HALLGARTEN & COMPANY

Initiating Coverage

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Mandalay Resources (MND.to)

Strategy: Long

Key Metrics				FY11	FY12e	FY13e
Price (CAD)	$	0.68	Consensus EPS		n/a	n/a
12-Month Target Price (CAD)	$	0.80	Hallgarten EPS		$ 0.12	$ 0.08
Upside to Target		17.6%	Actual EPS	$0.06		
12mth hi-low CAD		$0.50 -$0.90	P/E	11.3	5.8	8.3
Market Cap (CAD mn)	$	216.2				
Shares Outstanding (mns)		317.95	Dividend	0.00	0.02	0.03
Fully diluted (mns)		361.0	Yield	0.0%	2.9%	4.4%

Mandalay Resources

Style Drift

- \+ The company represents one of the few exposures available to Antimony in the global mining markets
- \+ The Antimony price has held up strongly in recent times after a brief dip, we expect this to remain the case
- \+ Both gold and Antimony production volumes continue to trend up in the company's projections
- ✘ The company seems to be downplaying its Sb aspect with an attempt to focus on its gold and silver exposure in South America
- ✘ An unnecessary hedging campaign has resulted in wild earnings swings
- ✘ Opportunities to acquire Sb properties, such as Hillsgrove, are being let pass by
- ✘ The company is undertaking a normal course issuer bid to buy back up to 5% of the issued capital instead of dividend payments

Alarm Bells A-Ringing

Well over a year ago now we launched the Antimony Mining and Processing group in linkedin.com. We begged a few friends and cronies to join the group to give it a start and they duly did so. However after this first flush things went awfully quiet and except for a few stray Turkish players that joined from time to time, it was pretty much becalmed. However, in the last month Sleepy Hollow has become abuzz with membership requests at the rate of between three to five per day. So what is up in this side-pocket of the mining space?

The sneaking suspicion is that a REE-style crisis in brewing in the less than scintillating Antimony space. This crisis has crept up largely in the same manner as the REE crisis did, but in this case the "metal" has none of the high-tech glamour of REE and thus has largely slid under the radar of politicians looking for a quick soundbite.

The first sign that something was up was when Antimony was ranked first in a Criticality Risk List published by the British Geological Survey in the second half of 2011. The list provided an indication of the relative risk to the supply of chemical elements or element groups required to maintain the current British economy and lifestyle. The list rapidly became the gold standard of critical metals rankings largely because the US and its functionaries dared not speak publicly of the way in which they were so massively wrong-footed in just about every critical metal out there.

This note shall dwell later upon the dynamics of the metal and its supply. Its main goal though is to look at the perspectives of the only listed TSX entity, Mandalay Resources, that has actual Antimony production and examine whether this might represent an attractive vehicle to pursue the evolution in this metal.

Mandalay Resources – another misnomer

The curiously named stock is the owner of the Costerfield gold-antimony mine in the Australian state of Victoria. It is rare enough to have a Canadian-listed entity that operates in Australia and even rarer that such an entity should be a producing miner. Ironically, the name of the company has allusions to Burma and Burma is one of the most interesting potential sources of antimony and yet, to our knowledge that is not the reason that this stock carries the name it does. In addition to the Australian mine the company has recently diversified into some Chilean properties that have nothing to do with Antimony and we regard these as potentially credibility busters that may result in investors losing interest in this name.

Costerfield – an asset with heritage

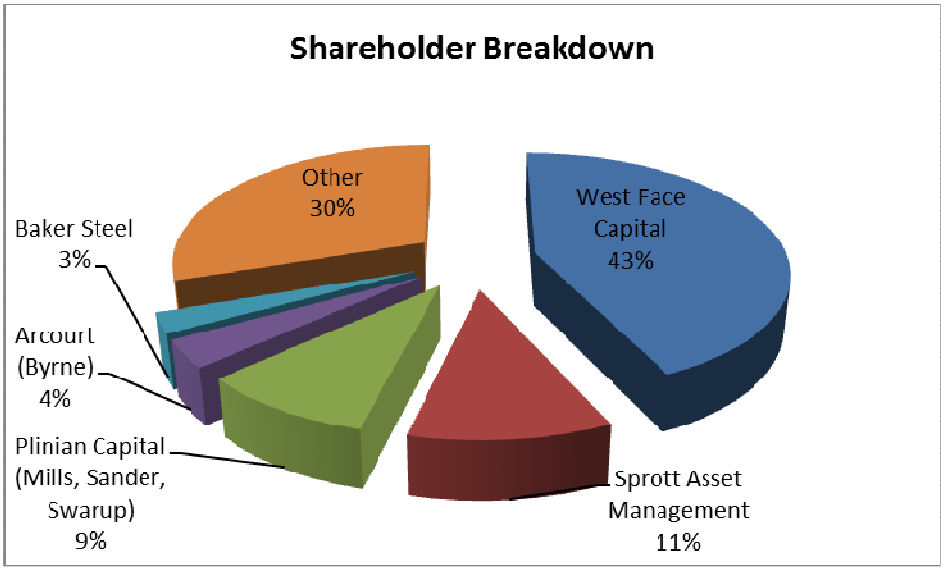
The main asset of the company is the Costerfield gold-antimony mine in Victoria, Australia. This is a very old asset indeed having first started production in the mid-1800s in the first flush of Australia's gold boom. The mine is centred on the small settlement of Costerfield in Central Victoria, approximately 10 kilometres northeast of Heathcote, 50 km east of the city of Bendigo and 100 km north of Melbourne. The Costerfield veins were discovered in the 1860s and have been mined for both gold and antimony, most extensively during two periods: 1860–1883 and 1904–1925. Ongoing exploration and intermittent small scale production continued during the period 1934–1980.

Mandalay purchased the mine in December 2009, from Western Canadian Coal Corp (WTN.to), and restarted capital development and mining immediately. At that time the deposit was regarded as having a gold grade of 11.4g/t and an Antimony grade of 6.1%.

In consideration for all of the issued and outstanding ordinary shares of the company that held Costerfield (and the intercompany loans), Western received (i) 44 million common shares of Mandalay (approximately 46.6% of Mandalay's total common shares outstanding) at a price of $0.25 per share , (ii) warrants to acquire an aggregate of 40 million Mandalay common shares for a period of five years, of which 50% have an exercise price of $0.31 per share and 50% have an exercise price of $0.465 per share and (iii) a promissory note in the principal amount of $1.5 million. The promissory note matured in December 2010.

As a follow-on to this transaction Western granted a group of private placement investors (some of whom were related parties to Western), options to purchase up to 16 million of the common shares it owned in Mandalay at a price of $0.31 per share. Additionally it granted an option to Plinian Capital Ltd, (a company controlled by Brad Mills, the CEO of Mandalay), to purchase up to 24.7 million of the common shares Western owned in Mandalay at a price of $0.25 per share.

At that time Western also owned approximately 18% of Arcourt Resources NL, a private holding company. At the time of the Mandalay purchase, Arcourt owned approximately 10.1 million shares of Mandalay or approximately 10.7%, though now it only holds around 4%.



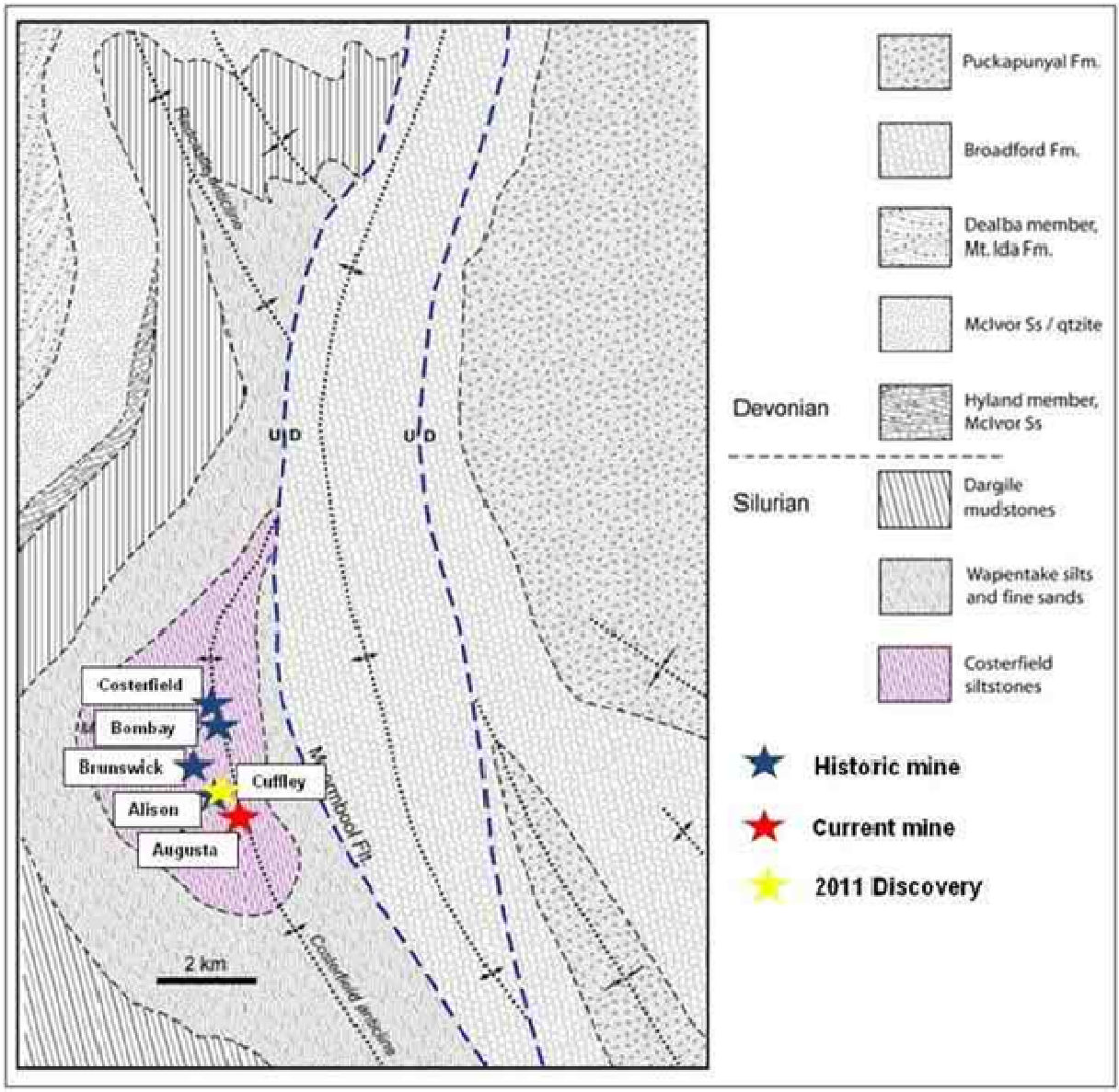
Unlike many other Canadian miners where the largest holders scarcely can rank as “insiders”, Mandalay, has, for better or worse, a major holder Toronto’s West Face Capital with 43% of the equity. Added together with other institutional holders the company is nearly 70% in institutional hands.

The Geology

Veins of the Costerfield district are hosted by Silurian Costerfield siltstone, exposed in the core of the

Costerfield Anticline. This anticline strikes north-south, gently bowed toward the west and domal, plunging to the north and south.

Historically, Costerfield mineralisation has been mined over a length of about 8 km north to south. The Augusta lodes, the target of current mining, occur at the southern end.



Source: Mandalay

The Costerfield mineralisation typically occurs as narrow veins along faults. Veins are reported to average ~0.3 m wide, up to 1.75 m wide; individual veins are traceable for up to 400 m along strike. There are two main vein types. The older consists of massive to laminated, locally brecciated quartz, locally with coarse gold. Gold content locally ranges up to several hundred g/t in these quartz veins. The younger vein type consists of massive stibnite, typically grading at several tens of percent antimony and up to 90-100 g/t Au. Auriferous quartz-stibnite veins strike north-northwest and dip steeply to the west

or east. Despite their narrow width, the veins tend to be persistent along strike and down dip. Individual ore shoots have been traced over 800 m strike length and have been worked down to 300 m depth at the historic Costerfield mine.

Move (back) to Production

The Costerfield tenements currently total 7,540 hectares, of which 1,219 Ha are held as the main mining license and the balance in two exploration licenses. The mine is fully permitted and operates year round.

Efforts to revive the mine have been ongoing over recent decades. After 1983 the Costerfield deposits underwent more extensive exploration, resulting in the construction of a processing plant in 1995 to re-treat tailings and the oxide portion of the Brunswick deposit which was mined by open pit methods. In the period 1975–1981 the Augusta deposit was discovered with continued exploration and resource definition drilling resulting in the completion of a successful feasibility study and development of the Augusta underground mine in 2006. Things went into a hiatus though with the crisis of 2008.

Mandalay ramped up construction through year-end 2010 to the planned production rate of >5000 tonnes per month. In 2010 and again in 2011, work generated new reserves deeper on the Augusta E and W lodes currently being mined to approximately replace depleted reserves.

In 2011, the Cuffley lode was discovered and by the end of the year, an initial inferred resource was established that forms the basis for a Preliminary Economic Analysis prepared by the consultants, Snowden, in mid-2012. The Cuffley Lode, lies less than 500 m north of the current Augusta mine. The initial resource calculated for the vein suggested that gold and antimony grades are significantly higher than in the Augusta lode being mined currently, and thus in the company's view, metal production could significantly grow while maintaining the same mining and processing rates as achieved currently.

Mining

Costerfield produces ore from a single underground mine exploiting the steeply dipping Augusta E,W, and N lodes at the south end of the main Costerfield zone. Ore is accessed by a spiral 4 x 4 m decline grading 1 in 8 from the surface. Mining in the upper levels consists of extraction of remnant ore and pillars left by underground mining prior to 2009. Mining on the new levels is accomplished by cut and fill and cemented rock fill blast-hole stope methods at a 1.8 m minimum width.

Source: Mandalay Resources

Ore is trucked on the surface from the Augusta mine portal (shown above) to the Brunswick plant, where it is stockpiled and blended into the crusher. The circuit includes: primary and secondary ball mills; rougher, scavenger, cleaner flotation, and filtering. Costerfield is producing around 250 tons of high-grade ore a day which is processed on-site to form an antimony-gold concentrate typically containing 55% Antimony and around 100 g/t of gold. The concentrate is then to the port of Melbourne, from which it is shipped to smelters in China.

Exploration and Mineral Resources and Reserves

As previously mentioned, Mandalay began exploration at Costerfield in early 2010, with one rig, increasing the program to three rigs through year-end 2011. A total of about 13,400 m was drilled in 2011, targeted at infilling and extending resources in W and N-lode in the Augusta mine, district-wide Brownfields exploration target confirmation, and extending the Cuffley lode discovery made in the Brownfields program mid-year. As well, 4,027 m of development drifts were excavated and sampled in 2011. The combined drilling and sampling succeeded in defining sufficient new resources along W and N-lodes and converting sufficient resources to reserves to approximately replace 2011 production.

Inferred resources rose dramatically at the end of the year with the initial estimation at Cuffley lode. The table on the following page shows the latest estimation of the resource at Costerfield.

Mineral Resource Category (using 4.6 g/t cut-off)	Tonnes (t)	Gold g/t	Sb Grade (%)	Gold ozs	Antimony (tonnes)
Measured (E,W & N)	158,400	12.9	7.8	65,500	12,300
Indicated (E,W & N)	164,400	6.8	3.7	36,000	6,100
Indicated (Brunswick)	38,300	9.5	3.7	12,000	1,400
Measured & Indicated (Subtotal)	361,100	9.8	5.5	114,000	19,800
Inferred (N, E & W Lodes)	120,000	9	5.1	35,000	6,100
Inferred (C Lode)	27,100	8.2	3	7,000	800
Inferred (Brunswick)	118,800	6.3	3.8	24,000	4,500
Inferred (Alison/Cuffley Lode)	108,000	25	9	87,000	9,700
Inferred Total	373,900	12.7	5.6	153,000	21,100

Drilling in 2012 continues with a single underground core rig on the W and N-lodes. The purpose is to identify incremental reserve additions in both veins that can serve to extend mine life, especially going to the north towards Cuffley lode. As well, two rigs continue drilling with the goal of bounding the limits of potentially economic mineralization in the Cuffley lode, enlarging the deposit as much as possible to support the preliminary economic analysis due mid-year.

Target generation is being accomplished at Costerfield by two fundamentally different methods. The first is focused compilation and reinterpretation of recent and historic drilling and underground mapping to yield indications of, for example, possible veins in newly recognized fault blocks. The second is systematic bedrock geochemical grid sampling, accomplished by an auger drill rig. This method was successful in discovering the Augusta deposit under shallow alluvial cover, and is an effective and rapid tool, targeting Costerfield siltstone under shallow cover along the Costerfield mineral district.

Cerro Bayo – Southern Chile

Mandalay's second string is the Cerro Bayo silver and gold mine in southern Chile. The company acquired the mine in September 2010. It had been exploited for some 10 years by Coeur d'Alene Mines (CDM) until it was closed during the 2008 financial crisis due to a combination of high operating costs and limited reserve life. Mandalay acquired Minera Cerro Bayo, (together with the benefit of a US$3.5 million receivable owed by Minera Cerro Bayo to Coeur) in exchange for:

- US$6mn in cash, subject to adjustment, based on the amount of Minera Cerro Bayo's closing working capital;
- common shares of Mandalay worth CAD$5mn based on the price at which Mandalay sells securities in a financing prior to closing;

- future cash payments in an aggregate amount equal to the US dollar equivalent of 125,000 ounces of silver, to be paid in six installments commencing in Q3, 2011; and

- a 2% Net Smelter Royalty on production from Cerro Bayo in excess of 50,000 ounces of gold and 5,000,000 ounces of silver.

- Mandalay is also obligated to pay all reclamation costs associated with Minera Cerro Bayo's nearby Furioso property up to a maximum of US$6,000,000.

The Cerro Bayo concentrator, which has a design capacity of 1,500 tonnes per day, and much of the mobile equipment needed for the restart, are on-site and in good working condition. The principal environmental permit needed for a restart (for a new lift on the tailings dam) is in-hand.

Firstly, three new mines are at various stages of development and production and they feed directly into the existing plant, producing a gold-silver concentrate with an average grade of 11,500 grams silver and 70 grams gold per tonne. The Fabioloa mine and the Dagny mine are both up and running and deliver 400 tons of ore a day each, while the Delia mine is currently ramping up to a similar level of production by the fourth quarter of 2012.

Meanwhile, Mandalay has fully mechanised the mining process in these three mines, and has thereby been able to significantly reduce operating costs. "The Cerro Bayo plant has an installed capacity of 1,600 tons a day," Mills explains. "Coeur was employing 1,000 people to deliver that. By mechanising the mining process, we are producing 1,200 tons of ore a day with just 400 people, so we have a very different cost footprint which makes us a lot more competitive."

Finally, Mandalay has a clearly defined and ongoing programme of exploration to exploit what it perceives to be the potential at Cerro Bayo. The property is very large, measuring some 25 kilometres by 10 kilometres, and contains hundreds of known veins. By the end of the first year of exploration, the two-year mine life had been extended to five years with the management claiming that it may be able to double that again in 2012. This would then allow us to open a fourth mine, Delia South East, taking the plant up to its full operating potential of 1,600 tons of ore a day. At that point Cerro Bayo will be producing around five million ounces of silver and 50,000 ounces of gold a year. The timescales for development of Delia South East will be defined later in 2012.

La Quebrada

The company's third prospect is the 100% owned La Quebrada project located in Region IV of Chile, approximately 415 km north of Santiago and 40 km northeast of the coastal city of La Serena. It is a copper-silver prospect that has, over the past 40 years, been explored sporadically by various mining companies including the United Nations–ENAMI JV, Placer Dome, Noranda and Teck.

This is only an exploration property as yet. Mandalay however completed a maiden NI 43-101 compliant mineral resource estimate for the Casa de Piedra *mantos* in July of 2012. Geological mapping, trenching and drilling have defined three superposed, nearly horizontal, bedded copper-silver deposits at the Casa de Piedra portion of the La Quebrada project. These mantos each range in thickness from 1 to 12 m, with intervening intervals of thin, discontinuous mineralization. A total of 41 core holes for 7,430 m

were drilled by Mandalay during 2011 and 2012 in the Casa de Piedra target; 17 holes for 2,932 m in 2011 and 26 holes for 4,498 m in 2012. The initial resource included an Indicated Resource of 459mn lbs of Cu grading at 0.6% and 11.2mn ozs Ag grading at 10 g/t.

Antimony (Sb) – of ancient origin

Antimony is a toxic chemical element with symbol Sb and atomic number 51. It is one of the oldest elements in usage with the Ancient Egyptians having used it for make-up (kohl for the dramatic eye effects). An artifact, said to be part of a vase, made of antimony dating to about 3000 BC was found at Telloh, Chaldea (part of present-day Iraq), and a copper object plated with antimony dating between 2500 BC and 2200 BC has been found in Egypt. The ancient Romans called it stibium, hence its chemical symbol Sb.

A lustrous gray metalloid, it is found in nature mainly as the sulfide mineral stibnite (Sb_2S_3). As mentioned, Antimony compounds have been known since ancient times and but metallic antimony was also known, being erroneously identified as lead. It was established to be an element around the 17th century.

The first European description of a procedure for isolating antimony is in the book *De la pirotechnia* of 1540 by Vannoccio Biringuccio. However pure antimony was well known to Jābir ibn Hayyān as far back as the 8^{th} century. The first natural occurrence of pure antimony in the Earth's crust was described by the Swedish scientist and local mine district engineer Anton von Swab in 1783; the type-sample was collected from the Sala Silver Mine in the Bergslagen mining district of Sala, Västmanland, Sweden.

The abundance of antimony in the Earth's crust is estimated at 0.2 to 0.5 parts per million, comparable to thallium at 0.5 parts per million and silver at 0.07 ppm. Even though Sb is not abundant, it is found in over 100 mineral species. Antimony is sometimes found natively, but more frequently it is found in the sulfide stibnite (Sb_2S_3) which is the predominant ore mineral.

Usages

The largest applications for metallic antimony are as alloying material for lead and tin and for lead antimony plates in lead-acid batteries. Alloying lead and tin with antimony improves the properties of the alloys which are used in solders, bullets and plain bearings. Antimony compounds are prominent additives for chlorine- and bromine-containing fire retardants found in many commercial and domestic products. An emerging application is the use of antimony in microelectronics.

The principle use of antimony is in flame retardants as antimony trioxide (ATO), which accounts for 72% of its primary antimony consumption in Europe, in China this figure is estimated to be 50% and in the US nearer 60%. Antimony trioxide is most commonly used as a synergist to improve the performance of other flame retardants such as aluminium hydroxide, magnesium hydroxide and halogenated compounds. This enhanced performance minimises the amount of flame retardant required. Antimony trioxide is used in this way in many products including plastics, textiles, rubber, adhesives and plastic covers for aircrafts and automobiles.

The second most common use of antimony alloy is as a hardener for lead electrodes in lead acid

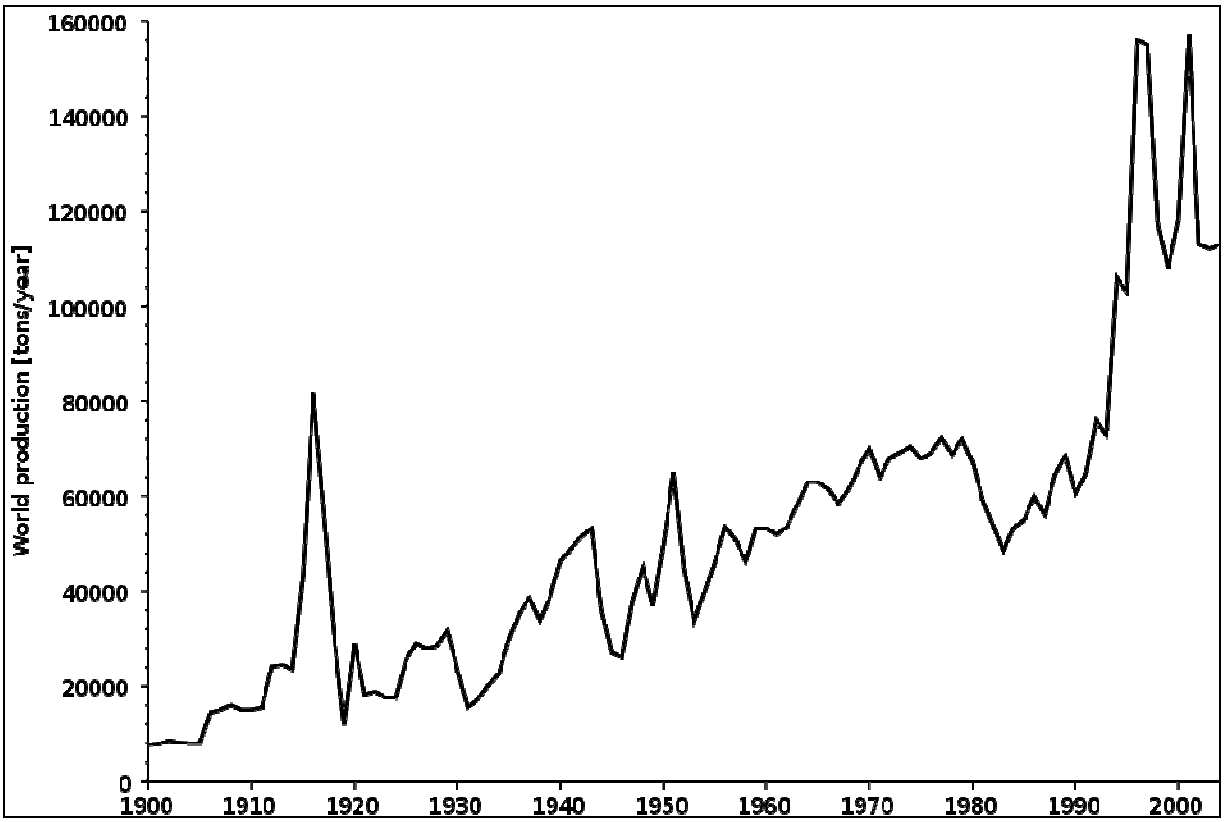
batteries. This use is in decline as the antimony content of typical automotive battery alloys has declined by weight to 1.6%, having been 7% in the past, hence the use of antimony in batteries will reduce further as calcium, aluminium and tin alloys are expected to replace it over time.

Interestingly the latest application of Sb (the flame retardant aspect) allows virtually no recycling.

Production Sources

The Chinese have dominated global Antimony production since the mid-1800s with the possession of some of the most prolific mines in the world and a vast network of refineries (both major and "backyard"). In particular China's place as the largest producer of antimony and its compounds was due to the Xikuangshan Mine in Hunan. However all "good" things must come to an end and the Chinese have staged crackdowns on the more polluting small-scale operators and this has changed not only the Chinese industry but the world Antimony outlook.

The leading firm of specialty metals consultants, Roskill, have estimated that in primary production, in 2010, China held a 76.75% share of world's supply with 120,462 tonnes (90,000 tonnes of reported and 30,464 tonnes of un-reported production), followed by Russia (4.14% share, 6,500 tonnes of production), Myanmar (3.76% share, 5,897 tonnes), Canada (3.61% share, 5,660 tonnes), Tajikistan (3.42% share, 5,370 tonnes) and Bolivia (3.17% share, 4,980 tonnes). Roskill also estimated that secondary production globally in 2010 was 39,540 tonnes.



The preceding chart shows that recent years have seen a rather strong drop-off in production. Reported production of antimony in China fell in 2010 and is unlikely to increase in the coming years, according to Roskill's report. No significant antimony deposits in China have been developed for about ten years, and the remaining economic reserves are being rapidly depleted. This would appear to be a 'sunset" moment for the era of Chinese dominance of this metal.

The fall in production, not unsurprisingly, has coincided with the surge in prices of Sb to over $17,000 per ton in 2010. The price then dropped back to $12,000 per tonne in 2011 before rebounding to around $14,000 per tonne currently. Antimony is out there with Tungsten in having a similarly resilient trend. Both, it might be noted, have a similar dynamic of dramatic over-exploitation by the Chinese combned with long term predatory pricing.

The Players

The universe of Antimony plays is a subject that generates many questions in our direction. This issue though is which of these may be regarded as serious and which as not. There are a number of these companies that are personally known to us.

Antimony Producers (2010)		
(tonnes per year)		Capacity
China	Hsikwangshan Twinkling Star	55,000
China	Hunan Chenzhou Mining	20,000
China	China Tin Group	20,000
China	Shenyang Huacheng Antimony	15,000
Russia	GeoProMining	6,500
Canada	Beaver Brook	6,000
Myanmar	various	6,000
South Africa	Consolidated Murchison	6,000
Tajikistan	Unzob	5,500
Bolivia	various	5,460
Australia	Mandalay Resources	2,750
Turkey	Cengiz & Özdemir Antimuan Madenleri	2,400
Kazakhstan	Kazzinc	1,000
Thailand	unknown	600
Kyrgyzstan	Kadamdzhai	500
Laos	SRS	500
Mexico	US Antimony	70

Beyond Mandalay, we might mention the AIM-listed Ortac Resources (OTC.L) with its Au-Sb property in Slovakia and the similarly listed Tri-Star Resources (TSTR.L), which is little more than an artisanal operation in Turkey thus far. Then there is the TSXV-listed Adroit Resources (ADT.v) with its past producing property in Italy, there is US Antimony (UAMY) which has seen a rapid lift-off in its valuation (though we remain unsure of the merits of this move) and there is the Village Main Reef (VIL-JSE) -owned Central Murchison Mine which has been a prolific producer in South Africa for decades.

GeoProMining is a Russian mining company with a strong presence in the Caucasus while Beaver Brook was quite disgracefully recently allowed to pass into Chinese hands while the rest of the strategic metals

space were flapping their gums about the far less critical REE world. Kazzinc is controlled by Glencore.

Production at Mandalay

To put it bluntly, Mandalay is a marginal player as far as gold and everything else is concerned. Cerro Bayo may be the Great White Hope but all it produced in FY11 was 6,678 ozs of gold and some 1.3mn ozs of silver, which scarcely moves the needle even in these days of high priced gold. Its expectation is for this to more than double to 12,000-16,000 ozs of gold in FY12, but this is not particularly impressive either.

Interestingly the FY11 production numbers for Costerfield, of course, play down the Antimony aspect but when one multiplies the production of 1,576 tonnes of Sb against a price of $14,000 per tonne and compares this to the 12,244 ozs of gold and uses a price of $1,500 per oz, the Sb production comes out worth $4mn more per annum. This fact obviously does not suit the gold-centric dialogue that the company wishes to propagate. The company is projecting Sb production in FY12 of 1,800-2,200 tonnes with gold production of 14,000 to 18,000 ozs of gold. Using the upper ends of these two ranges, Antimony still comes out on top by a margin of $3mn of extra value over the gold production.

Hedging

The accounting in recent times has been fairly nightmarish with wild swings in the bottom line prompted by hedging hits. Why the company should have such heavy hedging when its production is so puny, relatively speaking, is a mystery.

Hedging	
Silver	
50,000 ounces silver put option per month	Oct 11 to Dec 12
(750,000 ounces in total at the price of $25 per ounce)	
100000 ounces silver put option/month	Jan 12 to Dec 12
(1,200,000 ounces in total at $35 per oz)	
70000 ounces silver put option per month	Jan 12 to Dec 12
(840,000 ounces in total at $30 per oz)	
Gold	
2400 ounces gold put option per month	Jan 12 to Dec 12
(28,800 ounces in total at $1,400 per oz	

With an upper estimate of 34,000 ozs of gold production from the two mines in FY12 and 28,800 of that pre-committed to the hedge the vast bulk of the 2012 output is locked in at $1,400 per oz. This represents an underbilling of $200 per oz on a sizeable number of ounces. The negative hit is $5.76mn

presuming the gold price to be $1,600 per oz. Two of the silver hedges look prescient, but the smallest one (volume-wise) represents negative hit, but these all largely net out. The gold is the part of the strategy that looks most feckless.

Earnings Outlook

We are making our own assumptions on the number of matters related to Mandalay's earnings outlook. We are presuming that the unfortunate hedging will be allowed to run out at year-end this leaves the company free to exploit the fluctuations in the gold and silver prices. We are also assuming that Costerfield, short of some major discovery will be producing less in 2013 than in 2012. Antimony mining is hard work with constant effort required to find and follow the veins that are so skinny and diffuse.

As can be noted the revenue stream takes a strong step up in FY12 over FY11. We have used the revenue received for the gold/silver sales rather than tried to calculate the exact hit from the hedging.

We have also factored in more taxation because we can see no reason why the company should not start to pay a realistic tax rate.

We have also factored in a reduction in shares on issue due to the stock buyback. We have Cerro Bayo revenues (and volumes) rising in FY13 against lower Costerfield numbers. This model produces a EPS of 11.6 cts in FY12 and 8.2 cts in FY13. Both are more than respectable when put in context of the current share price, offering a P/E of a mere five times FY12 earnings.

The management seems to be intent upon a stock buyback, when really we would prefer a dividend. We make allowance for payment of a small dividend for this year and the next.

MANDALAY RESOURCES

In Millions of USD

	FY13e	FY12e	4Q12e	3Q12e	2Q12	1Q12	FY11	4Q11	3Q11	2Q11	1Q11	FY10	FY09
Revenue	**145.43**	**160.49**	**47.19**	**46.04**	**46.54**	**20.72**	**92.16**	**24.23**	**26.96**	**24.36**	**16.61**	**20.62**	**0.36**
Antimony	31.50	30.50	8.82	8.68									
Hedged Gold	0.00	40.32	10.08	10.08									
Unhedged Gold	28.81	39.88	2.05	2.16									
Hedged Silver	0.00	79.20	19.80	19.80									
Unhedged Silver	85.12	8.73	6.44	5.32									
Cost of Revenue, Total	69.30	72.64	20.30	19.80	20.71	11.83	50.87	18.28	13.28	12.12	7.51	13.47	0.78
Gross Profit	76.13	87.84	26.89	26.24	25.82	8.89	41.29	5.96	13.69	12.24	9.1	7.15	-0.43
SG & A Expenses	16.5	16.76	4.50	4.40	4.73	3.13	10.89	2.92	3.15	2.73	1.79	6.24	1.26
Depreciation/Amortization	14.7	17.78	4.45	4.60	4.67	4.06	11.91	3.03	3.43	2.54	2.88	3.21	0.12
Unusual Expense (Income)	0	0				-	0	0	0	0	-	1.71	0.09
Total Operating Expense	100.50	107.18	29.25	28.80	30.11	19.03	73.67	24.23	19.85	17.39	12.17	24.63	3.98
Operating Income	44.93	53.31	17.94	17.24	16.43	1.69	18.5	-0.02	7.11	6.97	4.44	-4.01	-3.62
Gain (Loss) on Sale of Assets	0.00	0.00	0.00	0.00	0.00	0.00	-0.34	0	-0.66	0	0.32	0	-
Result on derivatives	0.00	-7.31	0.00	0.00	3.55	-10.857	0.676		-7.271	2.83	-0.977		
Other, Net	-0.99	6.32	1.10	1.00	-0.49	-0.23	-1.666	-0.28	7.021	-3.29	-1.377	-0.47	-
Income Before Tax	43.94	52.32	19.04	18.24	19.48	-10.44	14.03	-3.50	13.18	1.94	2.41	-3.42	-3.52
Tax	13.60	8.12	5.30	4.10	0.24	-1.52	-4.45	-4.46	0	0	0	0	0
Income After Tax	30.34	44.20	13.74	14.14	19.25	-8.92	18.48	0.96	13.18	1.94	2.41	-3.42	-3.52
Diluted Shares on Issue	370	380	380	383	387.94	270.22	300.95	316.97	321.76	309.47	267.86	140.08	20.49
Diluted EPS	0.082	0.116	0.036	0.037	0.050	-0.03	0.06	0.00	0.04	0.01	0.01	-0.02	-0.17
Antimony (tonnes)	2,100	2,351	630	620	612	489		346		413			
Gold (ozs) - Costerfield	14,500	16,292	4,280	4,200	4,122	3,690		2,803		2,856			
Gold (ozs) - Cerro Bayo	18,000	15,833	4,200	4,350	5,093	2,190							
Silver (ozs)	3,040,000	2,951,664	890,000	850,000	814,970	396,694		395,296		284,324			

Management

Braam Jonker, Interim Chairman, Director, is a Chartered Accountant (South Africa and England and Wales) and holds a Masters degree in South African and International Tax from the Rand Afrikaans University. He has over 17 years of extensive accounting and corporate finance experience, mostly in the mining industry. He has worked as a consultant to the mining sector in Africa, spent time with Mwana Africa Plc, and with the corporate finance departments at Anglo American Corporation and PricewaterhouseCoopers. He was the Chief Financial Officer of Cambrian Mining Plc. and was formerly the Chief Financial Officer at Western Coal Corp.

Bradford A. Mills, Chief Executive Officer and a Director, currently holds a directorship with Norilsk Nickel, the world's largest nickel producer and is a founder and the managing director of Plinian Capital. He brings over 30 years of experience in the resource industry to Mandalay, formerly holding the position of CEO of Lonmin plc, the world's number three platinum and PGM producer, and prior to that, served as president of the BHP Billiton's copper group.

Sanjay Swarup, Director, holds a Masters of Business Administration from Cranfield School of Management (Bedfordshire, UK) and is a Chartered Accountant from India with over 20 years' experience in accounting and business consulting, with 10 of those years in the resource industry. He has worked with a range of businesses that including multinationals such as BP plc and Lonmin plc.

Rob Doyle, Director, has over 30 years of experience in all facets of international resource exploration, development and production. He is a director of Golden Star Resources Ltd. and NXA Inc. He was Chief Executive Officer of Medoro Resources, a public company that consolidates and develops gold in Colombia, from 2008 to 2009 and remains currently on its Board of Directors. From 2005 to 2007, Mr. Doyle was the Executive Vice President of Pacific Stratus Energy, the largest independent oil and gas producer in Colombia. He was also Chief Financial Officer and founding partner of Bolivar Gold Corp. from 2003 to 2006.

Peter R. Jones, P. Eng., is a retired mining executive and Professional Engineer with 40 years of experience in senior operational and project positions at coal, gold, base metal and potash mines. 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. He graduated from the Camborne School of Mines, UK. in 1969 and the Banff School of Advanced Management in 1984.

Tony Griffin, also a director, is a Partner with West Face Capital Inc., a Toronto based investment manager. Prior to joining West Face, he was a Managing Director of Amaranth Advisors Canada (ULC). He holds a Bachelor of Commerce from the University of British Columbia.

Risks

The potential risks of an investment in Mandalay that we might envisage are:

- That Antimony prices might return to the levels that prevailed several years ago
- That the Costerfield mine goes into decline. Proving up new resources at thin vein Sb mines is a near impossible task.
- The company continues with hedging policies beyond the end of 2012, when all existing

coverage expires

- That the company eventually ceases to be an Antimony story and becomes just a small scale gold producer with a relatively high cash-cost of over $1,000 per oz.

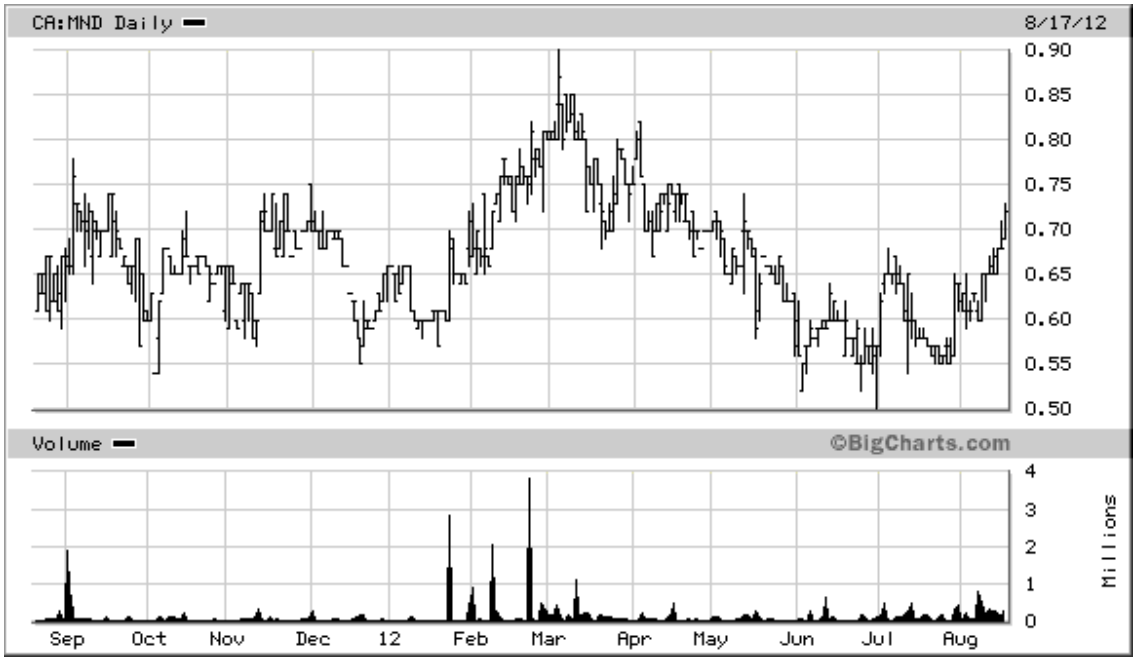
Conclusion

Just when one thought that one had found a pure-play Antimony exposure, it starts to slip away as style-drift sets in. It is clear from the promotional materials on Mandalay that the company just does not "get it" and like so many other Canadian listed players would prefer to pursue the intellectually easy option of talking about gold production and ignoring the heavy lifting of educating the investing population on the attractions for Antimony. However the irony here is that the gold production of Mandalay is scarcely anything to write home about and the stock would not have the market cap that it does if it wasn't for the contribution that Antimony makes and the lure it provides for investors who have any one of hundreds of other plain vanilla gold stocks to pursue.

In eschewing its roots as an Antimony miner, Mandalay is becoming just another ho-hum operator with an international mishmash of operations. The synergies between Chile and Australia are non-existent. The company would appear to be putting no effort into finding a second Antimony property to add to its portfolio. The repeated debacles of the attempts to float the Hillsgrove (otherwise known as ANCOA) property on the ASX would obviously present a perfect opportunity to take some predatory action and turn Straits Resources's misfortunes into a good bargain buy for Mandalay and yet we find again that paralysis of the strategic nerves seems to have set in.

Farther afield there are Antimony properties all over the world that Mandalay could look to add to its portfolio. Several of the Sb wannabes currently find themselves undercapitalized and over stretched and could be taken out with stock-only bids.

We do not regard Mandalay as exciting or far-sighted but it definitely can be categorized as an inexpensive situation in light of its likely EPS over the next 18 months. Thus we would categorize it for now as a **Long** and use it as an Antimony proxy, eventually shifting to another name when a purer play becomes apparent. Our twelve-month target price for Mandalay Resources is CAD 80 cts.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8/17/12
0.90
0.85
0.80
0.75
0.70
0.65
0.60
0.55
0.50
Volume
©BigCharts.com
4
3
2
1
0
Millions
Sep
Oct
Nov
Dec
12
Feb
Mar
Apr
May
Jun
Jul
Aug

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