

Condensed consolidated interim financial statements of

Mandalay Resources Corporation

September 30, 2013
(Unaudited)

Mandalay Resources Corporation

September 30, 2013

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Mandalay Resources Corporation

Condensed consolidated interim statements of income and comprehensive income

three and nine months ended September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Revenue	50,319,270	48,847,630	127,847,455	116,105,859
Cost of operations				
Cost of sales excluding depletion and depreciation (Note 12)	24,995,330	22,046,472	68,038,064	58,065,623
Depletion and depreciation	7,844,204	4,753,815	21,501,185	13,485,782
	32,839,534	26,800,287	89,539,249	71,551,405
Income from mine operations	17,479,736	22,047,343	38,308,206	44,554,454
Expenses				
Administration expense (Note 12)	2,289,099	3,401,757	5,464,990	6,948,814
Business development costs	83,951	-	565,680	-
Share-based compensation (Note 11 (c) and (d))	406,756	475,421	1,353,884	1,312,970
Loss (gain) on disposal of property, plant and equipment	40,264	(50,136)	128,627	(50,136)
Write-off of exploration and evaluation (Note 6)	-	435,709	548,585	435,709
	2,820,070	4,262,751	8,061,766	8,647,357
Income from operations	14,659,666	17,784,592	30,246,440	35,907,097
Other income (expenses)				
Gain (loss) on derivative financial instruments (Notes 14 (a), (b), (c) and (d))	44,045	(4,393,918)	488,800	(11,704,025)
Finance costs (Notes 13)	(239,762)	(893,751)	(631,454)	(2,998,797)
Interest and other income	144,265	329,059	323,354	605,114
Foreign exchange gain (loss)	(405,729)	(185,401)	428,884	(125,548)
	(457,181)	(5,144,011)	609,584	(14,223,256)
Income before income taxes	14,202,485	12,640,581	30,856,024	21,683,841
Income taxes expense (recovery) (Note 16)				
Current	1,613,238	2,919,833	6,076,344	3,355,466
Deferred	1,590,596	709,740	(227,878)	(1,008,817)
	3,203,834	3,629,573	5,848,466	2,346,649
Net income for the period	10,998,651	9,011,008	25,007,558	19,337,192
Other comprehensive income				
Item that may subsequently be reclassified to income (loss)				
Foreign currency translation	1,235,814	806,956	(6,246,422)	625,170
Comprehensive income for the period	12,234,465	9,817,964	18,761,136	19,962,362
Income per share (Note 17)				
Basic	0.03	0.03	0.08	0.07
Diluted	0.03	0.03	0.07	0.05
Weighted average number of common shares outstanding (Note 17)				
Basic	323,891,112	317,003,125	324,572,516	289,485,862
Diluted	339,562,161	357,613,511	343,443,554	377,568,092

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of financial position as at September 30, 2013 and December 31, 2012

(Unaudited)
(Expressed in U.S. dollars)

	September 30, 2013	December 31, 2012
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	27,678,542	17,264,446
Trade and other receivables (Note 4)	24,117,081	28,793,143
Inventories (Note 5)	16,442,284	14,177,346
Prepaid expenses and other	722,031	585,639
Derivative financial instruments (Note 14 (d))	193,834	-
	69,153,772	60,820,574
Reclamation and other deposits	2,263,371	2,666,249
Other receivables (Note 4)	390,906	382,460
Property, plant and equipment (Note 6)	112,255,952	108,945,171
Intangible asset (Note 7)	872,881	1,246,984
Deferred tax asset (Note 16)	10,304,825	11,229,246
	126,087,935	124,470,110
	195,241,707	185,290,684
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	10,144,252	12,928,798
Current income tax liabilities	6,486,918	5,290,064
Provisions (Note 10)	2,541,476	2,284,229
Derivative financial instruments (Notes 14 (b) and (c))	632,589	2,219,707
	19,805,235	22,722,798
Reclamation and site closure costs	17,168,213	17,145,695
Provisions (Note 10)	3,122,684	2,343,293
	20,290,897	19,488,988
	40,096,132	42,211,786
Equity		
Share capital (Note 11)	90,030,429	88,634,701
Share option reserve (Note 11)	8,101,960	7,332,054
Warrants reserve (Note 11)	1,088,728	1,251,752
Foreign currency translation reserve	(4,078,737)	2,167,685
Retained earnings	60,003,195	43,692,706
	155,145,575	143,078,898
	195,241,707	185,290,684

Approved and authorized for issue by the Board on November 5, 2013.

(Signed) Bradford A. Mills

Bradford A. Mills, Director

(Signed) Robert Doyle

Robert Doyle, Director

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity nine months ended September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
		\$	\$	\$	\$	\$	\$
Balance, December 31, 2012	322,187,153	88,634,701	7,332,054	1,251,752	2,167,685	43,692,706	143,078,898
Stock options exercised (Note 11 (b))	912,500	544,232	(289,904)	-	-	-	254,328
Share-based compensation (Note 11 (c) and (d))	-	-	1,257,166	-	-	-	1,257,166
Warrants exercised (Note 11 (e))	2,600,000	1,390,856	-	(163,024)	-	-	1,227,832
Normal course issuer bid (Note 11 (f)(i))	(1,832,100)	(539,360)	-	-	-	(913,356)	(1,452,716)
Amendment of stock option plan (Note 11 (b))	-	-	(197,356)	-	-	-	(197,356)
Dividends paid (Note 11 (g))	-	-	-	-	-	(7,783,713)	(7,783,713)
Total comprehensive income for the period	-	-	-	-	(6,246,422)	25,007,558	18,761,136
Balance, September 30, 2013	323,867,553	90,030,429	8,101,960	1,088,728	(4,078,737)	60,003,195	155,145,575

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Retained earnings	Total equity
		\$	\$	\$	\$	\$	\$
Balance, December 31, 2011	270,177,075	79,665,838	6,796,248	4,543,207	1,674,415	6,291,258	98,970,966
Warrants exercised	12,601,600	4,586,704	-	(380,101)	-	-	4,206,603
Share options exercised	594,500	371,643	(189,968)	-	-	-	181,675
Normal course issuer bid	(1,942,500)	(531,061)	-	-	-	(951,510)	(1,482,571)
Share-based compensation	-	-	1,312,970	-	-	-	1,312,970
Warrants exchange offer	-	-	-	4,870,724	-	(5,805,908)	(935,184)
Issuance of common share in exchange for warrants	35,795,052	6,612,664	-	(6,612,664)	-	-	-
Total comprehensive income for the period	-	-	-	-	625,170	19,337,192	19,962,362
Balance, September 30, 2012	317,225,727	90,705,788	7,919,250	2,421,166	2,299,585	18,871,032	122,216,821

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows

three and nine months ended September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Operating activities				
Net income for the period	10,998,651	9,011,008	25,007,558	19,337,192
Adjustments to reconcile income to net cash used by operating activities				
Amortization of intangible assets	124,701	42,397	374,103	42,397
Depletion and depreciation	7,851,849	4,760,697	21,524,465	13,508,859
Share-based compensation	406,756	475,421	1,353,884	1,312,970
Loss (gain) on disposal of property, plant and equipment	40,264	(50,136)	128,627	(50,136)
Write-off of exploration and evaluation	-	435,709	548,585	435,709
(Gain) loss on derivative financial instruments	(44,045)	4,393,918	(488,800)	11,704,025
Finance costs	239,762	893,751	631,454	2,998,797
Interest and other income	(144,265)	(329,059)	(323,354)	(605,114)
Foreign exchange loss (gain)	437,996	367	(312,938)	(102,151)
Income tax expense (recovery)	3,203,834	3,629,573	5,848,466	2,346,649
Derivative financial instruments	-	1,657,000	-	1,657,000
Changes in non-cash operating working capital items				
Trade and other receivables	(8,571,395)	(9,314,746)	4,523,212	(18,104,438)
Inventories	2,351,489	(1,456,639)	(2,685,811)	(3,936,434)
Prepaid expenses and other	317,787	212,687	(138,920)	(508,588)
Trade and other payables	(2,293,114)	453,660	(2,011,866)	4,572,333
Provisions	383,424	(29,174)	1,298,852	791,752
	15,303,694	14,786,434	55,277,517	35,400,822
Tax paid	-	-	(4,879,490)	-
Interest paid	(67,577)	(251,520)	(165,479)	(962,568)
Interest and other income received	144,265	329,071	323,354	605,138
	15,380,382	14,863,985	50,555,902	35,043,392
Investing activities				
Expenditure for reclamation	(45,308)	(26,391)	45,092	(757,336)
Expenditure for property, plant and equipment	(8,958,085)	(11,377,722)	(30,450,932)	(31,520,656)
Proceeds on disposal of property, plant and equipment	34,530	68,770	133,919	68,770
Proceeds from derivative financial instruments	-	1,416,900	-	3,950,700
Payment for intangible assets	-	-	-	(1,414,082)
	(8,968,863)	(9,918,443)	(30,271,921)	(29,672,604)
Financing activities				
Payment for settlement of financing warrants	-	(139,578)	(1,339,340)	(139,578)
Issuance of common shares for cash	23,870	193,557	1,482,160	4,388,277
Exercise of stock options by cash election	-	-	(218,784)	-
Purchase of common shares for cancellation	(343,176)	(1,062,904)	(1,452,716)	(1,482,571)
Dividends paid	(2,151,365)	-	(7,783,713)	-
Proceeds from borrowings	-	3,000,000	-	10,998,300
Repayment of borrowings	-	(11,851,758)	-	(25,402,022)
	(2,470,671)	(9,860,683)	(9,312,393)	(11,637,594)
Effects of exchange rate changes on the balance of cash held in foreign currencies	(164,362)	139,001	(557,492)	(27,104)
Increase (decrease) in cash and cash equivalents	3,776,486	(4,776,140)	10,414,096	(6,293,910)
Cash and cash equivalents, beginning of period	23,902,056	11,223,684	17,264,446	12,741,454
Cash and cash equivalents, end of period	27,678,542	6,447,544	27,678,542	6,447,544
Cash and cash equivalents are comprised of				
Cash	14,328,978	2,864,004	14,328,978	2,864,004
Cash equivalents	13,349,564	3,583,540	13,349,564	3,583,540
	27,678,542	6,447,544	27,678,542	6,447,544
Supplemental cash flow information				
Non-cash financial and investing activities				
Purchase of plant and equipment with equipment loan	-	-	-	3,032,602
Purchase of land in exchange for other asset	-	-	27,369	-
Issuance of common shares in exchange for warrants	-	6,612,664	-	6,612,664

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

1. Description of business and nature of operations

Mandalay Resources Corporation ("Mandalay" or the "Company") and its wholly-owned subsidiaries is a gold, silver and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay's assets are comprised of the Costerfield gold and antimony mine in Australia ("Mandalay Australia"), the Cerro Bayo silver and gold mine in Chile ("Cerro Bayo") as well as other exploration projects in Chile.

Mandalay is incorporated in British Columbia, Canada. The Company's shares are listed on the Toronto Stock Exchange ("TSX"). The head office and principal address of the Company is 76 Richmond Street East, Suite 330, Toronto, Canada, M5C 1P1. The Company's registered office is located at 1900 - 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if there view affects both current and future periods.

Judgments made by management in the application of International Financial Reporting Standards ("IFRS") that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in Note 2 (s), of the Company's audited consolidated financial statements for the year ended December 31, 2012.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2012. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012.

New accounting pronouncement

(a) IFRS effective for annual periods beginning on or after January 1, 2013

Effective January 1, 2013, the Company adopted new and revised International Financial Reporting Standards that were issued by the International Accounting Standards Board ("IASB"). The application of the following IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

New accounting pronouncement (continued)

(a) IFRS effective for annual periods beginning on or after January 1, 2013 (continued)

- *Amended standard IFRS 7 Financial Instruments: Disclosures*
The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities.
- *New standard IFRS 10 Consolidated Financial Statements*
IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements.
- *New standard IFRS 11 Joint Arrangements*
IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement.
- *New standard IFRS 12 Disclosure of Interests in Other Entities*
IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity's interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity's financial position, financial performance and cash flows.
- *New standard IFRS 13 Fair Value Measurement*
IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements.
- *New interpretation IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine*
IFRIC Interpretation 20 summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.
- *Amended standard IAS 19 Employee Benefits*
IAS 19 outlines the accounting treatment and required disclosures for employee benefits. The amendments mainly pertain to revised requirements for pension and other post-retirement benefits, termination benefits and other changes.
- *Amended standard IAS 27 Separate Financial Statements*
IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non-consolidated, financial statements. The previous standard was titled IAS 27 Consolidated and Separate Financial Statements.
- *Amended standard IAS 28 Investments in Associates and Joint Ventures*
IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting in investments in associates and joint ventures. The previous standard was titled IAS 28 Investments in Associates.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

New accounting pronouncement (continued)

(a) *IFRS effective for annual periods beginning on or after January 1, 2013 (continued)*

- Amended standard IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 clarify the treatment of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

(b) *Accounting standards issued but not yet effective*

The Company has not early adopted these new and amended standards. No material impact is expected as a result of the adoptions of these new and amended standards.

(i) Effective for annual periods beginning on or after January 1, 2014

- Amended standard IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities.

- New interpretation IFRIC 21 *Levies*

The interpretation provides guidance on recognition of a liability for a levy imposed by a government.

(ii) Effective for annual periods beginning on or after January 1, 2015

- Amended standard IFRS 7 *Financial Instruments: Disclosures*

The amendments to IFRS 7 outlines the disclosures required when initially applying IFRS 9 Financial Instruments.

(iii) Effective date not determined yet

- New standard IFRS 9 *Financial Instruments*

Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement

4. Trade and other receivables

Trade and other receivables are comprised of the following:

	September 30, 2013	December 31, 2012
	\$	\$
Trade receivables	20,898,050	25,834,771
VAT and other indirect tax receivables	2,956,123	2,856,547
Other receivables	653,814	484,285
	24,507,987	29,175,603
Less: non-current portion	390,906	382,460
Current portion	24,117,081	28,793,143

The allowance for doubtful accounts was \$Nil at September 30, 2013 and \$Nil for December 31, 2012.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract. This marked-to-market adjustment is recorded as an adjustment to revenue and trade receivables.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

5. Inventories

	September 30, 2013	December 31, 2012
	\$	\$
Finished goods	6,796,951	6,370,235
Work-in-progress and stockpiled ore	1,066,491	808,842
Consumables	8,578,842	6,998,269
	16,442,284	14,177,346

The amount of inventories recognized in cost of sales for three and nine months ended September 30, 2013 is \$32,839,534 and \$89,539,249 respectively (2012 - \$26,800,287 and \$71,551,405).

There were no inventory write-downs or reversals of write-downs during the three and nine months ended September 30, 2013 or 2012.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

6. Property, plant and equipment

Property, plant and equipment consist of the following:

	Mining interests			Plant and equipment			Exploration and evaluation			Total
	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
As at December 31, 2011	20,158,993	28,383,871	-	17,219,396	13,605,205	183,775	3,862,685	513,401	11,449,635	95,376,961
Additions	7,964,203	5,024,211	-	7,870,833	17,516,472	408,072	5,132,931	4,793,105	2,298,167	51,007,994
Disposals	-	-	-	(278,213)	(2,094,215)	(2,874)	-	-	-	(2,375,302)
Reclassification to mining interest	1,473,923	-	-	-	-	-	(1,473,923)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	(271,390)	(1,316,401)	-	(1,587,791)
Foreign exchange	115,481	-	-	289,715	-	3,688	114,986	-	217,815	741,685
As at December 31, 2012	29,712,600	33,408,082	-	25,101,731	29,027,462	592,661	7,365,289	3,990,105	13,965,617	143,163,547
Additions	7,171,656	7,433,194	-	4,444,309	5,713,141	-	3,769,804	1,729,591	857,573	31,119,268
Disposals	-	-	-	(912,819)	(846,554)	-	-	-	-	(1,759,373)
Reclassification to mining interest	5,440,835	-	-	-	-	-	(5,440,835)	-	-	-
Write-off of exploration and evaluation	-	-	-	-	-	-	(78,805)	(469,780)	-	(548,585)
Foreign exchange	(2,395,113)	-	-	(2,762,136)	-	(5,738)	(824,483)	-	(344,705)	(6,332,175)
As at September 30, 2013	39,929,978	40,841,276	-	25,871,085	33,894,049	586,923	4,790,970	5,249,916	14,478,485	165,642,682
Accumulated depreciation										
As at December 31, 2011	4,676,500	4,381,186	-	3,064,873	4,097,277	57,674	-	-	-	16,277,510
Expense	3,307,814	3,972,104	-	2,736,291	9,978,718	41,256	-	-	-	20,036,183
Disposals	-	-	-	(120,323)	(2,087,345)	(1,232)	-	-	-	(2,208,900)
Foreign exchange	61,944	-	-	50,325	-	1,314	-	-	-	113,583
As at December 31, 2012	8,046,258	8,353,290	-	5,731,166	11,988,650	99,012	-	-	-	34,218,376
Expense	7,594,364	8,103,209	-	2,176,577	4,256,526	34,756	-	-	-	22,165,432
Disposals	-	-	-	(597,304)	(835,490)	-	-	-	-	(1,432,794)
Foreign exchange	(882,899)	-	-	(678,285)	-	(3,100)	-	-	-	(1,564,284)
As at September 30, 2013	14,757,723	16,456,499	-	6,632,154	15,409,686	130,668	-	-	-	53,386,730
Carrying value										
As at December 31, 2012	21,666,342	25,054,792	-	19,370,565	17,038,812	493,649	7,365,289	3,990,105	13,965,617	108,945,171
As at September 30, 2013	25,172,255	24,384,777	-	19,238,931	18,484,363	456,255	4,790,970	5,249,916	14,478,485	112,255,952

For three and nine months ended September 30, 2013, Cerro Bayo's plant and equipment depreciation of \$203,215 and \$640,967 respectively were capitalized in mining interest (2012 - \$148,000 and \$492,286).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

7. Intangible asset

In September 2012, the Company reached an agreement with its union workers in Chile and paid a lump-sum cash payment of \$1,414,082 to secure the contract. This payment is recorded as an intangible asset and amortized over the contractual life of the three-year union agreement. The carrying amount of the union payment as at September 30, 2013 is \$872,881 (December 31, 2012 - \$1,246,984). Amortization expense for the three and nine months ended September 30, 2013 of \$124,701 and \$374,103 respectively (2012 - \$42,397 and \$42,397) is recorded as part of cost of sales.

8. Trades and other payables

	September 30, 2013	December 31, 2012
	\$	\$
Trade payables	3,690,613	5,149,999
Accrued liabilities	5,281,408	7,108,259
Payroll and other taxes payable	1,172,231	670,540
	10,144,252	12,928,798

The average credit period of purchases is one month. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

9. Borrowings

On June 28, 2013, the Company amended its secured revolving corporate loan facility (the "Corporate Facility") arranged by BMO Capital Markets originally entered into on May 30, 2012. Under the Amendment, the Corporate Facility's credit limit has been increased from \$20 million to \$30 million up to and including June 30, 2014 and will reduce to \$20 million thereafter. In addition, the maturity date of the Corporate Facility has been extended to June 30, 2015. The Corporate Facility is for general corporate purposes, including working capital, capital expenditures and certain acquisitions. It is subject to an interest rate of the lender's borrowing cost (LIBOR) plus a variable margin between 2.25% and 3.25%. Unused credit facility balances are subject to a standby fee at the rate of 0.75%. The Corporate Facility is secured by all the assets held by the Company. As at September 30, 2013, the Company had not drawn down any portion of the Corporate Facility (December 31, 2012 - \$Nil).

10. Provisions

	Employee benefit (i)	Severance payment (ii)	Total
	\$	\$	\$
Balance, December 31, 2012	2,425,168	2,202,354	4,627,522
Additions	1,821,837	1,070,194	2,892,031
Amounts paid	(1,340,587)	(179,587)	(1,520,174)
Foreign exchange	(182,210)	(153,009)	(335,219)
Balance, September 30, 2013	2,724,208	2,939,952	5,664,160
Less: current portion	2,541,476	-	2,541,476
Non-current portion	182,732	2,939,952	3,122,684

(i) Costerfield and Cerro Bayo provide for vacation provisions for their current employees in accordance with statutory requirements.

(ii) Cerro Bayo provides for certain severance payments in accordance with statutory requirements.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

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(Unaudited)

(Expressed in U.S. dollars)

11. Share capital

At September 30, 2013, the Company had unlimited authorized common shares without par value and 323,867,553 common shares outstanding (December 31, 2012 - 322,187,153 common shares). All outstanding shares are fully paid.

(a) Shares issued for cash

For the three and nine months ended September 30, 2013, the Company issued its common shares upon exercise of share options and warrants by their holders (Note 11 (b) and (c)).

(b) Stock options

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over two to three years and have a maximum term of seven years from the date of grant.

The Company has amended its stock option plan whereby option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's share at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. As a result of this stock option plan amendment, the Company reclassified \$197,356 from share option reserve to derivative financial instruments. Subsequently, the liability is remeasured at fair value. For the three and nine months ended September 30, 2013, the remeasurement adjustment of (\$22,820) and (\$80,855) is included in loss on derivative financial instruments (Note 14 (c)).

During the three and nine months ended September 30, 2013, the Company paid \$Nil and \$218,784 upon exercise of Nil and 425,000 stock options under the cash election option. As at September 30, 2013, 1,915,000 stock options with the cash election option are outstanding.

	Number of options	Weighted average exercise price C\$
Balance, January 1, 2012	13,710,966	0.40
Granted	4,092,500	0.83
Forfeited	(130,000)	0.55
Expired	(114,380)	0.50
Exercised	(3,929,086)	0.26
Balance, December 31, 2012	13,630,000	0.57
Granted	4,287,500	1.13
Forfeited	(217,500)	0.43
Expired	(100,000)	0.50
Exercised - equity issuance	(912,500)	0.29
Exercised - cash election	(425,000)	0.56
Balance, September 30, 2013	16,262,500	0.73

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11. Share capital (continued)

(b) Stock options (continued)

The following table summarizes information about the stock options outstanding at September 30, 2013:

Number of stock options outstanding	Options outstanding		Options exercisable	
	Weighted average remaining contractual life (years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price C\$
1,110,000	1.91	0.26	1,097,500	0.26
1,550,000	1.19	0.26	1,550,000	0.26
50,000	1.94	0.31	37,500	0.31
300,000	2.02	0.33	225,000	0.33
100,000	1.96	0.34	75,000	0.34
3,502,500	2.45	0.56	3,502,500	0.56
370,000	2.53	0.58	370,000	0.58
490,000	3.17	0.70	-	0.70
450,000	2.76	0.76	450,000	0.76
4,052,500	3.44	0.83	-	0.83
4,287,500	4.47	1.13	-	1.13
16,262,500	3.09	0.73	7,307,500	0.45

(c) Share-based compensation

For the three and nine months ended September 30, 2013, the Company recorded \$406,756 and \$1,353,884 (2012 - \$475,421 and \$1,312,970) as share-based compensation expense and recorded this amount in share option reserve. The value was determined using the Black-Scholes option pricing model. A weighted average grant-date fair value was C\$1.13 and C\$1.13 (2012 - C\$0.83 and C\$0.83) for the three and nine months ended September 30, 2013 respectively, and was calculated using the following weighted average assumption. Expected stock price volatility is based on the Company's historical share price volatility.

No share options were granted during the three months ended September 30, 2013, and 2012.

	Nine months ended September 30,	
	2013	2012
Risk free interest rate	1.13%	1.49%
Expected dividend yield	3.64%	Nil
Expected option life (years)	5.00	5.00
Expected stock price volatility	81%	91%
Expected annual forfeiture rate	5%	5%

Mandalay Resources Corporation

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(Unaudited)

(Expressed in U.S. dollars)

11. Share capital (continued)

(d) Restricted Share Unit Awards

During the nine months ended September 30, 2013, the Company adopted a Restricted Share Unit Plan (the "RSU Plan") and granted Restricted Share Units ("RSUs") to certain directors. Under the RSU Plan, those directors granted RSUs will receive the Company's common shares at no cost at the end of vesting periods which are based on graded vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company's dividend declarations during the vesting period. The RSU value is determined based on the fair value of the Company's share at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve.

The number of RSUs as at September 30, 2013 is as follows:

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

For the three and nine months ended September 30, 2013, the company recorded \$38,007 and \$45,103, respectively, (2012 - \$Nil and \$Nil) as share based compensation relating to RSUs.

(e) Share purchase warrants

A summary of the changes in share purchase warrants is presented below:

	Number of warrants	Weighted average exercise price C\$
Balance, January 1, 2012	105,379,312	0.38
Exercised	(14,471,600)	0.34
Exchanged for common shares	(67,297,777)	0.39
Expired	(9,935)	0.33
Balance, December 31, 2012	23,600,000	0.37
Exercised	(2,600,000)	0.47
Balance, September 30, 2013	21,000,000	0.36

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11. Share capital (continued)

(e) Share purchase warrants (continued)

The following table summarizes information about outstanding and exercisable share purchase warrants at September 30, 2013:

Number of warrants	Exercise price C\$	Expiry date
6,350,000	0.47	November 30, 2014
14,650,000	0.31	November 30, 2014
21,000,000	0.36	

(f) Normal Course Issuer Bid ("NCIB")

(i) 2012 NCIB

On October 15, 2012, the TSX approved the Company's notice of intention to make an NCIB (the "2012 NCIB"). Pursuant to the 2012 NCIB, the Company may purchase up to 15,856,786 common shares, issued and outstanding as of October 3, 2012. Purchases will be made, at the discretion of the Company at prevailing market prices, commencing October 17, 2012 and ending October 16, 2013. Pursuant to TSX policies, daily purchases made by the Company will not exceed 57,089 common shares. The shares acquired under the NCIB will be cancelled upon their purchases.

Under the 2012 NCIB, the Company repurchased 453,500 and 1,832,100 common shares at an average price of C\$0.79 and C\$0.82 at a cost of \$343,176 and \$1,452,716 (C\$358,711 and C\$1,503,165) during three and nine months ended September 30, 2013 respectively. The excess of the purchase price over the average stated value of shares purchased for cancellation in the amount of \$209,667 and \$913,356 (C\$220,254 and C\$943,812), respectively, were charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a date shortly thereafter.

(ii) 2011 NCIB

In October 2011, the Company entered into an NCIB (the "2011 NCIB"). The 2011 NCIB covered the period of October 17, 2011 to October 16, 2012. Pursuant to the 2011 NCIB, the Company was authorized by the TSX to purchase up to 13,501,078 common shares and 1,970,965 common share purchase warrants. Purchases were made at the discretion of the Company at prevailing market prices, commencing October 17, 2011 and ending October 16, 2012. Pursuant to TSX policies, daily purchases made by the Company did not exceed 53,433 common shares and 6,084 common share purchase warrants. The shares acquired under the NCIB will be cancelled upon their purchases.

Under the 2011 NCIB, the Company repurchased 1,312,000 and 1,942,500 common shares at an average price of C\$0.80 and C\$0.76 at a cost of C\$1,062,904 and C\$1,482,571 (C\$1,045,630 and C\$1,471,405) during three and nine months ended September 30, 2012 respectively. The excess of the purchase price over the average stated value of shares purchased for cancellation in the amount of C\$717,458 and C\$951,510 (C\$685,204 and C\$918,483) respectively were charged to retained earnings. The Company ceased to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurred on a date shortly thereafter.

Mandalay Resources Corporation

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(Expressed in U.S. dollars)

11. Share capital (continued)

(g) Dividends

On February 20, 2013, May 14, 2013 and August 8, 2013, the Board of Directors declared dividends in the amount of C\$0.01, C\$0.00769 and C\$0.0069 per common share respectively, based on the Company's operating results for the three month period ended December 31, 2012, March 31, 2013 and June 30, 2013, respectively, payable to shareholders of record as of March 7, 2013, May 24, 2013 and August 19, 2013. Total payment of \$2,151,365 and \$7,783,713 was made during the three and nine months ended September 30, 2013 (2012 - \$Nil).

12. Cost of sales

The cost of sales for the three and nine months ended September 30, 2013 and 2012 consists of:

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
Raw materials and consumables	6,594,941	6,748,177	22,906,025	21,336,107
Salary and employee benefits	9,305,095	9,687,687	26,999,759	24,971,246
Contractors	2,373,831	2,564,851	4,292,191	3,618,349
Change in inventories	(84,251)	(1,727,649)	(3,262,009)	(3,631,434)
Royalty	684,110	124,569	1,117,834	495,186
Others	6,121,604	4,648,837	15,984,264	11,276,169
	24,995,330	22,046,472	68,038,064	58,065,623

During the three and nine months ended September 30, 2013, the Company determined that an adjustment was required to the amounts previously presented as administration expense for its two operating mines. As such, certain items previously presented as administration expense are now presented within cost of operations. The Company has made these adjustments retrospectively and the table below shows the impact of these adjustments for the comparative three and nine months ended September 30, 2012 and for the years ended December 31, 2012 and 2011.

	Three months ended		Nine months ended		Year ended		Year ended	
	September 30, 2012		September 30, 2012		December 31, 2012		December 31, 2011	
	As previously presented	As adjusted						
	\$	\$	\$	\$	\$	\$	\$	\$
Cost of operations	19,999,088	22,046,472	52,541,785	58,065,623	76,540,792	84,502,152	50,872,196	55,394,044
Administration expense	5,449,141	3,401,757	12,472,652	6,948,814	15,329,765	7,368,405	9,278,068	4,756,200

The adjustment had no impact on the previously reported net income, basic and diluted income per share, consolidated statements of financial position, changes in equity, or cash flows.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

13. Finance costs

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Interest on borrowings, including credit facility stand-by fees	132,666	335,894	308,282	1,779,769
Fair value adjustment on silver contract	-	319,215	-	514,062
Accretion of reclamation and site closure costs	107,096	238,642	323,172	704,966
	239,762	893,751	631,454	2,998,797

14. Derivative financial instruments

	September 30,	December 31,
	2013	2012
	\$	\$
Currency option (d)	193,834	-
Finance warrants (b)	(476,614)	(2,219,707)
Cash election option (c)	(155,975)	-
	(632,589)	(2,219,707)
	(438,755)	(2,219,707)

(a) Silver and gold put options

During the year ended December 31, 2011, 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 \$4,393,918 and \$11,704,025 for the three and nine months ended September 30, 2012.

As at September 30, 2013 and December 31, 2012, no silver or gold put options were outstanding. No gain or loss was recorded for the three and nine months ended September 30, 2013.

(b) Financing warrants

During the year ended December 31, 2012, the Company reached an agreement to issue 3,050,000 warrants to specific service providers as considerations for financing and other services the Company received in prior years ("financing warrants").

These financing warrants have an exercise price of \$0.31 and expire on November 30, 2014. The service providers have the ability to require the Company to settle in cash, based on the Company's share price at the date of settlement.

These financing warrants are accounted for as a liability and are marked to market at each period end until they are exercised or expire.

During the three and nine months ended September 30, 2013, Nil and 1,647,000 financing warrants (2012 - 420,900 and 420,900) were exercised with a cash settlement of \$Nil and \$1,339,340, respectively (2012 - \$139,578 and \$139,578). As at September 30, 2013, 982,100 financing warrants (2012 - 2,629,100) valued at \$476,614 (December 31, 2012 - \$2,219,707) are outstanding. The Company recorded a fair value measurement (loss) gain of (\$122,962) and \$379,828 for the three and nine months ended September 30, 2013 (2012 - \$1,657,000 and \$1,657,000), which is reported in gain (loss) on derivative financial instruments.

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

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14. Derivative financial instruments (continued)

(c) Cash election option (stock option)

The Company has amended its stock option plan whereby option holders resident in Australia became entitled for the cash election option in addition to the existing share purchase option (Note 11 (b)).

As a result of this stock option plan amendment, the Company reclassified \$197,356 for share option reserve to derivative financial instruments. Subsequently, the liability is remeasured at fair value.

As at September 30, 2013, the liability is \$155,975. The Company recognized a fair value measurement loss of (\$22,820) and (\$80,855) for the three and nine months ended September 30, 2013 (2012 - \$Nil).

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumption. The fair value is determined based on Level 1 and 2 inputs as follows:

	September 30, 2013
Risk free interest rate	1.30%
Expected dividends yield	3.64%
Expected option life (years)	1.68
Expected stock price volatility	68.9%
Expected forfeiture rate	0%

(d) Currency option

On July 25, 2013 the Company's Australian subsidiary entered into 50% participating forward contracts for A\$33 million (A\$3 million per month) starting August 2013 and ending June 2014. These contracts allow the Company to buy, monthly for 11 months starting August 2013, A\$3 million at US\$1=A\$1.07526 (the "contract rate"), if the Australian dollar is stronger than the contract rate, or A\$1.5 million at the contract rate and A\$1.5 million at the spot rate if the Australian dollar is weaker than the contract rate. The derivative financial instruments are stated at fair value with any resulting gain or loss recognized in profit or loss. The Company recorded a fair value measurement gain of \$189,827 for the three and nine months ended September 30, 2013.

Mandalay Resources Corporation

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15. Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables (non-provisional pricing portion), reclamation and other deposits, and trade and other payables approximate their carrying value due to the nature of these items.

The Company has certain financial assets and liabilities that are measured at fair value. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at September 30, 2013, provisional pricing feature of trade receivables, financing warrants, cash election option and currency option are measured on a recurring basis and based on Level 2 inputs.

16. Income tax

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 carryforward of tax losses and tax credits. 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.

During the three months ended September 30, 2013, the Company utilized \$1,590,596 of a deferred tax asset, which consists of \$1,102,166 and \$488,430 for Mandalay Australia and Cerro Bayo, respectively. During the nine months ended September 30, 2013, Cerro Bayo recognized \$1,852,107 as a deferred tax asset, whereas Mandalay Australia utilized \$1,624,229 of the deferred tax assets.

17. Income per share

As at September 30, 2013, the weighted average number of common shares for the purpose of diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Basic weighted average number of shares outstanding	323,891,112	317,003,125	324,572,516	289,485,862
Effect of dilutive securities				12,328,197
Stock options	3,461,337	12,657,711	5,091,892	75,754,033
Warrants	11,908,184	27,952,675	13,658,851	-
RSU	301,528	-	120,295	-
Diluted weighted average number of shares outstanding	339,562,161	357,613,511	343,443,554	377,568,092

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17. Income per share (continued)

The following potential stock options are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purpose of diluted income per share calculation because their exercise price exceeded the daily weighted average market values of the common shares for the three and nine months ended September 30, 2013 of C\$0.83 and C\$1.03 (three and nine months ended September 30, 2012 - C\$0.72 and C\$0.70), respectively:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Stock options	8,340,000	4,542,500	4,287,500	5,032,500

18. Segmented information

The Company manages its operations by geographical location. These reportable operating segments are summarized in the table below:

	Three months ended September 30, 2013			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	17,869,985	-	32,449,285	50,319,270
Depletion and depreciation (including corporate office depreciation)	(4,047,963)	(7,645)	(3,796,241)	(7,851,849)
Income (loss) from operations	4,654,701	(1,538,424)	11,543,389	14,659,666
Other income (expense), except for fair value adjustments on derivative financial instruments	(354,273)	143,356	(290,309)	(501,226)
Income (loss) from underlying operations	4,300,428	(1,395,068)	11,253,080	14,158,440
Income from underlying operations per share				
Basic				0.04
Diluted				0.04
Fair value adjustments				
Financing warrants (Note 14 (b))	-	(122,962)	-	(122,962)
Cash election option (Note 14 (c))	-	(22,820)	-	(22,820)
Currency option (Note 14 (d))	189,827	-	-	189,827
Total fair value adjustments	189,827	(145,782)	-	44,045
Net income (loss) before income tax	4,490,255	(1,540,850)	11,253,080	14,202,485
Current tax expense	-	-	(1,613,238)	(1,613,238)
Deferred tax recovery	(1,102,166)	-	(488,430)	(1,590,596)
Net income (loss)	3,388,089	(1,540,850)	9,151,412	10,998,651
Income per share				
Basic				0.03
Diluted				0.03
Cash expenditures for property, plant and equipment	5,063,844	-	3,894,241	8,958,085
Total non-current assets as at September 30, 2013	58,118,665	9,753,712	58,215,558	126,087,935
Total assets as at September 30, 2013	71,285,633	16,473,594	107,482,480	195,241,707
Total liabilities as at September 30, 2013	8,002,145	2,156,165	29,937,822	40,096,132

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18. Segmented information (continued)

	Nine months ended September 30, 2013			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	51,061,488	-	76,785,967	127,847,455
Depletion and depreciation (including corporate office depreciation)	(9,770,941)	(23,280)	(11,730,244)	(21,524,465)
Income (loss) from operations	9,483,858	(3,900,765)	24,663,347	30,246,440
Other income (expense), except for fair value adjustments on derivative financial instruments	(671,172)	1,157,028	(365,072)	120,784
Income (loss) from underlying operations	8,812,686	(2,743,737)	24,298,275	30,367,224
Income from underlying operations per share				
Basic				0.09
Diluted				0.09
Fair value adjustments				
Financing warrants (Note 14 (b))	-	379,828	-	379,828
Cash election option (Note 14 (c))	-	(80,855)	-	(80,855)
Currency option (Note 14 (d))	189,827	-	-	189,827
Total fair value adjustments	189,827	298,973	-	488,800
Net income before income tax	9,002,513	(2,444,764)	24,298,275	30,856,024
Current tax expense	-	-	(6,076,344)	(6,076,344)
Deferred tax (expense) recovery	(1,624,229)	-	1,852,107	227,878
Net income (loss)	7,378,284	(2,444,764)	20,074,038	25,007,558
Income per share				
Basic				0.08
Diluted				0.07
Cash expenditures for property, plant and equipment	15,358,398	-	15,092,534	30,450,932
Total non-current assets as at September 30, 2013	58,118,665	9,753,712	58,215,558	126,087,935
Total assets as at September 30, 2013	71,285,633	16,473,594	107,482,480	195,241,707
Total liabilities as at September 30, 2013	8,002,145	2,156,165	29,937,822	40,096,132

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Notes to the condensed consolidated interim financial statements

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18. Segmented information (continued)

	Three months ended September 30, 2012			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	13,402,803	-	35,444,827	48,847,630
Depletion and depreciation (including corporate office depreciation)	(1,431,463)	(6,882)	(3,322,352)	(4,760,697)
Income (loss) from operations	3,230,440	(3,308,552)	17,862,704	19,441,592
Other income (expense), except for fair value adjustment on Silver Contract and derivative financial instruments	(241,919)	295,577	(484,536)	(430,878)
Income (loss) for underlying operations	2,988,521	(3,012,975)	17,378,168	19,010,714
Income for underlying operations per share				
Basic				0.06
Diluted				0.05
Fair value adjustments				
Loss on derivative financial instruments (Note 14 (a))	(131,772)	-	(4,262,146)	(4,393,918)
Fair value adjustment on Silver Contract (Note 13)	-	-	(319,215)	(319,215)
Financing warrants (Note 14 (b))	-	(1,657,000)	-	(1,657,000)
Total fair value adjustment	(131,772)	(1,657,000)	(4,581,361)	(6,370,133)
Net income (loss) before income tax	2,856,749	(4,669,975)	12,796,807	12,640,581
Current tax expense	-	-	(2,919,833)	(2,919,833)
Deferred tax recovery (expense)	(1,459,149)	-	749,409	(709,740)
Net income (loss)	1,397,600	(4,669,975)	10,626,383	9,011,008
Income (loss) per share				
Basic				0.03
Diluted				0.03
Cash expenditures for property, plant and equipment	4,257,304	36,152	7,084,266	11,377,722
Total non-current assets as at December 31, 2012	60,498,104	10,124,343	53,847,663	124,470,110
Total assets as at December 31, 2012	67,775,143	14,855,980	102,659,561	185,290,684
Total liabilities as at December 31, 2012	8,684,116	3,787,557	29,740,113	42,211,786

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

18. Segmented information (continued)

	Nine months ended September 30, 2012			
	Australia	Canada	Chile	Total
	\$	\$	\$	\$
Revenue	38,810,542	-	77,295,317	116,105,859
Depletion and depreciation (including corporate office depreciation)	(4,090,746)	(23,077)	(9,395,036)	(13,508,859)
Income (loss) from operations	8,161,967	(6,438,596)	34,183,726	37,564,097
Other income (expense), except for fair value adjustment on Silver Contract and derivative financial instruments	(458,309)	(470,792)	(1,076,068)	(2,005,169)
Income (loss) for underlying operations	7,703,658	(6,909,388)	33,107,658	35,558,928
Income for underlying operations per share				
Basic				0.12
Diluted				0.09
Fair value adjustments				
Loss on derivative financial instruments (Note 14 (a))	(509,220)	-	(11,194,805)	(11,704,025)
Fair value adjustment on Silver Contract (Note 13)	-	-	(514,062)	(514,062)
Financing warrants (Note 14 (b))	-	(1,657,000)	-	(1,657,000)
Total fair value adjustment	(509,220)	(1,657,000)	(11,708,867)	(13,875,087)
Net income (loss) before income tax	7,194,438	(8,566,388)	21,398,791	21,683,841
Current tax	-	-	(3,355,466)	(3,355,466)
Deferred tax	1,805,639	-	(796,822)	1,008,817
Net income (loss)	9,000,077	(8,566,388)	17,246,503	19,337,192
Income (loss) per share				
Basic				0.07
Diluted				0.05
Cash expenditures for property, plant and equipment	12,724,025	108,560	18,688,071	31,520,656
Total non-current assets as at December 31, 2012	60,498,104	10,124,343	53,847,663	124,470,110
Total assets as at December 31, 2012	67,775,143	14,855,980	102,659,561	185,290,684
Total liabilities as at December 31, 2012	8,684,116	3,787,557	29,740,113	42,211,786

For the three months ended September 30, 2013, the Company had four customers from which it earned more than 10% of its total revenue (2012 - four). Revenue from these customers amounted to \$16,129,620, \$14,797,407, \$8,776,884, and \$7,245,447 (2012 - \$19,131,264, \$13,260,722, \$11,060,601, and \$5,252,963).

For the nine months ended September 30, 2013, the Company had three customers, from which it earned more than 10% of its total revenue (2012 - four). Revenue from these customers amounted to \$45,581,100, \$34,343,661, \$29,311,763 and \$12,593,691 (2012 - \$38,668,460, \$32,446,875, \$27,749,663 and \$15,099,137).

Mandalay Resources Corporation

Notes to the condensed consolidated interim financial statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in U.S. dollars)

19. Subsequent events

From October 1, 2013 to November 5, 2013

- (a) On October 10, 2013, the Toronto Stock Exchange ("TSX") approved the Company's notice of intention to make a normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company may purchase up to 16,185,328 common shares, issued and outstanding as of October 3, 2013. Purchases will be made, at the discretion of the Company at prevailing market prices, commencing October 17, 2013 and ending October 16, 2014. Pursuant to TSX policies, daily purchases made by the Company will not exceed 44,990 common shares. The shares acquired under the NCIB will be cancelled upon their purchase. The funding for any purchase pursuant to the NCIB will be financed out of the working capital of the Company.
- (b) On November 5, 2013, the Board of Directors declared a dividend in the amount of \$0.0093 per share (C\$0.0097 per share), payable on November 25, 2013 to shareholders of record as of November 15, 2013.