



**MANDALAY
RESOURCES
ANNUAL
REPORT
2013**

MANDALAY RESOURCES CORPORATION IS A CANADIAN-BASED NATURAL RESOURCE COMPANY WITH PRODUCING AND DEVELOPMENT ASSETS IN AUSTRALIA AND CHILE. MANDALAY IS FOCUSED ON CREATING EXCEPTIONAL SHAREHOLDER VALUE THROUGH THE ACQUISITION OF UNDERVALUED ASSETS THAT CAN RAPIDLY BECOME CASH GENERATIVE, SELF-FUND EXPLORATION, ESTABLISH AND MAINTAIN HIGH OPERATING MARGINS, AND RETURN CASH TO SHAREHOLDERS WITHIN A PLANNED PERIOD OF TIME. OUR TARGETED COMMODITIES ARE GOLD, SILVER, ANTIMONY, AND BASE METALS. 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. THE COMPANY ALSO OWNS THE CHALLACOLLO SILVER DEVELOPMENT PROJECT IN NORTHERN CHILE, AND THE LA QUEBRADA COPPER-SILVER DEVELOPMENT PROJECT NEAR LA SERENA, CHILE. THE COMPANY IS FOCUSED ON HIGH-POTENTIAL DISTRICT EXPLORATION TARGETS SURROUNDING ITS PRODUCING OPERATIONS. MANDALAY IS COMMITTED TO OPERATING SAFELY AND IN AN ENVIRONMENTALLY RESPONSIBLE MANNER, WHILE DEVELOPING A HIGH LEVEL OF COMMUNITY AND EMPLOYEE ENGAGEMENT. MANDALAY RESOURCES' SHARES ARE LISTED ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOL MND.

THE COMPANY'S ANNUAL REPORTS ARE AVAILABLE AT WWW.MANDALAYRESOURCES.COM

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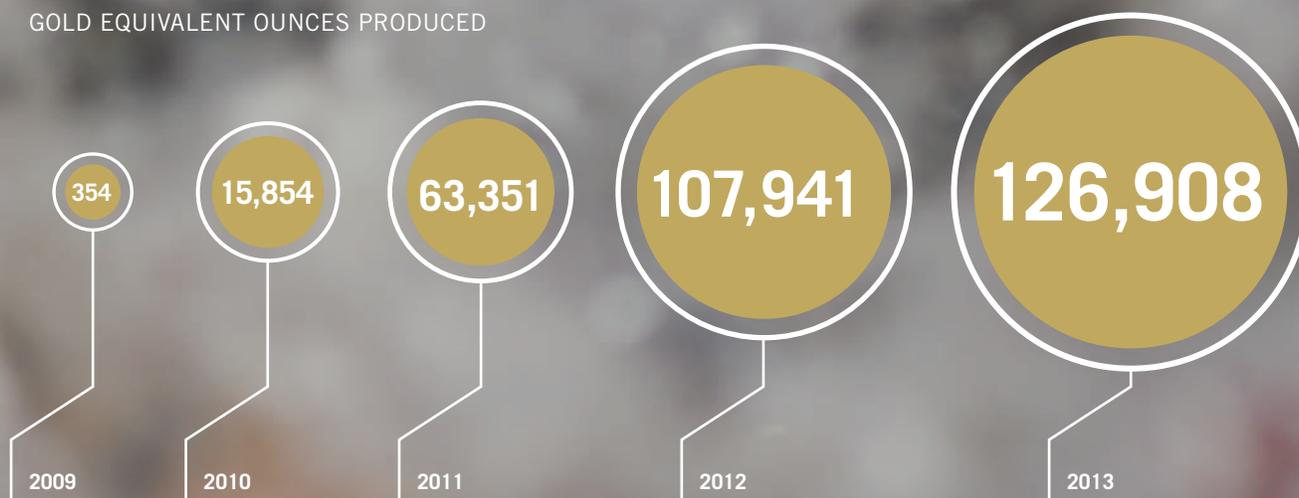
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FRONT AND BACK COVER: Ruby silver (proustite – a silver sulfosalt mineral with the formula Ag_3AsS_3) – Fabiola mine, Cerro Bayo, Chile

FORWARD-LOOKING STATEMENTS: This document contains forward-looking information. The reader is cautioned to read the Company's disclaimer regarding forward-looking information found in the Company's annual information form filed under the Company's profile on www.sedar.com on March 28, 2014. It can also be found on the Company's website at www.mandalayresources.com. All figures are in U.S. Dollars unless otherwise indicated.

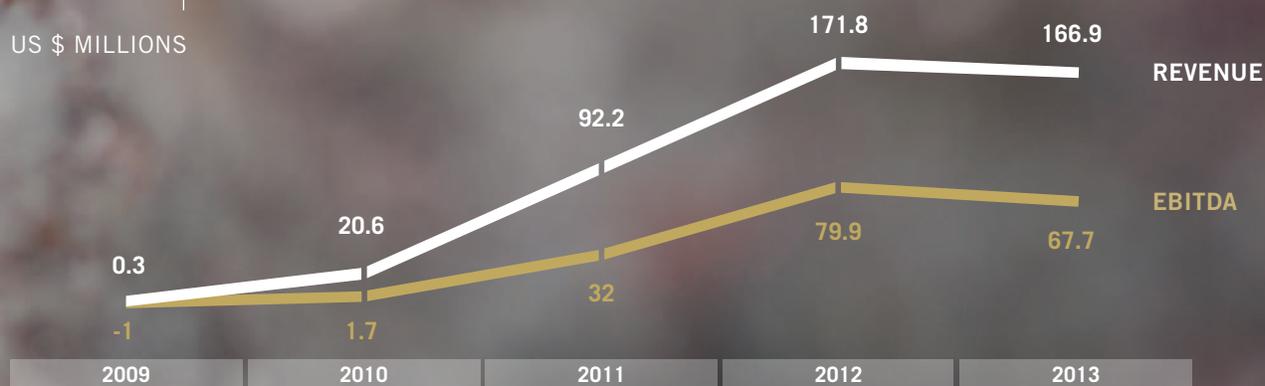
OPERATIONAL

GOLD EQUIVALENT OUNCES PRODUCED



FINANCIAL

US \$ MILLIONS



RESERVES

Au // 86,000 OZ

Ag // 6,700,000 OZ

Sb // 4,600 T

2010

Au // 161,000 OZ

Ag // 15,900,000 OZ

Sb // 5,200 T

2011

Au // 214,000 OZ

Ag // 18,250,000 OZ

Sb // 7,200 T

2012

Au // 301,000 OZ

Ag // 17,900,000 OZ

Sb // 15,000 T

2013

SEE TECHNICAL REPORTS IN EXPLORATION SECTION AND INSIDE BACK COVER

ENTRY STRATEGY:

Acquire high-quality assets at a low cost relative to ultimate value the Company believes can be demonstrated to the market
Apply management's extensive operational and exploration expertise to turn around, grow and/or develop the assets

OPERATIONALLY, MANDALAY IS FOCUSED ON:

High-margin projects where the Company can achieve rapid production ramp-ups from restarts, turn-around situations or late-stage development

Generating early cash flow to fund exploration, growth, and operational improvements

Building critical mass through acquisitions

CAPITAL STRATEGY: REDUCE DILUTION AND RETURN CASH TO SHAREHOLDERS

Dividend policy is currently 6% of trailing gross quarterly revenue per share – \$10.8 million in dividends in 2013, up from \$3.2 million in 2012

Reduce dilution — Renewed the NCIB program in 2013 to repurchase up to 5% of the Company's outstanding shares from organic cash flow over one year. During the year ended December 31, 2013, the Company repurchased 3,029,800 common shares

Prudent use of leverage

OPERATIONAL PERFORMANCE

	2013 TARGET	2013	2014E TARGET
Gold production (ounces)	36,000 – 42,000	50,240	60,000 – 70,000
Silver production (ounces)	2,700,000 – 3,000,000	3,145,537	3,000,000 – 3,200,000
Antimony production (tonnes)	2,800 – 3,000	3,275	3,000 – 3,300
Increase gold reserves (ounces)	—	Gold reserves grew by 41%	—
Increase antimony reserves (tonnes)	—	Antimony reserves grew by 108%	—
Increase silver reserves (ounces)	—	Silver reserves replaced depletion	—

FINANCIAL PERFORMANCE

	2013 TARGET	2013	2014E TARGET
Revenue (million \$)	—	166.9	—
EBITDA (million \$)	—	67.7	—

2013

CEO'S MESSAGE TO SHAREHOLDERS

BRADFORD A. MILLS
CHIEF EXECUTIVE OFFICER
AND DIRECTOR
MANDALAY RESOURCES



RECORD OPERATING PERFORMANCE, DIVIDEND GROWTH AND REINVESTMENT IN STEADY, SUSTAINABLE GROWTH

Mandalay Resources Corporation posted record production and sales in 2013. Our exploration programs continued to deliver solid reserve and resource growth, more than replacing all of our mined reserves during the year. After the year end, we announced a significant new discovery at our Cerro Bayo operation. The one negative in our operating performance during the year was our safety record. We deeply regret the one fatality we suffered during the year and improvement in our overall safety performance is a key objective in 2014.

Financially, the Company delivered a robust economic performance even with the severe downturn in the metals markets. Despite a 27% decline in gold price and a 34% decline in silver price, Mandalay generated revenue and EBITDA that was nearly on par with the Company's record financial performance in 2012. This financial performance was achieved by delivering significant increases in metal production volumes while maintaining effective cost management. Our strong operational and financial performance allowed us to pay out \$0.03 per share in dividends, up from \$0.01 in 2012. We ended the year with no debt and \$33.5 million in cash on the balance sheet.

Our strong balance sheet allowed us to continue to execute our growth strategy both through organic projects and acquisitions. We committed to expansions at both of our operating mines which will contribute significantly in 2014. As well, in December we acquired what we expect will be our third operating asset, the Challacollo silver project in Chile. Our operational, financial and strategic performance allowed us to enter 2014 stronger than ever, poised for continued growth and value-generation over the coming years.

COMMITMENT TO HIGH MARGINS AND OPERATIONAL EXCELLENCE

Mandalay delivered record operational performance at both mines in 2013. Our Costerfield mine (Australia) produced 28,758 ounces of saleable gold and 3,275 tonnes of saleable antimony. Our Cerro Bayo mine (Chile) produced 21,482 ounces of saleable gold and 3,145,537 ounces of saleable silver. This translates into a total of 126,908 gold equivalent ounces for the Company, an 18% improvement over our 2012 performance. During the year, we committed to increase production at Cerro Bayo from our current mining rate of 1,200 tonnes per day, to 1,400 tonnes per day by the end of the first quarter of 2014. At Costerfield, we have committed to the development of the high-grade Cuffley lode, which we anticipate will add meaningful production in the second half of 2014. These programs have allowed us to increase our 2014 production guidance to 3.0 – 3.2 million ounces of silver, 60,000 – 70,000 ounces of gold and 3,000 – 3,300 tonnes of antimony, or 130,000 – 143,000 gold equivalent ounces, a targeted volume increase over 2013 performance of 2% – 13%. Unit costs are expected to decline materially at Costerfield as a result of its expansion, while Cerro Bayo costs are expected to remain stable. All of these factors give us confidence in our ability to sustain operating margins in the 40% – 50% range at current metal prices.

We continue to improve both of our projects. At Cerro Bayo, we implemented a significant flotation plant automation project in 2013, which has increased recoveries by 1% – 2%. At Costerfield, we have significantly improved our gravity gold recovery circuit and we continue to improve the implementation of our long-hole stoping mining method with cemented backfill and have begun trialling our first 10 metre high stopes. These changes in mining method at Costerfield have allowed us to reduce mine production costs from an average of \$282/tonne in 2012 to an average of \$205/tonne in 2013.

SIGNIFICANT CASH GENERATION, RETURN OF CAPITAL TO SHAREHOLDERS, STRONG BALANCE SHEET

In 2013, the Company generated revenue of \$166.9 million, EBITDA of \$67.7 million, and net income of \$29.4 million (\$0.09 per share). This strong financial performance allowed us to both invest in growth and return funds to shareholders.

Mandalay is committed to generating extraordinary value for shareholders. One of the core elements of the Company's strategy is to return cash to shareholders as our projects reach their operating design. As a result of being a low-cost producer, we generate significant cash to support both growth and return of capital to shareholders at current metal prices. We return cash to shareholders in two ways: we pay a dividend amounting to 6% of trailing quarterly revenue and we purchase common shares through an ongoing share buyback program. In 2013, the dividend yielded a payout of \$10.8 million (3.4 US cents per share) and we repurchased for cancellation 3,029,800 common shares at a price of CDN\$0.80 for a total of \$2,452,177.

In 2013, our share price was not immune to the sharp decline in gold and silver prices, and the corresponding decline of gold and silver equities. The Company's year-over-year share price appreciation was -30.43%, with a total return (share price appreciation plus dividend) of -19.86%, compared to the S&P TSX Mining Index, which was down -20.67% year-over-year.

The Company enters 2014 with no debt and a very strong balance sheet. Mandalay's working capital was \$47.2 million at the end of 2013, up from \$38.5 million the previous year, and our cash position at year end was \$33.5 million compared to \$17.3 million the previous year. We expect that our current cash position as well as our cash flow from operations will be sufficient to support our normal operating requirements through 2014.

REINVESTING IN EXPLORATION TO GROW MINE LIFE

Mandalay's strategy of reinvesting operational cash flow in exploration to grow mine life was successful once again in 2013, resulting in increased Mineral Reserves and increased mine life at both Costerfield and Cerro Bayo.

Year-end 2013 independent Mineral Reserve estimations at our Cerro Bayo and Costerfield mines increased contained gold (41%) and contained antimony (108%) in Proven and Probable Mineral Reserves net of depletion relative to the previous year. Contained Proven and Probable Mineral Reserves of silver decreased by just 2% net of depletion: silver production was effectively replaced.

At Costerfield, the Company invested approximately US\$4.8 million in drilling 24,045 metres of diamond core. Virtually all of the drilling extended or infilled Mineral Resources in the W, N, and Cuffley lodes. In addition, the Company completed 5,988 metres of operating development and mine sampling, mostly in N and Cuffley lodes, 5,038 metres of which were in mineralization.

MESSAGE TO SHAREHOLDERS

At Cerro Bayo, the Company invested approximately US\$4.8 million, drilling approximately 37,543 metres of diamond core. Exploration work was primarily carried out in the Yasna, Fabiola, Bianca, Dagny, Delia NW, Coyita, Trinidad, Marcela Sur, and Raul veins. As well, mapping and closely-spaced sampling occurred along 6,751 metres of vein drive advance in the Bianca, Dagny, Fabiola, Yasna, and Delia NW veins, 5,395 metres of which were in mineralization. At year-end, the Company announced the initial results of drilling the Fabiola and Yasna vein extensions under Laguna Verde. Two of these three holes intersected high-grade gold and silver over significant widths. In 2014, we will continue to drill widely-spaced holes under the lake to define the extent of this mineralization. Once this work is completed (expected mid-year), we will make a decision to invest in a program of closer-spaced drilling to convert this mineralization to Mineral Reserves.

At Costerfield, our 2014 exploration program will focus on replacing 2014 depletion and on wide-spaced drilling along the strike of the current lodes to test for significant extensions of mineralization that could support future expansion of the mine.

CONTINUING TO GROW OUR HIGH QUALITY ASSET PORTFOLIO

On December 20, 2013, we announced the acquisition of the Challacollo silver project, a development stage asset in northern Chile, from Silver Standard Resources Inc. The transaction closed on February 7, 2014 for consideration of (i) US\$7.5 million in cash and 12 million common shares paid on closing and (ii) future consideration, contingent on bringing the property to commercial production, of a further five million Mandalay common shares and a silver-linked cash payment equivalent to 240,000 ounces payable over eight quarters. The Challacollo acquisition adds significant silver resources to our Company. An independent NI 43-101 technical report on the property reports an initial resource of one million tonnes of Indicated Mineral Resource at 242 g/tonne silver and 0.40 g/tonne gold, containing eight million ounces of silver and 13,000 ounces of gold and an Inferred Mineral Resource of four million tonnes at 193 g/tonne silver and 0.32 g/tonne gold containing 24.3 million ounces of silver and 40,000 ounces of gold. We expect to spend approximately \$7 – \$8 million on the Challacollo project in 2014 to complete a full feasibility study. Our objective is to be able to commit to full permitting and a production decision by the end of March, 2015, with targeted production in the first quarter of 2017. The 2014 program consists of 8,000 – 10,000 metres of diamond drilling to infill and upgrade the current resource, metallurgical studies for plant design, engineering studies for mine and plant design and design of infrastructure solutions (water, power, tailings, access, etc.). We also expect to carry out baseline environmental and community studies in preparation for filing of the Environmental Impact Assessment. In 2014, we will continue to seek opportunities to further grow our portfolio.

A GRATEFUL THANK YOU TO OUR PEOPLE AND SHAREHOLDERS

I wish to thank Mandalay's management team and talented employees for helping us, yet again, to deliver on our promises. I also wish to extend to our Board of Directors, my gratitude for their continued support, guidance, and advice. I would also like to thank all of our shareholders for their support and encouragement of the Company and its policies in 2013. I deeply appreciate all of the feedback that you have provided. In 2013, we worked hard to strengthen a highly profitable, dividend-paying, mining company. Your Company enters 2014 on its most solid footing yet and is poised for new achievements and value-creating growth.



BRADFORD A. MILLS
CHIEF EXECUTIVE OFFICER AND DIRECTOR
MANDALAY RESOURCES

2013

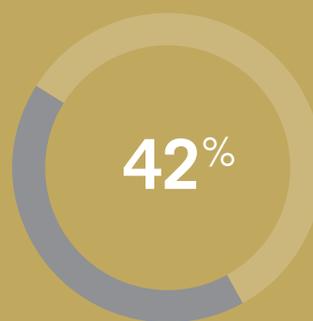
GOLD

\$ 65,091,000



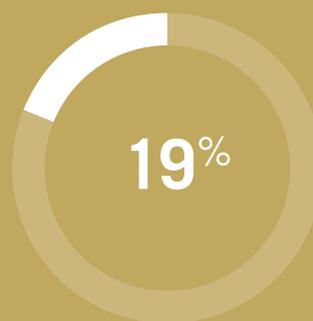
SILVER

\$ 70,098,000



ANTIMONY

\$ 31,711,000



During 2013, Mandalay Resources produced a consolidated 126,908 gold equivalent ounces from both the Costerfield and Cerro Bayo projects, generating \$166.9 million of which gold accounted for 39% of total revenue. Silver accounted for 42% of all revenue generated, while antimony contributed 19% of the total. From January 1, 2013, to December 31, 2013, the Company's average realized prices for gold, antimony, and silver were \$1,216/oz, \$9,836/t, and \$18.62/oz, respectively¹.

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

COSTERFIELD
VICTORIA, AUSTRALIA

Au+Sb

52,911 | **+43%**

GOLD EQUIVALENT OUNCES PRODUCED – 2013

PRODUCTION GROWTH VS 2012





COSTERFIELD PRODUCTION

The Costerfield gold-antimony mine is located in Costerfield, Victoria, Australia. It includes the Augusta underground mine and the Brunswick processing plant. On December 1, 2009, the Company purchased 100% of the Costerfield mine through its wholly owned subsidiary, Costerfield Operations. Capital redevelopment was commenced by the Company immediately. Production grew quickly from approximately 170 tonnes per day in 2010 to approximately 400 tonnes per day by the end of 2013.

During 2013, the Costerfield mine produced 129,638 tonnes of ore. The Company's decision in late 2011 to change the mining method to long-hole open stoping with cemented rock fill has resulted in steadily increasing quarterly ore production volumes and a subsequent decrease in mining cost per tonne. The decrease in mining costs continued in 2013, where the mining cost per tonne was \$205, down from \$282 in 2012.

In 2013, the Costerfield plant processed 128,859 tonnes of ore at grades of 9.10 g/t gold, and 4.17% antimony, a considerable improvement over 2012's throughput of 94,187 tonnes of ore with grades of 8.13 g/t gold and 4.32% antimony. 2013 production was 28,758 ounces of saleable gold and 3,275 tonnes of saleable antimony, both record annual volumes. The processing costs at Costerfield dropped to \$53.93 per tonne in 2013 from \$67.37 in 2012.

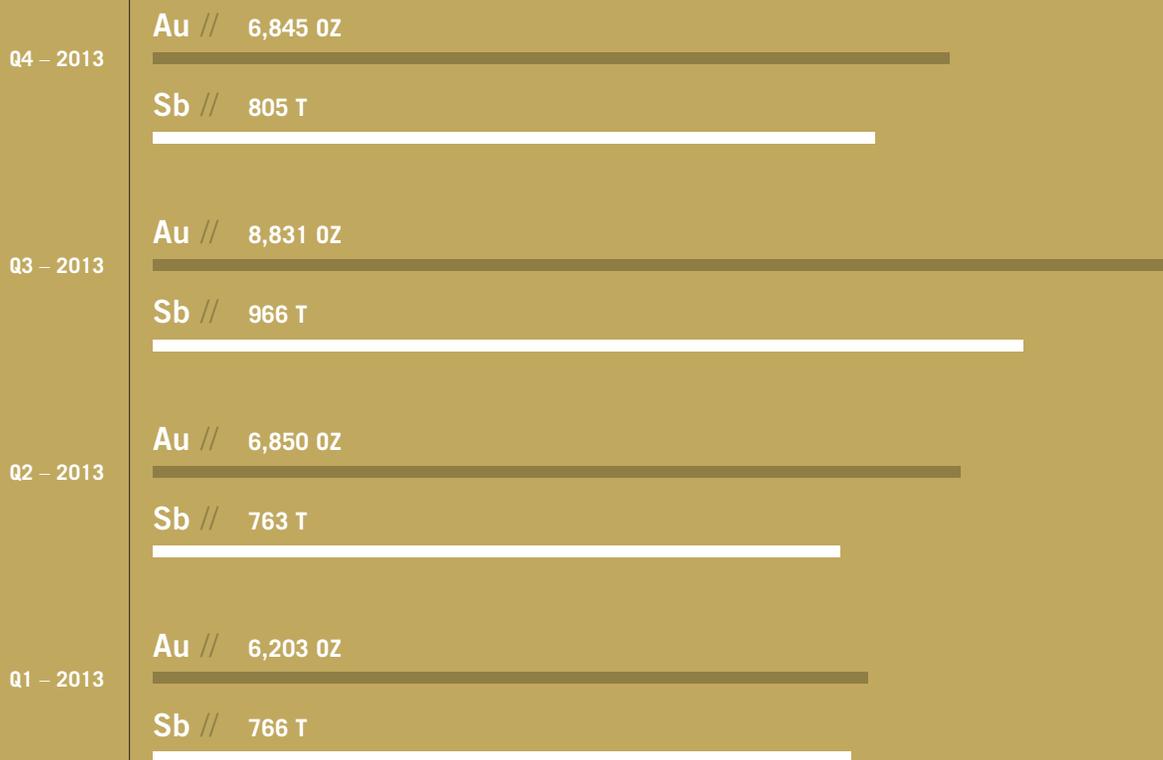
The Company intends to extend production over the next four years at Costerfield by mining the Cuffley lode. The rate of metal production will grow due to higher grades in Cuffley than in the older part of the mine. The Company filed a Preliminary Economic Analysis of the Cuffley mine extension in the third quarter of 2013, suggesting a four-year mine life with total potential saleable production of approximately 214,000 ounces of gold equivalent 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/tonne, a 0.9 US Dollar per Australian Dollar exchange rate, and a discount rate of 5%. As of the date of this report, the Company has reached Cuffley with its capital development. The Company is ramping up on-vein operating development that has demonstrated short-range grade continuity and mineability of Cuffley. At year-end 2013, the Indicated Mineral Resource in the Cuffley lode was converted to Probable Reserves and production from the lode is included in 2014 budgets and guidance.

TOTAL SALEABLE PRODUCTION

2013

2014E

GOLD (OZ)	28,758	37,000 – 43,000
ANTIMONY (T)	3,275	3,000 – 3,300

**SALEABLE PRODUCTION
AT COSTERFIELD**

CERRO BAYO
AYSEN, CHILE

Ag+Au

73,997 **+4%**

GOLD EQUIVALENT OUNCES PRODUCED – 2013

PRODUCTION GROWTH VS 2012





CERRO BAYO PRODUCTION

Mandalay purchased 100% of the underground Cerro Bayo silver-gold mine in August, 2010. The mine is located in Southern Chile, approximately 130 kilometres south of Coyhaique, the Capital of Region XI. Mining was restarted in September 2010, processing was recommenced in January 2011, and the first gold-silver concentrate was shipped in February 2011.

The ramp-up of Cerro Bayo ore production to 1,200 tonnes per day was completed in 2012, and the Company produced at this rate through 2013. During 2013, Cerro Bayo produced 385,221 tonnes of ore at a mining cost of \$58.34 per tonne, a slight increase relative to the 358,944 tonnes produced in 2012 at a cost of \$57.00 per tonne.

In 2013, the Cerro Bayo concentrator processed 386,480 tonnes of ore with grades of 288.22 g/t silver and 2.02 g/t gold at a cost of \$27.99 per tonne. This is a modest increase from 2012, in which the concentrator processed 358,256 tonnes of ore with grades of 284.79 g/t silver and 1.70 g/t gold at a cost of \$25.68 per tonne. 2013 production totalled 3,145,537 ounces of saleable silver and 21,482 ounces of saleable gold, up from 2012 production of 2,911,595 ounces of saleable silver and 17,089 ounces of saleable gold. Higher mine and mill output, higher ore grades and higher silver recovery rates were the major drivers supporting the record annual production during the year ended December 31, 2013.

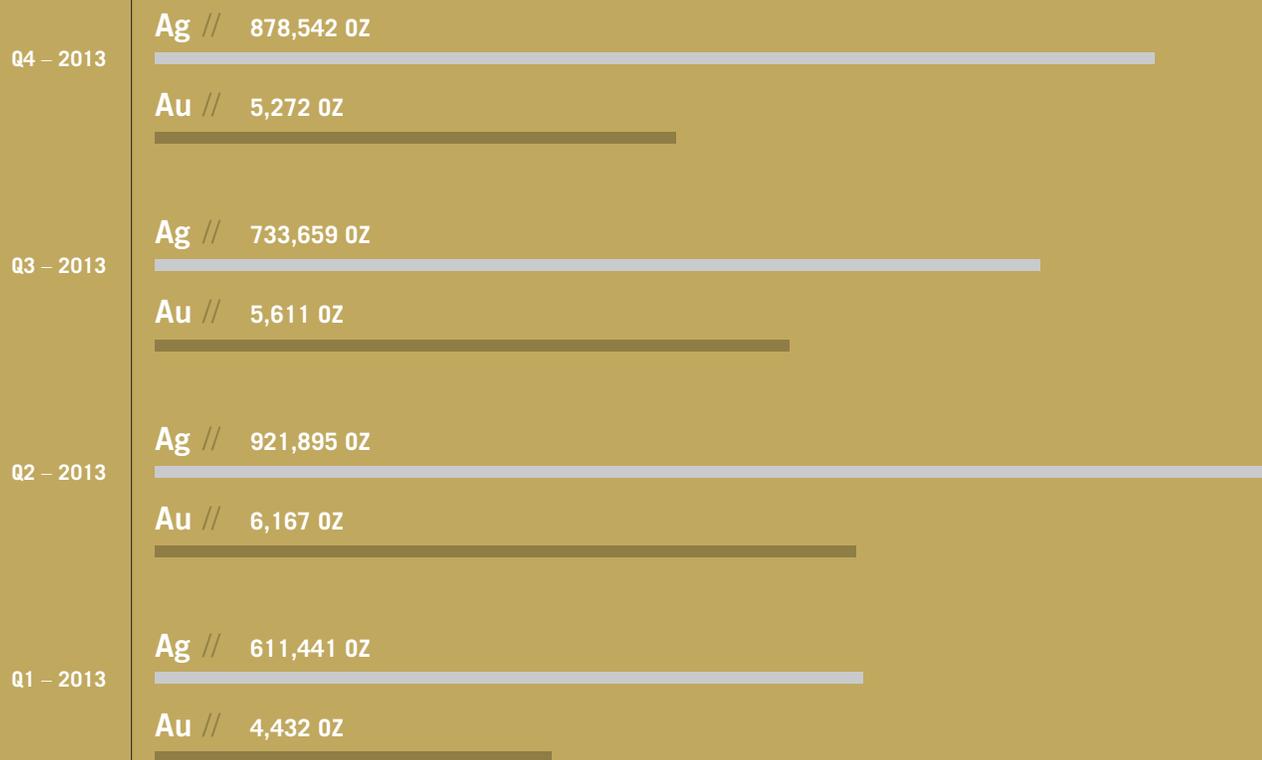
During 2013, the Company developed a second haulage access to the Delia NW mine, one of the three underground mines on the property. As a result, the Company expects to ramp-up the rate of ore production to 1,400 tonnes per day by the second quarter of 2014.

TOTAL SALEABLE PRODUCTION

2013

2014E

GOLD (OZ)	21,482	23,000 – 27,000
SILVER (OZ)	3,145,537	3,000,000 – 3,200,000

**SALEABLE PRODUCTION
AT CERRO BAYO**

COSTERFIELD EXPLORATION

In 2013, Mandalay continued to reinvest successfully in exploration to grow the mine lives of its producing assets. Year-end 2013 independent Mineral Reserve estimations demonstrated significant growth in contained gold (41%) and antimony (108%) Reserves, and a near-replacement of silver Reserves (-2%).

At Costerfield, Mandalay invested approximately US\$4.8 million in exploration in 2013, completing drilling 24,045 metres of diamond core. Virtually all of the drilling extended or infilled Mineral Resources in the W, N, and Cuffley lodes. The Company also completed 5,988 m of operating development and mine sampling, mostly in N and Cuffley lodes, 5,038 m of which were in ore.

AS AT THE END OF 2013, MINERAL RESOURCES AT COSTERFIELD WERE:

COSTERFIELD RESOURCES¹	Resource (t)	Sb Grade (%)	Sb (cont. t)	Au Grade (g/t)	Au (cont. oz)
MEASURED	191,000	4.3%	8,000	8.4	51,000
INDICATED	605,000	3.7%	22,000	9.6	187,000
MEASURED AND INDICATED	796,000	4.1%	32,000	9.3	238,000
INFERRED	569,000	3.8%	22,000	7.4	135,000

Source: (1) SRK Consulting (Australia), March 2014, documented in an independent NI 43-101 report filed March 28, 2014

1. CIM definitions followed for classification of Measured, Indicated, and Inferred Resources. 2. Mineral Resources estimated as of December 31, 2013, and depleted for production through December 31, 2013. 3. Mineral Resources stated according to CIM guidelines and include Mineral Reserves. 4. Tonnes resource and Sb rounded to nearest thousand; oz Au rounded to nearest thousand. 5. Numbers may not add due to rounding. 6. A 3.9 g/t Au Equivalent (AuEq) cut-off grade over a minimum mining width of 1.2 m is applied where AuEq. is calculated at a gold price of \$1,400/oz and an antimony price of \$12,000/t. 7. The Au Equivalent value (AuEq) is calculated using the formula: $AuEq = Au \text{ g/t} + 1.99 * Sb \%$. 8. The cut-off grade has increased from 3.6 g/t AuEq used in the June 31, 2013, Mineral Resource estimate due to changes in the minimum mining width, metal price assumptions, updated costings, recoveries and other assumptions. 9. The Brunswick Mineral Resource has not been re-estimated since it was reported in Frederickson, D., 2009, Costerfield Gold and Antimony Project, Augusta and Brunswick Deposits. Frederickson Geological Solutions Pty Ltd. 10. Previously reported Indicated Resources for the Brunswick Deposit have been classified as Inferred by SRK here. A review of the available data could not support the Indicated classification due to discrepancies in the QA/QC data as previously reported in Frederickson, 2009 and the lack of reconciliation data. 11. The Mineral Resource estimation for Augusta and Cuffley deposits was performed by Bob Lidbury, fulltime employee of SRK Consulting, BSc, MAIG, who is a qualified person under NI 43-101 and is the Competent Person for the Augusta and Cuffley Mineral Resource Estimates. 12. Bob Lidbury, BSc, MAIG, fulltime employee of SRK Consulting is a qualified person under NI 43-101 and is the Competent Person for the Brunswick Mineral Resource Estimate.

AS AT THE END OF 2013, MINERAL RESERVES AT COSTERFIELD WERE:

COSTERFIELD RESERVES¹	Ore (t)	Sb Grade (%)	Sb (cont. t)	Au Grade (g/t)	Au (cont. oz)
PROVEN	71,000	4.4%	3,000	8.3	20,000
PROBABLE	350,000	3.4%	12,000	9.4	106,000
PROVEN AND PROBABLE	420,000	3.6%	15,000	9.2	126,000

Source: (1) SRK Consulting (Australia), March 2014, documented in an independent NI 43-101 report filed March 28, 2014

1. CIM definitions followed for classification of Proven and Probable Reserves. 2. Mineral Reserve estimated as of December 31, 2013, and depleted for production through December 31, 2013. 3. Tonnes and Ounces are rounded to the nearest thousand; contained antimony rounded to nearest hundred. 4. Totals are subject to rounding error. 5. Lodes have been diluted to a minimum mining width of 1.8 m. 6. A 5.0 g/t Au Equivalent (AuEq) cut-off grade. 7. Commodity prices applied are gold price of \$1,200/oz, antimony price of \$10,000/t and exchange rate USD:AUD of 0.9. 8. The Au Equivalent value (AuEq) is calculated using the formula: $AuEq = Au\ g/t + 1.99 * Sb\ \%$. 9. The cut-off grade has increased from 4.7 g/t AuEq used in the December 2012 Mineral Reserve Estimate. 10. The Mineral Reserve is a subset, a Measured and Indicated only Schedule, of a Life of Mine Plan that includes mining plan of Measured, Indicated and Inferred Resources. 11. The Mineral Reserve estimate was prepared by Peter Fairfield, SRK Consulting, FAusIMM, who is a qualified person under NI 43-101.

In 2013, the Company grew contained gold ounces in the Measured and Indicated Mineral Resource category by 77,000 ounces net of mine depletion, from 161,000 to 238,000 ounces. The Company also significantly increased its Measured and Indicated Mineral Resource for antimony year-over-year, from 21,000 tonnes of antimony at the beginning of 2013, to 32,000 tonnes of antimony at year-end.

In 2014, Costerfield exploration will focus on replacing 2014 depletion and on wide-spaced drilling along the strike of the current lodes to test for significant extensions of mineralization that could support future expansion.

CERRO BAYO EXPLORATION

During 2013, Mandalay drilled approximately 37,500 metres of diamond core at a cost of US\$4.8 million. The 2013 exploration program was focused largely on the Yasna, Fabiola, Bianca, Dagny, Delia NW, Coyita, Trinidad, Marcela Sur, and Raul veins. The Company also carried out mapping and closely-spaced sampling in the Bianca, Dagny, Fabiola, Yasna, and Delia NW veins, 5,395 metres of which were in mineralization. This formed the basis for upgrading previously Indicated and Inferred Mineral Resources to Measured Mineral Resources, and subsequently Proven Mineral Reserves. In addition, Raul and Trinidad veins were incorporated into Mineral Resources and Mineral Reserves.

AS AT THE END OF 2013, MINERAL RESOURCES AT CERRO BAYO WERE:

CERRO BAYO RESOURCES¹	Resource (t)	Ag Grade (g/t)	Ag (cont. oz)	Au Grade (g/t)	Au (cont. oz)
MEASURED	411,000	423	5,596,000	3.6	48,000
INDICATED	1,633,000	308	16,172,000	3.2	167,000
MEASURED AND INDICATED	2,044,000	331	21,768,000	3.3	214,000
INFERRED	433,000	400	5,580,000	3.3	46,000

Source: (1) Roscoe Postle Associates, March 2014, documented in an independent NI 43-101 report filed March 28, 2014

1. Canadian Institute of Mining ("CIM") standards were followed for estimating Mineral Resources. 2. The Independent Qualified Person for the Cerro Bayo Mineral Resource estimate is Rosmary Julia Cardenas Barzola, MAusIMM (CP Geo), RPA, who is a Qualified Person as defined by National Instrument 43-101 ("NI 43-101"). 3. Mineral Resources are estimated at a cut-off grade of 163 g/t AgEq. AgEq is calculated using the formula $AgEq = Ag + (Au \times 61.64)$ where Ag and Au are in grams per tonne. 4. Wireframe vein models were used to constrain the Cerro Bayo Resources. 5. Mineral Resources were estimated using US\$1,400 per oz. Au and US\$24 per oz. Ag. 6. A minimum vein width of 1.2 m was used. 7. A bulk density of 2.63 t/m³ was used. 8. No legal, political, environmental, or other risks are known to the above referenced Qualified Person that could materially affect the potential development of the mineral resources reported above. 9. Mineral Resources are inclusive of Mineral Reserves. 10. Numbers may not add due to rounding.

AS AT THE END OF 2013, MINERAL RESERVES AT CERRO BAYO WERE:

CERRO BAYO RESERVES¹	Ore (t)	Ag Grade (g/t)	Ag (cont. oz)	Au grade (g/t)	Au (cont. oz)
PROVEN	516,000	283	4,705,000	2.5	41,000
PROBABLE	1,967,000	209	13,197,000	2.1	134,000
PROVEN AND PROBABLE	2,483,000	224	17,901,000	2.2	174,000

Source: (1) Roscoe Postle Associates, February 2014, documented in an independent NI 43-101 report filed March 28, 2014

1. CIM standards were followed for estimating Mineral Reserves. 2. The Independent Qualified Person for the Cerro Bayo Mineral Reserves estimates is Normand Lecuyer, P. Eng., RPA, who is a Qualified Person as defined by NI 43-101. 3. Mineral Reserves are estimated at a cut-off grade of 200 g/t AgEq (silver equivalent). AgEq is calculated using the formula $AgEq = Ag + (Au \times 61.64)$ where Ag and Au are in grams per tonne. Metal prices for determining cut-off grades were US\$1,200/oz Au and \$20/oz Ag. 4. Profitability of Mineral Reserves were estimated using a long-term gold price of US\$1,200 per ounce and a long-term silver price of US\$20 per ounce. 5. Veins are diluted to 2.4 m minimum mining width. 6. A bulk density of 2.63 t/m³ was used. 7. Dilution grades vary by vein. 8. No legal, political, environmental, or other risks are known to the above referenced Qualified Person that could materially affect the potential development of the mineral reserves reported above. 9. Numbers may not add due to rounding.

In 2013, Mandalay's exploration program essentially replaced silver production during the year. At year-end 2013, the Company announced the initial results of drilling the Fabiola and Yasna vein extensions under Laguna Verde. Two of the three holes drilled intersected high-grade gold and silver over significant widths.

In 2014, Mandalay expects to continue to drill under the lake, drilling wide-spaced holes to define the extent of this mineralization. Results from the wide-space drilling program will be used to make a decision to undertake a closer-spaced drilling program and add this material to our resource and reserve profile.

THE CHALLACOLLO ACQUISITION

On December 20, 2013, the Company announced the acquisition of the Challacollo silver project, a development stage asset in northern Chile, from Silver Standard Resources Inc. The transaction closed on February 7, 2014, for consideration of:

- (i) US\$7.5 million in cash and 12 million common shares paid on closing; and
- (ii) future consideration, contingent on bringing the property to commercial production, of a further 5 million Mandalay common shares and a silver-linked cash payment equivalent to 240,000 ounces payable over eight quarters
- (iii) 2% royalty on silver sales in excess of 36 million ounces, with a cap/buyout of \$5 million.

ACQUISITION OF CHALLACOLLO ADDED SIGNIFICANT SILVER RESOURCES TO THE COMPANY, AS SHOWN IN THE TABLE BELOW:

CHALLACOLLO RESOURCES¹	Resource (t)	Au Grade (g/t)	Ag (cont. oz)	Au (cont. oz)	Ag (cont. oz)
MEASURED	—	—	—	—	—
INDICATED	1,030,000	0.4	242	13,000	8,000,000
MEASURED AND INDICATED	1,030,000	0.4	242	13,000	8,000,000
INFERRED	3,900,000	0.3	193	40,000	24,300,000

Source: (1) Challacollo Technical Report, Roscoe Postle Associates, Dec 2013, documented in an independent NI 43-101 report filed February 7, 2014

1. CIM definitions were followed for classification of Mineral Resources. 2. Mineral Resources are estimated at a silver equivalent (AgEq) cut-off grade of 110 g/t. 3. Mineral Resources are estimated using a silver price of US\$24/oz and a gold price of US\$1,400 per ounce. 4. High silver and gold assay values were capped to 700 g/t Ag and 3.0 g/t Au, respectively. 5. A density of 2.4 g/cm³ was used. 6. The silver equivalent equation is AgEq = g/t Ag + 63.97 * g/t Au.

In 2014, the Company intends to spend approximately \$7 – \$8 million on Challacollo to complete 8,000 – 10,000 metres of diamond drilling to infill and upgrade the current resource and complete a full feasibility study. The Company is targeting the first quarter of 2017 to commence production. The Company expects to be able to fund the feasibility study and construction from operating cash flow.

Mandalay believes strong corporate governance and duty of care to shareholders are integral to the long-term success of the Company. The Mandalay Board of Directors supports evolving practices in the field of governance, and has implemented recommended policies and procedures to demonstrate its commitment to good corporate governance as well as to continuous improvement from the self-evaluation surveys completed by the directors on an annual basis.

This year, the Company successfully instituted the Advance Notice Policy, approved at the Company's Annual Meeting of Shareholders held on May 15, 2013 ("the 2012 Annual Meeting of Shareholders"). In addition, the Company adopted a Restricted Share Unit Plan ("RSU Plan"), also approved at the Company's 2012 Annual Meeting of Shareholders. Pursuant to the RSU Plan, the maximum number of common shares that may be reserved for issuance at any one time upon redemption of restricted stock units is 5% of the common shares issued and outstanding at any time. Shareholder approval of the RSU Plan will be required every three years in accordance with the rules of the TSX. The purpose of the RSU Plan is to align the interests of directors, officers, employees and consultants of Mandalay Resources Corporation with those of the holders of common shares.

Reflecting best practice for TSX-listed issuers, Mandalay Resources has a majority voting policy in place. Directors of the Company are elected annually by the Shareholders, with a Board of six directors to be elected at the Annual General Meeting. The policy entitles each Shareholder to vote for each nominee on an individual basis on May 6, 2014.

Mandalay Resources acts in accordance with applicable legislation, regulatory requirements and policies of the Canadian Securities Administrators and the laws of the jurisdictions in which it operates.

All the policies, charters, and position descriptions that have been established by Mandalay Resources are updated annually and can be accessed on the Company's website at www.mandalayresources.com

BOARD OF DIRECTORS

The Board of Directors is committed to fulfilling its statutory mandate to supervise the management of the business and affairs of the Company with the highest standards of ethical conduct and in the best interests of the Company. The Company has established the following standing committees that are accountable to the Board:

-
- (i) Audit Committee

 - (ii) Compensation, Corporate Governance and Nominating Committee

 - (iii) Safety, Health, Environmental and Community Committee

The members of the Board are identified on page 23.

AUDIT COMMITTEE

The primary responsibilities of the Audit Committee (“AC”) are to ensure that the Company has in place an effective system of internal financial controls for reviewing and reporting on the Company’s financial statements, to monitor the independence and performance of the Company’s external auditor, to oversee the quality and integrity of the Company’s financial statements, to monitor Management’s compliance with legal and regulatory requirements in respect of financial disclosure, and to report on the Committee’s activities on a regular and timely basis to the Board of Directors.

The members of the AC are Robert Doyle (Chairman), Abraham Jonker and Anthony Griffin.

RETENTION OF SENIOR MANAGEMENT AND BOARD MEMBERS

The purpose of the Compensation, Corporate Governance and Nominating Committee (“CCGNC”) is to assist the Board with compensation, corporate governance and nominating matters with respect to recruitment, development, evaluation, compensation and retention of senior management, Board Members. Under the supervision of the Chair of the CCGNC, the directors conduct a formal evaluation of the performance and effectiveness of the Board and the committees through an annual self-assessment survey coordinated by the Corporate Secretary.

The members of the CCGNC are Peter Jones (Chairman) and Anthony Griffin.

SAFETY, HEALTH, ENVIRONMENTAL AND COMMUNITY COMMITTEE

The Safety, Health, Environmental and Community Committee (“SHECC”) is appointed by the Board to assist with environmental, health and safety legislation, and compliance with the rules and regulations in the jurisdictions in which the Company operates. In addition, the SHECC is responsible for developing the Company’s policies, programs, measures and systems relating to employees, safety, health, environment, and community.

The members of the SHECC are Anthony Griffin (Chairman) and Peter Jones.

2014 CORPORATE GOVERNANCE INITIATIVES

In 2013, the Board reviewed its annual planning methodology and instituted annual goals and objectives for each of the committees and the full Board over the course of the year. These annual plans are now tracked by the Corporate Secretary and reviewed by the Board. Continuing education sessions are provided at Board meetings, with appropriate time provided for both external and internal speakers to review subjects of interest to directors. In 2013, two continuing education sessions were held.

In 2013, no site visits were conducted by Directors. A site visit to Cerro Bayo has been scheduled in early 2014 for directors.

CORPORATE SOCIAL RESPONSIBILITY

MANDALAY RESOURCES' MISSION IS TO BUILD A VALUES-BASED AND VALUE-FOCUSED ORGANIZATION THAT IS FOUNDED ON SAFE AND EFFICIENT WORK PRACTICES, CONTINUOUS IMPROVEMENT, FISCAL RESPONSIBILITY, AND EFFECTIVE COMMUNITY RELATIONSHIPS. TO ACHIEVE THIS OUTCOME, MANDALAY HAS DEVELOPED FUNDAMENTAL VALUES WHICH INCLUDE THE FOLLOWING:

SAFETY

Safety is paramount in all our decisions and actions, where we proactively protect people and property

INTEGRITY

We are our word; we honour our commitments, abide by applicable laws and live by high ethical standards

RESPONSIBILITY

We are responsible for our actions and their consequences, operating with social and environmental responsibility and promoting sustainable development

EXCELLENT PERFORMANCE AND INNOVATION

We promote excellence in everything we do, creating an environment where ideas and innovative methods to improve our processes and results are encouraged

VALUE CREATION

We seek and seize every opportunity to create more value with our resources

AGILITY

We seek out new opportunities and rapidly respond to new challenges

WE ARE SUCCESSFUL WHEN :

Our employees live and work safely and experience the personal satisfaction that comes with high performance and recognition

Our shareholders are realizing a superior total return on their investment and support our corporate values

The communities in which we operate value our presence

Our environmental impact is minimized and causes no permanent harm

During 2013, the Company developed a set of measurements and feedback surveys that help to quantify the degree to which these success factors are being achieved. The findings of these surveys, together with a comprehensive report of the Company's Corporate Social Responsibility and Health and Safety activities in 2013 will be made available in Mandalay Resources' 2013 Corporate Sustainability Report, which will be available on the Company's website at www.mandalayresources.com by the end of the second quarter of 2014.

BOARD OF DIRECTORS

ABRAHAM JONKER – CHAIRMAN

Most recently, Mr. Jonker was the Chief Financial Officer at WCC until its acquisition by Walter Energy on April 1, 2011. He is a director of Firestone Diamonds Limited (FDI: AIM) and Eastcoal Inc. (ECX: TSXV). Mr. Jonker is a Chartered Accountant (South Africa, England and Wales) and holds a Masters Degree in South African and International Tax from the Rand Afrikaans University. Mr. Jonker has over 18 years of extensive accounting and corporate finance experience, mostly in the mining industry.

ROBERT DOYLE – DIRECTOR

Mr. Doyle has over 30 years of experience in all facets of international resource exploration, development and production. Mr. Doyle is a director of Golden Star Resources Ltd. and Detour Gold Corp. He was Chief Executive Officer of Medoro Resources Limited, until October, 2009, and was Executive Vice President prior to that. From 2005 to 2007, Mr. Doyle was the Executive Vice President of Pacific Stratus Energy. Previously, Mr. Doyle was Chief Financial Officer of a number of companies including Pacific Stratus Energy Corp., Coalcorp Mining Inc., Bolivar Gold Corp. and HMZ Metals Inc. In addition, he has held a number of financial and executive positions with Falconbridge.

ANTHONY GRIFFIN – DIRECTOR

Mr. Griffin is a Partner at West Face Capital Inc. (“West Face”), a Toronto based investment manager. Prior to joining West Face, Mr. Griffin was a Managing Director of Amaranth Advisors Canada (ULC). Mr. Griffin holds a Bachelor of Commerce from the University of British Columbia.

PETER R. JONES – DIRECTOR

Mr. Jones is a mining executive and Professional Engineer with 40 years of experience in senior operational and project positions at coal, gold, base metal and potash mines. He has also consulted in many countries. In August 2011, Mr. Jones was appointed as the Chairman and interim CEO of Augyva Mining Resources. Previously, he was CEO of Hudson Bay Mining and Smelting Co., Limited (HBMS) for Anglo American, President and CEO of HudBay Minerals and Chairman and CEO of Adanac Molybdenum. He is a past Chairman of the Mining Association of Canada and in 2006 was named prairie region, Entrepreneur of the Year, by Ernst & Young. Mr. Jones is an advocate of corporate governance and graduated from the Camborne School of Mines, UK and the Banff School of Advanced Management.

BRADFORD A. MILLS – DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Mills has over 30 years of experience in the resource industry. He is the founder and managing director of Plinian, a private equity firm whose principal business is investment in natural resources projects and companies. Mr. Mills formerly held the position of Chief Executive Officer of Lonmin plc, the world’s number three platinum and platinum group metals producer. Prior to that, Mr. Mills served as president of the BHP Billiton’s copper group. Mr. Mills currently holds a directorship with West African Minerals, an iron ore exploration company focused on exploration projects in Africa.

SANJAY SWARUP – DIRECTOR AND CHIEF FINANCIAL OFFICER

Mr. Swarup has worked with a range of businesses that include small and medium enterprises and multinational corporations, including BP plc, an energy company and Lonmin plc. Mr. Swarup is a principal of Plinian. He holds a Masters of Business Administration from Cranfield School of Management (Bedfordshire, United Kingdom) and is a Chartered Accountant from UK and India with over 20 years of experience in accounting and business consulting, with 10 of those years in the resource industry. In 2008, Mr. Swarup performed full time consultancy at Lonmin plc and prior to that, he was employed with BP plc for seven years.

MANAGEMENT

BRADFORD A. MILLS – CHIEF EXECUTIVE OFFICER AND DIRECTOR

See page 23

MARK SANDER – PRESIDENT

Dr. Sander holds a PhD in Ore Deposits and Exploration from Stanford University (USA) and has been active in the mineral resource industry for 25 years in operations, strategy and exploration, with a focus on copper, gold and platinum projects. Prior to joining Mandalay Resources, Dr. Sander's industry experience included serving as Vice President of Strategy and Planning for BHP Billiton's copper group.

SANJAY SWARUP – CHIEF FINANCIAL OFFICER AND DIRECTOR

See above

DOMINIC DUFFY – CHIEF OPERATING OFFICER

Mr. Duffy holds a BEng in Mining Engineering from the University of New South Wales (Sydney, Australia). He has extensive technical and operational management experience, having worked at numerous operations throughout Australia and Latin America. Prior to joining Mandalay Resources, Mr. Duffy most recently worked for Coeur d'Alene Mines and Hecla Mining Company in South America.

BELINDA LABATTE – CORPORATE SECRETARY

Belinda Labatte holds a Masters of Business Administration degree from the Rotman School of Management, University of Toronto and has a Chartered Financial Analyst designation. Ms. Labatte has over 10 years of experience in capital markets and investor relations. She has worked with a diverse range of resource and non-resource based companies on investor relations, strategic communications, and business development initiatives.

BOARD OF DIRECTORS

ABRAHAM JONKER ⁽¹⁾
Chairman

BRADFORD A. MILLS
Chief Executive Officer and Director

SANJAY SWARUP
Chief Financial Officer and Director

ROBERT DOYLE ⁽¹⁾
Director

PETER R. JONES ⁽²⁾
Director

ANTHONY GRIFFIN ⁽¹⁾⁽²⁾
Director

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation,
Corporate Governance and
Nominating Committee and
Safety, Health, Environmental
and Community Committee

OFFICERS AND MANAGEMENT

BRADFORD A. MILLS
Chief Executive Officer and Director

MARK SANDER
President

SANJAY SWARUP
Chief Financial Officer and Director

DOMINIC DUFFY
Chief Operating Officer

BELINDA LABATTE
Corporate Secretary

TONI STRECZYNSKI
VP, Processing and Metallurgy

ANDRE BOOYZEN
GM, Costerfield

KALENCI FLORES
GM, Cerro Bayo

RON LUETHE
Country Manager, Chile

CHRIS GREGORY
GM, Corporate Development
and Exploration, Australia

STOCK EXCHANGE LISTING AND SYMBOLS

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol MND.

SHAREHOLDERS MEETING

The Annual General and Special Meeting of Shareholders will be held at 2:00 pm on Tuesday, May 6, 2014 in Salon 3, Trump International Hotel and Tower, Toronto ON, Canada.

INVESTOR RELATIONS

Institutional or individual investors seeking information about the Company are invited to contact:
Greg DiTomaso
T 647 260 1566
g.ditomaso@mandalayresources.com

AUDITORS

Deloitte LLP

TRANSFER AGENT

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REPORTS USED FOR MINERAL RESOURCE AND RESERVES ESTIMATES

Cerro Bayo: *Technical Report on the Cerro Bayo Project, Region XI (Aysen), Chile* dated March 27, 2014 was prepared by Roscoe Postle Associates Inc. and filed on March 28, 2014.

Costerfield: *Mandalay Resources Corporation: Costerfield Operation, Victoria Australia: Mineral Resource and Mineral Reserve Technical Report: SRK Project No. PLI014* dated March 25, 2014, was prepared by SRK Consultants and filed on March 28, 2014.

Challacollo: *Technical Report on the Challacollo Silver-Gold Project, Region I, Chile* dated January 30, 2014, was prepared by Roscoe Postle Associates Inc. and filed on February 7, 2014.

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