $3,019,156, or $0.0093 per share (C$0.0097 per share), payable on November 25, 2013 to shareholders of record as of November 15, 2013.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

The Company is a Toronto-based mining company, the business of which is to discover, develop and produce mineral commodities. Its current emphasis is on gold, silver, antimony and copper in Australia and Chile. The Company's business plan is to identify and acquire undervalued mineral assets at all stages of the value chain from exploration through to production. The Company uses its strong technical expertise and understanding of value creation to systematically increase the value of its assets through a disciplined approach of exploration, mining and processing optimization and operational efficiency. The Company's current producing assets are its Costerfield gold-antimony mine in Victoria, Australia, and its Cerro Bayo silver-gold mine in Patagonia, Chile. Its exploration assets include the La Quebrada copper–silver exploration project near La Serena, Chile and district targets surrounding the Costerfield and Cerro Bayo mines.

Costerfield

Costerfield is a 100%-owned gold–antimony mine located in the state of Victoria, Australia, that was purchased by the Company in 2009. In the third quarter of 2013, the mine delivered 32,703 t of ore with mine grades of 9.81 grams/tonne ("g/t") Au and 4.41% Sb.

Cerro Bayo

Cerro Bayo is a 100%-owned silver–gold mine located in the Aysen Province of southern Chile, purchased by the Company in 2010. Mining operations were restarted in the fall of 2010 and milling operations were restarted in the first quarter of 2011. The mine completed its planned ramp-up in the fourth quarter of 2012. In the third quarter of 2013, the mine delivered 89,321 t of ore with mine grades of 2.18 g/t Au and 269.64 g/t Ag.

1.3 SELECTED QUARTERLY INFORMATION

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

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $
Revenue	50,319,270	48,847,630
Cost of sales	24,995,330	22,046,472
Income from mine operations before depreciation and depletion	25,323,940	26,801,158
Depreciation and depletion	7,844,204	4,753,815
Income from mine operations	17,479,736	22,047,343
Administration	2,289,099	3,401,757
Business development costs	83,951	-
EBITDA*	22,950,890	23,399,401
Finance costs, fx and others/(income)**	904,201	6,005,005
Income/(loss) before tax	14,202,485	12,640,581
Current tax expense	1,613,238	2,919,833
Deferred tax expense (recovery)	1,590,596	709,740
Net Income/(loss) after tax	10,998,651	9,011,008
Total assets	195,241,707	163,483,354
Total liabilities	40,096,132	41,266,533
Income per share	0.03	0.03

*EBITDA is a non-IFRS performance measure. Refer to Section 1.17 "Non-IFRS Measures" on page 33 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 nine months ended September 30, 2013, and September 30, 2012:

	Nine months ended September 30, 2013 $	Nine months ended September 30, 2012 $
Revenue	127,847,455	116,105,859
Cost of sales	68,038,064	58,065,623
Income from mine operations before depreciation and depletion	59,809,391	58,040,236
Depreciation and depletion	21,501,185	13,485,782
Income from mine operations	38,308,206	44,554,454
Administration	5,464,990	6,948,814
Business development costs	565,680	-
EBITDA*	53,778,721	51,091,422
Finance costs, fx and others**	1,421,512	15,921,799
Income/(loss) before tax	30,856,024	21,683,841
Current tax expense	6,076,344	3,355,466
Deferred tax expense (recovery)	(227,878)	(1,008,817)
Net Income/(loss) after tax	25,007,558	19,337,192
Income per share	0.08	0.07

*EBITDA is a non-IFRS performance measure. Refer to Section 1.17 "Non-IFRS Measures" on page 33 for further information.

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

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

Dividend

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

		Three months ended September 30, 2013	Three months ended September 30, 2012	Three months ended June 30, 2013	Three months ended March 31, 2013
Dividend paid	US$	2,151,365	-	2,435,070	3,197,278
Dividend paid per share	CDN$	0.00690	-	0.00769	0.0100

Normal Course Issuer Bid ("NCIB")

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

During the three months ended September 30, 2013, the Company repurchased 453,500 common shares at an average price of C$0.79 at a cost of C$358,711 under the 2012 NCIB. During the nine month ended September 30, 2013, the Company repurchased 1,832,100 common shares at an average price of C$0.82 for total cost of C$1,503,165.

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

Details	Average price C$	Shares	Warrants
2011 NCIB (Oct 17, 2011 to Oct 16, 2012)			
Permitted to acquire		13,501,078	1,970,965
Acquired in 2011 (17 Oct to 31 Dec)	0.69	(449,500)	-
Acquired in 2012 (1 Jan to 16 Oct)	0.78	(2,185,660)	-
2012 NCIB (Oct 17, 2012 to Oct 16, 2013)			
Permitted to acquire		15,856,786	-
Acquired as of September 30, 2013	0.82	(1,832,100)	-

EBITDA Reconciliation to Net Income

The table below reconciles EBITDA to reported net income for three and nine months ended September 30, 2013, and September 30, 2012. EBITDA is a non-IFRS performance measure. Refer to Section 1.17 "Non-IFRS Measures" on page 33 for further information.

	Three months ended September 30, 2013		Three months ended September 30, 2012	
	$	$	$	$
Net Income/(loss)		10,998,651		9,011,008
Add: Non-cash and finance costs				
Depletion and depreciation	7,844,204		4,753,815	
(Gain) Loss on disposal of property, plant and equipment	40,264		(50,136)	
Write off mineral properties/exploration and evaluation	-		435,709	
Share based compensation	406,756		475,421	
Interest and finance charges	239,762		574,536	
Fair value adjustments	(44,045)		4,713,133	
Current tax	1,613,238		2,919,833	
Deferred tax	1,590,596		709,740	
Foreign exchange (gain)/loss	405,729	12,096,504	185,401	14,717,452
		23,095,155		23,728,460
Add/(Less): Interest & (other income)/expenses	(144,265)	(144,265)	(329,059)	(329,059)
EBITDA		22,950,890		23,399,401
Add: Fair value adjustments related to financing warrants charged to admin cost		-		1,657,000
Underlying EBITDA from pure operating activities		22,950,890		25,056,401

	Nine months ended September 30, 2013		Nine months ended September 30, 2012	
	$	$	$	$
Net Income/(loss)		25,007,558		19,337,192
Add: Non-cash and finance costs				
Depletion and depreciation	21,501,185		13,485,782	
(Gain) Loss on disposal of property, plant and equipment	128,627		(50,136)	
Write off mineral properties/exploration and evaluation	548,585		435,709	
Share based compensation	1,353,884		1,312,970	
Interest and finance charges	631,454		2,484,735	
Fair value adjustments	(488,800)		12,218,087	
Current tax	6,076,344		3,355,466	
Deferred tax	(227,878)		(1,008,817)	
Foreign exchange (gain)/loss	(428,884)	29,094,517	125,548	32,359,344
		54,102,075		51,696,536
Add/(Less): Interest & (other income)/expenses	(323,354)	(323,354)	(605,114)	(605,114)
EBITDA		53,778,721		51,091,422
Add: Fair value adjustments related to financing warrants charged to admin cost		-		1,657,000
Underlying EBITDA from pure operating activities		53,778,721		52,748,422

Fair-value adjustments

As at September 30, 2013, the following items on the statement of financial position were subject to fair-value adjustments in accordance with IAS 39:

Financing warrants – During the year ended December 31, 2012, the Company issued 3,050,000 'financing' warrants to specific service providers as consideration for financing and other services that the Company received in prior years. Each financing warrant entitles the holder to receive from the Company a cash payment equal to the difference between the exercise price of the warrant and the market price of the Company's common shares at the time of exercise. No common shares are issuable upon the exercise of the warrants. These financing warrants are accounted as a liability and are marked to market at the end of each period until they are exercised or expire. During the three months ended September 30, 2013, no financing warrants were exercised. The Company recorded a fair value measurement loss of

$122,962 for three months ended September 30, 2013. There were 982,100 financing warrants outstanding as on September 30, 2013.

Cash election options – In August 2012, the Company amended its stock option plan to provide option holders resident in Australia with a cash election option in addition to the existing share purchase option. As a result of the stock option plan amendment, the Company reclassified $197,356 from share option reserve to derivative financial instruments. Subsequently, the liability is re-measured at fair value. The Company recorded a fair value measurement loss of $22,820 for three months ended September 30, 2013. There were 1,915,000 cash election options outstanding as of September 30, 2013.

Currency option – In July 2013, the Company's Australian subsidiary entered into 50% participating forward contracts for A$33 million (A$3 million per month) starting August, 2013, and ending June, 2014. This allows the company to buy, monthly for 11 months starting August, 2013, A$3 million at U$1=A$1.07526 (the "contract rate"), if the Australian dollar is stronger than the contract rate, or A$1.5 million at the contract rate and A$1.5 million at the spot rate if Australian dollar is weaker than the contract rate. The derivative financial instruments are stated at fair value with any resulting gain or loss recognized in profit and loss. The Company recorded a fair value measurement gain of $189,827 for the three months ended September 30, 2013.

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

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

	Before fair value and deferred tax adjustments [(a)]	Note	Fair value and deferred tax adjustments Q3 2013	As of September 30, 2013 [(a)]	As of December 31, 2012 [(a)]
	$		$	$	$
Assets					
Derivative Financial Instrument (hedge instrument)	4,007	(b)	189,827	193,834	-
Deferred tax	11,895,421	(c)	(1,590,596)	10,304,825	11,229,246
Liabilities					
Derivative financial instrument (financing warrants)	486,807	(d)	145,782	632,589	2,219,707
Shareholders' equity					
Retained earnings/(deficit)	61,549,746		(1,546,551)	60,003,195	43,692,706

(a) Values are net of foreign exchange translation.

(b) The Company recorded fair value measurement gain relating to the currency option of $189,827 for the three months ended September 30, 2013.

(c) The Company recorded a deferred tax expense of $1,590,596 for the three months ended September 30, 2013.

(d) The Company recorded fair value measurement loss relating to financing warrants of $122,962 and cash election options of $22,820 for the three months ended September 30, 2013.

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

	September 30, 2013				September 30, 2012
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	14,659,666			14,659,666	17,784,592
Other items					
Interest and other income	144,265			144,265	329,059
Finance (costs)/income	(239,762)	(a)	189,827	(195,717)	(5,287,669)
		(b)	(145,782)		
Foreign exchange gain (loss)	(405,729)			(405,729)	(185,401)
Net income/(loss) before tax	14,158,440		44,045	14,202,485	12,640,581
Current tax	(1,613,238)			(1,613,238)	(2,919,833)
Deferred tax		(c)	(1,590,596)	(1,590,596)	(709,740)
Net income/(loss)	12,545,202		(1,546,551)	10,998,651	9,011,008
Income (loss) per share					
Basic	0.04			0.03	0.03
Diluted	0.04			0.03	0.03

(a) The Company recorded fair value measurement gain relating to the currency option of $189,827 for the three months ended September 30, 2013.

(b) The Company recorded fair value measurement loss relating to financing warrants of $122,962 and cash election options of $22,820 for the three months ended September 30, 2013.

(c) The Company recorded a deferred tax expense of $1,590,596 for the three months ended September 30, 2013.

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

	September 30, 2013				September 30, 2012
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	30,246,440			30,246,440	35,907,097
Other items					
Interest and other income	323,354			323,354	605,114
Finance (costs)/income	(631,454)	(a)	189,827	(142,654)	(14,702,822)
		(b)	298,973		
Foreign exchange gain (loss)	428,884			428,884	(125,548)
Net income/(loss) before tax	30,367,224		488,800	30,856,024	21,683,841
Current tax	(6,076,344)			(6,076,344)	(3,355,466)
Deferred tax		(c)	227,878	227,878	1,008,817
Net income/(loss)	24,290,880		716,678	25,007,558	19,337,192
Income (loss) per share					
Basic	0.07			0.08	0.07
Diluted	0.07			0.07	0.05

(a) The Company recorded fair value measurement gain relating to the currency option of $189,827 for the nine months ended September 30, 2013.

(b) The Company recorded fair value measurement gain relating to financing warrants of $379,828 and loss relating to cash election options of $80,855 for the nine months ended September 30, 2013.

(c) The Company recorded a deferred tax recovery of $227,878 for the nine months ended September 30, 2013.

1.4 RESULTS OF OPERATIONS

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

During the three months ended September 30, 2013, the Company recorded net income of $10,998,651 (net of fair value measurement gain of $44,045 and deferred tax expense of $1,590,596) compared to net income of $9,011,008 (net of fair value adjustments of $6,370,133, and deferred tax expense of $709,740) during the three months ended September 30, 2012. Mandalay achieved EBITDA of $22,950,890 for the quarter ended September 30, 2013, compared to $23,399,401 in the quarter ended September 30, 2012. The decrease in EBITDA was largely driven by lower metal prices realized. The decrease in EBITDA is proportionately lower than the decrease in prices due to greater volumes of metal produced and shipped at lower costs due to operational efficiencies achieved as a result of continuous improvements at the operations and economies of scale.

Administrative expenses for the quarter ended September 30, 2013, were $2,289,099 compared to $3,401,757 during the quarter ended September 30, 2012. The administration expenses of $1,548,705 at Corporate included $944,743 in management fees, $80,536 in audit and internal review fees, $191,938 in travel expense, $110,146 in legal and accounting fees, $135,210 in investor relations and transfer agent and filing fees and $28,893 in consulting fees.

Capital expenditure in the third quarter of 2013, including capitalized depreciation and exploration, was $9,161,300. Of this, $3,880,537 was spent at Cerro Bayo, $5,063,844 was spent at Costerfield and $216,919 was spent at La Quebrada. By comparison, capital expenditure in the third quarter of 2012 was $11,525,721. The decrease in capital expenditure in the third quarter of 2013 relative to 2012 is mainly due to operations economizing on capital spending in response to the metal price environment.

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

Costerfield generated revenue of $17,869,985 for the quarter ended September 30, 2013; income from mine operations before depreciation and depletion was $9,204,052 and EBITDA was $8,984,742. Net income after fair value adjustments and deferred income tax was $3,024,349 and operating net income was $3,934,279 during 2013. For the quarter ended September 30, 2012, revenue was $13,402,803, income from mine operations before depreciation and depletion was $4,982,957, EBITDA was $4,755,938, net income after fair value adjustments and deferred income tax was $1,397,599 and operating net income was $1,660,040. Higher volumes produced and sold during the quarter more than offset the decrease in prices realized; this translates into higher revenue than in the prior year quarter. Higher revenue and better cost performance resulted in higher EBITDA and operating net income than the prior year quarter.

Costerfield financial results

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $
Revenue	17,869,985	13,402,803
Cost of sales	8,665,933	8,419,846
Income from mine operations before depreciation and depletion	9,204,052	4,982,957
Depreciation and depletion	4,047,963	1,431,463
Income from mine operations	5,156,089	3,551,494
Administration (1)	303,097	227,019
Business development costs	43,736	-
EBITDA (2)(4)	8,984,742	4,755,938
Finance costs, fx and others (3)	682,741	467,727
Income/(loss) before tax	4,126,515	2,856,748
Current tax expense	-	-
Deferred tax expense (recovery)	1,102,166	1,459,149
Operating net income/(loss) after tax(4)	3,934,279	1,660,040
Net income/(loss) after tax	3,024,349	1,397,599
Capital expenditure (5)	5,063,844	4,257,304

[1]Includes intercompany transfer pricing re-charge costs of $127,523 in 2013 and nil in 2012.
[2]Does not include intercompany transfer pricing recharge costs.
[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/loss on disposals of properties and intercompany transfer pricing recharge costs of $452,663in 2013 and nil in 2012.
[4] EBITDA and Operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.17 "Non-IFRS measures" on page 33 for further information.
[5]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

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

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $
Net income/(loss) after tax	3,024,349	1,397,599
Add: Intercompany expenses		
Intercompany interest expense	329,743	262,441
Intercompany transfer pricing recharge costs	580,187	-
Operating net income/(loss) after tax	3,934,279	1,660,040

Costerfield operating statistics

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

	Unit	Nine months ended September 30, 2013	Nine months ended September 30, 2012	Three months ended September 30, 2013	Three months ended September 30, 2012	Three months ended June 30, 2013	Three months ended March 31, 2013
Mining Production and Mining Cost							
Operating development	m	4,702	3,964	1,455	1,370	1,842	1,405
Mined ore	t	94,475	69,167	32,703	25,360	35,906	25,865
Ore mined Au grade	g/t	9.41	8.30	9.81	8.24	9.28	9.08
Ore mined Sb grade	%	4.34	4.57	4.41	4.53	3.94	4.80
Mined contained Au	oz	28,568	18,448	10,311	6,636	10,709	7,548
Mined contained Sb	t	4,100	3,163	1,443	1,146	1,415	1,242
Mining cost per tonne ore	$/t	210	297	185	297	194	263
Processing and Processing Cost							
Processed ore	t	94,508	62,271	36,094	23,112	31,836	26,578
Mill head grade Au	g/t	9.55	8.08	9.78	7.59	9.39	9.43
Mill head grade Sb	%	4.34	4.45	4.45	4.22	3.86	4.77
Recovery Au	%	89.90	89.33	90.17	89.68	89.67	89.80
Recovery Sb	%	95.60	96.26	95.58	96.42	95.36	95.91
Concentrate produced	dry t	7,316	4,915	2,832	1,713	2,199	2,285
Concentrate grade Au	g/t	91.27	91.26	93.67	92.57	93.52	86.14
Concentrate grade Sb	%	53.58	54.14	54.12	54.58	53.26	53.21
Saleable Au produced	oz	21,913	12,129	8,831	4,317	6,879	6,203
Saleable Sb produced	t	2,470	1,695	966	594	738	766
Saleable Au equivalent produced	oz	39,768	25,536	16,053	8,906	12,283	11,432
Processing cost per tonne ore	$/t	56.05	69.38	46.27	71.35	59.22	65.54
Sales							
Concentrate sold	dry t	6,816	4,597	2,286	1,526	2,292	2,238
Concentrate Au grade	g/t	89.24	91.44	91.00	93.67	90.17	86.48
Concentrate Sb grade	%	53.45	53.90	53.96	54.12	52.86	53.52
Au sold	oz	20,263	11,343	7,532	3,896	6,850	5,881
Sb sold	t	2,295	1,586	777	528	763	755
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed(1)	$/t	333.25	479.97	272.90	480.99	345.57	400.45
Site cash operating cost/tonne concentrate produced(1)	$/t	4,305	6,081	3,478	6,490	5,004	4,657
EBITDA/tonne ore milled(1)	$/t	215	198	250	206	132	266
EBITDA/tonne concentrate produced(1)	$/t	2,774	2,513	3,188	2,777	1,905	3,097
Cash cost per oz Au equivalent produced(1)(2)	$/oz	808.28	1,188.79	626.12	1,278.93	916.60	947.68
Site all-in cost/oz Au eq. oz produced(1)(3)	$/oz	1,054.81	1,373.35	872.83	1,479.22	1,178.49	1,177.42
Capital Spending							
Capital development	m	1,323	1,248	481	516	404	438
Capital development cost	$000	7,067	5,915	2,017	2,086	2,847	2,202
Capital development cost/meter	$/m	5,342	4,741	4,195	4,043	7,046	5,028
Capital purchases	$000	4,549	6,021	1,915	664	654	1,980
Capitalized exploration	$000	3,770	3,821	1,132	1,507	1,414	1,224

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

[2]Cash cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.17 "Non-IFRS Measures" on page 33 for further information.

[3]Site all-in cost per ounce of gold equivalent produced is a non-IFRS performance measure. Refer to Section 1.17 "Non-IFRS Measures" on page 33 for further information.

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

The Costerfield mine completed 1,455 m of operating development in the third quarter of 2013 versus 1,370 m in 2012. It produced more ore in 2013 than in 2012: 32,703 t versus 25,360 t. The mine grades of gold were higher in 2013: 9.81 g/t Au versus 8.24 g/t Au in 2012 while mine grades of antimony were marginally lower in 2013:4.41% Sb versus 4.53% Sb in 2012. Mining costs were $185/t in 2013 versus $297/t in the previous year. The increase in tonnage and mined grade and the decrease in costs are due to combined impact of better stope performance resulting from the refined cemented rock-fill long-hole stoping mining method and relatively better cost control.

Capital development advance was 481 m in 2013 compared to 516 m in 2012; the cost in 2013 was $4,195/m versus $4,043/m in 2012.

In the third quarter of 2013, the Costerfield concentrator processed 36,094 t. This is significantly more ore than the 23,112 t it processed in the corresponding period of 2012. The head grades of gold were higher in 2013: 9.78 g/t Au versus 7.59 g/t Au in 2012 while head grades of antimony were 4.45% in 2013 versus 4.22% in 2012. The plant achieved higher recoveries for gold in 2013: 90.17% versus 89.68% in 2012. It achieved lower recoveries for antimony (95.58% in 2013 versus 96.42% in 2012). High grade vein areas mined resulted in higher gold grades during the quarter. The higher plant throughput was the result of success of the mobile ore crusher, which enabled Costerfield to process at a high rate while maintaining high recovery. Concentrate production was 2,832 dry metric tonnes ("dmt") containing 966 t saleable Sb and 8,831 oz saleable Au in 2013 versus 1,713 dmt containing 594 t Sb and 4,317 oz Au for three months of 2012. Processing costs in 2013 were $46.27/t, lower than the $71.35/t incurred during the prior year period due to greater volume treated. The improved mine tonnages, throughput, grades and a higher percentage of gold being recovered as gravity gold led to significantly higher payable metal production in the third quarter of 2013 than in the third quarter of 2012.

During the third quarter of 2013, Costerfield sold 2,286 dmt of concentrate, containing 7,532 oz of saleable Au and 777 t saleable Sb. Sales during the comparable quarter of 2012 were 1,526 dmt of concentrate, containing 3,896 oz of saleable Au and 528 t of saleable Sb. Record sales during the quarter were due to higher production.

Site cash operating cost of ore processed was $272.90/t in the third quarter of 2013, compared to $480.99/t in the third quarter of 2012, resulting from higher volumes and cost efficiencies achieved. This translates into a lower cash cost per Au Eq. oz produced: $626/oz as compared to $1,279/oz in 2012 and lower site all-in cost per Au Eq. oz produced of $873/oz in 2013 compared to $1,479/oz in 2012.

During the third quarter of 2013, the Company invested $2,016,976 in capital development, $1,131,685 in exploration and $1,915,183 in property, plant and equipment at Costerfield. The corresponding amounts for the prior year quarter were $2,086,421, $1,507,181, and $663,702, respectively.

Nine months ended September 30, 2013, and September 30, 2012

The Costerfield mine completed 4,702 m of operating development in 2013 versus 3,964 min 2012. It produced 94,475 t of ore containing 9.41 g/t Au and 4.34% Sb in 2013 as compared to 69,167 t of ore containing 8.30 g/t Au and 4.57% Sb. Mining costs were $210/t in 2013 versus $297/t in 2012. Increased tonnages, lower dilution due to the refined cemented rock fill mining method and cost efficiency with economies of scale were the principal factors driving higher mine output at lower per tonne unit cost during 2013.

The capital development advance increased to 1,323 m in 2013 from 1,248 m in 2012; the cost per meter increased to $5,342/m from $4,741/m. The unit cost was higher in 2013 due to completion of Augusta return air raise construction during the nine months ended September 30, 2013.

In the nine months ended September 30, 2013, the Costerfield concentrator processed 94,508 t of ore containing 9.55g/t Au and 4.34% Sb. This is a significant gain relative to the corresponding year-ago throughput of 62,271 t of ore containing 8.08 g/t Au and 4.45% Sb. The plant achieved 89.90% recovery of gold and 95.60% recovery of antimony in the 2013 period compared to 89.33% recovery of gold and 96.26% recovery of antimony in 2012. The improved tonnages and gold head grades in 2013 led to record saleable metal production in 2013. Concentrate production was 7,316 dry metric tonnes ("dmt") containing 2,470 t saleable Sb and 21,913 oz saleable Au in 2013 versus 4,915 dmt containing 1,695 t Sb and 12,129 oz Au for nine months of 2012. Processing costs were lower in 2013 than in 2012 as well: $56.05/t versus $69.38/t.

During the nine months ended September 30, 2013, Costerfield sold 6,816 dmt of concentrate, containing 20,263 oz saleable Au and 2,295t saleable Sb, significantly higher than 4,597 dmt of concentrate, containing 11,343 oz Au and 1,586 t Sb during the nine months ended September 30, 2012. Higher sales are due to greater production driven by higher tonnages and relatively higher gold grades during 2013.

Site cash operating cost was $333.25/t ore processed in 2013 versus $479.97/t in 2012. The lower operating costs led to a lower cost per gold equivalent ounce produced of $808 in 2013 as compared to $1,189 in 2012. The combination of strong production delivering economies of scale and better operational efficiency and spending control has led to lower per unit costs during 2013 than 2012. The site all-in cost in 2013 was $1,055/oz Au Eq. versus $1,373/oz Au Eq. in 2012.

During the nine months ended September 30, 2013, the Company invested $7,066,732 in capital development, $3,769,804 in exploration, and $4,549,233 in property, plant and equipment. The corresponding amounts for 2012 were $5,914,705 for capital development, $3,820,829 for exploration and $6,020,924 for property, plant and equipment.

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

Cerro Bayo generated revenue of $32,449,285 for the quarter ended September 30, 2013. Income from mine operations before depreciation and depletion was $16,119,888, EBITDA was $15,555,069, net income after fair value adjustments and deferred tax income was $8,502,426 and operating net income was $9,392,219 for three months ended September 30, 2013. For the quarter ended September 30, 2012, revenue was $35,444,827, income from mine operations before depreciation and depletion was $21,818,201, EBITDA was $21,476,594, net income after fair value adjustments and deferred income tax was $11,387,406 and operating net income was $11,387,406. 2013 results are lower than in the third quarter of 2012 despite higher volumes sold due to metal prices realized being significantly lower in the third quarter of 2013 compared to the corresponding quarter of 2012.

Cerro Bayo financial results

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $
Revenue	32,449,285	35,444,827
Cost of sales	16,329,397	13,626,626
Income from mine operations before depreciation and depletion	16,119,888	21,818,201
Depreciation and depletion	3,796,241	3,322,352
Income from mine operations	12,323,647	18,495,849
Administration (1)	735,727	341,607
EBITDA (2)(4)	15,555,069	21,476,594
Finance costs, fx and others (3)	983,826	4,596,413
Income/(loss) before tax	10,604,094	13,557,830
Current tax expense	1,613,238	2,919,833
Deferred tax expense (recovery)	488,430	(749,409)
Operating net income/(loss) after tax(4)	9,392,219	11,387,406
Net income/(loss) after tax	8,502,426	11,387,406
Capital expenditure (5)	3,880,537	6,992,899

[1]Includes intercompany transfer pricing recharge costs of $170,908 in 2013 and nil in 2012.
[2]Does not include intercompany transfer pricing recharge costs.
[3]Others includes such items as mark to market derivative adjustments, write off of mineral properties, exploration and evaluation, share based compensation, gain/ (loss) on disposals of properties and intercompany transfer pricing recharge costs of $718,885 in 2013 and nil in 2012.
[4]EBITDA and Operating net income/(loss) after tax are non-IFRS performance measures. Refer to Section 1.17 "Non-IFRS Measures" on page 33 for further information.
[5]Includes additions net of retirement carrying amounts due to disposals. Also includes capitalized depreciation on equipment.

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

	Three months ended September 30, 2013 $	Three months ended September 30, 2012 $
Net income/(loss) after tax	8,502,426	11,387,406
Add: Intercompany expenses		
Intercompany interest expense	-	-
Intercompany transfer pricing recharge costs	889,793	-
Operating net income/(loss) after tax	9,392,219	11,387,406

Cerro Bayo operating statistics

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

	Unit	Nine months ended September 30, 2013	Nine months ended September 30, 2012	Three months ended September 30, 2013	Three months ended September 30, 2012	Three months ended June 30, 2013	Three months ended March 31, 2013
Mining Production and Mining Cost							
Operating development	m	5,302	6,773	1,553	2,479	1,967	1,782
Mined ore	t	294,361	254,401	89,321	94,629	112,351	92,689
Ore mined Au grade	g/t	2.00	1.69	2.18	1.66	2.08	1.75
Ore mined Ag grade	g/t	272.75	276.51	269.64	276.33	307.76	233.30
Mined contained Au	oz	18,966	13,826	6,248	5,061	7,514	5,205
Mined contained Ag	oz	2,581,240	2,261,607	774,321	840,719	1,111,684	695,235
Mining cost per tonne ore	$/t	58.00	58.27	64.20	58.42	52.07	59.21
Processing and Processing Cost							
Processed ore	t	294,282	255,016	97,696	97,125	102,011	94,575
Mill head grade Au	g/t	2.00	1.69	2.07	1.67	2.17	1.75
Mill head grade Ag	g/t	273.55	276.22	265.70	275.66	318.68	232.99
Recovery Au	%	87.79	87.27	88.64	88.12	89.12	85.49
Recovery Ag	%	90.62	89.63	91.06	90.25	91.41	89.32
Concentrate produced	dry t	6,517	5,451	2,093	2,128	2,643	1,782
Concentrate grade Au	g/t	79.58	68.25	85.80	67.11	74.66	79.63
Concentrate grade Ag	g/t	11,213.30	11,460.08	11,300.51	11,381.01	11,246.55	11,062.35
Saleable Au produced	oz	16,210	12,069	5,611	4,787	6,167	4,432
Saleable Ag produced	oz	2,266,995	2,016,373	733,659	804,779	921,895	611,441
Saleable Au equivalent produced	oz	54,370	48,867	17,399	19,300	21,275	15,696
Processing cost per tonne ore	$/t	27.16	26.05	25.07	24.70	28.83	27.51
Sales							
Concentrate sold	dry t	6,769	5,249	2,701	2,277	2,272	1,796
Concentrate Au grade	g/t	78.70	68.35	83.91	69.10	76.74	73.33
Concentrate Ag grade	g/t	11,332.16	11,554.80	11,610.98	11,395.17	10,995.39	11,338.84
Au sold	oz	16,654	11,148	7,090	4,904	5,449	4,115
Ag sold	oz	2,379,766	1,875,235	973,107	803,810	774,923	631,736
Benchmark Unit Cost							
Site cash operating cost/ tonne ore processed(1)	$/t	102.42	102.78	100.96	100.68	100.56	105.94
Site cash operating cost/tonne concentrate produced(1)	$/t	4,625	4,808	4,713	4,595	3,881	5,624
EBITDA/tonne ore milled(1)	$/t	127	172	159	221	79	147
EBITDA/tonne concentrate produced(1)	$/t	5,745	8,048	7,433	10,093	3,031	7,787
Cash cost per oz Ag produced net of Au byproduct credit(1)(2)	$/oz	6.92	5.90	6.41	5.00	6.12	8.96
Site all-in cost net of gold credit /oz Ag produced(1)(3)	$/oz	12.32	10.70	12.05	9.54	11.54	14.06
Capital Spending							
Capital development	m	1,889	1,504	528	503	774	588
Capital development cost	$000	7,433	9,103	2,520	2,946	2,732	2,181
Capital development cost/meter	$/m	3,934	6,053	4,771	5,854	3,532	3,712
Capital purchases	$000	5,713	5,106	1,051	2,831	1,034	3,628
Capitalized exploration	$000	1,730	3,105	310	1,215	625	795

[1]Does not include intercompany transfer pricing recharge costs and business development costs.
[2]The cash cost per ounce of silver produced net of gold byproduct credit is a non-IFRS performance measures. Refer to Section 1.17 "Non-IFRS Measures" on page 33 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 1.17 "Non-IFRS Measures" on page 33 for further information.

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

The Cerro Bayo mine produced 89,321 t of ore in 2013 versus 94,629 t of ore in 2012. This represents an average of 992 tpd in 2013, lower than the 1,051 tpd in 2012 due to production curtailment related to the fatality incurred during the quarter. Mine grades were 2.18 g/t for gold and 269.64 g/t for silver in 2013 versus 1.66g/t for gold and 276.33 g/t for silver in 2012. During 2013, 1,553 m of operating development were completed versus 2,479 m in the 2012 comparable period. Mining cost in the third quarter of 2013 was $64.20/t, compared to $58.42/t in the third quarter of 2012.

During the third quarter of 2013, the Cerro Bayo concentrator processed 97,696 t of ore containing 265.70 g/t Ag and 2.07 g/t Au, compared to 97,125 t of ore with grades of 275.66 g/t Ag and 1.67 g/t Au during the third quarter of 2012. Due to the flotation automation equipment installed in the first quarter of 2013, the plant achieved better recoveries of metal in the current period than in the prior year comparable period: 88.64% recovery of Au and 91.06% recovery of Ag versus 88.12% of Au and 90.25% of Ag.

Cerro Bayo produced 2,093 dmt of concentrate containing 733,659 oz saleable Ag and 5,611 oz saleable Au in the third quarter of 2013, as compared to 2,128 dmt of concentrate containing 804,779 oz saleable Ag and 4,787 oz saleable Au in the comparable 2012 period. Processing costs during the third quarter of 2013 were $25.07/t versus $24.7/t incurred in the third quarter of 2012.

The mine and plant output was impacted by temporary suspension of operations as a result of the fatality experienced in the quarter, resulting in lower production compared to corresponding quarter of previous year.

During the third quarter of 2013, Cerro Bayo sold 2,701 dmt of concentrate, containing 7,090 oz of saleable Au and 973,107 oz saleable Ag. Sales during the comparable quarter of 2012 were 2,277 dmt of concentrate, containing 4,904 oz of saleable Au and 803,810 oz of saleable Ag. Silver sales during the quarter were a record, catching up from shipping delays associated with port strikes and weather conditions experienced in the first and second quarters.

Site cash operating cost was $100.96/t of ore processed in the third quarter of 2013, nearly unchanged from the $100.68/t in the third quarter of 2012. Cash cost was $6.41/oz Ag net Au credit in the third quarter of 2013, higher than the $5.00/oz in the third quarter of 2012, mainly due to reduced gold credits arising from lower gold price. The site all-in cost was $12.05/oz Ag net of Au credit in the third quarter of 2013, versus $9.54/oz in the third quarter of 2012 due to higher cash costs per oz.

During the third quarter of 2013, the Company invested $2,519,757 in mine development versus $2,946,488 in 2012. The Company spent $1,051,158 for purchase of property, plant and equipment in 2013 versus $2,831,397 in 2012. It spent $309,622 on exploration versus $1,215,014 in the third quarter of 2012.

Nine months ended September 30, 2013, and September 30, 2012

The Cerro Bayo mine produced 294,361 t of ore in 2013 versus 254,401 t in 2012. This represents an average of 1,090 tpd in 2013 versus 942 tpd in 2012. In addition, the mine completed 5,302 m of operating development in 2013 versus 6,773 m in the corresponding previous year. Gold and silver grades were 2.00 g/t Au and 272.75 g/t Ag for the nine months ended September 30, 2013, versus 1.69g/t Au and 276.51 g/t Ag for nine months ended 2012. Mining cost in 2013 was $58/t, compared to $58.27/t for the nine months ended September 30, 2012.

During the nine months ended September 30, 2013, the Cerro Bayo concentrator processed 294,282 t of ore with grades of 273.55 g/t Ag and 2.00 g/t Au. During the nine months ended September 30, 2012, the concentrator processed 255,016 t of ore with grades of 276.22 g/t Ag and 1.69 g/t Au. The plant achieved 87.79% recovery of Au and 90.62% recovery of Ag in 2013versus 87.27% of Au and 89.63% of Ag in 2012. Cerro Bayo produced 6,517 dmt of concentrate containing 2,266,995 oz of saleable Ag and 16,210 oz of saleable Au in 2013. Production for the year-ago period was 5,451 dmt of concentrate containing 2,016,373 oz saleable Ag and 12,069 oz saleable Au. Processing costs for the nine months ended September 30, 2013 were $27.16/t versus $26.05/t during the comparative year ago period. Additional costs related to improvement, maintenance and the plant automation project were incurred during 2013. Also the plant operations were temporarily curtailed for several days for repairs, installation and commissioning. These factors resulted in higher processing cost per tonne during 2013.

During the nine months ended September 30, 2013, Cerro Bayo sold 6,769 dmt of concentrate, containing 16,654 oz saleable Au and 2,379,766 oz saleable Ag, significantly higher than 5,249 dmt of concentrate, containing 11,148 oz Au and 1,875,235 oz Ag during the nine months ended September 30, 2012. Higher sales are due to greater production driven by higher tonnages, better recoveries and relatively higher gold grades during 2013.

Site cash operating cost was $102.42/t of ore processed for the nine months ended September 30, 2013, slightly less than the $102.78/t for the nine months of 2012. Cash cost was $6.92/oz Ag net Au credit in 2013, higher than the $5.90/oz for nine months ended September 30,2012, mainly due to reduced gold credits arising from lower gold price. The site all-in cost was $12.32/oz Ag net Au credits in 2013, versus $10.70/oz in 2012 for similar reasons.

During the nine months ended September 30, 2013, the Company invested $7,433,194 in capital mine development versus $9,103,075 in 2012; $5,713,141 for purchase of property, plant and equipment versus $5,105,970; and $1,729,591 versus $3,104,869 for exploration.

La Quebrada

Spending on exploration at La Quebrada was $216,919 during the third quarter of 2013.

Markets - Currency Exchange Rates

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

Currency	Average rate July 1, 2013 September 30, 2013	Average rate January 1, 2013 September 30, 2013	Average rate July 1, 2012 September 30, 2012	Average rate January 1, 2012 December 31, 2012
1A$ = C$	0.9515	1.0042	1.0343	1.0353
1A$ = US$	0.9162	0.9820	1.0393	1.0359
1 US$ = C$	1.0384	1.0234	0.9954	0.9996
1 US$ = Chilean Peso	506.99	488.20	482.04	486.23

On July 25, 2013, the Company’s Australian subsidiary entered into 50% participating forward contracts for A$33 million (A$3 million per month) starting August, 2013, and ending June, 2014. This allows the Company to buy, monthly for 11 months starting August, 2013, A$3 million at U$1=A$1.07526 (the “contract rate”), if the Australian dollar is stronger than the contract rate, or A$1.5 million at the contract rate and A$1.5 million at the spot rate if Australian dollar is weaker than the contract rate.

Markets - Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market gold, silver and antimony prices in the third quarter of 2013 are significantly lower relative to the third quarter of 2012. Realized prices were positively impacted by the application of the Company’s policy for adjustments with respect to open concentrate shipments (see “Critical

Accounting Policies - Revenue recognition" below). This resulted in slightly higher realized prices in the third quarter of 2013 compared to actual average market prices.

COMMODITY	Average price July 1, 2013 September 30, 2013	Average price January 1, 2013 September 30, 2013	Average rate July 1, 2012 September 30, 2012	Average rate January 1, 2012 December 31, 2012
Realized gold US$/oz[1]	1,363	1,369	1,730	1,675
Gold- US$/oz - Average London Daily PM close (Metal Bulletin)	1,328	1,456	1,654	1,668
Realized antimony US$/tonne[1]	10,034	10,006	12,918	12,513
Antimony US$/tonne - Rotterdam Warehouse (Metal Bulletin)	9,928	10,469	12,784	12,846
Realized silver price US$/oz[1]	23.21	22.83	33.34	30.83
Silver US$/oz - Average London Daily PM close (Metal Bulletin)	21.33	24.82	29.83	31.09

[1]Includes the effect of prior period smelter revenue adjustment on sales revenue and realized prices for the period.

1.5 SUMMARY OF QUARTERLY RESULTS

The following information is derived from the Company's quarterly financial statements for the past eight quarters.

Particulars	September 30, 2013 $	June 30, 2013 $	March 31, 2013 $	December 31, 2012 $
Revenue	50,319,270	35,903,497	41,624,688	55,699,764
Income/(loss)	10,998,651	3,104,793	10,904,114	22,375,166
Income/(loss) per share - Basic	0.03	0.01	0.03	0.07
Income/(loss) per share - Diluted	0.03	0.01	0.03	0.06

Particulars	September 30, 2012 $	June 30, 2012 $	March 31, 2012 $	December 31, 2011 $
Revenue	48,847,630	46,538,713	20,719,516	24,233,020
Income/(loss)	9,011,008	19,246,828	(8,920,644)	955,754
Income/(loss) per share - Basic	0.03	0.07	(0.03)	0.00
Income/(loss) per share - Diluted	0.03	0.05	(0.03)	0.00

Since the acquisition of the Costerfield mine in December, 2009, and of the Cerro Bayo mine in August, 2010, the Company's results have been, and are expected to continue to be, influenced by the operational results of the Costerfield and Cerro Bayo mines. The mark-to-market adjustments of the Company's silver and gold price protection program, which impacted financial results in 2012, will not occur in 2013 as all the put contracts have either been sold or expired. Financial results are impacted by the levels of gold, silver and antimony production, the costs associated with that production and the prices received for metal in concentrate and the quantity and value of any outstanding silver or gold puts that the Company has purchased to provide price insurance for future periods. Metal prices are determined using prevailing international prices for gold, silver and antimony. The Company's products are sold in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield) and Chilean pesos (at Cero Bayo). The Company's results will be impacted by exchange rate variations during the reporting periods. The Company has entered into partial foreign exchange hedges to limit exposure to exchange rate fluctuations (as stated above).

The general trend of increasing metal sales volumes since financial year ended December, 2011, represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine. Volatility in resulting revenue and earnings is largely due to the changes in value of the unexpired portion of the Company's gold and silver puts and variability in the Company's schedule of shipments from Cerro Bayo as a result of external factors such as the 2012 Aysen labour protests (and, in 2011, the Japanese earthquake which resulted in a customer declaration of Force Majeure). The Company expects this volatility to decline in the future as there are currently no put options in place for 2013 and we have established alternative shipping routes for Cerro Bayo concentrates to multiple customers.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At September 30, 2013, the Company had working capital of $49,348,537 compared to $38,097,776 at December 31, 2012. The Company had cash and cash equivalents of $27,678,542 at the end of the September 30, 2013 as compared to $17,264,446 at December 31, 2012.

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

In the opinion of management, the Company's working capital at September 30, 2013, together with cash flows from operations, will be sufficient to support the Company's normal operating requirements through 2013. The Company continuously reviews operational results, expenditures and additional financial opportunities in order to ensure adequate liquidity and flexibility to support its growth strategy while maintaining or increasing production levels at its current operations.

1.7 CONTRACTUAL COMMITMENTS AND CONTINGENCIES

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

The Company had no outstanding debt as at September 30, 2013.

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

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

1.10 PROPOSED TRANSACTIONS

None.

1.11 CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, the recoverability of trade and other receivables, measurement of revenue and 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.

Work-in-process inventory represents materials that are currently in the process of being converted into finished goods. The average production cost of finished goods represents the average cost of work in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

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

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

Property, plant and equipment

Exploration and Evaluation

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

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash and the value of share considerations paid for the property and exploration costs incurred on the property. The recorded amount may not reflect recoverable values as this will be dependent on the results of exploration and development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

All costs related to the acquisition, exploration and evaluation of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are moved into development or production, sold, or management has determined there to be an impairment of the value.

Management reviews the carrying value of capitalized exploration and evaluation costs at least annually. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and be put into production when the current source of ore is exhausted or to replace the reduced output.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mining interests within property, plant and equipment.

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

Mining interests are depreciated using the unit-of-production method based on the estimated total recoverable metal contained in proven and probable reserves at the related mine when the production level intended by management has been reached.

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

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

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

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

Site closure and reclamation cost obligations

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

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

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

Reserve estimates

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

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

Income taxes

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

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

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

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

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

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

1.12 FINANCIAL INSTRUMENTS

General

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, reclamation and other deposits, derivative financial instruments, trade and other payables. 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 September 30, 2013, the Company had no past overdue trade receivables.

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

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

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

Hedging Activities

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

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

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

1.13 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. During the second quarter of 2011, the Company finished implementing Sage AccPac Enterprise Resource Planning (ERP) software to strengthen internal control and reporting. Sage AccPac implementation combined with improvements in the monthly close process provides information to the senior management for appropriate decision making.

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the quarter ended September 30, 2013. The Company's controls include policies and procedures that:

- relate to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

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

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

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

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

They have not reported any material weakness.

The Company will keep tightening its internal control procedures to further minimize the possibilities of financial loss due to oversight or collusion.</td></tr>
<tr><td>Collusion</td><td>Financial loss to the Company</td></tr>
</table>

III. Limitation of Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

1.14 OUTSTANDING SHARES

As of the date of this MD&A, the Company had 323,276,553 common shares issued and outstanding. The weighted average number of shares outstanding during the third quarter used for the calculation of per share results was 323,891,112.

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

Exercise Price C$	As of September 30, 2013	As of November 5, 2013	Expiry Date
1.13	4,287,500	4,287,500	March 18, 2018
0.83	4,052,500	4,052,500	March 9, 2017
0.76	450,000	450,000	July 4, 2016
0.70	490,000	490,000	December 2, 2016
0.58	370,000	370,000	April 11, 2016
0.56	3,502,500	3,502,500	March 11, 2016
0.335	100,000	100,000	September 16, 2015
0.33	300,000	300,000	October 6, 2015
0.31	50,000	50,000	September 7, 2015
0.26	1,110,000	1,110,000	August 26, 2015
0.255	1,550,000	1,550,000	December 7, 2014
Total	**16,262,500**	**16,262,500**	

During the quarter ended September 30, 2013, 50,000 options were exercised and 100,000 options expired. There were 16,262,500 options outstanding as of September 30, 2013, which could result in issuance of shares.

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

Exercise Price C$	As of September 30, 2013	As of November 5, 2013	Expiry Date
0.31	14,650,000	14,650,000	November 30, 2014
0.465	6,350,000	6,350,000	November 30, 2014
Total	**21,000,000**	**21,000,000**	

During the quarter ended September 30, 2013, no warrants were exercised. The number of warrants outstanding as of September 30, 2013 was 21,000,000.

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

	Number of RSU awards
Balance, December 31, 2012	-
Granted	300,000
Dividend	2,603
Outstanding at September 30, 2013	**302,603**

1.15 QUALIFIED PERSONS

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

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

1.16 FORWARD LOOKING STATEMENTS

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

1.17 NON-IFRS MEASURES

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

1. *EBITDA* - The Company defines EBITDA as earnings before interest, taxes and non-cash charges/ (income).

2. *Income after tax from underlying operations* is discussed on page 11 and 12. The Company defines Income from underlying operations as net income after tax excluding non-cash, non-operating expense related to mark-to-market adjustment of currency option, financing warrants and cash election options, silver and gold put options, silver note and deferred tax expense or recovery. Refer to page 12 for reconciliation between income from underlying operations and income from operations.

3. *Operating net income/(loss) after tax* is discussed on pages 14 and 18. The Company defines operating net income/(loss) after tax as net income after tax before non operating items such as intercompany interest expenses and all intercompany transfer pricing recharge costs.

4. *Cash cost per ounce of gold equivalent produced* is discussed on page 15. Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the average antimony price in the period divided by the average gold price in the period. The total cash operating cost associated with the production of these equivalent ounces produced in the period is then divided by the equivalent gold ounces produced to yield the cash cost per equivalent ounce produced. The cash cost excludes royalty expenses. Values for 2012 have been re-calculated accordingly.

5. *Site all-in cost per ounce of gold equivalent produced* is discussed on page 15. 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* is discussed on page 19. The cash cost per silver ounce produced net of gold byproduct credit is calculated by deducting the gold credit (which equals ounces gold produced times the realized gold price in the period) from the cash operating costs in the period and dividing the resultant number by the silver ounces produced in the period. The cash cost excludes royalty expenses. Values for 2012 have been re-calculated accordingly.

7. *Site all-in cost per ounce of silver produced net of gold byproduct credit* is discussed on page 19. 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.