MANDALAY RESOURCES

Management's Discussion & Analysis

For the quarter ended June 30, 2012

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and notes of Mandalay Resources Corporation ("Mandalay" or the "Company") for the quarter ended June 30, 2012, the audited consolidated financial statements of the Company for the year ended December 31,2011, the Management's Discussion and Analysis of such financial statements and the Company's annual information form dated March 31, 2012 (the "AIF") as well as other information relating to the Company on file with the Canadian provincial securities regulatory authorities on SEDAR at www.sedar.com. The Company's reporting currency is the United States dollar and all amounts in this MD&A are expressed in U.S. dollars unless otherwise stated. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS").

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

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

SECOND QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

1. Financial Highlights

In the second quarter, the Company generated revenue of $46,538,713, profit from mining operations before depletion and depreciation of $25,824,636 and net income of $19,246,828 ($0.07 per share). Net income is inclusive of non-cash, non-operating income of $3,773,209 related to mark-to-market adjustments of silver and gold put options[1] ("puts"), a silver note payable to Coeur d'Alene Mine Corporation (the "Silver Note") and deferred tax income of $199,965. Excluding non-cash and non-operating income of $3,773,209 and deferred tax income of $199,965, profit after tax from underlying operations for the second quarter was $15,273,654 ($0.05 per share).

For comparison, in the second quarter of 2011 the Company generated revenue of $24,360,995, profit from mining operations before depletion and depreciation of $12,236,044 and net income of $1,936,478 ($0.01 per share).

In the second quarter the Company entered into a new one year $20 million revolving credit facility with the Bank of Montreal. The Company used internally generated cash and $5 million of the new credit facility to repay 100% of the $10 million Sprott term loan facility. At the end of the quarter the Company had just $9,427,279 in outstanding debt.

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

Record low production cost of $4.12 per ounce ("oz") of silver net of gold credits was achieved at Cerro Bayo as result of higher volumes and grades and good cost control. Costerfield production cost dropped to $1,052 per gold equivalent ounce ("Au Eq. oz") on improving volumes and improved cost control.

2. Operating Highlights

a. Consolidated Production and Sales Results

In the second quarter of 2012, Mandalay produced 9,215 oz of gold ("Au"), 612 tonnes ("t") of antimony ("Sb") and 814,970 oz of silver ("Ag") representing 29,210 Au Eq. oz, which represents record quarterly production. The Company achieved record sales of 9,023 oz Au, 853,364 oz Ag and 608 t Sb in the quarter. At Cerro Bayo circa 400 oz of gold and 183,000 oz of silver were produced and sold from ore and concentrate stockpiles accumulated in the first quarter.

Quarterly and Annual Saleable Production

Metal	Source	Q1, 2011	Q2, 2011	Q3, 2011	Q4, 2011	2011 Total	Q1 2012	Q2 2012
Gold (oz)	**Costerfield**	4,528	2,856	2,057	2,803	**12,244**	3,690	4,122
	Cerro Bayo	1,450	1,552	1,567	2,109	**6,678**	2,190	5,093
	TOTAL	5,978	4,408	3,624	4,912	**18,922**	5,880	9,215
Antimony (t)	**Costerfield**	512	413	305	346	**1,576**	489	612
Silver (oz)	**Cerro Bayo**	339,366	284,324	299,679	395,296	**1,318,665**	396,624	814,970
Average quarterly prices								
Gold US$/oz		1,386	1,506	1,703	1,685		1,694	1,614
Antimony US$/tonne		14,128	15,898	14,899	13,890		12,692	13,574
Silver US$/oz		31.67	38.56	38.83	31.81		31.78	29.39
Au Eq. (oz)[1]	**Costerfield**	9,747	7,216	4,725	5,655	**27,343**	7,356	9,273.43
	Cerro Bayo	9,204	8,832	8,400	9,572	**36,008**	9,631	19,936.19
	TOTAL	**18,951**	**16,048**	**13,125**	**15,227**	**63,351**	**16,988**	**29,210**

Quarterly and Annual Sales

Metal	Source	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011 Total	Q1 2012	Q2 2012
Gold (oz)	**Costerfield**	4,741	3,229	2,108	2,837	**12,915**	3,384	4,063
	Cerro Bayo	204	1,297	1,690	2,347	**5,538**	1,284	4,960
	TOTAL	4,945	4,526	3,798	5,184	**18,453**	4,668	9,023
Antimony (t)	**Costerfield**	476	433	279	352	**1,540**	450	608
Silver (oz)	**Cerro Bayo**	69,037	270,404	376,409	396,150	**1,112,000**	218,060	853,364
Average quarterly prices								
Gold US$/oz		1,499	1,469	1,814	1,734		1,715	1,566
Antimony US$/tonne		15,050	16,036	17,326	12,921		12,282	13,069
Silver US$/oz		29.41	39.85	40.50	27.00		32.97	28.68
Au Eq. (oz)[2]	**Costerfield**	9,521	7,955	4,773	5,460	**27,709**	6,604	9,133.28
	Cerro Bayo	1,559	8,632	10,093	8,516	**28,801**	5,475	20,588.81
	TOTAL	**11,080**	**16,587**	**14,866**	**13,977**	**56,510**	**12,080**	**29,722**

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

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

b. Costerfield Gold-Antimony mine, Victoria, Australia

i. *Production* — Saleable gold production for the second quarter of 2012 was 4,122 oz versus 3,690 oz in the first quarter of 2012 and 2,856 oz in the second quarter of 2011. Saleable antimony production for the second quarter of 2012 was 612 t versus 489 t in the first quarter of 2012 and 413 t in the second quarter of 2011. The improvement in antimony production relative to previous quarters was due to greater ore tonnes mined, higher head grades and higher processing plant recoveries as compared to previous quarters.

ii. *Operating Costs* —Cash cost per ounce of gold equivalent produced in the second quarter of 2012 was $1,052 versus $1,301 in the first quarter of 2012 and $906 in the second quarter of 2011. Cash cost per ounce in second quarter relative to the first quarter of 2012 decreased due to greater production as well as good cost control. Cash costs per equivalent ounce in the second quarter of 2012 were higher than the second quarter of 2011 primarily due to 17% lower antimony prices in the second quarter of 2012 versus the same period in 2011 ($13,069/t vs. $15,252/t).

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

i. *Production* —During the second quarter of 2012, Cerro Bayo produced 814,970 oz of saleable silver versus 396,624 oz in the first quarter of 2012 and 284,324 oz in the second quarter of 2011. Also in the second quarter of 2012, the mine produced 5,093 oz of saleable gold versus 2,190 oz in the first quarter of 2012 and 1,552 oz in the second quarter of 2011. Increases in silver and gold production were due to more ore tonnes mined, higher mill head grades, and processing of ore stockpiles accumulated during the first quarter.

ii. *Operating Costs* — Cash cost per saleable ounce of silver produced in concentrate for the second quarter of 2012 net of gold credits was $4.12 versus $11.45 in the first quarter of 2012 and $11.29 in the second quarter of 2011. The lower cost is due to higher silver and gold production in the second quarter and continued good cost control.

3. **Exploration**

During the quarter ended June 30, 2012:

a. **Cerro Bayo**
During the first half of 2012, Mandalay drilled 31,600 metres ("m") of diamond core in 118 holes for a cost of approximately $4.1 million and testing seven high priority targets. Three of these targets (Dagny under Laguna Verde, Delia SE and Coigues) have returned drill intercepts of potentially economic grades and widths; follow-up drilling is underway. Four additional targets (Horquetas, Olga/Shirley, Lucia and Gabriela/Josefina) returned mixed or negative results. On July 9, 2012 the Company announced its mid-year update on its Mineral Resources and Mineral Reserves as well as its ongoing exploration program at Cerro Bayo.

b. **Costerfield**
During the first half of 2012, Mandalay drilled 9,346 m in 27 holes for approximately US$2.1 million. The exploration results for suggest potential for significant resource growth in N and Cuffley lodes with mineralization open both at depth and along strike (see press release dated July 9, 2012).

c. **La Quebrada, Chile**
On July 3, 2012, the Company released its maiden resource estimate for its wholly owned La Quebrada copper-silver project in northern Chile. The resource contains an Indicated 34.8 million tonnes at 0.6% Cu and 10 g/t Ag. Planning for preliminary metallurgical, infrastructure, and engineering studies is underway.

1.0 DATE

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

1.1 SUBSEQUENT EVENTS

On July 4, 2012, the Company announced that it has completed its previously announced warrant exchange offer (the "Exchange Offer"), pursuant to which Mandalay offered to purchase all of its outstanding common share purchase warrants (the "Warrants") in exchange for common shares ("Common Shares"). 67,297,777 Warrants were validly tendered (the "Tendered Warrants") to the Exchange Offer, representing approximately 72% of the outstanding Warrants of Mandalay. All Tendered Warrants were taken up promptly following the expiry of the Exchange Offer, and an aggregate of 35,795,052 Common Shares were issued in exchange for the Tendered Warrants.

On July 12, 2012, the company drew down a further $3 million on the Bank of Montreal revolving credit facility and used the proceed to repay $3 million of existing equipment loans.

1.2 PORTFOLIO AND OPERATIONAL OVERVIEW

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

Costerfield

The mine achieved record ore delivery in the second quarter of 2012 producing 24,714 t versus 19,093 t in the first quarter of 2012 and 18,683 t in second quarter of 2011. Ore grades were similar to the grades produced in the first quarter of 2012 whereas metallurgical recovery rates continued to improve reaching 89.55% for gold and 96.49% for antimony. Capital development rates have increased with the implementation of shortcrete support. Operating cost per ounce of gold equivalent improved largely as a result of higher production volumes as well as reduced maintenance costs and equipment rental resulting from the replacement of older equipment with new.

Cerro Bayo Mine

Steady-state production of ore in Dagny and Fabiola mines as well as good development rates in the Delia NW mine lead to production averaging 950 t/d for the month. Ore grades improved significantly in the quarter (2.08 g/t Au,305 g/t Ag) due to mining in high grade portions of the ore bodies. Higher recovery rates were achieved while processing the higher grade ore. In addition, ore stockpiles accumulated during the first quarter of 2012 were processed, contributing to the overall production and sales record in the second quarter.

1.3 SELECTED QUARTERLY INFORMATION

The following table sets forth a summary of the Company's financial results for the three months ended June 30, 2012 and June 30, 2011:

	Quarter ended June 30, 2012 $	Quarter ended June 30, 2011 $
Revenue	46,538,713	24,360,995
Cost of sales	20,714,077	12,124,951
Earnings from mine operations before depreciation and depletion	25,824,636	12,236,044
Depreciation and depletion	4,668,354	2,540,624
Income from mine operations	21,156,282	9,695,420
Administration	4,258,623	2,271,330
EBITDA	21,566,013	9,964,714
Finance costs, fx and others/(income)*	(2,584,837)	5,487,612
Income/(loss) before tax	19,482,496	1,936,478
Current tax	(435,633)	-
Deferred tax	199,965	-
Net Income/(loss) after tax	19,246,828	1,936,478
Total assets	156,957,656	123,908,490
Total liabilities	43,450,588	39,273,697
Income per share	0.07	0.01

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

The following table sets forth the summary of financial results for the six months ended June 30, 2012 and June 30, 2011:

	Six months ended June 30, 2012 $	Six months ended June 30, 2011 $
Revenue	67,258,229	40,970,048
Cost of sales	32,542,697	19,630,479
Earnings from mine operations before depreciation and depletion	34,715,532	21,339,569
Depreciation and depletion	8,731,967	5,416,934
Income from mine operations	25,983,565	15,922,635
Administration	7,023,511	3,670,550
EBITDA	27,692,022	17,669,019
Finance costs, fx and others*	9,916,795	7,908,367
Income/(loss) before tax	9,043,260	4,343,718
Current tax	(435,633)	-
Deferred tax	1,718,557	-
Net Income/(loss) after tax	10,326,184	4,343,718
Income per share	0.04	0.02

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

EBITDA Reconciliation to Net Income

The Company defines EBITDA as earnings before interest, taxes and non-cash charges/ (income). EBITDA is presented because the Company believes it is a useful indicator of relative operating performance. EBITDA does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other issuers. EBITDA should not be considered by an investor as an alternative to net income or cash flow as determined in accordance with IFRS. The table below reconciles EBITDA to reported net income for three months and six months ended June 30, 2012 and June 30, 2011.

	Quarter ended June 30, 2012		Quarter ended June 30, 2011	
	$	$	$	$
Net Income/(loss)		19,246,828		1,936,478
Add: Non-cash and finance costs				
Depletion and depreciation	4,668,354		2,540,624	
Write off mineral properties	-		-	
Share based compensation	469,447		455,882	
Interest and finance charges	1,125,280		939,291	
Fair value adjustments	(3,773,209)		4,101,701	
Current tax	435,633		-	
Deferred tax	(199,965)		-	
Foreign exchange (gain)/loss	(200,720)	2,524,820	15,370	8,052,868
		21,771,648		9,989,346
Add/(Less): Interest & (other income)/expenses	(205,635)	(205,635)	(24,632)	(24,632)
EBITDA		21,566,013		9,964,714

	Six months ended June 30, 2012		Six months ended June 30, 2011	
	$	**$**	**$**	**$**
Net Income/(loss)		10,326,184		4,343,718
Add: Non-cash and finance costs				
Depletion and depreciation	8,731,967		5,416,934	
Write off mineral properties	-		-	
Share based compensation	837,549		845,321	
Interest and finance charges	1,910,200		1,337,465	
Fair value adjustments	7,504,954		5,665,675	
Current tax	435,633		-	
Deferred tax	(1,718,557)		-	
Foreign exchange (gain)/loss	(59,853)	17,641,894	446,375	13,711,770
		27,968,077		18,055,488
Add/(Less): Interest & (other income)/expenses	(276,055)	(276,055)	(386,469)	(386,469)
EBITDA		27,692,022		17,669,019

Fair-value adjustments

As at June 30, 2012, the following items on the balance sheet were subject to fair-value adjustments in accordance with IAS 39:

a) *300,000 silver puts with a strike price of $25/oz* had a fair value of $280,150 as at June 30, 2012. Fair value adjustments resulted in gain of $93,200 on the income statement for the second quarter of 2012.

b) *600,000 silver puts with a strike price of $35/oz* had a fair value of $4,584,801 as at June 30, 2012. Fair value adjustments resulted in gain of $2,740,400 on the income statement for the second quarter of 2012.

c) *420,000 silver puts with a strike price of $30/oz* had a fair value of $1,341,760 as at June 30, 2012. Fair value adjustments resulted in gain of $694,190 on the income statement for the second quarter of 2012.

d) *14,400 gold puts with a strike price of $1,400/oz* had a fair value of $203,150 as at June 30, 2012. Fair value adjustments resulted in gain of $19,737 on the income statement for the second quarter of 2012.

e) *Silver Note*. The Company has an obligation to pay to Coeur d'Alene Mines Corporation the U.S dollar equivalent of 125,000 oz of silver in six equal installments commencing in the third quarter of 2011. As at June 30, 2012, 41,667 ounces of this obligation remained, valued at $1,080,267. The revaluation gain for this liability during the second quarter of 2012 was $225,682.

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

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

	Before fair value and deferred tax adjustments	Note	Fair value and deferred tax adjustments	As of June 30, 2012	As of December 31, 2011
			Q2 2012		
	$		$	$	$
Assets					
Derivative Financial Instrument	2,862,334	(a)	3,547,527	6,409,861	16,253,768
Deferred tax	6,065,864	(b)	199,965	6,265,829	4,450,865
Liabilities					
Current portion of long-term debt	7,733,237	(c)	(225,682)	7,507,555	10,004,691
Shareholders' equity					
Surplus/(Deficit)	6,604,310		3,973,174	10,577,484	6,291,258

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement gain of $3,547,527 for three months ended June 30, 2012.

(b) The Company recorded a deferred tax asset of $199,965 for three months ended June 30, 2012.

(c) The Company adjusted the Silver Note to $1,080,267 as at June 30, 2012 based on updated forecast silver prices and time values, resulting in fair value measurement gain of $225,682 for three months ended June 30, 2012.

Fair value and deferred tax adjustments impact on items in the income statement for three months ended June 30, 2012 and June 30, 2011

	June 30, 2012				June 30, 2011
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	16,428,212			16,428,212	6,968,208
Other items					
Interest and other income	205,635			205,635	24,632
Finance (costs)/income	(1,125,280)	(a)	3,547,527	2,647,929	(5,040,992)
		(b)	225,682		
Gain on disposal of property, plant and equipment	-			-	-
Foreign exchange gain (loss)	200,720		-	200,720	(15,370)
Net income/(loss) before tax	15,709,287		3,773,209	19,482,496	1,936,478
Current tax	(435,633)			(435,633)	-
Deferred tax		(c)	199,965	199,965	-
Net income/(loss)	15,273,654		3,973,174	19,246,828	1,936,478
Income (loss) per share					
Basic	0.05			0.07	0.01
Diluted	0.04			0.05	0.01

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement gain of $3,547,527 for three months ended June 30, 2012.

(b) The Company adjusted the Silver Note to $1,080,267 as at June 30, 2012 based on updated forecast silver prices and time values, resulting in fair value measurement gain of $225,682 for three months ended June 30, 2012.

(c) The Company recorded a deferred tax asset of $199,965 for three months ended June 30, 2012.

Fair value and deferred tax adjustments impact on items in the income statement for six months ended June 30, 2012 and June 30, 2011

	June 30, 2012				June 30, 2011
	Underlying operations	Note	Fair value and deferred tax adjustments	Total	Total
	$		$	$	$
Income (loss) from operations	18,122,505			18,122,505	11,730,231
Other items					
Interest and other income	276,055			276,055	63,002
Finance (costs)/income	(1,910,199)	(a)	(7,310,107)	(9,415,153)	(7,003,140)
		(b)	(194,847)		
Gain on disposal of property, plant and equipment	-			-	-
Foreign exchange gain (loss)	59,853		-	59,853	(446,375)
Net income/(loss) before tax	16,548,214		(7,504,954)	9,043,260	4,343,718
Current tax	(435,633)			(435,633)	-
Deferred tax		(c)	1,718,557	1,718,557	-
Net income/(loss)	16,112,581		(5,786,397)	10,326,184	4,343,718
Income (loss) per share					
Basic	0.06			0.04	0.02
Diluted	0.04			0.03	0.02

(a)The Company entered into certain silver put options and gold put options to hedge commodity price risks. The Company recorded a fair value measurement loss of $7,310,107 for six months ended June 30, 2012.

(b) The Company adjusted the Silver Note to $1,080,267 as at June 30, 2012 based on updated forecast silver prices and time values, resulting in fair value measurement loss of $194,847 for six months ended June 30, 2012.

(c) The Company recorded a deferred tax asset of $1,718,557for six months ended June 30, 2012.

1.4 RESULTS OF OPERATIONS

Three Months Ended June 30, 2012 compared to Three Months Ended June 30, 2011

During the three months ended June 30, 2012, the Company recorded net income of $19,246,828 (net of mark-to-market adjustments of $3,773,209 and deferred tax income of $199,965) compared to net income of $1,936,478 during the three months ended June 30, 2011. The higher profit in the second quarter of 2012 was principally due to greater metal volumes produced and shipped at all operations.

Administrative expenses for the quarter ended June 30, 2012, were $4,258,623, compared to $2,271,330 during the quarter ended June 30, 2011. The main components of administration expenses in second quarter of 2012 were $1,000,031 at Costerfield, $1,846,835 at Cerro Bayo, and $1,411,757 at Corporate. By comparison, in the second quarter of 2011, administration expenses were $679,518 at Costerfield, $563,226 at Cerro Bayo and $1,028,586 at Corporate. The increase in administration costs from the second quarter of 2011 to the second quarter of 2012 largely reflects the operational ramp-up at Cerro Bayo in 2011.

The Corporate portion of the administrative expenses consisted of $348,897 in management fees, $146,212 in audit and internal review fees, $114,954 in travel expenditure, $475,652 in legal and accounting fees, $136,523 in investor relations and transfer agent and filing fees and $160,997 in consulting fees.

Capital expenditures in the second quarter of 2012, including capitalized depreciation, were $11,543,181. Of this, $5,433,350 was spent at Cerro Bayo: $2,921,296 for mine development and in-fill drilling (of which in-fill drilling is $934,320); $1,213,086 for purchase of property, plant and equipment; and $1,298,968 for exploration. Costerfield spent $1,841,578 for decline development, $2,703,871 for property, plant and equipment and $1,249,066 for exploration. In the quarter, $282,234 of capitalized exploration spending occurred at La Quebrada and $33,082 was spent for corporate purposes. By comparison, capital expenditures in the second quarter of 2011 totaled $9,101,153. The increase in capital spending in the second quarter of 2012 relative to 2011 is a result of the mine equipment purchased at Costerfield and the significant increase in exploration activities at both mines.

Costerfield Results, Production, Sales, and Costs for the three Months Ended June 30, 2012

Costerfield generated record revenue of $14,124,851 for the quarter ended June 30, 2012. Earnings from mine operations before depreciation and depletion were $6,150,005. Consolidated income after fair value adjustments and deferred tax income was $7,155,470.

Costerfield financial results

	Quarter ended June 30, 2012 $	**Quarter ended June 30, 2011 $**
Revenue	14,124,851	11,597,499
Cost of sales	7,974,846	6,938,480
Earnings from mine operations before depreciation and depletion	6,150,005	4,659,019
Depreciation and depletion	1,379,693	1,008,977
Income from mine operations	4,770,312	3,650,041
Administration	1,000,031	679,518
EBITDA	5,149,974	3,979,501
Finance costs, fx and others*	(120,401)	434,763
Income/(loss) before tax	3,890,682	2,535,760
Current tax expense	-	-
Deferred tax income (expense)	3,264,788	-
Net income/(loss) after tax	7,155,470	2,535,760
Capital expenditure**	5,794,515	3,474,742

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

** Capital expenditure includes additions net of retirement carrying amounts due to disposals. It also includes capitalized depreciation onequipment.

Costerfield operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Costerfield during the six months ended June 30, 2012 and for the three months ended June 30, 2012, March 31, 2012, December 31, 2011 and June 30, 2011.

	Unit	Six months ended June 30, 2012	Quarter ended June 30, 2012	Quarter ended March 31, 2012	Quarter Ended December 31, 2011	Quarter Ended June 30, 2011
Mining Production and Mining Cost						
Operating development	m	2,594	1,335	1,259	894	1,128
Mined ore	t	43,807	24,714	19,093	17,023	18,683
Ore mined Au grade	g/t	8.39	8.34	8.45	6.30	6.54
Ore mined Sb grade	%	4.61	4.77	4.39	3.78	4.09
Mined contained Au	oz	11,813	6,625	5,188	3,450	3,930
Mined contained Sb	t	2,017	1,179	838	643	763
Mining cost per tonne ore	$/t	296.31	260.89	342	303.04	223.73
Processing and Processing Cost						
Processed ore	t	39,160	20,812	18,348	16,344	18,922
Mill head grade Au	g/t	8.37	8.33	8.41	7.16	6.49
Mill head grade Sb	%	4.59	4.77	4.39	3.49	3.60
Recovery Au	%	89.11	89.55	88.62	88.11	86.84
Recovery Sb	%	96.16	96.49	95.78	94.13	93.71
Concentrate produced	dry t	3,202	1,755	1,447	1,012	1,230
Concentrate grade Au	g/t	90.56	88.52	93.03	102.18	87.01
Concentrate grade Sb	%	53.91	54.53	53.15	53.47	52.15
Saleable Au produced	oz	7,812	4,122	3,690	2,803	2,856
Saleable Sb produced	t	1,101	612	489	346	413
Saleable Au equivalent produced	oz	16,630	9,273	7,356	5,655	7,396
Processing cost per tonne ore	$/t	68.22	66.39	70.35	62.29	83.41
Sales						
Concentrate sold	dry t	3,071	1,749	1,322	1,029	1,298
Concentrate Au grade	g/t	90.33	87.53	94.03	101.77	87.96
Concentrate Sb grade	%	53.79	54.29	53.13	53.46	51.65
Au sold	oz	7,447	4,063	3,384	2,837	3,229
Sb sold	t	1,057	608	450	352	433
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed	$/t	479.37	452.59	509.76	495.63	323.52
Site cash operating cost/tonne concentrate produced	$/t	5,862.44	5,368.31	6,461.71	8,001.89	4,976.19
EBITDA/tonne ore milled	$/t	193.77	247.20	133.03	45.60	210.31
EBITDA/tonne concentrate produced	$/t	2,369.74	2,932.07	1,686.29	736.29	3,234.80
Cash cost per oz Au equivalent produced[1]	$/oz	1,162.80	1,052.44	1,300.71	1,473.31	906.07
Capital Spending						
Capital development	m	732	427	305	345	241
Capital development cost	$000	3,828	1,842	1,987	2,146	1,490
Capital development cost/meter	$/m	5,232	4,317	6,513	6,228	6,179
Capital purchases	$000	5,357	2,704	2,653	1,656	1,185
Capitalized exploration	$000	2,314	1,249	1,065	643	799

[1]The cash cost per ounce of gold equivalent produced is a non IFRS performance measure that is included in this MD&A because this statistics is a key performance measure under control of the operations that management uses to monitor performance, to assess how the mine is performing, and to plan and assess the overall effectiveness and efficiency of mining operations. This performance measure does not have a meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. This performance measure should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. Equivalent gold ounces produced is calculated by adding to gold ounces produced, the antimony tonnes produced times the antimony realized price divided by the gold realized price. The total cash operating cost associated with the production of these equivalent ounces produced in the period is then divided by the equivalent gold ounces produced to yield the cash cost per equivalent ounce produced. Variations between the produced ounces and sold ounces in a reporting period are purely the result of the timing of shipments to customers.

During the three months ended June 30, 2012, the Costerfield mine completed 1,335 m of operating development and produced 24,714 t of ore. Mining costs in the second quarter of 2012 were $261/t, an improvement of $81/t from previous quarter. The improvement is mainly due to the combined impacts of greater tonnage produced, the net cost impact of the new cemented rock fill mining method and reduced maintenance and equipment hiring costs resulting from new equipment purchases.

Capital development in the second quarter of 2012 was higher as compared to previous quarter, as Costerfield returned to planned capital development advance rates.

During the second quarter of 2012, the Costerfield concentrator processed 20,812 t of ore with grades of 8.33 grams per tonne ("g/t") Au and 4.77% Sb. Throughput was greater and head grades were higher than in the previous quarter. The plant achieved 89.55% recovery of gold and 96.49% recovery of antimony, both higher than in the previous quarter. The improved tonnages, mill head grades and recovery rates in the second quarter of 2012 led to greater concentrate production relative to the previous three quarters. Concentrate production was 1,755 dry metric tonnes ("dmt"), containing 612 t of saleable antimony and 4,122 oz of saleable gold. Processing costs were $66.39/t during the second quarter of 2012, a slight improvement from the first quarter.

Higher metal volume produced in concentrate resulted in higher sales for the second quarter: 608 t of antimony and 4,063 oz of gold.

Site cash operating cost per tonne of ore processed was $453/t in the second quarter of 2012, compared to $510/t in the previous quarter and $324/t in the second quarter of 2011. The lower site operating cost per tonne of ore processed in the current quarter relative to the prior quarter was due to the combined impact of greater tonnes of ore processed and well controlled costs. The greater metal production in the second quarter of 2012, led to a cost per gold equivalent ounce produced of $1,052/oz as compared to $1301/oz in the first quarter of 2012 and $906/oz in the second quarter of 2011.

During the quarter, the Company invested $1,841,578 for decline development $1,249,066 for exploration and $2,703,871 for property, plant and equipment.

Cerro Bayo Results, Production, Sales and Costs for the Three Months Ended June 30, 2012

Cerro Bayo generated record revenue of $32,413,862 for the quarter ended June 30, 2012. Earnings from mine operations before depreciation and depletion were $19,674,631. Consolidated income after fair value adjustments and deferred tax income was $14,564,928.

Cerro Bayo financial results

	Quarter ended June 30, 2012 $	Quarter ended June 30, 2011 $
Revenue	32,413,862	12,763,496
Cost of sales	12,739,231	5,186,470
Earnings from mine operations before depreciation and depletion	19,674,631	7,577,026
Depreciation and depletion	3,288,661	1,531,647
Income from mine operations	16,385,970	6,045,379
Administration	1,846,835	563,226
EBITDA	17,827,796	7,013,799
Finance costs, fx and others*	(3,526,250)	199,587
Income/(loss) before tax	18,065,385	5,282,566
Current tax expense	(435,633)	-
Deferred tax income (expense)	(3,064,824)	(419)
Net income/(loss) after tax	14,564,928	5,282,147
Capital expenditure**	5,433,351	5,572,495

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

**Capital expenditure includes additions net of retirement carrying amounts due to disposals. It also includes capitalized depreciation on equipment.

Cerro Bayo operating statistics

The following table summarizes certain aspects of production, sales, costs and capital investment activities at Cerro Bayo during the six months ended June 30, 2012 and for the three months ended June 30, 2012, March 31, 2012, December 31, 2011 and June 30, 2011.

	Unit	Six months ended June 30, 2012	Quarter ended June 30, 2012	Quarter ended March 31,2012	Quarter Ended December 31, 2011	Quarter Ended June 30, 2011
Mining Production and Mining Cost						
Operating development	m	4,294	2,375	1,919	2,254	1,133
Mined ore	t	159,772	86,112	73,660	76,140	41,254
Ore mined Au grade	g/t	1.71	2.08	1.26	1.08	1.10
Ore mined Ag grade	g/t	276.61	305.34	243.02	207.83	233.64
Mined contained Au	oz	8,765	5,771	2,993	2,643	1,453
Mined contained Ag	oz	1,420,887	845,351	575,536	508,771	309,890
Mining cost per tonne ore	$/t	58.18	56.87	59.72	64.12	64
Processing and Processing Cost						
Processed ore	t	157,890	98,914	58,976	77,104	54,835
Mill head grade Au	g/t	1.70	1.87	1.41	1.12	1.08
Mill head grade Ag	g/t	276.56	295.56	244.69	202.48	192.95
Recovery Au	%	86.74	87.96	84.70	78.40	80.22
Recovery Ag	%	89.25	89.64	88.59	81.76	82.69
Concentrate produced	dry t	3,323	2,274	1,049	966	778
Concentrate grade Au	g/t	68.98	70.84	64.95	67.90	62.78
Concentrate grade Ag	g/t	11,510.70	11,395.32	11,760.88	12,729.21	11,547.57
Saleable Au produced	oz	7,283	5,093	2,190	2,109	1,552
Saleable Ag produced	oz	1,211,594	814,970	396,624	395,296	284,324
Saleable Au equivalent produced	oz	29,567	19,936	9,631	9,572	9,264
Processing Cost per tonne ore	$/t	26.88	25.41	29.35	28.66	38
Sales						
Concentrate sold	dry t	2,972	2,376	595	1,240	948
Concentrate Au grade	g/t	67.78	67.35	69.46	60.85	44.07
Concentrate Ag grade	g/t	11,677.11	11,636.95	11,837.36	10,309.72	9,197.59
Au sold	oz	6,243	4,960	1,284	2,347	1,297
Ag sold	oz	1,071,425	853,364	218,060	396,150	270,404
Benchmark Unit Cost						
Site cash operating cost/ tonne ore processed	$/t	104.07	89.89	127.86	112.37	102
Site cash operating cost/tonne concentrate produced	$/t	4,944.41	3,909.39	7,188.76	8,969.78	7,176
EBITDA/tonne ore milled	$/t	141.83	180.23	77.41	44.70	128
EBITDA/tonne concentrate produced	$/t	6,738.02	7,838.12	4,352.57	3,568.03	9,013
Cash cost per oz Ag produced net of Au byproduct credit[1]	$/oz	6.42	4.12	11.45	16.72	11.29
Capital Spending						
Capital development	m	1,001	542	459	404	775
Capital development cost	$000	6,157	2,921	3,235	1,530	3,310
Capital development cost/meter	$/m	6,153	5,393	7,049	3,786	4,274
Capital purchases	$000	2,275	1,213	1,061	1,469	727
Capitalized exploration	$000	1,890	1,299	591	2,520	761

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

During the three months ended June 30, 2012, the Cerro Bayo mine produced 86,112 t of ore. This represents an average of 950 t/day. In addition, the mine completed 2,375 m of operating development. Gold and silver grades improved to 2.08 g/t Au and 305 g/t Ag in the second quarter of 2012, due to mining higher grade portions of the reserve, as well as steady-state production of stoping ore in Dagny and Fabiola. Mining cost per tonne were lower in the second quarter of 2012 than in the previous quarter, ($56.87/t, compared to $59.72/t) due to continued ramp-up of ore tonnes mined while costs were well controlled.

During the second quarter of 2012, the Cerro Bayo concentrator processed 98,914 t of ore with grades of 295.56 g/t silver and 1.87 g/t gold. The plant achieved 87.96% recovery of gold and 89.64% recovery of silver. The plant produced 2,274 dmt of concentrate containing 814,970 oz of saleable silver and 5,093 oz of saleable gold. Processing costs during the second quarter of 2012 were $25.41/t.

Cerro Bayo generated record sales of 2,376 dmt of concentrate, containing 4,960 oz of saleable gold and 853,364 oz of saleable silver. The higher volume of sales compared to production represents some catch up in the second quarter as the Company resumed normal shipments during the quarter recovering from the delays experienced in the first quarter of 2012.

Site cash operating cost per tonne of ore processed was $89.89/t in the second quarter of 2012, lower than $127.86/t in the first quarter of 2012 and $101.84/t in the second quarter of 2011 due to larger ore volumes processed during the quarter at higher head grade. Cash cost per ounce silver produced net of gold by-product was $4.12/oz, lower than $11.45/oz in the first quarter of 2012 and $11.29/oz in the second quarter of 2011 mainly due to record production of 814,970 silver ounces and good cost control.

During the second quarter of 2012 at Cerro Bayo, the Company invested $2,921,296 for mine development (of which in-fill drilling is $934,320), $1,213,086 for purchase of property, plant and equipment and $1,298,969 for exploration.

La Quebrada

Spending on exploration at La Quebrada was $282,234 during the second quarter. The mineral resource estimate at La Quebrada was completed in June, according to which the project contains an Indicated 34.8 million tonnes at 0.6% Cu and 10 g/t Ag. Planning for a set of preliminary metallurgical, infrastructure, and engineering studies is underway (see press release dated July 3, 2012).

Markets-- Currency Exchange Rates

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

Currency	Average rate April 1, 2012 June 30, 2012	Average rate January 1, 2012 June 30, 2012	Average rate April 1, 2011 June 30, 2011	Average rate January 1, 2011 December 31, 2011
1A$ = C$	1.0201	1.0385	1.0286	1.0206
1A$ = US$	1.0099	1.0329	1.0627	1.0325
1 US$ = C$	1.0104	1.0057	0.9680	0.9891
1 US$ = Chilean Peso	496.19	492.39	469.22	483.63

Markets—Commodity Prices

The average market and realized commodity prices for the reporting period are summarized in the table below. Market gold price and silver price decreased in the second quarter of 2012 relative to the previous quarter. Market antimony price was higher in the second quarter of 2012 compared to the first quarter of 2012.

COMMODITY	Average price April 1, 2012 June 30, 2012	Average price January 1, 2012 June 30, 2012	Average price April 1, 2011- June 30, 2011	Average price Janaury 1, 2011 December 31, 2011
Gold US$/Oz - Realized[1]	1,566	1,609	1,469	1,622
Gold- US$/Oz. Average London Daily PM close (Metal Bulletin)	1,614	1,654	1,504	1,572
Realized antimony US$/Tonne[1]	13,069	12,733.88	16,036	15,252
Antimony US$/Tonne- Rotterdam Warehouse (Metal Bulletin)	13,574	13,132.97	15,839	14,976
Realized silver price US$/oz	29	30	40	35
Silver US$/oz Average London Daily PM close	29	30.98	40	35

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

1.5 SUMMARY OF QUARTERLY RESULTS

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

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

Particulars	June 30, 2011 $	March 31, 2011 $	December 31, 2010 $	September 30, 2010 $
Revenue	24,360,995	16,609,053	8,322,097	4,303,930
Income/(Loss)	1,936,478	2,407,240	1,740,990	-464,749
Income/(Loss) per Share	0.01	0.01	0.01	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 and the mark to market adjustments of the Company's silver and gold price protection program. These results are impacted by the levels of gold, silver and antimony production, the costs associated with that production and the prices received for metal in concentrate 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 prevailing international prices for gold, silver and antimony. The Company's products are sold in U.S. dollars, whereas the majority of mine costs are in Australian dollars (at Costerfield) and Chilean pesos (at Cero Bayo). The Company's results will be impacted by exchange rate variations during the reporting periods.

The general trend of increasing revenue from the quarter ended September 30, 2010 to the quarter ended June 30, 2012 represents the ramp-up of Costerfield production under Mandalay ownership and the acquisition, restart, and ramp-up of the Cerro Bayo mine. Volatility in earnings over the last four quarters is largely due to the changes in value of the unexpired portion of the Company's gold and silver puts. The Company expects this volatility to reduce in the future as the balance of the silver and gold puts expire in 2012.

1.6 LIQUIDITY, SOLVENCYAND USES OF CASH

At June 30, 2012, the Company had working capital of $27,244,070 compared to $28,178,485 at December 31, 2011. The Company had cash and cash equivalents of $11,223,685 at the end of the June 30, 2012 as compared to $12,741,454 at December 31, 2011.

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

In the opinion of management, the Company's working capital at June 30, 2012, together with cash flows from operations, will be sufficient to support the Company's normal operating requirements through 2012. 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

As at June 30, 2012, the Company has a Silver Note payable to Coeur D'Alene Mines Corporation in the U.S. dollar equivalent amount of 41,667 ounces of silver due in two equal installments, one at the end of the third quarter, 2012 and the final one at the end of the fourth quarter, 2012.

In December 2010, the Company entered into a loan agreement with Sprott Resource Lending Partnership ("Sprott") in the amount of $10,054,000 (C$10,000,000) bearing interest at a rate of 11% and maturing on December 17, 2012. The loan was secured by certain assets of the Company. The Company drew down the first tranche of the loan of C$5,000,000 by December 31, 2010, net of the arrangement fee of $100,540 (C$100,000). The Company also issued 1,885,938 common shares to Sprott and incurred $467,266 in loan issue costs. These transaction costs are netted against the loan balance. The Company was required to prepay portions of the loan upon certain financing transactions occurring prior to maturity of the loan. In February 2011 the Company drew down the second tranche of the loan of $5,027,000 (C$5,000,000). On this second tranche, the Company incurred $757,086 (C$734,038) in loan issue costs. The loan was fully repaid in June, 2012.

On May 30, 2012, the Company and the Bank of Montreal ("BMO") entered into a one-year revolving corporate loan facility (the "Corporate Facility") for $20 million. The Corporate 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 (LIBOR etc.) 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 0.8%. The Corporate Facilityis secured by all of the Company's assets.The Company incurred transaction costs of $157,828 for the arrangement of the Corporate Facility. On June 8, 2012, the Company drew down $5 million of the Corporate Facility to repay a portion of the Sprott loan.

In March, 2012, Cerro Bayo borrowed $1,000,100 from Banco Credito Inversiones ("BCI"). The loan was non-secured, with an interest rate of 3.68% and matured at on May 29, 2012. The Company repaid this loan in full at maturity.

Repayments of borrowings required in each of the next four years are as follows:

	Equipment loans	Silver Contract	Bank of Montreal	Total
	$	$	$	$
2012 (6 months)	773,190	1,080,267	5,000,000	**6,853,457**
2013	1,264,043	-	-	**1,264,043**
2014	1,072,327	-	-	**1,072,327**
2015	237,452	-	-	**237,452**
Total	**3,347,012**	**1,080,267**	**5,000,000**	**9,427,279**

1.8 OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

1.9 TRANSACTIONS WITH RELATED PARTIES

As of June 30, 2012, the Company had no related party transactions.

1.10 PROPOSED TRANSACTIONS

None.

1.11 CRITICAL ACCOUNTING POLICIES

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

Mining Interests

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

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

Plant and equipment

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

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

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

Depreciation

Mining interests are depreciated using the unit-of-production method based on the estimated total recoverable 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 the lives are shorter than the mine life; otherwise they are depreciated on the unit- of-production basis.

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

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

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

Reserve Estimates

The Company estimates its ore reserves and mineral resources based on information compiled by 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 and long-term debt. The Company also periodically uses financial instruments to protect itself against future downward fluctuations in the prices of gold, silver and antimony. See "Hedging Activities" below.

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The Company has credit risk which is the risk, of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable and derivative financial instruments. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at June 30, 2012, the Company had no past overdue trade receivables.

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

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

The Company reports its financial statements in U.S. dollars; however, the Company has extensive operations in the Australia and Chile. As a consequence, the financial results of the Company's operations as reported in U.S. dollars are subject to changes in the value of the U.S. dollar relative to the Australia dollar and Chilean peso. The Company does not currently enter into any foreign exchange hedges to limit exposure to exchange rate fluctuations. The Board of Directors assesses the Company's strategy towards its foreign exchange rate risk as needed, depending on market conditions.

Hedging Activities

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

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;
- purchases and sales of gold and silver by central banks and other holders;
- demand for jewellery containing gold and silver; and
- investment activity, including speculation, in gold and silver as commodities.

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

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

The financial reporting impact of these hedges under IFRS will potentially produce non-cash earnings volatility on a quarterly basis because IFRS require that these hedges be valued at fair value each quarter. In the second quarter of 2012, the mark-to-market income on this hedge position was $3,547,527. It is not the Company's intent to trade these securities, but rather to hold them to maturity as price protection for its future revenues, earnings and cash flows.

1.13 OTHER MD&A REQUIREMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

I. Disclosure Controls and Procedures

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

II. Internal Controls and Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. The Company evaluated the design and operational effectiveness of its internal controls over financial reporting as defined under NI 52-109 for the quarter ended March 31, 2012. The Company's controls include policies and procedures that:

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

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

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

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

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

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 has 317,950,127 common shares issued and outstanding. The weighted average number of shares outstanding during the second quarter used for the calculation of per share results was 281,218,285.

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

Exercise Price CND$	As of June 30, 2012	As of August 9, 2012	Expiry Date
0.83	4,092,500	4,092,500	Mar 9, 2017
0.76	450,000	450,000	Jul 4, 2016
0.70	490,000	490,000	Dec 2, 2016
0.58	470,000	470,000	Apr 11, 2013
0.56	3,965,000	3,965,000	Mar 11, 2013
0.50	150,000	150,000	Aug 21, 2013
0.50	80,000	80,000	Nov 1, 2012
0.50	10,000	-	Jul 17, 2012
0.42	230,000	230,000	Jan 25, 2016
0.335	100,000	100,000	Sep 15, 2015
0.33	300,000	300,000	Oct 6, 2015
0.31	50,000	50,000	Sep 7, 2015
0.26	1,502,500	1,502,500	Aug 26, 2015
0.255	5,344,586	5,344,586	Dec 7, 2014
Total	**17,234,586**	**17,224,586**	

During the quarter ended June 30, 2012, 62,500 stock options were forfeited and 87,500 options were exercised. There were 17,234,586 options outstanding as of June 30, 2012 which could result in issuance of shares.

Outstanding share purchase warrants that could result in the issuance of additional common shares as of June 30, 2012 and as of the date of this MD&A are as follows:

Exercise Price CND$	As of June 30, 2012	As of August 9, 2012	Expiry Date
0.33	27,396,312	-	Aug 6, 2012
0.20	1,000,000	-	Apr 22, 2014
0.20	600,000	-	Jul 22, 2014
0.465	1,600,000	-	Oct 15, 2014
0.31	19,950,000	15,919,100	Nov 30, 2014
0.465	42,640,000	9,920,000	Nov 30, 2014
Total	**93,186,312**	**25,839,100**	

During the quarter ended June 30, 2012, the number of warrants exercised was 12,048,000 and the Company received $3,993,215 (C$3,979,215) for the warrants exercised. Subsequent to the end of the quarter, 67,297,777 warrants were tendered to the Company's warrant exchange offer and subsequently cancelled.

1.15 QUALIFIED PERSONS

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

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

1.16 FORWARD LOOKING STATEMENTS

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